

Duration: 2 hours 30 mins

Marks: 75

Q1) (A) Rewrite the sentence after selecting the correct alternative. (any 8)

(08)

- 1) When an underwriter agrees to buy a definite number of shares in addition to unsubscribed shares, it is termed as _____.
 - a) Partial Underwriting
 - b) Complete underwriting
 - c) Firm underwriting
 - d) Full underwriting
- 2) Unmarked applications refer to _____.
 - a) Firm underwriting
 - b) Applications issued by the company
 - c) Applications bearing the stamp of underwriter
 - d) Applications from the public received directly by the company without bearing any stamp of underwriter
- 3) Which of the following is not a 'free reserve' for the purpose of buyback of shares? _____.
 - a) Profit & Loss Account
 - b) General Reserve
 - c) Dividend Equalisation Reserve
 - d) Revaluation Reserve
- 4) Generally, the amount of buyback should be less than _____ of the total paid up capital and free reserves (including securities premium account) of the company.
 - a) 25%
 - b) 100%
 - c) 90%
 - d) 65%
- 5) When the merger involves liquidation of one existing sick company and formation of one new company, it is called _____.
 - a) Internal Reconstruction
 - b) External Reconstruction
 - c) Absorption
 - d) Amalgamation
- 6) _____ is not taken into consideration under the NET ASSETS Method for calculating Purchase Consideration.
 - a) Furniture
 - b) Machinery
 - c) Building
 - d) Share issue expenses

- 7) Balance in capital reduction account is generally transferred to _____.
a) General Reserve
b) Capital Reserve
c) Profit & Loss A/c
d) Surplus and Reserve A/c
- 8) Reduction of share capital of a company means reduction in _____.
a) Only called up share capital
b) Subscribed and/or paid-up share capital
c) Only authorized capital
d) Only uncalled share capital
- 9) _____ shows deficiency or surplus A/c.
a) List A
b) List B
c) List C
d) List H
- 10) Interest on debentures and unsecured loan is payable upto the date of actual payment _____.
a) If the company is solvent
b) If the company is insolvent
c) Whether the company is solvent or insolvent
d) None of the above

Q1) (B) State whether the following statements are true or false :(any7) (07)

- 1) Unmarked applications can be distributed among the underwriters in the ratio of gross liability.
- 2) The underwriters may be individuals, partnership firms or joint stock companies.
- 3) Buyback of shares decreases the Earning Per Share (EPS) of the company.
- 4) If equity shares have been bought back out of security premium, there is no need to make any transfer to Capital Redemption Reserve.
- 5) Transferor Company means the company that has been amalgamated into another company i.e. vendor company.
- 6) Absorption is said to take place when an existing company takes over one or more existing companies.
- 7) Only sick companies undertake capital reduction.
- 8) In the scheme of reconstruction, the amount of shares surrendered by shareholders is transferred to the Capital Reduction Account.
- 9) In the statement of affairs, uncalled capital is to be included under Assets.

10) If the remuneration to liquidator is payable on distribution, distribution to preferential creditors is included.

Q2) (A) Wally Ltd. agreed to acquire the business of Wonka Ltd. as on 31st March, 2023. **(15)**
The summary Balance Sheet of Wonka Ltd. as on that date was as under:

<u>Liabilities</u>	<u>(Rs.)</u>	<u>Assets</u>	<u>(Rs.)</u>
Share Capital: 6,000 equity shares of Rs. 10 each fully paid	60,000	Goodwill	10,000
General Reserve	17,000	Building	30,000
Profit and Loss Account	11,000	Machinery	34,000
6% Debentures of Rs. 100 each	10,000	Stock	16,800
Sundry Creditors	2,000	Book debts	3,600
		Bank Account	5,600
	<u>1,00,000</u>		<u>1,00,000</u>

The considerations payable by Wally Ltd. was agreed at as follows:

- Cash payment Rs. 2.50 for every share in Wonka Ltd.
- Issue of 9,000 equity shares of Rs. 10 each of Wally Ltd. having an agreed value of Rs. 15 per share.
- 6% Debentures of Wonka Ltd. are discharged by Wally Ltd. by issuing such number of its 5% debentures of Rs. 100 each, so as to maintain the same amount of interest.

While computing purchase consideration, Wally Ltd. valued building and machinery at Rs. 60,000 each, stock at Rs. 14,200 and Book Debts subject to 5% provision for discount. The cost of liquidation of Wonka Ltd. was Rs. 500.

- Calculate Purchase Consideration.
- Prepare necessary ledger accounts in the books of Wonka Ltd.
- Journalise the transactions in the books of Wally Ltd.

OR

Q2) (B) Following is the summary balance sheet of M/s. JoJo Ltd. as on 31-03-2023. **(15)**

<u>Liabilities</u>	<u>(Rs.)</u>	<u>Assets</u>	<u>(Rs.)</u>
Equity shares of Rs. 10 each	10,00,000	Fixed Assets	21,00,000
12% Cumulative Preference Shares of Rs. 10 each	7,00,000	Stock	20,00,000
10% Debentures	3,00,000	Sundry Debtors	15,00,000
Sundry Creditors	36,00,000	Bank	1,10,000
Provision For Tax	5,00,000	Share Issue Expenses	40,000
		Profit and Loss A/c	3,50,000
	<u>61,00,000</u>		<u>61,00,000</u>

Note: Preference dividend for 3 years was in arrear Rs.

Following scheme of reconstruction was approved:

- 1) Write off fixed assets by 20%, sundry debtors by 15%, and reduce the value of stock to 55% of its book-value.
- 2) Preference shareholders agreed to forego arrears of preference dividend.
- 3) Directors to give agreed temporary loan of Rs. 5,00,000 to Company.
- 4) The Company settled tax liability to the extent of Rs. 5,40,000 and met the expenses of reconstruction amounted to Rs. 10,000.
- 5) Sundry Creditors to give a remission of 20% of their claims and company to allot 11% Preference shares of Rs. 100 each fully paid up in settlement of the balance amount.
- 6) 10% debentures to be converted into 13% Debentures of Rs. 1,60,000 in full settlement of their claim.
- 7) Equity shares to be reduced to Rs. 2 each fully paid up and 12% cumulative Preference shares to be reduced to 1,00,000 cumulative Preference shares of Rs. 2 each fully paid up.
- 8) Write off debit balance in Profit and Loss Account and Share Issue Expenses.

Draft Journal Entries and Prepare a Capital Reduction A/c.

Q3) (A) Soflive Ltd. made a public issue of 3,00,000 Equity shares of Rs. 10 each, the entire amount is payable on application. The entire issue was underwritten as follows: **(15)**
 Moto - 30%, Roto - 25%, Toto - 25% and Yoto - 20% of public issue respectively. Moto, Roto, Toto and Yoto had also agreed on firm underwriting of 8,000; 12,000; nil and 30,000 shares respectively. Underwriters are entitled to 5% commission on face value. The marked applications excluding firm underwriting were as under:

<u>Underwriter</u>	<u>No. of Shares</u>
Moto	50,000
Roto	30,000
Toto	20,000
Yoto	40,000

The unmarked applications were 50,000 shares and to be divided in the Gross Liability Ratio.

- Ascertain the net liability (number of shares) of each underwriter if the benefit of firm underwriting is given.
- Calculate the amount of commission payable to each underwriter and the Net Amount Payable / Receivable from underwriting.

OR

Q3) (B) Following is the summarized balance sheet of M/s Koly Ltd.
(a non-listed company) as on 31st March 2023.

(15)

<u>Liabilities</u>	<u>Rs.</u>	<u>Assets</u>	<u>Rs.</u>
40,000 Equity shares of Rs. 100 each fully paid	40,00,000	Fixed Assets	1,20,00,000
20,000, 10% redeemable preference shares of Rs. 100 each fully paid	20,00,000	Investments	8,80,000
Capital Redemption Reserve	4,00,000	Stock	14,00,000
Security Premium	3,20,000	Debtors	14,00,000
General Reserve	8,00,000	Bank Balance	4,00,000
Profit and Loss Account	4,00,000		
11% Debentures	40,00,000		
Creditors	41,60,000		
TOTAL	<u>1,60,80,000</u>		<u>1,60,80,000</u>

On the same date it was decided to buy back the maximum number of equity shares at the maximum price possible under the law.

In case of shortage of funds, bank overdraft was to be arranged.

The company decided to utilize the profit and loss account to the maximum extent.

- Ascertain maximum no. of shares to be bought back at maximum possible price.
- Pass journal entries for the above transactions
- Prepare Notes to Accounts for Share Capital and Reserves and Surplus.

Q4) (A) The following was the summary Balance sheet of Dev Ltd. as on 31/3/2023.

(15)

<u>Liabilities</u>	<u>(Rs.)</u>	<u>Assets</u>	<u>(Rs.)</u>
2,500, 8% Cumulative Preference shares of Rs. 100 each	2,50,000	Goodwill	25,000
12,000 Equity shares of Rs. 100 each	12,00,000	Fixed Assets	12,85,000
9% Debentures	5,00,000	Stock	3,03,000
Interest Accrued thereon	45,000	Debtors	2,50,000
Creditors	5,00,000	Bank Balance	7,000
		Share Issue Expenses	25,000
		Profit and Loss A/c	6,00,000
TOTAL	<u>24,95,000</u>		<u>24,95,000</u>

Note: Preference dividend was in arrears Rs. 40,000.

The following scheme of Reconstruction is duly sanctioned:

- A new company Tev Ltd. is formed with Rs. 15,00,000 as Authorised share capital divided into 1,50,000 Equity Shares of Rs. 10 each.
- The company will acquire Dev Ltd. on the following conditions:
 - Old Companies debentures will be paid by same amount of 10% debentures in the new company where as for the arrears of interest, equivalent amounts of equity shares will be issued.
 - The creditors will be paid for every Rs. 100 of their claim, Rs. 16 in cash and ten equity shares in the new company.
 - Preference shareholders are given ten equity shares in the new company for their claim of preference share capital.
 - Equity shareholders will be given ten equity shares in the new company for every three shares held in the old company.
 - Expenses of Rs. 20,000 will be borne by the new company, as a part of purchase consideration.

(3) The new company will take the current assets at their book value, except stock which will be reduced by Rs. 15,000. Intangible assets are not to appear in the new balance sheet, appropriate adjustment being made in the values of fixed assets.

(4) Remaining equity shares in the new company are issued to the public and are fully paid.

You are required to prepare:

a) In the books of Dev Ltd.:

- (1) Realisation Account.
- (2) Dev Equity Shareholders A/c
- (3) Tev Ltd. A/c

(b) Pass the journal entries the books of Tev Ltd.

OR

Q4)(B) From the data relating to a company which went into liquidation, you are required to prepare the Liquidator's Final Statement of Account. **(15)**

- (i) Cash in hand was Rs. 53,000 and other assets realised Rs. 8,50,000.
- (ii) 6% Debentures of Rs. 1,00,000 were discharged along with interest for 6 months.
- (iii) Preferential creditors to be paid Rs. 36,050.
- (iv) Other unsecured creditors Rs. 2,30,000.
- (v) 5,000, 10% Preference shares of Rs. 100 each fully paid, Preference dividend is in arrears for 1 year.
- (vi) 3,000 Equity shares of Rs. 100 each, Rs. 75 per share paid up.
- (vii) 7,000 Equity shares of Rs. 100 each, Rs. 60 per share paid up.
- (viii) Liquidator's remuneration is 0.5% on the other assets realised (except cash in hand) and 2% on unsecured creditors including preferential creditors.

Q5) A) Explain the types of underwriting in detail. **(08)**

B) Explain the needs and importance of Internal Reconstruction.? **(07)**

OR

Q5) C) Write short notes on (any 3): **(15)**

- 1) Underwriting Commission
- 2) Winding up of a company v/s Dissolution of a company
- 3) Net Assets Method of calculating Purchase Consideration
- 4) Reduction of share capital
- 5) Benefits of buyback

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