OR iii. The balance sheet of S Ltd. and T Ltd. as on 31.3.2018 is as follows: **6** 4 10 4

Balance sheet as on 31st March 2018

Liabilities	S Ltd.	T Ltd.	Assets	S Ltd.	T Ltd.
Share Capital	10,00,000	5,00,000	Land & Building	2,00,000	1,50,000
(Shares of			Machinery	3,00,000	3,00,000
Rs.100 each) General Reserve	1,00,000	70,000	Stock	75,000	50,000
as on 1-4-2017			Sunday Debtors	50,000	60,000
Profit & loss A/c as	50,000	30,000	Investment		
on 1-4-2017			(Shares in T Ltd.-at cost)	5,00,000	-
Profit for the Year	60,000	40,000	Bills Receivable	10,000	5,000
2017-18			Cash at Bank	1,55,000	1,60,000
Sundry Creditors	70,000	70,000			
Bills payable	10,000	15,000			
	12,90,000	7,25,000		12,90,000	7,25,000

Other Information:

(a) S Ltd. acquired 4,000 shares in T Ltd. on 1-4-2017.

(b) Bills Receivable of S Ltd. includes ₹ 3,000 accepted by T Ltd.

(c) Debtors of S Ltd. Include ₹ 10,000 due from T Ltd.

(d) Stock of T Ltd. includes goods purchased from S Ltd. for ₹ 30,000 which were invoiced by S Ltd. at a profit of 25% on the selling price. Prepare a consolidated balance sheet of S Ltd. & its Subsidiary T Ltd. as on 31st March 2018.

Q.6 Attempt any two:

i. What is the difference between amalgamation and acquisition? Provide examples of each. **5** 4 3 5

ii. Explain the types of amalgamation. How does each type affect the financial statements? **5** 3 3 5

iii. Describe the accounting treatment for mergers as per AS 14. What are the key disclosures required? **5** 3 3 5

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Total No. of Questions: 6 *Total No. of Printed Pages:4*

Enrollment No......................................

Faculty of Commerce
End Sem Examination Dec 2024
CM3CO09 Corporate Accounting

Programme: B.Com. Branch/Specialisation: Commerce

Duration: 3 Hrs. **Maximum Marks: 60**

Note: All questions are compulsory. Internal choices, if any, are indicated. Answers of Q.1 (MCQs) should be written in full instead of only a, b, c or d. Assume suitable data if necessary. Notations and symbols have their usual meaning.

Marks BL PO CO PSO

Q.1 i. What is the purpose of issuing right shares? **1** 1 3 1

(a) To raise capital without diluting existing shareholders' ownership
(b) To reward shareholders with additional shares
(c) To increase the market price of existing shares
(d) To reduce company debt

ii. Which of the following statements is true regarding the buyback of shares? **1** 1 3 1

(a) It increases the number of outstanding shares
(b) It is a method of returning surplus cash to shareholders
(c) It is always mandatory for companies to buy back shares
(d) It has no effect on earnings per share (EPS)

iii. Which of the following is included in the profit and loss appropriation account? **1** 1 3 2

(a) Share capital
(b) Managerial remuneration
(c) Interest on debentures
(d) Fixed assets

iv. Pre-incorporation profits are those profits earned- **1** 1 3 2

(a) After the company has been registered
(b) Before the company has been registered
(c) Only during the first year of operations
(d) After the first dividend declaration

	v.	Which method of share valuation calculates the value based on current market prices? (a) Intrinsic value method (b) Market value method (c) Fair value method (d) Capitalization method	**1**	1	3	3
	vi.	The super profit method for valuing goodwill primarily considers- (a) The average profit over a number of years (b) The excess of actual profit over normal profit (c) The net asset value of the company (d) Historical cost of assets	**1**	1	3	3
	vii.	A holding company is defined as a company that- (a) Has no subsidiaries (b) Controls one or more subsidiary companies (c) Is owned by the government (d) Issues only preference shares	**1**	1	3	4
	viii.	When preparing a consolidated balance sheet, the primary focus is on- (a) Individual company assets and liabilities (b) The combined financial position of the holding and subsidiary companies (c) The market value of shares (d) The liquidity position of each company separately	**1**	1	3	4
	ix.	In the context of amalgamation, which of the following is a key feature of a merger? (a) Only one of the companies continues to exist (b) Both companies cease to exist (c) The companies retain their separate identities (d) There is no change in the ownership structure	**1**	1	3	5
	x.	Which type of amalgamation is characterized by one company acquiring another without the other company ceasing to exist? (a) Merger (b) Absorption (c) Internal reconstruction (d) Liquidation	**1**	1	3	5
Q.2	i.	Explain the process of forfeiture and reissue of shares. What are the accounting entries involved?	**2**	2	3	1
	ii.	Discuss the concepts of rights shares and bonus shares. How do they affect shareholders?	**3**	2	10	1

	iii.	What are the key provisions regarding the issue and redemption of preference shares? Illustrate with examples.	**5**	3	3	1
OR	iv.	Describe the process of issuing and redeeming debentures. What are the accounting implications for the company?	**5**	2	3	1
Q.3	i.	Define managerial remuneration. What are the regulations regarding its calculation and disclosure in final accounts?	**2**	2	2	2
	ii.	Explain the components of the profit and loss appropriation account. How is it used to declare dividends?	**8**	2	3	2
OR	iii.	Calculate pre and post incorporation profit/loss with a given example, highlighting the importance of the distinction.	**8**	3	3	2
Q.4	i.	Compare and contrast the intrinsic value method and market value method of share valuation.	**3**	4	3	3
	ii.	(a) A company has projected future maintainable profits of ₹200,000 per annum. The capitalization rate is estimated to be 10%. Find out the goodwill by using capitalization method. (b) A company has average annual profits of ₹ 300,000. The normal rate of return in the industry is 12%, and the total capital employed in the business is ₹ 2,500,000. Find out the goodwill by using super profit method.	**7**	4	9	3
OR	iii.	Explain the annuity method for valuing goodwill. How does it differ from capitalization method & super profit method? State the difference with appropriate bases.	**7**	3	3	3
Q.5	i.	Define holding and subsidiary companies. What are the key features that distinguish them?	**4**	2	3	4
	ii.	Discuss the accounting treatment for the liquidation of companies. What are the stages involved?	**6**	2	3	4

Marking Scheme

CM3CO09 Corporate Accounting

Unit I: Issue of Shares
1. **What is the purpose of issuing Right Shares?**
   - A) To raise capital without diluting existing shareholders' ownership
   - B) To reward shareholders with additional shares
   - C) To increase the market price of existing shares
   - D) To reduce company debt

   Answer: A) To raise capital without diluting existing shareholders' ownership

2. **Which of the following statements is true regarding the buyback of shares?**
   - A) It increases the number of outstanding shares
   - B) It is a method of returning surplus cash to shareholders
   - C) It is always mandatory for companies to buy back shares
   - D) It has no effect on earnings per share (EPS)

   Answer: B) It is a method of returning surplus cash to shareholders

Unit II: Final Accounts of Companies
1. **Which of the following is included in the Profit and Loss Appropriation Account?**
   - A) Share capital
   - B) Managerial remuneration
   - C) Interest on debentures
   - D) Fixed assets

   Answer: B) Managerial remuneration

2. **Pre-incorporation profits are those profits earned:**
   - A) After the company has been registered
   - B) Before the company has been registered
   - C) Only during the first year of operations
   - D) After the first dividend declaration

   Answer: B) Before the company has been registered

Unit III: Valuation of Goodwill and Shares
1. **Which method of share valuation calculates the value based on current market prices?**
   - A) Intrinsic Value Method
   - B) Market Value Method
   - C) Fair Value Method

   - D) Capitalization Method

   Answer: B) Market Value Method

2. **The Super Profit Method for valuing goodwill primarily considers:**
   - A) The average profit over a number of years
   - B) The excess of actual profit over normal profit
   - C) The net asset value of the company
   - D) Historical cost of assets

   Answer: B) The excess of actual profit over normal profit

Unit IV: Holding and Subsidiary Company
1. **A holding company is defined as a company that:**
   - A) Has no subsidiaries
   - B) Controls one or more subsidiary companies
   - C) Is owned by the government
   - D) Issues only preference shares

   Answer: B) Controls one or more subsidiary companies

2. **When preparing a consolidated balance sheet, the primary focus is on:**
   - A) Individual company assets and liabilities
   - B) The combined financial position of the holding and subsidiary companies
   - C) The market value of shares
   - D) The liquidity position of each company separately

   Answer: B) The combined financial position of the holding and subsidiary companies

Unit V: Accounting for Merger as per AS 14
1. **In the context of amalgamation, which of the following is a key feature of a merger?**
   - A) Only one of the companies continues to exist
   - B) Both companies cease to exist
   - C) The companies retain their separate identities
   - D) There is no change in the ownership structure

   Answer: A) Only one of the companies continues to exist

2. **Which type of amalgamation is characterized by one company acquiring another without the other company ceasing to exist?**

- A) Merger
- B) Absorption
- C) Internal reconstruction
- D) Liquidation

Answer: B) Absorption

Ans.

Unit I: Issue of Shares

1. **Forfeiture and Reissue of Shares** (2 marks)
   - **Forfeiture** occurs when a shareholder fails to pay the calls on their shares. The company has the right to forfeit those shares after giving due notice to the shareholder. The process involves the following steps:
     - The company sends a notice to the shareholder reminding them of the due payment.
     - If payment is not received, the company passes a resolution to forfeit the shares.
     - Accounting entries are made:
       - Debit: Share Capital Account (for the amount unpaid)
       - Credit: Forfeited Shares Account (to recognize the forfeited shares)
   - **Reissue of Forfeited Shares** involves selling the forfeited shares to new or existing shareholders. The accounting entries for reissuing are:
     - Debit: Forfeited Shares Account (for the reissue price)
     - Credit: Share Capital Account (for the nominal value of shares)

2. **Rights Shares and Bonus Shares** (3 marks)
   - **Rights Shares** are offered to existing shareholders in proportion to their current holdings, usually at a discounted price. This allows shareholders to maintain their percentage ownership in the company during capital raising. The rationale is to provide existing shareholders an opportunity to avoid dilution of their ownership.
   - **Bonus Shares**, on the other hand, are additional shares issued to existing shareholders, typically funded from retained earnings or reserves. This increases the number of shares in circulation while maintaining the overall value of the company, thus diluting the share price but not the overall value for shareholders.
   - Both methods can enhance shareholder value, but they have different implications for the capital structure of the company.
3. **Key Provisions Regarding Preference Shares** (5 marks)
   - Preference shares are a class of shares that carry preferential rights over equity shares, primarily regarding dividend payments and repayment during liquidation.
   - **Key provisions include**:

     - **Fixed Dividend**: Preference shareholders are entitled to a fixed rate of dividend before any dividends are paid to equity shareholders.
     - **Cumulative vs. Non-Cumulative**: In cumulative preference shares, unpaid dividends accumulate and must be paid before any dividend is distributed to equity shareholders.
     - **Redemption**: Companies must redeem preference shares according to the terms specified at the time of issue. This can be done through:
       - Cash payment, which requires the creation of a Debenture Redemption Reserve.
       - Conversion into equity shares, which involves adjustments to share capital.
     - **Liquidation Preference**: In the event of liquidation, preference shareholders are paid before equity shareholders but after debt obligations are settled.
4. **Issuing and Redeeming Debentures** (5 marks)
   - **Issuing Debentures** involves several steps:
     - The company must prepare a prospectus detailing the terms and conditions.
     - Upon receiving applications, debenture certificates are issued, and the cash received is recorded in the books:
       - Debit: Bank Account (for cash received)
       - Credit: Debenture Account (for the amount of debentures issued).
   - **Redeeming Debentures** can occur at maturity or via a buyback:
     - At maturity, the company pays back the face value of the debentures, along with any accrued interest.
     - If redeeming early, a company may offer a premium to bondholders. The accounting entries upon redemption include:
       - Debit: Debenture Account (for the face value)
       - Debit: Loss on Redemption of Debentures Account (if redeemed at a premium)
       - Credit: Bank Account (for total amount paid).

Unit II: Final Accounts of Companies

1. **Managerial Remuneration** (2 marks)
   - Managerial remuneration is the compensation paid to the managerial personnel of a company. Under the Companies Act, it includes salaries, allowances, bonuses, and other benefits.
   - Key regulations stipulate:
     - The remuneration must be within prescribed limits (generally a percentage of net profits).

- Disclosure is mandatory in the financial statements, usually in the notes section.
- Companies must ensure that remuneration is approved by the board and shareholders, especially when exceeding limits.

2. **Profit and Loss Appropriation Account** (8 marks)
   - The Profit and Loss Appropriation Account summarizes how net profits are distributed. It includes:
     - **Net Profit**: The final profit after tax and other deductions from the Profit and Loss Account.
     - **Transfer to Reserves**: Companies may allocate a portion of profits to reserves for future needs or contingencies.
     - **Dividend Declaration**: The account indicates dividends declared for equity and preference shareholders.
     - **Retained Earnings**: Remaining profits are transferred to retained earnings for reinvestment.
   - This account is critical for understanding how profits are utilized and ensures transparency in profit distribution.
3. **Pre and Post Incorporation Profit/Loss** (8 marks)
   - **Pre-incorporation profits** are those generated before the company is officially registered, while **post-incorporation profits** are earned after registration.
   - To calculate:
     - Analyze revenue and expenses for the periods before and after incorporation.
     - Typically, a time-based analysis is conducted where the profits are split based on the duration of each period.
   - This distinction is essential for assessing the financial health of the company, especially for taxation and dividend declarations, as shareholders are entitled only to post-incorporation profits.

Unit III: Valuation of Goodwill and Shares

1. **Intrinsic vs. Market Value Method** (3 marks)
   - The **Intrinsic Value Method** determines a share's worth based on its fundamentals, such as earnings, dividends, and growth prospects. It involves analyzing financial statements to arrive at a true value, often using discounted cash flow (DCF) analysis.
   - The **Market Value Method**, conversely, relies on the current trading price of the shares in the market. This reflects the real-time perception of investors about the company's value.
   - While the intrinsic value provides a long-term view based on company performance, market value captures short-term sentiment influenced by market conditions.

2. Describe the Capitalization Method and Super Profit Method for goodwill valuation. Provide examples. (7 marks)

A company has projected future maintainable profits of ₹200,000 per annum. The capitalization rate is estimated to be 10%.

Calculation:

1. **Goodwill** = Future Maintainable Profit / Capitalization Rate
2. Goodwill = ₹200,000 / 0.10
3. Goodwill = ₹2,000,000

Interpretation: The goodwill of the company is valued at ₹2,000,000 based on the future maintainable profits and the capitalization rate.

2. Super Profit Method

Example:

A company has average annual profits of ₹300,000. The normal rate of return in the industry is 12%, and the total capital employed in the business is ₹2,500,000.

Step 1: Calculate Normal Profit

- Normal Profit = Total Capital Employed × Normal Rate of Return
- Normal Profit = ₹2,500,000 × 0.12 = ₹300,000

Step 2: Calculate Super Profit

- Super Profit = Average Annual Profit - Normal Profit
- Super Profit = ₹300,000 - ₹300,000 = ₹0

In this case, the super profit is zero, indicating that the company is earning only the normal profit expected in the industry.

Step 3: Calculate Goodwill

- If we assume a purchase price of 3 years' purchase of super profits:
- Goodwill = Super Profit × Number of Years of Purchase
- Goodwill = ₹0 × 3 = ₹0

Interpretation: The goodwill of the company is valued at ₹0 based on the super profit method, indicating that it does not generate profits beyond what is expected in the industry.

3. **Annuity Method for Goodwill** (7 marks)

   - The **Annuity Method** values goodwill by calculating the present value of future anticipated profits. This involves:
     - Determining a consistent annual profit expected over a specified period.
     - Discounting these future profits to their present value using a discount rate.
     - The formula used is: Goodwill = Annual Profit × Annuity Factor (for the relevant period).

- This method is particularly useful for businesses with stable earnings, providing a consistent measure of value, differing from other methods that may be based on fluctuating profits.

Unit IV: Meaning of Holding and Subsidiary Company

1. **Holding and Subsidiary Companies** (4 marks)
   - A **Holding Company** is an entity that holds controlling shares in one or more subsidiary companies. A **Subsidiary Company** is a company controlled by another company, typically by owning more than 50% of its voting shares.
   - Key features include:
     - **Control**: Holding companies can influence policies and decisions of subsidiaries.
     - **Consolidation Requirement**: Financial statements of the holding company must include consolidated financial statements that combine its own and those of its subsidiaries.
     - **Legal Status**: Both entities retain their separate legal identities, but the holding company exercises control.### Consolidated Balance Sheet as of 31st March 2018

2. As per Solution

3. **Accounting Treatment for Liquidation** (6 marks)
   - Liquidation involves the process of closing a company and settling its debts. The stages include:
     - **Appointment of Liquidator**: A liquidator is appointed to oversee the process.
     - **Asset Liquidation**: The liquidator sells off assets to generate cash.
     - **Settling Debts**: Debts are settled according to priority (secured creditors, unsecured creditors, etc.).
     - **Distribution of Remaining Assets**: Any remaining funds are distributed to shareholders.
     - **Final Closure**: After all debts are settled and distributions made, the company's books are closed.

Unit V: Accounting for Merger as per AS 14 (Attempt any two)

1. **Difference Between Amalgamation and Acquisition** (5 marks)
   - **Amalgamation** occurs when two or more companies merge to form a new entity, effectively dissolving the original companies. This process often

combines resources and operations to enhance efficiency and market reach.
   - **Acquisition** refers to one company taking over another, which can be done through purchasing a majority stake. The acquired company may continue to exist as a subsidiary.
   - **Example**: Amalgamation of Company A and Company B to form Company C, versus Company A acquiring Company B and maintaining its identity.
2. **Types of Amalgamation** (5 marks)
   - **Amalgamation in the Nature of Merger**: This occurs when both companies combine their assets and liabilities and cease to exist as separate entities. The resultant company assumes the identity of the merging companies.
   - **Amalgamation in the Nature of Purchase**: Here, one company purchases the assets and liabilities of another, which may continue to exist as a separate entity, often leading to a gain or loss depending on the purchase price.
   - Each type affects the balance sheet differently, with the former reflecting consolidated assets and the latter reflecting purchased goodwill.
3. **Accounting Treatment for Mergers as per AS 14** (5 marks)
   - According to AS 14, the accounting treatment for mergers involves:
     - **Pooling of Interests Method**: Both companies' assets and liabilities are combined at book values. There’s no recognition of goodwill or any difference in asset values.
     - **Purchase Method**: The acquiring company records the acquired assets and liabilities at their fair value, recognizing any excess payment as goodwill.
     - **Disclosures**: Key disclosures include the nature of the merger, treatment applied, and details of assets and liabilities acquired, ensuring transparency and adherence to accounting standards

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