

Duration: 2 hours 30 mins**Marks: 75****Q.1 A) Rewrite the sentences after selecting correct alternative: (Any eight)****(8)**

1. In order to spread the risk of under-subscription, the principal underwriter may appoint _____.
 - a. Broker
 - b. Cashier
 - c. Sub-underwriter
 - d. Auditor
2. _____ is a person who engages in the business of underwriting of an issue of securities of a body.
 - a. Broker
 - b. Cashier
 - c. Sub-underwriter
 - d. Underwriter
3. If Equity Shares have been bought back out of Free Reserves, amount equal to the face value of equity shares bought back should be transferred to _____.
 - a. Capital Redemption Reserve
 - b. General Reserve
 - c. Sinking Fund
 - d. Development Rebate Fund
4. NYKAA Ltd. is authorized to issue 1,00,000 share of equity shares. It had issued 30,000 shares. It has bought back 5,000 shares. As a result of this transaction, the no. of shares (i) in authorized share capital and (ii) in issued share capital will be _____.
 - a. 75,000; 25,000
 - b. 1,00,000 ; 25,000
 - c. 1,00,000; 30,000
 - d. 75,000; 30,000
5. When the sale proceeds of pledged security is not sufficient to pay off secured creditors fully, the balance due to them should be added to _____.
 - a. Unsecured Creditors
 - b. Preferential Creditors
 - c. Equity Share Capital
 - d. Preference Share Capital
6. Preference dividend in arrears on the date of winding up is _____.
 - a. treated as secured creditors
 - b. treated as over-riding preferential creditors
 - c. treated as preferential creditors
 - d. added to Preference Share Capital
7. Internal Reconstruction refers to an arrangement, whereby _____.
 - a. A previously unprofitable or a weak company is reconstructed by certain measures
 - b. Two companies come together to form a new company
 - c. Assets and liabilities of the company are not revalued
 - d. None of the above

8. Reduction of share capital of a company means reduction in _____.

- Only called up share capital
- Subscribed and/ or paid-up share capital
- Only Authorized share capital
- Only uncalled share capital

9. If Tanaji Ltd. and Balaji Ltd. are taken together to form a new company Dharma Ltd. _____.

- it is called absorption
- it is called amalgamation
- it is called external reconstruction
- it is called internal reconstruction

10. 'Pooling of interest' is a method of _____.

- Charging Depreciation
- Accounting for Amalgamation
- Calculation of Purchase Consideration
- None of the above

Q.1 B) State whether the given statements are TRUE or FALSE: (Any seven) (7)

- Application forms stamped with the name of the underwriters are known as marked applications.
- In underwriting, underwriters are not liable to take up securities not subscribed by public.
- The buy-back of share has to be authorized by articles of association.
- Date of buy-back of shares is not known on the date of issue of shares.
- Amount received from calls to contributories made at the time of winding up is shown on the payment side.
- Debenture holders secured by first floating charge are paid after the payment to preferential creditors.
- In Internal Reconstruction, two or more companies are liquidated.
- Capital reduction scheme is worth considering if the company has recovery prospects.
- Accounting for amalgamation is governed by Accounting Standard 14.
- Under external reconstruction, there is one liquidation and one formation.

Q.2A) Motu Ltd. agreed to acquire business of Patlu Ltd. as on 31-03-2022. The summarized Balance Sheet of Patlu Ltd. as on 31-03-2022 was as follows: (15)

Liabilities	Rs.	Assets	Rs.
24,000 Equity shares of Rs. 10 each fully paid	2,40,000	Goodwill	40,000
General Reserve	68,000	Building	1,20,000
Profit and Loss Account	44,000	Machinery	1,36,000
12% Debentures	40,000	Stock	67,200
Creditors	8,000	Debtors	14,400
		Bank balance	22,400
	4,00,000		4,00,000

The consideration was payable as follows:

- Cash payment equal to Rs. 2.50 per share in Patlu Ltd.
- Issue of 36,000 Equity shares of Rs. 10 each of Motu Ltd. having an agreed value of Rs. 15 per share.
- Liquidation expenses agreed to be paid by Patlu Ltd. was Rs. 2,000.
- While calculating the consideration the assets were revalued as follows:
Building and Machinery at Rs. 2,40,000 each, stock at Rs. 56,800 and Debtors subject to 5% provision for discount.
- Issue of such an amount of fully paid 9% Debentures of Motu Ltd. at Rs. 96 each as is sufficient to discharge 12% Debentures of Patlu Ltd. at 20% premium.

Prepare:

- Statement of Purchase Consideration.
- Necessary ledger accounts to close the books of Patlu Ltd.
- Opening Journal entries in the books of Motu Ltd.

OR

Q.2 B) Following is the summary Balance Sheet of Sun Pvt. Ltd. as on 31-03-2022.

(15)

Liabilities	Rs.	Assets	Rs.
80,000 Equity Shares of Rs. 10 each, Rs. 8 paid up	6,40,000	Land & Building	3,00,000
Profit & Loss Account	6,00,000	Computers	5,20,000
Security Premium	2,00,000	Investments	1,50,000
12% Debentures	4,00,000	Debtors	4,70,000
Creditors	3,00,000	Stock	2,00,000
		Bank balance	5,00,000
	21,40,000		21,40,000

The company decided to buy back maximum number of equity shares as may be permitted at an offer price of Rs. 20 per share being the current market price.

Assuming that the buy-back is actually carried out, you are required to:

- Ascertain the maximum number of Equity shares the company can buy back.
- Pass journal entries in the books of the Sun Pvt. Ltd.
- Prepare Notes to Accounts of Share Capital and Reserves & Surplus as they would appear in Notes to accounts forming part of the Balance Sheet of Sun Pvt. Ltd. as on 31-03-2022. (Do not prepare Balance Sheet)

Q.3 A) The summarized Balance Sheet of Victory Ltd. as on 31-03-2022, being the date of winding up is as under: **(15)**

Liabilities	Rs.	Assets	Rs.
Share Capital:		Land & Building	2,60,000
2500, 10% Cumulative Preference Shares of Rs. 100 each fully paid up	2,50,000	Plant & Machinery	3,90,000
Equity Share Capital:		Stock in Trade	1,62,500
2500, Equity Shares of Rs. 100 each, Rs. 60 per share called and paid up	1,50,000	Book Debts	5,12,500
2500, Equity Shares of Rs. 100 each, Rs. 50 per share called and paid up	1,25,000	Profit & Loss A/c	2,75,000
Securities Premium	3,75,000		
10% Debentures	1,05,000		
Preferential Creditors	52,500		
Bank Overdraft	2,42,500		
Trade Creditors	3,00,000		
	16,00,000		16,00,000

Preference dividend was in arrears for three years.

By 31-03-2022, the assets realized were as follows:

Land & Building	Rs. 3,10,000
Stock in Trade	Rs. 1,55,000
Plant & Machinery	Rs. 3,55,000
Book Debts	Rs. 3,30,000

Expenses of liquidation are Rs. 43,000. The remuneration of the liquidator is 2% of the realization of assets. Income tax payable on liquidation is Rs. 33,500.

Assuming that the final payments were made on 31-03-2022, prepare the Liquidator's Statement of Account.

OR

Q.3 B) Following is the summary Balance Sheet of M/s Hope Ltd. as on 31-03-2022. **(15)**

Liabilities	Rs.	Assets	Rs.
80,000- 8% Cumulative Preference Shares of Rs. 10 each	8,00,000	Goodwill	2,20,000
60,000 Equity Shares of Rs. 10 each	6,00,000	Freehold Property	2,40,000

Securities Premium	20,000	Leasehold Property	4,88,000
9% Debentures	2,40,000	Plant & Machinery	6,40,000
Accrued Debentures Interest	10,800	Furniture	1,60,000
Sundry Creditors	3,40,000	Stock	1,20,000
Bank Overdraft	3,84,000	Debtors	2,40,000
		Share Issue Expense	10,000
		Profit & Loss A/c	2,76,800
	23,94,800		23,94,800

Note: (a) Preference dividend was in arrears for four years.

(b) There was a contingent liability of Rs. 40,000 for workmen compensation.

Following scheme of reconstruction was approved and implemented:

- The Preference shares were reduced to Rs. 7.50 per share fully paid and Equity shares to Rs. 2 per share fully paid.
- After reduction, both the classes of shares were consolidated into Rs. 10 per shares.
- One new Equity share of Rs. 10 each was issued for every Rs. 40 of gross preference dividend in arrear.
- The balance of securities premium was utilized.
- Plant & Machinery was written down to Rs. 5,60,000.
- Furniture was sold for Rs. 1,28,000.
- Goodwill, Share issue expense, debit balance in Profit & Loss A/c are to be w/off.
- Debts of Rs. 34,400 and obsolete stock of Rs. 40,000 were to be written off.
- Contingent liability for which no provision had been made was settled at Rs. 28,000; however the amount of Rs. 25,200 was recovered from Insurance Company.
- Debenture holders agreed to forgo principal amount by Rs. 60,000 and accrued debentures interest in full.

Pass Journal Entries for Internal Reconstruction and prepare Capital Reduction A/c.

Q.4 A) Jio Ltd. and Smart Ltd. agreed to amalgamate and form a new company namely Jiomart Ltd. which will take over all the assets and liabilities of both the companies. Following are the summary Balance Sheets of Jio Ltd. and Smart Ltd. as on 31-03-2022. **(15)**

Liabilities	Jio Ltd. Rs.	Smart Ltd. Rs.	Assets	Jio Ltd. Rs.	Smart Ltd. Rs.
Equity shares of Rs. 10 each fully paid	2,00,000	2,50,000	Plant & Machinery	4,00,000	4,00,000
6%, Preference shares of Rs. 100 each fully paid	-	1,50,000	Stock	32,500	30,000
Profit & Loss A/c	2,50,000	-	Debtors	47,500	25,000
Statutory Reserve	25,000	-	Profit & Loss A/c	-	70,000
9% Debentures of Rs. 100 each	-	1,00,000	Bank	32,500	20,000
Creditors	37,500	45,000			
	5,12,500	5,45,000		5,12,500	5,45,000

Terms of Amalgamation:

In case of Jio Ltd.:

Assets and liabilities are to be taken over at book values. For every four Equity shares in Jio Ltd., Five Equity Shares of Rs. 10 each in Jiomart Ltd. shall be issued at 10% premium.

In case of Smart Ltd.:

1. For every five, 6% Preference shares in Smart Ltd., four 7% Preference Shares of Rs. 100 each in Jiomart Ltd. shall be issued at par.
2. 9% Debenture holders would be discharged at par by issue of an equal number of 10% Debentures of Rs. 100 each in Jiomart Ltd. at par.
3. Plant & Machinery and Stock shall be appreciated by 10%.
4. Balance of Purchase Consideration would be discharged by issue of Equity Shares of Rs. 10 each in Jiomart Ltd. issued at 10% premium.
5. Debtors of Smart Ltd. includes Rs. 2,500 due from Jio Ltd.

You are required to prepare:

- i. Purchase Consideration of Jio Ltd. and Smart Ltd.
- ii. Give necessary Journal entries in the books of Jiomart Ltd.

OR

Q.4 B) Sugar Ltd. issued 50,000 shares of Rs. 10 each. These shares were underwritten as IFC- 25,000, ICICI- 15,000 and HDFC- 10,000. In addition, there was firm underwriting as IFC- 4,300, ICICI- 2,200 and HDFC- 3,500 shares respectively. The total subscription received including firm underwriting and marked applications are 37,500 shares. The Marked applications excluding firm underwriting are IFC- 7,000, ICICI- 14,000 and HDFC- 3,500 shares.

You are required to show statement of liability of underwriters in both cases if credit of firm underwriting is to be given and if credit of firm underwriting is not to be given. (15)

Q.5 A) What are the objectives and benefits of Underwriting? (8)

Q.5 B) What are the methods of Purchase Consideration? (7)

OR

Q.5 Write short notes on: (Any 3)

(15)

- a) Objectives of Buy-back of Shares
- b) Underwriting Commission
- c) Net Payment Method of Purchase Consideration
- d) Capital Reduction A/c
- e) Liquidator's Commission
