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381 ①

(2½ Hours)

(Total Marks: 75)

- N.B.:** (1) Solve all questions. Each question has **internal options**.
 (2) Workings should form part of your answer.

1. (A) Fill in the blanks (any 8)

08

- (1) Goodwill is an ____ asset.
- (2) Buyback of shares can be of ____ paid up shares.
- (3) Discount on buyback is credited to ____ account.
- (4) Dividend equalization reserve is a ____ profit.
- (5) Fund created to provide funds for redemption is called ____.
- (6) Convertible debentures can be redeemed by issue of ____.
- (7) ____ shares cannot be redeemed except in case of liquidation of a company.
- (8) The buyback of shares results in reduction of ____ capital of a company.
- (9) Intrinsic value of shares is calculated on the basis of ____ value of assets.
- (10) Capital Redemption Reserve can be used for issue of ____.

(B) State whether following statements are true or false. (any 7)

07

- (1) The debentures can be redeemed at a discount.
- (2) Premium on redemption can be provided out of security premium.
- (3) The shares must be cancelled and destroyed after buyback.
- (4) Goodwill may be purchased or non-purchased.
- (5) Intrinsic value is also known as Net Assets Value.
- (6) Investments are non-trading assets.
- (7) Buyback must be as per RBI guidelines.
- (8) Preference shareholders have voting rights.
- (9) Capital Reserve is a divisible profit.
- (10) The debentures can be redeemed whenever company desires.

2. The Balance Sheet of RK Ltd. as on 31st March, 2017 is as follows:

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Liabilities	₹	Assets	₹
10000 shares of ₹ 10 each fully paid	1,00,000	Land & Building	1,20,000
Profit & Loss A/c	50,000	Plant & Machinery	80,000
Debentures	50,000	Furniture & Fittings	15,000
Trade Creditors	25,000	Stock	20,000
Provision for Taxation	5,000	Book Debts	10,000
Proposed Dividend	20,000	Cash and Bank	5,000
	2,50,000		2,50,000

The net profits of the company after charging depreciation and taxes for the years ending 31st March were as follows:

2013- ₹ 47,000; 2014- ₹ 49,000; 2015- ₹ 50,000; 2016- ₹ 52,000 and 2017- ₹ 59,000.

On 31st March, 2017, assets were valued as under:

Land & Building- ₹ 1,80,000, Plant & Machinery- ₹ 1,10,000, Furniture & Fittings- ₹ 10,000

12% return on investment can be considered fair for the business.

You are required to find value of goodwill by:

- a) Five years purchase of super profits.
b) Capitalisation of super profits

OR

Q2 The Balance Sheet of AM Ltd as on 31st March, 2017 is as follows:

15

Liabilities	₹	Assets	₹
10% Preference Capital	1,50,000	Goodwill	40,000
Equity Capital (FV ₹10 each)	3,00,000	Land & Building	416000
Profit & Loss A/c	2,50,000	Plant & Machinery	384000
10% Bank Loan	1,60,000	Furniture & Fittings	20,000
Trade Creditors	34,000	Stock	25,600
Provision for Taxation	16,000	Book Debts	15,000
		Cash	9,400
	9,10,000		9,10,000

Additional information:

- i) Realisable value of goodwill is ₹ 48,000, Plant & Machinery ₹ 4,20,000 and that of Land & Building is ₹ 4,61,000
ii) The expected rate of return on capital employed is 12.5%
iii) Average annual profits is ₹ 2,50,000. Tax rate is 40%

You are required to find fair value of each equity share.

Q3 The summarized Balance Sheet of FS Ltd. As on 31st March 2017 is as follows:

15

Liabilities	₹	Assets	₹
Equity shares of ₹ 10 each	3,00,000	Fixed Assets	8,00,000
Preference shares of ₹ 100 each	1,00,000	Long Term Investments	1,00,000
Securities Premium A/c	1,50,000	Cash & Bank	7,50,000
General Reserve	1,00,000		
Profit & Loss A/c	1,00,000		
Debentures	8,00,000		
Trade Payables	1,00,000		
	16,50,000		16,50,000

Ascertain maximum number of equity shares that FS Ltd. can buy back and maximum price per share that the company can offer.

Pass necessary journal entries to give effect of buyback transactions.

OR

Q3 Following is the Balance Sheet of a company as on 31st December 2015

15

Balance Sheet

Liabilities	₹	Assets	₹
8% Preference Shares of ₹100 each	1,00,000	Building	3,08,000
Equity shares of ₹ 100 each	6,00,000	Machinery	1,33,000
General Reserve	1,00,000	Stock	4,90,000
Profit and Loss A/c	44,200	Debtors	2,17,000
Bank overdraft	28,000		
Creditors	1,07,800		
Provision for Income Tax	63,000		
Proposed Dividend	1,05,000		
	11,48,000		11,48,000

Q.P. Code : 31199

The profit of the company for the years 2011 to 2015, after charging all expenses, depreciation but before taxation was ₹ 2,38,000, ₹ 2,68,800, ₹ 2,52,000, ₹ 2,80,000 & ₹ 2,66,000.

On 31st December, 2015; Building and Machinery were taken as worth ₹ 3,50,000 and ₹ 2,10,000 respectively. Income Tax can be taken at 50%.

In this business, 8% is considered reasonable return on capital employed.

Find out value of equity share under Net Assets Method, after taking into account revised values of assets and after valuing Goodwill on the basis of Five years purchase of super profits.

- Q4 A company issued ₹ 1,80,000, 10% redeemable preference shares at par on 1st January 2013; 15
redeemable at the option of the company on or after 31st December 2014 in whole or in part.
The following redemptions were made out of profits:
On 30th June 2015: ₹ 60,000; on 30th June 2016: ₹ 40,000
On 1st December 2016, the company issued equity shares of the face value ₹ 60,000 at a
premium of 2% and on 31st December 2016, it redeemed balance of the preference shares.
Pass the necessary journal entries to record the above transactions.

OR

- Q4 On 1st April 2013, BM Ltd. issued 4,000, 14% redeemable debentures of ₹ 100 each at par 15
redeemable at 10% premium after 4 years. The company decided to set up a sinking fund for
the redemption setting aside necessary amount every year and investing it in investment
carrying 12% interest p.a. the sinking fund factor for 4 years at 12% is 0.20964. On 31st March
2017, the sinking fund investment were sold for ₹ 3,15,000.
You are required to show the necessary ledger accounts in the books of BM Ltd. for the
financial years ending 31st March 2014, 2015, 2016 and 2017.

- Q5 A) What are the conditions for buyback of shares? 08
B) Explain methods of valuation of goodwill. 07
- Q5 Write short notes on any three : 15
(a) Debenture Redemption Reserve (b) Super Profit
(c) Divisible Profits (d) Yield Value method
(e) Sources of Buyback