**Corporate Accounting**

**April 2024 Examination**

**1. Amar takes over the business of Anil as on 31st March 2023. The Balance Sheets of both companies as on that date are as under:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance sheet of M/s Amar Ltd. as on 31st March 2023** | | | |
| **Liabilities** | **Rs.** | **Assets** | **Rs.** |
|  |  |  |  |
| **Equity Share Capital (Rs. 10**  **each)** | **1200000** | **Land & Building** | **1150000** |
| **12% Preference Shares** | **500000** | **Plant & Machinery** | **825000** |
| **Reserves & Surplus** | **65000** | **Other Assets** | **123000** |
|  |  |  |  |
| **8% Debentures** | **250000** | **Inventory** | **77000** |
|  |  |  |  |
| **Payables** | **175000** | **Receivables** | **100000** |
|  |  |  |  |
| **Other Liabilities** | **120000** | **Cash & Bank**  **Balances** | **35000** |
|  |  |  |  |
|  | **2310000** |  | **2310000** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Balance Sheet of M/s Anil Ltd. as on 31st March 2023** | | | |
| **Liabilities** | **Rs.** | **Assets** | **Rs.** |
|  |  |  |  |
| **Equity Share Capital (Rs. 10**  **each)** | **650000** | **Land & Building** | **893000** |
| **10% Preference Shares** | **200000** | **Plant & Machinery** | **345000** |
| **Reserves & Surplus** | **13000** | **Other Assets** | **78000** |
|  |  |  |  |
| **10% Debentures** | **250000** | **Inventory** | **45000** |
|  |  |  |  |
| **Payables** | **200000** | **Receivables** | **52000** |
|  |  |  |  |
| **Other Liabilities** | **112000** | **Cash & Bank**  **Balances** | **12000** |
|  |  |  |  |
|  | **1425000** |  | **1425000** |

**Terms of the deal were as follows:**

**Issue of equal no. of equity shares of Rs. 10 each at a premium of Re.1 /share to shareholders of M/s Anil Limited.**

**Issue of 12% Preference Shares of Rs. 50 each against existing Preference Shares of M/s Anil Ltd. at Par.**

**Debentures converted to 10% Debentures of M/s Amar Ltd. at proportionate value to the**

**Debenture holders of M/s Anil Ltd.**

**Land & Building fair valued to Rs. 10,50,000/- and Plant & Machinery to Rs. 2,75,000/-**

**i. Pass Journal entries for the above assuming M/s Amar Ltd. does not intend to carry on the business of M/s Anil Ltd.**

**ii. If the Value of Purchase Consideration is more than the value of assets taken over, the difference is transferred to which Account? (10 marks)**

**Ans 1.**

**Introduction**

In the realm of corporate finance and accounting, the process of one company taking over another involves a series of meticulous transactions that are reflected through journal entries. These entries not only document the transfer of assets and liabilities but also the issuance of shares and debentures as part of the purchase consideration. The case of Amar Ltd. taking over Anil Ltd. as of 31st March 2023, presents a classic example of such a corporate restructuring. The balance sheets of both companies provide a snapshot of their financial positions right before the takeover, setting the stage for a detailed accounting treatment of the transaction. This exercise not only requires an understanding of the principles of accounting

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**2. M/s Mittal Ltd. issued 75,000 debentures @ 8% interest on 1st April 2022 at par. Interest is paid semi-annually. The Company redeemed 5,000 shares on 31st March 2023. Pass necessary Journal entries for the above for FY 2022-23 and FY 2023-24. (10 marks)**

**Ans 2.**

**Introduction:**

In corporate accounting, the issuance and redemption of debentures and shares play a crucial role in managing a company's capital structure. M/s Mittal Ltd.'s scenario involves the issuance of debentures at a specified interest rate and the subsequent redemption of shares. These transactions impact the company's financial position, liquidity, and shareholder equity. Proper recording of these transactions is essential for accurate financial reporting and compliance with accounting standards. This analysis will delve into the journal entries required for the issuance of debentures and the redemption of shares by M/s Mittal Ltd. for

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**3a. Calculate the Value of the Shares of the following Company using Intrinsic value method. Assume book value of assets is equal to their realizable value.(5 marks)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs.** | **Assets** | **Rs.** |
| **Share Capital** |  | **Fixed Assets** |  |
| **40000 shares @ Rs. 10**  **each** | **400000** | **Land** | **200000** |
| **Reserves & Surplus** | **150000** | **Building** | **30000** |
|  |  | **Plant & Machinery** | **180000** |
| **Long Term Debt** | **50000** |  |  |
| **Short Term Liabilities** |  | **Investments** | **120000** |
| **Sundry Creditors** | **80000** | **Sundry Debtors** | **45000** |
| **Bank Short Term Loan** | **20000** | **Cash & Bank** | **123000** |
| **Other Liabilities** | **10000** | **Preliminary Exp** | **12000** |
|  | **710000** |  | **710000** |

**Ans 3a.**

**Introduction:**

The intrinsic value method is a fundamental approach used to determine the true worth of a company's shares based on the underlying value of its assets and liabilities. In this method, the book value of assets is assumed to be equal to their realizable value, providing a more realistic assessment of the company's financial position. Using this method, we will calculate

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**b. Following is the extract of the Trial Balance of M/s Dhan Bank as on 31st March 2022. Identify what seems to be incorrect in terms of the rules and regulations applicable to Banking Companies.**

**Name the Act pertaining to the Banking Companies and justify with relevant rules and**

**Sections:**

**i. Paid Up Share Capital Rs. 2,00,000**

**ii. Reserves and Surplus Rs. 1,00,000**

**iii. Preliminary Expenses Rs. 12,000**

**Additional information available:**

**The Bank has its branches in Rajkot and Indore, with plans to expand in Chennai. Profit for the year was Rs. 1,20,000. Dividend declared Rs. 85,000. (5 marks)**

**Ans 3b.**

**Introduction:**

Banking companies are governed by specific rules and regulations to ensure the stability, transparency, and efficiency of the banking system. It's crucial for banks to comply with these regulations to maintain public trust and financial integrity. In this case, we will analyze the Trial Balance of M/s Dhan Bank and identify any discrepancies or non-compliance with the rules and regulations applicable to banking companies, particularly under the Banking