**Dr.SNS Rajalakshmi College of Arts and Science (Autonomous)**

**Department of Commerce with Information Technology**

**Question Bank**

**21UCI502: Accounting for Shares and Debentures**

**SECTION – A (4 MARKS QUESTION)**

**UNIT – I**

1. Define Company.

2. What is a share? List out the various kinds of shares which can be issued by companies.

3. Explain forfeiture of shares.

4. Show the journal entry for the following :Ram Ltd purchased assets of Rs.8,00,000 from Anil Bros. it issued equity shares of Rs.100 each fully paid in satisfaction of their claim.

5. Analyse the journal entry for recording the forfeiture of shares.Muthu was holding 20 equity shares of Rs.10 each on which he paid Rs.2 on application but could not pay Rs.3 on allotment and Rs.1 on first call. Directors forfeited the shares after the first call.

6. Define the term “Firm underwriting”.

**UNIT – II**

1. Explain the meaning of preference shares.

2. Tell about cumulative and non- cumulative preference shares.

3. Construct the formula for calculating the minimum fresh issue of shares.

4. The following extract from the extract from the balance sheet of Priya Co Ltd as on 31.12.2008 is given to you

|  |  |
| --- | --- |
| **Particulars** | **Rs** |
| 2,00,00 equity shares of Rs.10 each | 20,00,000 |
| 3,00,000 6% redeemable preference shares of Rs.10 each | 30,00,000 |
| Capital reserve | 15,00,000 |
| General reserve | 9,00,000 |
| Profit & Loss A/c | 25,50,000 |

5. A Company issues the following debentures: Show the journal entries

(i) 2,000, 10% debentures of Rs.100 each at par but redeemable at a premium of 10% after ten years.

(ii) 500, 13% debentures of Rs.100 each at a premium of 10% payable at par after five years.

6. Show the journal entries for (i) Transfer to capital redemption reserve and

(ii) Redeemable preference share capital and premium payable on redemption.

**UNIT – III**

1. Compare Profit and loss account and profit and loss appropriation account.

2. What is general reserve?

3. Show how you will exhibit the following items in the balance sheet of a company as on 31.12.2015? Original cost of building R.4,00,000; Book value of building on 1st Jan.2009 Rs.2,80,000; Depreciation to be written off at 5% on written down value.

4. From the following particulars, show how the fixed assets machinery during the year Rs.12,000; cost of machinery sold during the year Rs.7,000; Depreciation Rs.10,000.

5. What is meant by revenue from operation?

6. Tell about cost of material consumed and purchase of stock.

**UNIT – IV**

1. Define goodwill.

2. What is meant by super profit method?

3. Evaluate goodwill on the basis of three years purchases of the last five years average profits. The profits for the last five years are: I year – Rs.4,800; II year – Rs.7,200; III year – Rs.10,000; IV year – Rs.3,000 and V year – Rs.5,000

4. Classify the types of goodwill and shares.

5. Show the format for calculating the amount available to equity shareholders.

6. What is normal rate of return?

**UNIT – V**

1. What is Liquidation of a company?

2. List out the order of payment while discharging the company’s debt’s and liabilities.

3. Who are preferential creditors?

4. From the following particulars, assume liquidator’s remuneration. Assets realized – Rs.80,000; Remuneration on assets realized – 4%; Liabilities amount to be paid – Rs.50,000; Remuneration on the amount of liabilities paid – 3%.

5. The American Co has paid of its creditors in full, and the liquidator is in a position to make a return to the shareholders. The position is as follows:

(a) 100 preference shares of Rs.10 each fully paid

(b) 400 equity shares of Rs.10 each fully paid.

(c) 400 equity shares of Rs.10 each (Rs.8 paid)

The cost of liquidation is Rs.140. Creditors Rs.2,225, the assets realized Rs. 3,740. A call of Rs.2 per share on the partly paid equity shares was duly paid except of one shareholder owing 100 shares. Assume liquidator's final statement of accounts.

6. What is meant by creditor’s voluntary winding up?

**SECTION – B (6 MARKS QUESTION)**

**UNIT – I**

1. What journal entries are passed in the books of the company on forfeiture of shares?

2. X Co Ltd issued 50,000 equity shares of Rs.10 each to the public on condition that full amount of shares will be paid in lump sum. All these shares were taken up and paid by the public. Show journal entries in the books of company when:

(a) Shares are issued at bar (b) Shares are issued at a premium of 10% and (c) Shares are issued at a discount of 10%

3. Sunil company forfeited 200 equity shares of Rs.10 each issued at par held by Vijay for nonpayment of the final call of Rs.3 per share. The shares were reissued to Laxman at Rs.6 per share. Show the journal entries for forfeiture and reissue.

4. Explain underwriting commission.

5. Kumar company issued 10,000 equity shares at Rs.10 per share payable, Rs.5 on application, Rs.3 on allotment and Rs.2 of first and final call. The public subscribed for 9,000 shares. The directors allotted all the 9,000 shares and duly received the money. Construct the necessary journal entries.

6. Relate the shares with stock.

**UNIT – II**

1. Explain capital redemption reserve

2. Kumar Ltd issued 75,000 equity shares of Rs.10 each and 5,000 redeemable preference shares of Rs.100 each all shares being fully called and paid up on 31.3.1992. Profit and loss account showed undistributed profits of Rs.2,50,000 and general reserve stood at Rs.2,50,000. On 1.4.1992 the directors decided to redeem the existing preference shares at Rs.105 utilising as much profits as would be required for the purpose. You are required to pass journal entries in the books of the company.

3. Compare debenture and share.

4. Classify the types of preference shares.

5. Construct the journal entries for receiving cash for redemption of preference shares.

6. Timex Ltd issued 1,000 8% debentures of Rs.100 each. Develop appropriate journal entries in the books of the company, if the debenture were issued as follows:

(a) Issued at par, redeemable at par.

(b) Issued at a discount of 5%, repayable at par.

(c) Issued at a premium of 10%, repayable at par.

**UNIT – III**

1. The following are the balances extracted from the company records. Analyse the remuneration of the managing director at 5% of the net profit, after charging such commission. Net profit Rs.38,786. Items considered for arriving at the above profit:

(a) Provision for taxation Rs.39,000

(b) Managing directors remuneration paid Rs.12,000

(c) Formation expenses written off Rs.4,000

(d) Directors fees Rs.2,500

(e) Provision for doubtful debts Rs.1,200

(f) Depreciation written off Rs.12,880

(g) Depreciation allowable as per income tax rules Rs.12,000

(h)Ex-gratia payment to employee (without any liability to the company) Rs.2,000

2. Anush Ltd had a balance of Rs.11,500 in its profit and loss account on 1.4.2015. During 2015 -16 its profit amounted to Rs.1,47,500. The income tax for the year amounted to Rs.48,300. The company decided to transfer Rs.10,000 to the general reserve, 15,000 to sinking fund for redemption of debentures and pay a dividend for 2015 – 16@10 %. The company’s share capital consisted of 50,000 shares of Rs.10 each. Show Profit and Loss Appropriation A/c

3. Explain proposed dividend and interim dividend.

4. Build a specimen Profit and Loss Appropriation Account of a company.

5. Moon and Star Ltd is a company with an authorized capital of Rs.5,00,000 divided into 5,000 equity shares of Rs.100 each on 31.12.1985 of which 2,500 shares were fully called up. The following are the balances extracted from the ledger as on 31.12.1985

|  |  |  |  |
| --- | --- | --- | --- |
| **Debit** | **Rs** | **Credit** | **Rs** |
| Opening Stock | 50,000 | Sales | 3,25,000 |
| Purchases | 2,00,000 | Discount received | 3,150 |
| Wages | 70,000 | Profit & Loss A/c | 6,220 |
| Discount allowed | 4,200 | Creditors | 35,200 |
| Insurance(Up to 331.3.86) | 6,720 | Reserves | 25,000 |
| Salaries | 18,500 | Loan from managing director | 15,700 |
| Rent | 6,000 | Share capital | 2,50,000 |
| General expenses | 8,950 |  |  |
| Printing | 2,400 |  |  |
| Advertisements | 3,800 |  |  |
| Bonus | 10,500 |  |  |
| Debtors | 38,700 |  |  |
| Plant | 1,80,500 |  |  |
| Furniture | 17,100 |  |  |
| Bank | 34,700 |  |  |
| Bad debts | 3,200 |  |  |
| Calls-in-arrear | 5,000 |  |  |
| **Total** | **6,60,270** | **Total** | **6,60,270** |

You are required to prepare statement of Profit and Loss Account for the year ended 31.12.1985. The following are further information is given:

(a) Closing stock was valued at Rs.1,91,500.

(b) Depreciation on plant at 15% and on furniture at 10% should be provided.

(c) A tax provision of Rs.8,000 is considered necessary.

(d) The directors declared an interim dividend on 15.8.85 for 6 months ending June 30, 1985 @ 6%

(e) Provide for corporate dividend tax @ 17%.

6. Construct the format of balance sheet as per Revised Schedule VI.

**UNIT – IV**

1. A Ltd proposed to purchase the business carried on by B. Goodwill for this purpose is agreed to be valued at three years purchase of the profit of the past four years. The appropriate weights to be use are : 2013 – 1; 2014 – 2; 2015 – 3 and 2016 – 4. Profits for these years were: 2013 – Rs10,000; 2014 – Rs.11,000; 2015 – Rs.12,000 and 2016 – Rs.15,000. Assume the value of goodwill of the firm.

2. Explain the needs for valuation of goodwill.

3. A firm earned net profits during the last three years as follows: I year – Rs.36,000; II year – Rs.40,000 and III year – Rs.44,000. The capital investment of the firm is Rs.1,00,000. A fair return on the capital, having regard to the risk involved is 10%. Estimate the value of goodwill on the basis of 3 year’s purchase of super profit.

4. A firm earns a Rs.1,20,000 as its annual profits, the rate of normal profit being 10%. The assets of the firm amount to Rs.14,40,000 and liabilities to Rs.4,80,000. Evaluate the value of goodwill by capitalization methods.

5. What are the factors affecting the value of share.

6. The following is the balance sheet of NSC Ltd as on 31.12.1998

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Rs** | **Assets** | **Rs** |
| 4,000 10% preference shares of Rs.100 each | 4,00,000 | Sundry assets at book value | 12,00,000 |
| 60,000 equity shares of Rs.10 each | 6,00,000 |  |  |
| Bills payable | 50,000 |  |  |
| Creditors | 1,50,000 |  |  |
|  | **12,00,000** |  | **12,00,000** |

The market value of 60% of the assets is estimated to be 15% more than the book value and that of remaining 40% at 10% less than the book value. There is an unrecorded liability of Rs.10,000. Assume the value of each equity share.

**UNIT –V**

1. Explain statement of affairs.

2. Construct a specimen for Liquidator’s Final Statement of Accounts.

3. A liquidator is entitled to receive remuneration @2% of the assets realized and 3% on the amount distributed among the unsecured creditors. The assets relaised Rs.70,00,000 against which payment was made as follows:

Liquidation expenses Rs. 50,000

Preferential creditors Rs.1,50,000

Secured creditors Rs.40,00,000

Unsecured creditors Rs.30,00,000.

Compute the total remuneration payable to the liquidator.

4. Compare statement of affairs and balance sheet

5. Explain Deficiency Account.

6. Explain about contribution in winding up.

**SECTION – C (10 MARKS QUESTION)**

**UNIT – I**

1. Classify the different types of shares issued by the company.

2. Priya Ltd issued 1,00,000 equity shares of Rs.10 each payable, Rs.5 on application, Rs.2 on allotment, Rs.2 on first call and Rs.1 on final call. All the shares are subscribed and amount was duly received. Show Journal entries.

3. Senthil Ltd issued 1,00,000 equity shares of Rs.10 each to the public at par. The details of the amount payable on the shares are as follows:

On application Rs.5 per share

On allotment Rs. 3 per share

On first and final call Rs. 2 per share

Application money was received for 1,20,000 shares. Excess application money was refunded immediately. Show journal entries to record the above.

**UNIT – II**

1. Redeemable preference share to be redeemed are Rs.2,00,000. Premium payable on redemption is 10%. Securities premium in balance sheet is Rs.10,000. Revenue reserves in balance sheet are Rs. 1,05,000. Compute the Minimum fresh issue of shares (a)at par; (b) at premium 5% and (c) at discount 10% discount.

2. Classify the different types of debentures.

3. A company decides to redeem its preference shares amounting to Rs. 1 lakh at a premium of 5% and for this purpose issues 5,000 equity shares of Rs.10 each at a premium of 5%. The company has also balance of Rs.1,00,000 on general reserve and Rs.50,000 on Profit & Loss Account. Show the journal entries

**UNIT –III**

1. Elaborate the remuneration payable to different categories on managerial personnel.

2. A Ltd was registered with an authorized capital of rs.6,00,000 in equity shares of Rs.10 each. The following is its Trial Balance on 31.3.1998.

|  |  |  |
| --- | --- | --- |
| **Debit** | **Rs** | **Credit** |
| Goodwill | 25,000 |  |
| Cash | 750 |  |
| Bank | 39,900 |  |
| Purchases | 1,85,000 |  |
| Preliminary expenses | 5,000 |  |
| Share capital |  | 4,00,000 |
| 12% debentures |  | 3,00,000 |
| P & L A/c (Cr) |  | 26,250 |
| Calls-in-arrears | 7,500 |  |
| Premises | 3,00,000 |  |
| Plant & machinery | 3,30,000 |  |
| Interim dividend | 39,250 |  |
| Sales |  | 4,15,000 |
| Stock (1.4.97) | 75,000 |  |
| Furniture & fixtures | 7,200 |  |
| Sundry debtors | 87,000 |  |
| Wages | 84,865 |  |
| General expenses | 6,835 |  |
| Freight & Carriage | 13,115 |  |
| Salaries | 14,500 |  |
| Director’s fees | 5,725 |  |
| Bad debts | 2,110 |  |
| Debenture interest paid | 18,000 |  |
| Bills payable |  | 37,000 |
| Sundry creditors |  | 40,000 |
| General reserve |  | 25,000 |
| Provision for bad debts |  | 3,500 |
| **Total** | **12,46,750** | **12,46,750** |

3. The Mafatlal manufacturing company Ltd Chennai was registered with a nominal capital Rs.12,00,000 in equity shares of Rs.10 each. The following is the list of balances extracted from the books on 31.3.1998.

|  |  |  |  |
| --- | --- | --- | --- |
| **Debit** | **Rs** | **Credit** | **Rs** |
| Premises | 6,00,000 | Sales | 8,30,000 |
| Stock (1.4.97) | 1,50,000 | 6% debentures | 6,00,000 |
| Furniture | 14,400 | Profit & Loss A/c (Cr) | 29,000 |
| Calls-in-arrears | 15,000 | Bills payable | 76,000 |
| Plant & Machinery | 6,60,000 | Sundry creditors | 1,00,000 |
| Interim dividend paid | 75,000 | General reserve | 50,000 |
| Sundry debtors | 1,74,000 | Provision for doubtful debts (1.4.97) | 7,000 |
| Goodwill | 68,000 | Subscribed, called up & Paid up Capital | 8,00,000 |
| Cash and bank balances | 63,300 |  |  |
| Purchases | 3,70,000 |  |  |
| Preliminary expenses | 10,000 |  |  |
| Wages | 1,69,730 |  |  |
| General expenses | 13,670 |  |  |
| Advertising | 20,000 |  |  |
| Freight | 26,230 |  |  |
| Salaries | 29,000 |  |  |
| Directors fees | 11,450 |  |  |
| Bad debts | 4,220 |  |  |
| Debenture interest paid | 18,000 |  |  |
| **Total** | **24,92,000** | **Total** | **24,92,000** |

The following adjustments have to be made:

1. Stock on 31.3.1998 was valued at Rs.1,90,000.

2. Write off preliminary expenses.

3. Provide for half year’s debenture interest.

4. The provision for doubtful debts on 31.3.1998 should be equal to 1% on sales.

5. Director’s fees are outstanding to the extent of Rs.550 and salaries Rs.1,000.

6. Depreciate plant & machinery by 5%; premises by 2% and write off Rs.2,400 on furniture.

7. Goods to the value of Rs.3,000 were distributed as free samples during the year. But no entry in this respect had been made.

You are required to prepare the Statement of Profit & Loss for the year ended 31.3.1998 and the Balance sheet as on the same date.

**UNIT – IV**

1. Define goodwill. What are the different methods of calculation of goodwill.

2. Average capital employed in Kowsik Ltd is Rs. 35,00,000 whereas net trading profits before tax for the last three years have been Rs.14,75,000; Rs.14,55,000 and Rs.15,25,000. In these three years, the managing director was paid a salary of Rs.10,000 p.m. But now he would be paid a salary of Rs.12,000 p.m. Normal rate of return expected in the industry in which Kowsik Ltd is engaged is 18%. Rate of tax is 50%. Calculate goodwill on the basis of three year’s purchase of the super profit.

3. From the following information calculate the value per equity share:

Particulars Rs

5,000 8% preference shares of Rs.100 each 5,00,000

75,000 equity shares of Rs.10 each, Rs.8 per share paid up 6,00,000

Expected profit per year before tax 2,80,000

Rate of tax 50%

Transfer to general reserve every year 20% of the profit

Normal rate of earnings 10%

**UNIT – V**

1. Explain different methods of winding up of a company.

2. A company went into voluntary liquidation on 1.1.2016 on which date dividend on preference shares were in arrear for two years. The subscribed capital of the company is 40,000, 6% preference shares of Rs.10 each fully paid up and 50,000 equity shares or Rs.10 each, Rs.6 paid up.

Assets realized Rs.3,50,000; Expenses of liquidation came to Rs.9,800; Liquidator’s remuneration is Rs11,000 and a commission of 2.5% on the amount paid to preference shareholders as capital and dividend. Liabilities amounted to Rs.20,000. There is a provision in the articles of association about the payment of arrears dividend in priority to equity share capital. Assume the liquidator's final statement of accounts.

3. Explain the procedure for preparing the statement of affairs