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T.Y.B.Com Semester VI (CBCS) Ordinance
EXAMINATION NOVEMBER 2023
Accounting - Corporate Accounting and Tax Planning

[Time: 2:00 Hours]

[Max. Marks: 80]

- Instructions:**
1. Question No. 1 is compulsory.
 2. Answer any 3 questions from Question No. 2 to Question No. 6.
 3. Figures to the right indicate maximum marks to the questions.

Q1 From the following Balance Sheets of Jay Ltd. and Ron Ltd. as at December 31, 2022, (20 marks) prepare a Consolidated Balance Sheet as at 31st December 2022 showing necessary workings.

Balance Sheets of Jay Ltd. and Ron Ltd. as at 31st December, 2022

Particulars	Note no.	Jay Ltd. (Rs.)	Ron Ltd. (Rs.)
I. EQUITY AND LIABILITIES			
1) Shareholders' Funds:			
a) Share Capital — Equity Share of Rs. 10 each.		2,50,000	1,00,000
b) Reserves and Surplus : General Reserve		75,000	30,000
Profit & Loss a/c		70,000	60,000
2) Non-Current Liabilities			
3) Current Liabilities:			
a) Trade payables: Creditors		50,000	20,000
Bills Payable		5,000	2,000
TOTAL		4,50,000	2,12,000
II. ASSETS			
1) Non-current Assets:			
a) Property, Plant & Equipment and Intangible assets			
i) Tangible Assets: Plant & Machinery		2,00,000	1,20,000
ii) Intangible Assets: Goodwill		20,000	10,000
b) Non-current Investments: 6,000 equity shares in Ron Ltd		85,000	—
2) Current Assets:			
a) Inventories: Stock		80,000	30,000
b) Trade receivables: Debtors		60,000	50,000
c) Cash and cash equivalents: Cash in hand		5,000	2,000
TOTAL		4,50,000	2,12,000

Additional information:

- Shares in Ron Ltd. were acquired by Jay Ltd. on 1st July 2022.
- On 1st January 2022, Ron Ltd. had Rs. 18,000 in General Reserve and Rs. 14,000 in Profit and Loss account.
- Included in the creditors of Ron Ltd. is Rs. 12,000 for goods supplied by Jay Ltd.
- Included in the stock of Ron Ltd. are goods to the value of Rs. 6,000 which were supplied by Jay Ltd. at a profit of 25% on cost.

- Q2 Aqua Ltd. was incorporated on 1st August 2022 to take over a running sole proprietorship (20 marks) business with effect from 1st April 2022. The company received the certificate of commencement of business on 1st October 2022. The following Profit and Loss account was prepared for the year ended 31st March 2023:

Profit and Loss Account for the year ended 31st March 2023

Particulars	Rs. (Dr.)	Particulars	Rs. (Cr.)
To Office salaries	21,000	By Gross profit	80,000
To Proprietor's salary	6,000	By Share transfer fees	1,000
To Advertisement	4,400		
To Printing and stationery	1,500		
To Travelling expenses	4,000		
To Office rent	9,600		
To Electricity charges	900		
To Auditors charges	600		
To Director's charges	1,000		
To Bad debts	1,200		
To Commission on sales	4,000		
To Preliminary expenses	700		
To Debenture interest	1,800		
To Manager's salary	1,600		
To Depreciation	2,100		
To Net profit	<u>20,600</u>		
	<u>81,000</u>		<u>81,000</u>

Additional information:

- Total sales for the year, which amounted to Rs. 8,00,000, arose evenly up to the date of certificate of commencement, whereafter they recorded an increase of 2/3 during the remaining period.
- Office rent was paid at Rs. 8,400 p.a up to 30th September 2022 and thereafter it was paid at Rs. 10,800 p.a.
- Travelling expenses include Rs. 1,600 towards sales promotion.
- Bad debts include Rs. 800 in respect of goods sold in September 2022.
- Manager's salary pertains to a Manager who became a Director after incorporation. Show the pre and post incorporation results and show workings.

- Q3 The following are the Balance Sheets of Hari Ltd. and Sham Ltd. as at 31st March 2023: (20 marks)
Balance Sheets of Hari Ltd. and Sham Ltd. as at 31st March 2023

Particulars	No te no.	Hari Ltd. (Rs.)	Sham Ltd. (Rs)
I EQUITY AND LIABILITIES			
1) Shareholders' Funds:			
a) Share Capital — Equity Share of Rs. 10 each		5,00,000	2,00,000
b) Reserves and Surplus : General Reserve		2,40,000	60,000
Profit & Loss a/c		2,00,000	60,000
2) Non-Current Liabilities			
3) Current Liabilities:			
a) Trade payables: Creditors		1,70,000	55,000
TOTAL		11,10,000	3,75,000
II. ASSETS			
1) Non-current Assets:			
a) Property, Plant & Equipment and Intangible assets			
i) Tangible Assets: Building		3,50,000	1,35,000
Machinery		60,000	40,000
b) Non-current Investments: 80% equity shares in Sham Ltd.		3,40,000	—
2) Current Assets:			
a) Inventories: Stock		1,80,000	1,20,000
b) Trade receivables: Debtors		90,000	30,000
c) Cash and cash equivalents: Cash at bank		90,000	50,000
TOTAL		11,10,000	3,75,000

The following additional information is provided to you:

- Profit and loss account of Sham Ltd. stood at Rs. 30,000 on 1st April 2022, whereas General Reserve has remained unchanged since that date.
- Hari Ltd. acquired 80% shares in Sham Ltd. on 1st October 2022.
- Included in debtors of Sham Ltd. is a sum of Rs. 10,000 due from Hari Ltd. for goods sold at a profit of 25% on cost price. The goods remained unsold at the godown, till 31st March 2023.

You are required to prepare a Consolidated Balance Sheet as at 31st March 2023. Show all calculations clearly.

- Q4 Verona Ltd. has its share capital divided into shares of Rs. 10 each. On 1st April 2018, (20 marks)
1,00,000 Employee Stock Options (ESOPs) were granted at Rs. 40, when the market price was Rs. 60. These options will vest at the end of year 1, if the earnings of Verona Ltd. are more than 15% or it will vest at the end of year 2, if the average earnings of 2 years is more than 12% or lastly it will vest at the end of the third year, if the average earnings of 3 years will be 9% or more. 6000 unvested options lapsed on 31st March 2019. 6500 unvested options lapsed on 31st March 2020 and finally 3000 unvested options lapsed on 31st March 2021. The earnings of Verona Ltd. were as follows:

Year ended on	Earnings in %
31-3-2019	13%
31-3-2020	9%
31-3-2021	7%

Exercise period was allowed for one year after vesting of the options and employees exercised 80,000 stock options on 01st July 2021 and the balance options lapsed. Pass necessary Journal entries in the books of Verona Ltd.

- Q5 Econserve Ltd. has provided you with the following information regarding a machinery (20 marks)
which it intends to use for its business:

The cost of purchasing the machinery is Rs. 2,00,000. Rate of depreciation applicable on the machinery is 20% p.a on WDV basis. The company plans to take a loan to purchase the asset at an interest rate of 10% p.a. and repay Rs. 40,000 p.a. The residual value of the asset at the end of its useful life of 5 years is expected to be Rs. 30,000.

However, if they lease the machinery instead, they will incur a cost of Rs. 35,000 p.a. in the form of lease rentals.

The expected profit of the company is Rs. 2,00,000 before deducting depreciation, interest and tax or before lease rent and tax. The applicable income tax rate is 25%.

Determine whether Econserve Ltd. should purchase an asset or take on lease. Show the workings.

- Q6 Write short notes on the following:

- Capital profits of a subsidiary.
- Steps involved in the computation of profits or losses prior to incorporation.
- Grant, vesting and exercise of Employee Stock Options.
- Difference between tax planning and tax evasion.

(4 x 5 = 20
marks)