25. 2057 Q.No.11

What is Assignment of Contract? Explain and illustrate the rules regarding assignment of contracts. [8+12]

26. 2058 Q.No.11

Discuss the doctrine of consideration and its exceptions with suitable examples. [20]

27. 2059 Q.No.11

A lawful contract has to comply a number of elements. In the light of the given statement, discuss the essential elements of a contract. [20]

28. 2060 Q.No.12

Why is it necessary to perform a contract? Examine the legal consequence of not performing a contract. [10+10]

29. 2061 Q.No.11

A lawful contract, besides complying a number of elements, needs to be within the capability of performance of parties to the contract. In the light of the given statement, discuss the importance and rules regarding the performance of contract. [10+10]

30. 2062 Q.No.11

Discuss with suitable illustrations the various remedies available to a party in case of breach of contract. [20]

31. 2063 Q.No. 11

Point out the various modes in which a contract may be discharged and discuss the case of impossibility of performance as a mode that discharges the contract. [5+15]

32. 2064 Q.No. 11

What is contract? Discuss the essentials of a valid contract. [5+15]

33. 2065 Q.No. 11

Discuss the major provisions of Nepal Contract Act. [20]

34. 2066 Q.No. 11

Define contract. Discuss the essentials of a valid contract. [5+15]

3. BAILMENT

Short Answer Questions

1. 2055 Q.No.3

State and explain the important provisions of 'Naso Dharot' in Nepal. [10]

2. 2056 Q.No.3

Who is a finder of lost goods? Briefly explain the right and duties of the finder of goods. [4+6]

3. 2056 Q.No.6

Explain any four cases where a non-owner can give the transferee a valid title to the goods. [10]

4. 2057 Q.No.3

What is meant by Pledge? What are the essential of a valid pledge? [4+6]

5. 2058 Q.No.7

What is a "holder"? Is there any difference between a holder and a holder in due course? [4+6]

6. 2058 Q.No.9

Who is a bailor? What are his rights? [4+6]

7. 2059 Q.No.2

Who is a bailee? Write down the duties of a bailee. [4+6]

8. 2060 Q.No.2

Write down the various provisions of Nasho Dharaut in Nepal. [10]

9. 2061 Q.No.3

Write about the rules relating to Nasho Dharot in Nepal. [10]

10. 2062 Q.No.6

Define contractual capacity. Explain the rules regarding minor's agreement. [3+7][

11. 2064 Q.No. 5

When does a non-owner of goods can transfer a valid ownership to the buyer? [10]

11. 2065 Q.No. 2

What a pledge of goods made by a person who is not the real owner is valid and blinding? Explain and illustrate. [10]

12. 2066 Q.No. 3

Who is bailee? Explain the duties of bailee. [3+7]

Comprehensive Answer Questions

13. 2061 Q.No.12

Any lawful contract creates legal relationship and thereupon rights and duties between the contracting parties. In view of the given statement, discuss the rights and duties of Bailee under a Contract of Bailment. [10+10][

14. 2063 Q.No. 12

Define pledge. Discuss the rights and duties of pawner and pawnee. [5+15]

4. AGENCY

Short Answer Questions

1. 2055 Q.No.4

What is agency? Explain the procedures of registration of agency business in Nepal. [4+6]

2. 2056 Q.No.4

What is agency? Explain the possible circumstances leading to the termination of agency by operation of law. [4+6]

3. 2057 Q.No.4

What do you mean by Agency by Ratification? Explain the conditions for a valid ratification. [4+6]

4. 2058 Q.No.6

What is agency? Write down the rights of an agent. [5+5]

5. 2059 Q.No.3

Distinguish between sub-agent and substituted agent. [10]

6. 2060 Q.No.3

What is termination? Explain the methods of termination of agency business. [4+6]

7. 2060 Q.No.6

Who is an agent? Point out the different kinds of agent. [4+6]

8. 2061 Q.No.4

Explain the procedures of registration of agency business in Nepal. [10]

9. 2062 Q.No.3

Describe the procedure of registration and effect of non-registration of agency in Nepal. [10]

10. 2063 Q.No. 3

Highlight the nature of agency and explain the rights and duties of agent. [3+7]

11. 2064 Q.No. 3

Give the meaning of agency and describe the situation where an agency is terminated. [3+7]

12. 2065 Q.No. 4

Define agent and principal. Explain the duties of an agent towards the principal. [3+7]

13. 2065 Q.No. 5

What is agency? Distinguish between a sub-agent and a substituted agent. [3+7]

14. 2066 Q.No. 4

Highlight on the modes of creating agency. [10]

15. 2066 Q.No. 5

Who is a sub-agent? When may an agent appoint a sub-agent? [3+7]

5. INDEMNITY AND GUARANTEE

Short Answer Questions

1. 2055 Q.No.4

When does the liability of a surety under a contract of guarantee come to end? Illustrate and explain. [10]

2. 2056 Q.No.5

Distinguish between a contract of guarantee and a contract of indemnity. [10]

3. 2057 Q.No.5

Define contract of Indemnity. Explain the rights if the indemnity-holder. [4+6]

4. 2058 Q.No.5

Explain the rights of indemnity holder. [10]

5. 2059 Q.No.6

Explain continuing guarantee with suitable illustrations. [10]

6. 2060 Q.No.4

Who is surety? State and explain the circumstances under which surety is discharged. [4+6]

7. 2060 Q.No.7

Distinguish between promissory note and bills of exchange. [10]

8. 2061 Q.No.5

When is a surety discharged from his liability under a contract of guarantee? [10]

9. 2062 Q.No.4

What is a contract guarantee? When is the surety discharged from his liability? [3+7]

10. 2063 Q.No. 4

Explain the right and duties of surety under the contract of guarantee. [5+5]

11. 2064 Q.No. 4

What is a contract of indemnity? Describe the rights and duties of indemnifies and indemnity holder. [3+7]

12. 2065 Q.No. 6

State and explain the conditions under which a surety is discharged. [10]

13. 2066 Q.No. 6

Define a contract of indemnity. Explain the rights and duties of indemnifier. [3+7]

6. SALE OF GOODS

Short Answer Questions

1. 2055 Q.No.6

What is 'Caveat emptor'? Are there any exceptions to its application to the sale of goods? [4+6]

2. 2057 Q.No.6

What are the essentials of a valid contract for the sale of goods? [10]

3. 2059 Q.No.7

Define sale of goods and explain the implied conditions under the contract of sale of goods. [4+6]

4. 2061 Q.No.6

Who is an unpaid seller? Explain the rights of an unpaid seller. [4+6]

5. 2062 Q.No.5

Explain briefly the implied conditions and warranties in a contract of sale. [10]

6. 2063 Q.No. 5

Define the term goods. Distinguish between specifics and unascertained goods. [3+7]

Comprehensive Answer Questions

7. 2055 Q.No.12

'No one can give what one has not.' How does this principle apply in the case of sale of goods? Discuss. [20]

8. 2056 Q.No.12

What are implied conditions in a contract of sale of goods? Discuss with illustrations. [20]

9. 2057 Q.No.12

Who is an Unpaid Seller? Discuss the rights of the unpaid seller. [8+12]

10. 2058 Q.No.12

Who is an Unpaid Seller? What are the rights of unpaid seller against the goods and the buyer? [10+10]

11. 2062 Q.No.12

Who is an unpaid seller? Discuss his rights against the goods and the buyer. [5+15

12. 2064 Q.No. 12

Define the term 'Delivery'. Discuss the rules regarding delivery under the contract of sale of goods. [5+15]

13. 2065 Q.No. 12

Who is an unpaid seller? Discuss the rights of unpaid seller against the goods and the buyer. [4+16]

14. 2066 Q.No. 12

When can a seller who is not the owner of goods transfer the ownership of goods to the buyer of goods? Discuss. [20]

7. COMPANY INCORPORATION AND MANAGEMENT

Short Answer Questions

1. 2055 Q.No.7

Explain briefly the different modes of winding up of a company. [10]

2. 2056 Q.No.7

What is annual general meeting? Explain the purpose and procedure of annual general meeting of a company. [3+3+4]

3. 2057 Q.No.7

Explain the procedure of registration of a company. [10]

4. 2060 Q.No.9

What is minute? How minutes are kept in a company meeting. [4+6]

5. 2061 Q.No.7

What are the different modes of winding up of a company in Nepal? Explain. [10]

6. 2062 Q.No.9

Define the term 'minutes' and explain the provision regarding the keeping of minutes.. [3+7]

7. 2063 Q.No. 6

State and explain the major provisions of Nepal Contract Act. [10]

8. 2063 Q.No. 9

Point out the various kinds of company meetings and distinguish between ordinary and extra ordinary general meetings. [3+7]

9. 2064 Q.No. 9

Explain the provisions of the Company Act relating to the right and power of an auditor. [5+5]

10. 2065 Q.No. 7

Describe the procedure relating to the incorporation of a company in Nepal. [10]

11. 2065 Q.No. 8

Explain the rights and power of auditor under Company Act of Nepal. [5+5]

12. 2066 Q.No. 7

State and explain the modes of winding up of a company in Nepal. [10]

13. 2066 Q.No. 8

What are the various kinds of company meetings? Explain the provisions of Company Act in relation to extraordinary general meeting. [5+5]

. ARBITRATION

ort Answer Questions

2055 Q.No.8

What is arbitration? What are the powers and duties of an arbitrator? [4+6]

2056 Q.No.8

Define arbitration. Who can refer the disputes to arbitration? [5+5]

3. 2057 Q.No.8

What are the major provisions of 'Nepal Madhyasthata Ain'? Explain. [10]

4. 2059 Q.No.10

What is arbitration? Who can refer to arbitration? [4+6]

5. 2061 Q.No.8

What is arbitration? Who can refer disputes to arbitration? [4+6]

6. 2062 Q.No.7

Who can refer disputes to arbitration? Also explain what may be referred to arbitration. [5+5]

7. 2062 Q.No.10

Distinguish between coercion and undue influence. [10]

8. 2063 Q.No. 7

What is arbitration? Explain the power and duties of arbitrator. [3+7]

9. 2063 Q.No. 8

What is bill of lading? Explain the power and duties of arbitrator. [3+7]

10. 2064 Q.No. 7

What is arbitration? Describe the provisions relating to arbitration in Nepal. [3+7]

16. 2065 Q.No. 9

Define arbitration. Explain the provisions relating to 'Madhyasthata Ain' in Nepal. [10]

17. 2066 Q.No. 9

What is arbitration? Why is arbitration important in modern business world? [4+6]

Comprehensive Answer Questions

11. 2060 Q.No.11

The process of arbitration has been an inbuilt component of business law. In the light of this statement define arbitration and discuss the part who can refer to arbitration. [10+10]

9. LAW OF CARRIAGE

Short Answer Questions

1. 2055 Q.No.9

Why is it important to study the law relating to carriage? What are the rights commonly possessed by a common carrier? [4+6]

2. 2056 Q.No.9

What is a charter party? What matters are dealt with by the clauses of a charter party? [4+6]

3. 2057 Q.No.9

Who are Common Carriers? What are their liabilities? [4+6]

4. 2058 Q.No.8

What is bill of lading? What are its characteristics? [4+6]

5. 2058 Q.No.10

Define the term common carrier and point out the duties of a common carrier. [4+6]

6. 2059 Q.No.8

State and explain the rights and duties of a common carrier. [5+5]

7. 2060 Q.No.8

Write a note on charter party. [10]

8. 2061 Q.No.9

Give the classification of carriers and explain the importance of law of carriage. [4+6]

9. 2062 Q.No.8

State and explain the rights and duties of a common carrier. [5+5]

10. 2064 Q.No. 8

Define common carrier. Distinguish between common carriers and private carriers. [4+6]

18. 2065 Q.No. 10

What is contract of affreightment? Explain the implied conditions in a contract for the carriage of goods by sea. [3+7]

19. 2066 Q.No. 10

Define the term common carrier. How do you distinguish between common carriers and private carriers? [3+7] ◆❀◆

ACCOUNTING FOR FINANCIAL ANALYSIS AND PLANNING

New syllabus- 2061

Course No. : MGT 211 — Full Marks: 100

Nature of the Course : Core (Account) — Pass Marks: 35

Course Objectives

The objective of the course is to provide the students with the knowledge required to analyze financial statements for decision-making including long term and short-term investment decision. The course further attempts to provide sound knowledge required for higher studies in capital planning, analysis of financial statements and investment decisions.

COURSE CONTENTS

Company formation and financial statement of the company

1. ACCOUNTING FOR COMPANY FORMATION — LH 12

•**Company:** Concept and features, capital of a company and its types.• **Raising of capital:** Issue of shares-preference and ordinary-at par, at premium and at discount, over and under subscription of shares, over subscription and pro-rata allocation, calls in arrears and calls in advance, forfeiture of shares and reissue of forfeited shares, transfer of balance on reissued forfeited shares to capital reserve account, alteration in value of shares and shares capital, issue of bonus share, redemption of preference shares. •**Issue of Debenture:** Issue of debentures at par, at premium and at discount redemption of debenture at par, at premium, and at discount, conversation of debentures into shares at par, discounted and premium value, amortization of debenture discount.• Opening balance sheet

2. ACCOUNTING FOR CAPITAL STRUCTURE — LH 5

• **Leverage:** Meaning and concept and measures, Effect of leverage on the shareholder return, analysis of alternative financial plan EBIT-EPS analysis

3. COMPANY IN GROWTH INCLUDING FINANCIAL STATEMENT — LH 45

• Acquisition of business and acquisition of controlling interest in the nature of purchase • Concept of amalgamation • Amalgamation in nature of merger, reconstruction • Ascertainment of interest of a merged company • Closing books at account of merged company and opening entries in the looks of combined, company and combined balance sheet • Purchase consideration • Entries in the books of purchasing company and vendor company and balance sheet of acquiring company • Entries in the case of internal reconstruction and reconstructed balance sheet.• **Holding company:** Concept of holding company and reasons for holding.• Determination of pre-acquisition profit, minority interest, cost of control or goodwill or capital reserve, revaluation of assets, dividend from subsidiary company, inter-company debt and unrealized profit • Preparation of consolidation balance sheet.

4. ANALYSIS OF FINANCIAL STATEMENT OF A COMPANY — LH 25

• Meaning and objectives of financial statement, internationally accepted standard and financial statement • **Ratio analysis:** Concept, used, limitations • **Types of ratios:** computation and interpretation of • **Liquidity ratios:** Current, quick ratio, stock turnover, and debtors turnover • **Leverage ratios:** Debt equity ratio, debt to total capital ratio, interest coverage ratio and fixed coverage ratio • **Turnover ratios:** Inventory turnover ratio, debtor/receivable turnover ratio, and average collection period, fixed asset turnover ratio, capital employed turnover, total asset turnover • **Profitability ratios:** • **Profitability in relation to sales:** Gross profit margin, net profit margin, operation ratio • **Profitability in relation to investment:** Return on assets, return on capital employed, return on shareholders equity, return on common shareholder's equity • **Earning ratios:** Earning per share, dividend per share, dividend payout ratio, earning yield ratio, dividend yield ratio, price earning ratio, earning power ratio, inter relationship among financial ratios • Growth and Merger and changes in ratio position due to company growth and merger • **Preparation of funds flow statement:** Working capital basis. • Preparation of cash flow statement under direct and indirect method and • Cash flow statement of group, i.e., combined company.

5. DEPRECIATION AND ITS EFFECT ON FINANCIAL STATEMENT OF A COMPANY — LH 18

• **Depreciation:** Concept and need • **Accounting for different method of depreciation:** Original cost method, Written down value method, Depreciation fund method, Sum of year digit method, Annuity method, Insurance policy method, Machine hour rate method Revaluation method, Double declining balance • Changes of depreciation methods from original cost method to written down value method and written down value method to original cost method.

6. PRICE LEVEL CHANGES LH 20

• Concept of price level changes, inflation and deflation, impact of inflation • Limitation of Historical Cost financial statements • **Current purchasing power (CPP) method:** Meaning, features, calculation of gain or loss on holding monetary items, and • Preparation of adjusted financial statement, i.e., adjusted income statement and adjusted balance sheet under CPP method, determination of profit through balance sheet and income statement, advantages and disadvantages • **Current cost accounting (CCA) method:** Meaning, features, advantages and disadvantages, cost recovery with computation, assets valuation- current replacement cost, fixed assets adjustments, depreciation adjustments, inventory adjustment, cost of sales adjustment, monetary working capital adjustment, gearing adjustment, current cost accounting reserve, current cost operating profit through current cot income statement and preparation of current cost balance sheet.

7. ACCOUNTING FOR WORKING CAPITAL LH 5

• Concept, need and importance of working capital, determination of working capital requirement considering the duration for which the raw materials, work-in-progress, finished goods, account receivable, account payable and amount of outstanding and prepaid expenses, cash balance and contingency.

8. LONG-TERM PLANNING-CAPITAL BUDGETING LH 15

• **Accounting for cost of capital-** concept of cost for equity, debt, preferred stock and overall cost of capital • Capital budgeting, concept and need, types of proposals: Mutually exclusive project, new project, replacement project, expansion and diversification project, research and development project and miscellaneous project. • Estimation of cash flow vs. net profit • Determination of investment cost of new project • Determination of differential investment cost • **Annual net cash flow:** Differential net cash flow, determination of final year cash flow: Working capital adjustment, differential salvage value after tax and operating cash flow • **Methods of Evaluation of investment decision:** Payback period, and average rate of return. • **Time value of money:** Net present value; profitability index, internal rate of return. • Selection of investment project.

BASIC BOOKS:

1. Shukla, S.M., **Advanced Accounting.** Agra: Sahitya Bhawan.
2. Van Horne, **Financial Management and Policy,** New Delhi: Prentice Hall of India.

REFERENCES:

1. Dangol, R.M. ***Accounting for Financial Analysis and Planning.*** Talaju Prakashan, Ktm.
2. Munankarmi, S.P., ***Accounting for Financial Analysis and Planning.*** Education Publishing House, Kathmandu.
3. Shrestha B.P., Singh Y.M., Sharma N. and Ojha K., Edited by Pandey, R. ***Accounting for Financial Analysis and Planning.*** Buddha Academic Publihers and Distributors Pvt. Ltd., Kathmandu.
4. Dangol, R.M. and Prajapati, K.P., ***Bitiya Bisleshan Tatha Yojana Lekhabidhi,*** Teleju Prakashan, Kathmandu.
5. Gupta, R.L. and Radhaswamy, M. ***Advanced Accounting.*** S. Chand and Sons, New Delhi.
6. Khan and Jain. ***Financial Management: Text and Problems,*** Tata McGraw-Hill Co., New Delhi.
7. Pandey, I.M. ***Financial Management.*** Bikash Publishing House. New Delhi.
8. Wagley, K.N., ***Bitiya Bisleshan Tatha Yojana Lekhabidhi,*** M.K. Publisher and Distributors, Kathmandu.

New Model Question

Candidates are required to give their answers in their own words as far as practicable. The figure in the margin indicates full marks.

Attempt ALL the questions.

1. The balance sheet of Bhadrapur Metal Co. Ltd. on 31st Chaitra stood as follows.

Liabilities	Rs.	Assets	Rs.
10,000 shares of Rs.100 each	1,000,000	Goodwill	300,000
10% debentures of Rs.100 each	500,000	Land & building	800,000
Sundry creditors	200,000	Plant and machinery	600,000
Bills payable	200,000	Inventories	200,000
Research fund	100,000	Bills receivable	50,000
Profit & loss a/c	200,000	Cash at bank	100,000
		Sundry debtors	150,000
	2,200,000		2,200,000

On the 1st Baishak, next year the business of Bhadrapur Metal Co. is absorbed by Mechi Co. on the following term.

(i) Mechi Co. is to assume all assets and liabilities.

(ii) Mechi Co. is to discharge the debentures of premium of 10% by issuing 15% debentures.

(iii) Mechi Co. is to issue three shares of Rs.100 each at an agreed market value of Rs.120 per share for every 2 shares in Bhadrapur Metal Co. Ld.

Required: (a) Calculate purchase consideration. (b) Realization account in he books of vendor co. (c) Calculation of goodwill or capital reserve. [2+4+2]

Ans: a. Rs.2,350,000; b. Rs.500,000; c. Rs.850,000

2. The following are the extracted from the balance sheet of holding company and subsidiary company as on 31st December Last Year:

	H. Co.	S. Co.
Share capital	Rs.1,000,000	Rs.200,000
Creditors	300,000	100,000
Retained profit	20,000	50,000
Machinery	600,000	180,000
Furniture	100,000	34,000

Shares in S.Ltd. 16,000 shares of Rs.10 each Rs. 320,000.

Additional Information:

(i) The profit of S. Co. was Rs.30,000 when H. Co. purchased the shares of S. Ltd.

(ii) Machine (Book value Rs. 200,000) and furniture (book value Rs. 40,000) of S. Co. were revalued at Rs. 300,000 and Rs.30,000 respectively for fixing the price of shares.

Required: (a) Calculation of minority interest. (b) Cost of control [4+4]

Ans: (i) Minority Interest= Rs. 66,300; (ii) Goodwill = Rs. 64,000

3. A Co. invited application for 5,000 equity shares of Rs. 10 each payable as follows:

On Application	Rs. 3
On Allocation	Rs. 2
On First and Final Call	Rs. 5

Applications were received for 11,000 shares. The directors decided the following pattern of allotment:

Application Group	Share Applied	Share Allotted
A	2,000	1,000
B	1,000	1,000
C	1,000	Nil
D	7,000	Pro-rate

The company can utilize the excess application money on allotment and calls.

Required: Journal Entries to record above transaction assuming that holder of 500 shares failed to pay the first and final call and these shares were forfeited. The director decided to reissue them at Rs.8 as fully paid. [8]

Ans: Capital reserve = Rs. 2,500

4. The following information are given to you:

Sales	Rs. 1,000,000
Degree of leverage	2.5
Fixed cost	Rs. 300,000

Required: (a) Variable cost for the period (b) EBIT if sales is Rs.1,200,000. [2+2]

Ans: a. Variable Cost= Rs.500,000; b. EBIT=Rs.300,000

5. Chitwan Expo. Ltd. is a new firm that wishes to determine appropriate capital structure. It can issue 10% debt or equity of Rs. 100 each. The company needs the capital of Rs. 1,000,000. The tax bracket applied to the company is 50%. The possible capital structures being considered are as follows:

Plan	Equity	Debt
I	100%	Nil
II	70%	30%

Determine: The indifference point of the above two financial plans. [4]

Ans: Indifference point= Rs. 100,000

6. A company purchased a premises of 3 years' lease for Rs.30,000 and it is decided to make provision for replacement by means of Depreciation Fund. The expected rate of interest on investment is 5% per annum. The Sinking Fund table shows that 0.317208 at 5% p.a. will in 3 years accumulate Re.1.

Required: (a) Depreciation fund account. (b) Depreciation fund investment account. [3+3]

Ans: Depreciation per year=Rs.9516.24, Interest for 2nd Year=Rs.475.81, Interest for 3rd Year= Rs.975.41

7. A firm intends to issue 2,000, 10% debentures, each of Rs. 500. In order to attract full subscription the firm decided to sell them at 5% discount. The income tax rate applicable to the company is 40%.

Required: The cost of capital if:

(a) The firm issues without discount (b) The firm issue with discount. [2.5+2.5]

Ans: a. kdt without discount= 6%; b. kdt with discount= 6.32%

OR Why growth factor should be considered while determining cost of equity (ke)? [5]

8. The information provided are:

Total credit sales for the year	Rs. 1,000,000
Inventory at the end of the year	Rs.200,000
Gross profit margin	40%
Account receivable at the end	Rs. 80,000

Opening balance of inventory was less by Rs.100,000 than the ending balance of inventory.

Required: (a) Stock turnover ratio (b) Average collection period. [2.5+2.5]

Ans: a. Stock turnover ratio= 4 times; b. Average collection period= 28.8 days=29days (nearly)

9. Of the total authorized capital of 10,000 shares of Rs. 100 each, the company issued 2,000 shares of Rs. 100 each at par to purchase the following assets and liabilities. It also issued 3,000 shares of Rs. 100 each at Rs. 120 per share for cash.

Asset and liabilities purchased

Land and building	Rs. 50,000
Plant and machinery	200,000
Inventory	50,000
Accounts payable	80,000

Required: (a) Entry for assets purchased by issuing shares.(b) Opening balance sheet assuming that shares issued for cash are fully subscribed and paid. [2+2]

Ans: (i) Capital reserve = Rs. 20,000; (ii) Balance Sheet Total = Rs. 660,000

10. The Trading, Profit and Loss Account of a company for the year ended 31st Chaitra is as follows:

Particulars	Rs.	Particulars	Rs.
To Cost of goods sold	1,200	By Cash & credit sale	2,000
To Gross profit c/d	800		
	2,000		2,000
To Administrative expenses	200	By Gross profit b/d	800
To Depreciation	100		
To Debenture premium	20		
To Loss on sale of assets	40		
To Tax paid	40		
To Dividend paid	50		
To Net profit	350		
	800		800

Additional Information:

	Beginning Balance	Ending Balance
Account payable	Rs. 100	Rs. 150
Inventories	Rs. 150	Rs. 100
Account receivable	Rs. 200	Rs. 100

Required: Net cash available from operating activities (cash from operation) by direct method. [5]

Ans: Cash from operation= Rs.760

11. A company is considering to replace its old machine by a new machine. The new machine will cost Rs. 200,000 and an additional Rs. 20,000 for installation. The machine will last for 5 years with book salvage value of Rs. 20,000 and cash salvage value will be Rs. 40,000. The old

machine with a book of Rs. 50,000 today can be sold for Rs. 40,000. The old machine will have zero book and cash salvage value at the end of 5 years.

The machine will generate a net cash flow after tax of Rs. 40,000 for five years before considering salvage value of new machine. The tax rate applicable to the company is 50%.

Required: (a) Net investment cost (NCO)(b) Cash flow at the end.(c) Net present value of the project at 10%. [2+2+4]

Ans: a. NCO = Rs. 175,000; b. CFAT at end = Rs. 70,000; c. NPV = Rs. 47,300

OR The balance sheet of a company for the year ended 31st Chaitra is given below:

Capital & Liabilities	Rs.	Assets	Rs.
Authorized capital:		Land and building	200,000
10,000 shares of Rs. 100 each	1,000,000	Plant and machinery	400,000
Issued capital:		Inventory of finished goods	100,000
5,000 shares of Rs. 100 each	500,000	Accounts receivable	250,000
12% debentures	100,000	Cash at bank	50,000
Accounts payable	200,000		
Bills payable	100,000		
Profit of last year	40,000		
Profit of current year	60,000		
Total	1,000,000		1,000,000

The company issued 5,000 shares to purchase the following assets and liabilities of a company at an agreed value of Rs. 120 per share:

Plant and machinery	Rs. 400,000	Account receivable	Rs. 100,000
Inventory	Rs. 100,000	Cash at bank	Rs. 50,000
Accounts payable	Rs. 100,000		

Required: (a) Interest coverage ratio of the company. [2]

(b) Current and quick ratio after the merger. [1+1]

(c) Debt equity ratio of the company after and before merger. [2+2]

Ans: a. 6 times; b. 1.625:1, 1.125:1, c. Debt equity ratio=66.7% and41.7%

12. Why reduction of capital is mostly necessary in case of internal reconstruction of a company? [5]
13. Depreciation produced under various traditional methods will not avail sufficient cash when needed to replace the used assets. What are the reasons for that? [5]
14. What different tools are available for the evaluation of capital budgeting proposal? Briefly write about any one of them. [2+3]
15. Define working capital. Why working capital is necessary to business? [2+3]
16. Following are the HC based balance sheets of the month January and Income Statement for the same month:

Opening and Closing Balance Sheets for January

Liabilities	Opening	Closing	Assets	Opening	Closing
Share capital	4,000	4,000	Fixed assets	3,600	3,500
Reserve(Retained earning)	500	800	Stock	2,000	2,200
Loan	4,500	4,500	Debtors	2,400	2,400
			Cash	1,000	1,000
	9,000	9,300		9,000	9,300

HC based Income Statement at the end of month January

	Sales		2,400
Less:	Opening stock	2,000	
	Purchases	2,200	
Less:	Closing stock	4,200	2,000
			400
Less:	Depreciation		100
	Net profit		300
Add:	Opening reserve		500
	Closing retained earning		800

Fixed assets costing Rs. 3,600 was acquired when price index was 100. Price index in respect of them went up to 150 at the end of January. The fixed assets are to be written off over 36 months of SL basis to zero salvage value.

The cost of stock at the beginning of the month was Rs. 10 per unit and price index at that time was 100. The cost of purchases during the month increased by 10%.

RPI in the beginning of the month was 100.

RPI at the end of the month was 120.

Average RPI of the month was 110.

Required: (a) Amount to be created to CCA Reserve. [1×7=7]

(b) Income statement showing the profit or loss to be taken to balance sheet. [2+2=4]

(c) Balance sheet under CCA. [0.5×8=4]

Ans: a. Rs.2494; b. Closing reserve=Rs.256; c. Total = Rs. 11,250

OR The following are the balance sheets and Income Statement of a Company.

Balance Sheets

Liabilities	This Year	Last Year	Assets	This Yea	Last Yea
Creditors	14,000	11,000	Cash	10,000	14,000
Bills payable	5,000	20,000	Debtors	16,000	11,000
Debentures	40,000	40,000	Prepaid expenses	9,000	6,000
Accrued interest	12,000	9,000	Stock	26,000	15,000
Accumulated depreciation			Investment	12,000	8,000
Building	13,000	10,000	Land	40,000	50,000
Plant	15,000	20,000	Building	75,000	60,000
Equity capital	130,000	100,000	Plant	77,000	70,000
Share premium	8,000	5,000	Goodwill	19,000	20,000
Retained earning	50,500	43,000	Discount on issue of debentures	3,500	4,000
	287,500	**258,000**		**287,500**	**258,000**

Income Statement (This Year)

	Sales		400,000
Less:	Cost of goods sold		29,000
	Gross margin		110,000
Less:	Operating expenses	65,000	
	Depreciation	9,000	
	Amortization of goodwill	1,000	
	Loan on sale of plant	2,000	
	Interest expenses	45,000	82,000
			28,000
Add:	Other income:		
	Gain on sale of land	10,000	
	Less: Income tax on gain on sale of land	2,500	7,500
	Net income		35,500

Additional Information:

i. Cash dividend amounting to Rs.20,000 paid to equity shareholders.

ii. Land was sold for Rs.20,000.

iii. Additional investment were made amounting to Rs. 4,000.

iv. An expenditure of Rs. 15,000 was made for building.

v. Plant that cost Rs. 5,000 and had accumulated depreciation of Rs. 3,000 was given free of charge.

vi. Plant that cost Rs. 18,000 was sold for its net book value of Rs. 10,000.

vii. New plant was purchased for Rs. 30,000.

viii. Interest expenses on the income statement consisted of Rs. 4,000 paid plus 500 amortization of discount on debentures.

ix. 300 equity shares were sold at Rs. 1.10 per share.

Required: (a) Schedule of charges of working capital (b) Funds from operation.(c) Funds flow statement. [4+3+8]

Ans: a. Rs.24,000; b. Rs. 40,500; c. Total = Rs.103,500

(Please note that the problems stated above are not the exhaustive example of problems from chapters. The questions could be asked from any chapter and may carry any marks.)

1. ACCOUNTING FOR COMPANY FORMATION:

A. ISSUE OF SHARES

Theoretical Questions

1. 2059 Q.No.1

Define preference share capital and write about the different types of preference share capital. [2+3]

2. 2060 Q.No.3

Write in brief about the equity share. [5]

3. 2061 Q.No.2

What is preference share capital? Write about the options available for the refund of redeemable preference share capital. [2+3=5]

4. 2062 Q.No.1

Write the meaning of over subscription of shares. How is it dealt in accounting records? [2+3]

Numerical Problems

5. 2055 Q.No.1

A Ltd. Company invited application from public issuing 5,000 shares of Rs.100 each. Payments were to be made as follows:

On Application Rs. 25
On Allotment Rs. 35 (including Rs.10 premium)
Rest on first and final call.

Applications were received for 5,700 shares. Excess moneys received on applications were refunded. All called money were duly received except one shareholder to whom 400 shares were allotted failed to pay allotment and another shareholder to whom 100 shares were allotted failed to pay final call.

The Board of Directors decided to forfeit these shares held by defaulters. Subsequently 300 of these shares were re-issued to Mr. X at Rs.90 at fully paid out of 400 shares forfeited.

Required: (a) Journal entry of forfeiture (b) Journal entry for re-issue. (c) Balance sheet of the company. [2+3+3=8]

Ans: Total amount of Share forfeiture=Rs.15,000, Transfer to Capital reserve=Rs.4500, Balance Sheet total = Rs.5,38,000 , Forfeiture amount transfer to balance Sheet=Rs.7,500, Share premium=Rs.46,000

6. 2055 Q.No.9

Nepal Auto-works Ltd. took over Assets and liabilities of Kathmandu Auto-works. The assets and liabilities were valued for Rs. 24,00,000 and Rs. 200000 respectively. The purchasing company is to discharge the purchase consideration in shares or Rs. 50 each at a premium of 10%.

Required: (a) Journal entries for above transactions [2]
(b) Opening Balance sheet of the company [2]

Ans: Balance Sheet total Rs. 24,00,000

7. 2056 Q.No.3 OR

Modern Bank Ltd. invited application for 10,000 shares of Rs. 10 each, payable as follows:

Rs. 2 on Application
Rs. 3 on Allotment
Rs. 5 on 1st and final calls

Applications were received for 14,000 shares. The directors decided to allot the shares on the following pattern:

	Share Applied	Share Allotted
Group A	2,000	2,000
Group B	4,000	2,000
Group C	8,000	Pro-rata

Directors are empowered by the Articles to utilize the excess money on application towards subsequent calls.

All money called were duly received, with the exception of Mr. Sharan to whom 1,000 shares were allotted from Group C failed to pay in Allotment. These shares were forfeited by the company and re-issue to Mr. Gagan at Rs. 9 as fully paid.

Required: Journal entries for (a) Share applications and allotments. (b)Forfeiture of shares. (c) Re-issue of shares. [2+2+2+2]

Ans: Calls in arrear=Rs.2,334 ,Share forfeiture=Rs.2,666 ,Capital reserve = Rs. 1,666

8. 2057 (Cancelled) Q.No.2 OR

Nepal International Bank Ltd. was registered with 1 crore authorized capital dividend into shares of Rs. 10 each, issued 500,000 such shares to public at a premium of Rs. 2 per share payable as under.

Rs. 2 per share on application;
Rs. 5 per share including premium on allotment
Rs. 5 per share on first call, and final call.

Applications were received for 600,000 shares. The company decided to allot the share on the following pattern.

Group A	200,000 applicants	100%
Group B	100,000 applicants	50%
Group C	300,000 applicants	Pro-rata

Articles provides that the company may utilize the overpaid moneys towards the subsequent calls. Mr. Pradhan to whom 7,500 shares were allotted from category C failed to pay the allotment and subsequent calls. These shares were forfeited by the company. Later, the company reissued all shares at Rs. 9 per share as fully paid.

Required: Journal entries for: (a) Allotment (b) First and final call (c) Forfeiture (d) Reissue and (e) Capital reserve [2+3+1+1+1]

Ans: Calls in arrears=Rs.34,500 & Rs.37,500 , Share forfeiture=Rs.18,000 ,Capital reserve = Rs. 10,500

9. 2057 Q.No.5

ABC Co. Ltd. offered 10,000 shares of Rs.50 each to the public payable as follows at a discount of Rs. 5 per share.

On application	Rs. 10 per share
On allotment	Rs. 25 per share (with discount)
On first and final call	Rs. 10 per share

Public applied for 12,000 shares. Directors decided to allot the shares on pro-rata basis. All the applicants paid the calls made on them except Mr. Raju to whom 500 shares were allotted failed to pay the allotment. Directors forfeited the unpaid shares. Those shares were reissued to Mr. Basu at Rs. 40 as fully paid.

Required: Journal entries for

a. Application b. Allotment c. First and final call
d. Forfeiture e. Reissue f. Capital reserve [1+3+1+1+1]

Ans: Capital reserve = Rs. 1,000; Share forfeiture = Rs. 6,000; Calls in arrear = Rs. 16,500

10. 2058 Q.No.3 OR

Adarsha Finance Company Ltd. issued 10,000 shares of Rs. 100 each payable as follows:

Rs. 20 on application.
Rs. 40 on allotment including a premium of Rs. 20
Rs. 60 on 1st call and final call

Public applied for 16,000 shares. The allotment was made on pro-rate basis to applicants of 15,000 shares. Applications for 1,000 share being refused, were refunded. The Board has right to utilize the excess money received on application to subsequent calls. All the call money were received. However, Mr. Mohan to whom 500 shares were allotted failed to pay allotment money. These shares were subsequently forfeited after the final call and were reissued at Rs. 90 per share as fully paid.

Required:

a. Allotment b. 1st call & final call c. Forfeiture
d. Re-issue e. Capital reserve [3+2+1+1+1=8]

Ans: Calls in arrear=Rs.15,000 and Rs.30,000 ,Share forfeiture=Rs.15,000 ,Capital reserve = Rs. 10,000,

11. 2059 Q.No.10 OR

A Ltd. Company was registered with 100,000 ordinary shares of Rs.100 each. The company issued 50% of such shares to the public payable as follows:

Rs.25 on Application Rs.30 on Allotment including Rs.5 as premium
Rs.20 on First call and Rs. 30 as and when required.

Applications were received for 75,000 shares. The Board allotted the shares using the following procedure:

Applicants for 25,000 shares in full;
Applicants for 50,000 shares on pro-rata,

All the money due were received. Mr. A. to whose 5000 share were allotted on pro-rata basis failed to pay the allotment money. The board decided to forfeit these shares after first call is made. These shares however were reissued to Mr. B at Rs-70 each as fully paid exclusive of final call money.

Required: Entries for

(a) Share application (b) Share allotment (c) Share forfeiture (d) Share re-issue [2×4=8]

Ans: Calls in arrears Rs.25,000 and Rs.1,00,000, Share forfeiture Rs.2,50,000,Capital reserve Rs.2,25,000

12. 2060 Q.No.14

A. Ltd. Company issued 50,000 equity shares of Rs. 50 each to public on the following condition payment.

Rs. 20 on application
Rs. 20 on allotment including premium of Rs. 10
Rs. 20 on first and final call
Application were received for 70,000 shares
Board decided to allocate the share on the following basis.
Applicants for 30,000 shares: full
Applications for next 30,000 shares: on prorate basis

Applications for 10,000 share being refused, were refunded. The bond has preserved right to utilize the excess money received on application in subsequent calls. All the monies called were received. However Mr. X. to whom, 2,000 shares were allotted on prorate basis failed to pay the allotment and call money. These shares were forfeited after final call is made. These shares were reissued to Mr. Y for Rs. 40 fully paid.

Required: Entries for (a) Share application (b) Share allotment (c) Share forfeiture (d) Share reissue. [2×4=8]

Ans: c. Rs. 60,000; d. Capital reserve = Rs. 40,000

13. 2061 Q.No.11 OR

X Co. Ltd., offered 50,000 ordinary shares of Rs. 10 each for public subscription payable as follows:

Rs. 4 on Application
Rs. 3 on Allotment with discount
Rs. 2 on First and Final Call
Public subscribed for 100,000 such shares.

The Board decided to allot the shares on the following basis.

For applicants paying 25,000 shares: Full
For applicants applying 50,000 shares: pro-rata
For applicants applying 25,000 being refused, refunded.

The company has a right to utilize the excess money received on application towards subsequent calls.

All the monies were duly received except from Mr. X to whom 5,000 shares were allotted on prorate basis failed to pay the final call money. Subsequently these shares were reissued to Mr. Y for Rs. 8 as fully paid without discount.

Required: Entries for: (a) Share application (b) Share allotment;
(c) Share forfeiture (d) Share re-issue. [2×4=8]

Ans: (a) Calls in arrear on 1st call and final call Rs. 5,000 (b) Profit transferred to capital reserve Rs. 30,000

14. 2062 Q.No.14

A company Ltd., issued 100,000 ordinary shares of Rs. 100 each at a premium of Rs. 10 per share out of the total authorized capital of 200,000 shares. The calls were made as follows:

Rs. 20 on application	Rs. 40 on allotment including premium
Rs. 30 on 1st call and	Rs. 20 on final call

Applications were received for 135,000 shares.
The directors allotted the shares on the following basis.
To applicants for 75,000 shares full
To applicants for 50,000 shares 25,000
To applicants for 10,000 shares nil

Under the term of issue the surplus application money could be utilized on allotment as well as on subsequent calls. All the calls money were received, however, one shareholder holding 5,000 shares on pro-rata basis failed to pay on 1st call. His shares were forfeited, and re-issued subsequently at Rs. 90 as fully paid.

Required: Journal entries for ❶ Share allotment ❷ Share 1st call ❸ Share final call ❹ Share forfeiture ❺ Share re-issue ❻ Transfer reserve. [1.5 +1.5 + 1.5+1.5+1+1]

Ans: (ii) Calls in arrear on 1st call Rs. 150,000, on final call Rs. 100,000 (iii) Amount of share forfeiture Rs. 250,000 (iv) Transfer to capital reserve Rs. 200,000

15. 2063 Q.No. 12

A company Ltd. has invited application for 20,000 shares of Rs. 100 each at a premium of Rs. 20 per share. Calls were made as follows:

On application	Rs. 20
On allotment	Rs. 60 (including premium)
On first and final call	Rs. 40

Public applied for 30,000 shares. The directors decided to allocate shares on pro-rata basis to 25,000 shares applicants and balance were refunded. First and final call was also made and the due monies also received. But a shareholder, to whom 400 shares were allotted, failed to pay allotment and call money. The directors forfeited his shares after proper notification. These shares were re-issued subsequently at par.

Required: Journal entries for
❶ Allotment ❷ Calls ❸ For forfeiture ❹ Re-issue ❺ Capital reserve. [2+2+2+1+1]

Ans: Calls in arrear Rs. 38,000; Capital reserve Rs. 10,000

16. 2064 Q.No. 7

A Ltd., Company issued 3,000 Equity Shares of Rs. 100 each for public subscription at a premium of 10% per shares payable as follows:

On Application	Rs. 40
On Allotment	Rs. 30, including premium and
On First and Final cal	Rs. 40

Applications were received for 5,000 shares. BOD reserves the right to utilize the excess amount received on application in subsequent calls. The shares were allotted as follows:

For 1,000 applicants	Full
For 3,000 applicants	Pro-rata
For 1,000 applicants	Nil

The shares were allotted and monies were also received accordingly. Mr. Dahal, to whom 200 shares were allotted on pro-rata basis, however failed to pay on allotment. These shares were forfeited after the final call is made and re-issued latter at Rs. 90 per share as fully paid.

Required: Journal entries for
(a) Share application (b) Share allotment (c) Share first and final call (d) Share for forfeiture (e) Share re-issue (f) Share transfer to capital reserve. [1+2+2+1+1+1=8]

Ans: Amount of share forfeiture Rs. 12,000; Calls in arrear Rs. 10,000; Transfer to capital reserve Rs. 8,000

17. 2065 Q.No. 7

A company issued a prospectus inviting applications for 2,000. Equity shares of Rs. 100 each at a premium of Rs. 20, payable as follows:

On application Rs. 20
On allotment Rs. 50 (including premium)
On first and final call Rs. 50

Applications were received for 3,000 shares and allotment was made pro-rata to the applicants of 2,400 shares. The remaining shares were rejected and their money was refunded. Money overpaid on applications was utilised towards sums due on allotment. Mr. Pradhan to whom 40 shares were allotted on pro-rata basis, failed to pay the allotment money and on his subsequent failure to pay the first and final call, his shares were forfeited. These shares were reissued at Rs. 90 per share as fully paid.

Required: Journal entries for:

(a) Share application (b) Share allotment (c) Share first and final call (d) Share for forfeiture (e) Share re-issue and share transfer to capital reserve [1+2+2+1+2=8]

Ans: Calls in arrears (b) Rs. 1,840 (c) Rs. 2,000 (e) Capital reserve = Rs. 560

18. 2066 Q.No. 7

A Ltd., Company issued 50,000 shares of Rs. 100 each at a premium of Rs. 20 per share, payable Rs. 10 on application, Rs. 40 on allotment (including premium), Rs. 30 on first call and the balance payable on final call. Applications were received for 58,000 shares and BOD allotted as under:

	Shares allotted
a. Allotment in full (five applicants each applying 2000 shares)	10,000 shares
b. Allotment were made to 50,000 shares applicants	40,000 shares

No allotment was made for 8,000 shares and the application money was duly returned. The amount received in advance of calls was retained until the subsequent calls' due dates.

All the monies were dully received in full except on 2,500 shares on which the final call was not received. The BOD forfeited these shares and reissued them at Rs. 80 per share as fully paid.

Required: Journal Entries for

1. Allotment 2. Calls 3. Forfeiture
4. Re-issue 5. Capital reserve [2+2+2+1+1=8]

Ans: calls in arrear Rs. 1,00,000; capital reserve Rs. 1,00,000

B. ISSUE OF DEBENTURES

Theoretical Questions

1. 2065 Q.No. 1

What is redeemable debenture? What are the different options available to redeem debentures? [5]

2. 2066 Q.No. 3

Differentiate between perpetual and redeemable debt. How the related costs of debt are calculated? [2.5+2.5]

Numerical Problems

3. 2056 Q.No.9

Bottlers Nepal Co. Ltd., issued 2,000 8% debentures of Rs. 100 each at a discount of 5% on 1st Baishak 2054. These are repayable after 2 years and redeemable at 5% premium. All debentures are subscribed and paid up.

Required: Journal entries at the time of issue and their redemption after 2 years. [5]

Ans: Loss on issue of debenture=Rs.20,000 ,Premium on redemption = Rs.10,000

4. 2057 (Cancelled) Q.No.9

Koshi Jute Mills Ltd. issued 1,000 10% redeemable debenture of Rs. 100 each at a discount of 10% 5 years ago. This year the company decided to convert 800 debentures into equity shares of Rs. 10 at a premium of 10%. The remaining debentures were discharged at par.

Required: Journal entries for: a. Conversion, b. Redemption [3+2=5]

Ans: Number of share 7272 @ Rs. 10 each, Share premium=Rs.7272, Bank = Rs. 8 (Cr.); Rs. 20,000

5. 2057 Q.No.3

MK Company Ltd. issued 1,000, 8% debenture of Rs. 100 each two years ago at 10% discount redeemable at par at end of this year. These holders of 800 debentures however, agreed to convert their holding into equity shares of Rs. 10 each at a discount of 20%. The remaining debentures were redeemed at par.

Required:(a) Issue of debenture. (b) Conversion into shares. (c) Redemption of debenture. [1+3+1]

Ans: Discount on issue of debenture=Rs.10,000, Discount on issue of share=Rs.20,000, Bank Cr.=Rs.20,000

6. 2058 Q.No.9

Kathmandu Bottlers Ltd. issued 2,000 7% debenture of Rs. 100 each at 5% discount redeemable at 10% premium at the end 3 years.

Required: (a) Journal entries for issue and redemption of debentures.

(b) Opening balance sheet of relevant items. [3+2=5]

Ans: Los on issue debenture=Rs.30,000, Premium on redemption of debenture=Rs.20,000

7. 2059 Q.No.6

A company Ltd. issue 3,000; 8% debentures of Rs.1,000 each at 10% discount redeemable at part at the end of 5 years.

Required: (a) Journal entries for issue and redemption of debentures.

(b) Opening balance sheet of the company showing relevant items. [3+2]

Ans: B/S Total Rs. 300,000; Bank Rs. 270,000; Discount on issue=Rs.30,000

8. 2060 Q.No.9

X company Ltd. issued 3,000, 6% debenture of Rs. 100 each at 10% discount and redeemable at 10% premium at the end of 2 years.

Required:

(a) Journal entries for issue and redemption of debenture.

(b) Opening balance sheet of the company at issue of debentures. [3+2=5]

Ans: a. Loss on issue = Rs. 60,000; b. Rs. 330,000

9. 2061 Q.No.5

B Company ltd. issued 2000 7% Debentures of Rs. 100 each at par redeemable at 10% premium at the end of three years.

Required: (a) Journal entries for issue and redemption of debenture.

(b) Opening balance sheet of the company after issue of debentures. [3+2=5]

Ans: (a) loss on issue and premium on redemption of debenture Rs. 20,000 (b) Balance sheet total Rs. 220,000

10. 2062 Q.No.13

X Co. Ltd. issued 2000 7% Debentures of Rs. 1,000 each at par redeemable at 5% premium at the end of year two.

Required: Journal entries ❶ at the time of issue debenture ❷ at the time of redemption. [5]

Ans: Loss on debenture issue Rs. 100,000

11. 2063 Q.No. 15

B Co. Ltd. issue 1,000 8% Debenture of Rs. 1,000 cash issued at 5% discount and redeemable at 10% premium at the end of 3 years.

Required: Journal entries

❶ at the time of issue of debentures ❷ entries for redemption after three years. [3+2]

12. 2064 Q.No. 8

B. Ltd Company issued 2000, 10% Debentures of Rs. 1000 each at a discount of 5% to be payable at a premium of 5% after 3 years. [3+2=5]

Required: Journal entries for (a) At the time of issuing debenture (b) At the time of redemption.

Ans: Loss on issue of debenture Rs. 2,00,000

13. 2065 Q.No. 8

A. Ltd. Company issued 5000; 10% Debenture of Rs. 100 each at par to be redeemable at the end of 5 years at a premium of 6%.

Required: Journal entries for issue and redemption of debentures. [2+3]

Ans: Loss on issue = Rs. 30,000

14. 2066 Q.No. 8

X. Co. Ltd. issued 1000, 8% Debentures of Rs. 1000 each at a discount of 10%, to be refunded after 3 years at a premium of 5%.

Required: Journal Entries

1. At the time of issue.
2. At the time of redemption. [2+3 = 5]

Ans: Loss on debentures Rs. 1,50,000

2. ACCOUNTING FOR CAPITAL STRUCTURE

Theoretical Questions

1. 2056 Q.No.12

How would you define composite leverage? State the approaches of computing it. [3+2]

2. 2059 Q.No.3

Define the term leverage and show its impact on financing capital. [2+3]

Numerical Problems

3. 2055 Q.No.2

The following are the extract from the books of account of a company:

Earning before interest and taxes	Rs. 15,000	Variable cost	Rs. 15,000
Preference dividend	Rs. 3,000	Interest	Rs. 5,000
Degree of combined leverage	2	Tax rate	50%
Number of equity shares	1,000		

Required: a. Sales revenue at present b. Earning per share at present [2+2=4]

Ans: a. Rs. 23,000; b. Rs.2

4. 2055 Q.No.7

The following two financial plans are proposed:

	Financial Plan 1	Financial Plan 2
Equity shares of Rs. 100 each	Rs. 1,500,000	Rs. 1,000,000
10% debentures of Rs. 100 each	....	Rs. 500,000
Tax rate 50%		

Required:

a. Determine the indifference point of the financial plans.

b. Earning per share at indifference point. [3+2 = 5]

Ans: a. Rs. 150,000; b. Rs.5

5. 2056 Q.No.5

A company has been considering the following two different plans to finance its new project.

	Financial Plan I	Financial Plan II
Equity shares of Rs. 100 each	Rs. 250,000	Rs. 125,000
10% debentures	....	Rs. 125,000
Tax rate	50%	50%

Ans: Rs. 25,000

6. 2056 Q.No.6

The capital structure of company is as follows:

Equity share of Rs. 100 each	Rs. 400,000
10% preference share of Rs. 100 each	Rs. 100,000
10% debentures of Rs. 10 each	Rs. 50,000

Degree of financial leverage is 2 and the corporate tax is 50%.

Required: (a) Earning before interest and taxes (b) Earning per share [2+2]

Ans: a. Rs.50,000; b. Rs. 3.125

7. 2057 (Cancelled) Q.No.4

The following information is provided.

i. Sales of Rs. 600,000,
ii. Degree of combined leverage is 3 times.
iii. Degree of financial leverage is 2 times.
iii. Variable costs is 50 percent of sales.

Required: (a) Fixed cost (b) Interest [2+2=4]

Ans: a. Rs. 100,000; b. Rs. 100,000

8. 2057 (Cancelled) Q.No.5

A Ltd. Company has an expansion plan requiring capital outlay of Rs.400,000. The existing capital of Rs. 600,000 was entirely from Equity shares of Rs. 100 each. The company is within 50% tax bracket. Following two alternative financing plans are available for the company.

	Financial Plan I	Financial Plan II
Equity shares of Rs. 100 each	Rs. 300,000	Rs. 100,000
10% debentures	Rs. 100,000	Rs. 300,000

Required: Indifferent point for two financing plans. [4]

Ans: Rs. 1,00,000

9. 2057 Q.No.2

The capital structure of a company is as follows:

Equity shares of Rs. 100 each	Rs. 500,000
8% preference shares of Rs. 100 each	200,000
10% debentures of Rs. 100 each	100,000

Degree of financial leverage is 3 and corporate tax is 50%.

Required: Earning before interest & taxes (EBIT). [4]

Ans: Rs. 63,000

10. 2057 Q.No.7

A Ltd. Company has been considering following two financing plans for financing new project requiring Rs. 500,000 capital outlay.

Financial Plan	I	II
Equity shares of Rs. 100 each	Rs. 400,000	Rs. 200,000
8% debentures	100,000	300,000
	500,000	Rs. 500,000

The company is within 40% tax bracket.

Required: Indifferent point (EBIT) for two financial plan. [4]

Ans: Rs. 40,000

11. 2058 Q.No.5

A Well established Ltd. Company has been considering the following financial plans to finance the proposed expansion plan.

Financial Plan	1st	2nd
Equity shares of Rs. 100 each	Rs. 800,000	Rs. 600,000
12% preference share capital	200,000	200,000
8% debentures	—	200,000
Total capitalization	**R. 1,000,000**	**Rs. 1,000,000**

Tax rate 50%

Required: Indifference point (EBIT) for the two alternative financing plans. [4]

Ans: Rs. 1,12,000

12. 2058 Q.No.6

The capital structure of a company has been given below:

Equity shares of Rs. 100 each	Rs. 300,000
8% bond of Rs. 50 each	Rs. 100,000
12% preference shares of Rs. 100 each	Rs. 200,000
10% debentures of Rs. 100 each	Rs. 300,000
Tax rate applicable to the company is 50%	
Degree of financial leverage in 3 times	

Required: Earning before interest & taxes (EBIT) [4]

Ans: Rs. 1,29,000

13. 2059 Q.No.5

The capital structure of a company is as under:

15% preference shares	Rs. 1,000,000
10% debentures	Rs. 500,000
Equity shares of Rs. 100 each	Rs. 1,500,000
Total capital	Rs. 3,000,000

The Degree of financial leverage is 2 and the company is in 25% tax bracket.

Required: Calculate EBIT and EPS. [2+2]

Ans: Rs. 5,00,000, Rs. 12.50

14. 2059 Q.No.7

A new company is going to determine appropriate capital structure for its capital requirement of Rs. 2,000,000. It can either issue 10% Debt or 15% Preferred stock or Equity stock of Rs. 100 per share. The company is expected to have a 25% tax rate and EBIT of Rs. 400,000. The following two financial plans are proposed:

Financial Plan I: Equity stock of Rs. 1,400,000 and rest Debt Capital

Financial Plan II: Equity stock of Rs. 700,000; Debt capital Rs. 500,000 and rest preference capital.

Required: Determine indifference EBIT and suggest for appropriate capital structure on expected EBIT. [3+1]

Ans: i. Indifference point (EBIT) = Rs.3,60,000 ii. EPS in plan I= Rs.18.21, iii. EPS in plan II=Rs.20.36 Plan II

15. 2060 Q.No.5

A company is considering the following two different financial plans to finance its total project cost of Rs. 1,000,000.

	Plan I	Plan II
Equity shares of Rs. 100 each	Rs. 600,000	Rs. 300,000
10% debentures	400,000	300,000
15% preference shares	—	400,000

The corporate tax rate is 25%.

Required: Determine the indifference point between Plan I and II. [4]

Ans: EBIT = Rs. 180,000

16. 2060 Q.No.6

The relevant information of a firm for the year ended 31st Chaitra, last year were:

Degree of financial leverage	1.25:1
Interest	Rs. 20,000
Fixed cot	Rs. 200,000

Required: Calculate: (a) Earning before tax (b) Earning before interest and tax (c) Degree of operating leverage [1+1+2]

Ans: Rs. 80,000; b. Rs. 100,000; c. 3 times

17. 2061 Q.No.6

The existing capital of a company is Rs. 1,000,000 equity shares of Rs. 100 each. The company is planning to expand its assets by Rs. 500,000. All financing will come from external source. The company is expected to have a 25% tax rate. The possible financial plans for an expansion are as under:

Plan A: Issue 3,000 shares of Rs. 100 each and rest 10% debentures.
Plan B: Issue 2,000 shares of Rs. 100 each and rest 10% debentures.

Required: Determine indifference EBIT between these two plans. [4]

Ans: Rs.150,000

18. 2061 Q.No.7

The Degree of operating leverage of a firm in an accounting year was 2. The sales and fixed cost for the same year were Rs. 600,000 and Rs. 200,000 respectively. The interest on debt capital for the period was Rs. 40,000.

Required: Calculate variable cost and degree of financial leverage. [2+2]

Ans: Amount of variable cost Rs. 2,00,000 and Degree of financial leverage Rs. 1.25

19. 2062 Q.No.5

The EBIT of a company for the last year was Rs. 120,000 and an estimation for the current year was Rs. 132,000. The earning before tax was Rs. 80,000 and Rs. 92,000 respectively.

Required: ❶ Degree of financial leverage for the first year. ❷ EBT if EBIT increased upto Rs. 144,000 from Rs. 120,000 [2+3]

Ans: (i) Degree of financial leverage for the 1st year = 1.5 (ii) Required EBT Rs. 104,000

20. 2062 Q.No.6

A company is considering the following two different financial plans for financing a new project:

	Financial Plan I (Rs.)	Financial Plan II (Rs.)
Equity shares of Rs. 100 each	10,00,000	15,00,000
10% Preference shares of Rs. 100 each	600,000	-
10% Debentures of Rs. 100 each	400,00	500,000
Tax rate 50%		

Required: Indifference point for the alternative financial plans.

Ans: Indifference Point Rs. 380,000

21. 2063 Q.No.5

The capital structure of a company is as under:

14% Preference shares	Rs. 1,000,000
Equity shares of Rs. 100 each	Rs. 1,500,000
10% Debentures	Rs. 1,000,000

The corporate tax rate is 30% and EBIT is Rs. 1,400,000.

Required:

(i) Degree of financial leverage (ii) Earning per share if EBIT is Rs. 1,500,000. [2+2]

Ans: (i) 1.27 (ii) Rs. 56

22. 2063 Q.No.6

A company has the following capital structure:

Equity shares of Rs. 100 each	Rs. 1,500,000
12% Preference share capital	500,000
10% Debentures	500,000

The corporate tax is 25%.

An expansion programme is planned which will require Rs. 1,000,000 and the following financial alternatives are considered:

Alt. 1	Issue equity shares of Rs. 100 each
Alt. 2	Issue 10% Debentures of Rs. 100 each

Required: Indifference level. [4]

Ans: Rs. 380,000

23. 2064 Q.No. 5

The following are the extract from the books of account of a company.

Sales	Rs. 300,000
Variable cost	50% of sales
Degree of operating leverage	2

The capital structure of the company is as under:

2,000 Ordinary shares of Rs. 100 each	Rs. 200,000
10% Debentures of Rs. 100 each	Rs. 150,000

Required: (a) Fixed cost (b) Degree of financial leverage [2+2]

Ans: (a) Rs. 75,000 (b) 1.25

24. 2064 Q.No. 6

A Company is planning to raise Rs. 1,000,000 to finance a project. The company is considering the following two alternatives financial plans:

	Financial Plan I	Financial Plan II
Equity shares of Rs. 100 each	Rs. 600,000	Rs. 500,000
12% Debentures	Rs. 400,000	Rs. 300,000
10% Preference shares of Rs. 100 each	—	Rs. 200,000
The corporate tax rate is 50%		

Required: Calculate the equivalency level (indifference point) of EBIT. [4]

Ans: Rs. 2,16,000

25. 2065 Q.No. 5

A company's sales is Rs. 80,000. The variable cost is 50% of sales and fixed cost amounted to Rs. 20,000. The interest on debt capital is Rs. 10,000.

Required:

(a) Degree of combined leverage (DCL)

(b) By what percent will EBT increase if sales increase by 6%? [2+2]

Ans: (a) DOL = 4 (b) 24%

26. 2065 Q.No. 6

A company at present capitalized with Rs. 500,000 consisting of 5,000 equity shares of Rs. 100 each. Additional finance of Rs. 500,000 is required for an expansion program. Following possible financing plans are under consideration.

a. Equity financing by issuing Rs. 100 equity shares.

b. 50% through issue of equity shares of Rs. 100 each and 50% through term loan at 12%. The company is under 50% tax rate.

Required: Indifference point of EBIT [4]

Ans: Rs. 120,000

27. 2066 Q.No. 5

The relevant information of a firm for the year ended 31st Chaitra, last year were:

Sales	Rs. 4,000,000
Variable cost	Rs. 1,600,000
Fixed cost	Rs. 800,000
Interest on borrowed capital	Rs. 400,000

Required:

1. Degree of operating leverage
2. Degree of financial leverage [2 + 2]

Ans: (1) 1.5 times (2) 1.33 times

28. 2066 Q.No. 6

A Company is considering the following two different financial plans for financing a new project.

	Financial Plan I	Financial Plan II
Equity shares of Rs. 100 each	Rs. 4,000,000	Rs. 2,000,000
10% Debentures	Rs. 1,000,000	Rs. 3,000,000
12% Preference shares	Rs. 1,000,000	Rs. 1,000,000
Total	Rs. 6,000,000	Rs. 6,000,000

The company is expecting a 50% tax rate.

Required: Determine indifferent EBIT of these two financing plans. [4]

Ans: Rs. 7,40,000

3. ACCOUNTING FOR ACQUISITION OF BUSINESS

Theoretical Questions

1. 2058 Q.No.13

What is purchase consideration? Write any one method of determining purchase consideration. [2+3=5]

2. 2060 Q.No.9 OR

Write about the purchase consideration applicable in business. Write the different methods available to determine purchase consideration. [3+2=5]

Numerical Problems

3. 2055 Q.No.3

The balance sheet of XYZ Ltd. on 31st Chaitra 2054 stood as follows:

Liabilities	Rs.	Assets	Rs.
Share capital of Rs. 100 each	600,000	Goodwill	50,000
5% debenture of Rs. 100 each	100,000	Land & building	150,000
Accounts payable	100,000	Plant & machinery	300,000
Bills payable	150,000	Other fixed assets	200,000
General reserve	50,000	Inventories	150,000
		Accounts receivable	100,000
		Cash at bank	50,000
	1,000,000		1,000,000

A Ltd. agreed to purchase all assets and trade liabilities of XYZ. A Ltd. to issued 6,000 shares of Rs. 100 each at an agreed market price of Rs. 125 each, and to pay balance in cash (to make sufficient) to discharge the agreed value of Goodwill of Rs. 150,000.

Required: Closing entries in the books of XYZ Ltd. [8]

Ans: i. Purchase consideration = Rs. 8,50,000, ii. Realization profit = Rs.1,00,000

4. 2055 Q.No.9

Nepal Auto-works Ltd. took over Assets and Liabilities of Kathmandu Auto-works. The assets and liabilities were valued for Rs. 2,400,000 and Rs. 200,000 respectively. The purchasing company is to discharge the purchase consideration in shares of Rs. 50 each at a premium of 10%.

Required: (a) Journal entries for above transactions.

(b) Opening balance sheet of the company. [2+2=4]

Ans: Total Balance Sheet= Rs. 2,40,000

5. 2056 Q.No.16

The balance sheet of A Ltd. on 31t Chaitra 2054 stood as following:

Liabilities	Rs.	Assets	Rs.
Share capital of Rs. 100 each	500,000	Land and building	200,000
10% debenture of Rs. 100 each	100,000	Plant & machinery	300,000
Accounts payable	100,000	Furniture & fixture	50,000
Workmen compensation fund	50,000	Ending inventory	100,000
Retained earning	50,000	Accounts receivable	125,000
		Cash at bank	25,000
	800,000		**800,000**

B Ltd. agreed to purchase the business of A Ltd. excluding bank balances. It also agreed to discharge the purchase consideration as:

1. B Ltd. to issue sufficient number of 10% debentures of Rs. 100 each to the holders of debentures of A Ltd; to discharge their claims at a discount of 10%.
2. B Ltd. to issue 5,000 equity shares of Rs. 100 each at Rs. 90 as paid to the holders of Ordinary shares of A Ltd; and also to pay Rs. 50,000 in cash.

The cost of liquidation amounted to Rs. 25,000

Required: (a) Calculation of purchase consideration. (b) Realization accounts. (c) Opening entries in the book of B Ltd. d. Cash account in the book of A Ltd. [3+5+4+3]

Ans: a. Purchase consideration=Rs. 5,90,000; b. Realization Loss = Rs. 1,00,000; c. Capital reserve = Rs. 85,000; d. Cash paid = Rs. 50,000

6. 2057 (Cancelled) Q.No.6

The balance sheet of a Ltd. Company has been provided below:

Balance Sheet as at Chaitra end

	Rs.		Rs.
Share capital		Goodwill	300,000
Equity share of R. 100	500,000	Plant & machinery	500,000
Preference share of Rs. 100	500,000	Current assets	150,000
Accounts payable	150,000	Preliminary expenses	50,000
Bills payable	50,000	Profit & loss account	200,000
	1,200,000		**1,200,000**

Owing to heavy losses in the past, the company decided to reconstruct itself internally. For which a scheme of reconstruction was passed according to which preference shareholders were to receive equal number of new preference share of Rs. 50 each fully paid, and the equity shareholders to receive new equity share of Rs. 100 each fully paid to the extent of 40% of their original holding. The balance thus available were to be utilized to write off profit and loss a/c and preliminary expenses fully and the balance available to write off goodwill a/c.

Required: (a) Entries for capital reduction (b) Capital reduction a/c. [3+2=5]

Ans: Capital reduction total = Rs. 5,50,000

7. 2057 (Cancelled) Q.No.16 OR

The balance sheet of XYZ company Ltd. has been given below:

Balance Sheet as on 30 Chaitra

Equity share capital of Rs. 100 each	500,000	Goodwill	50,000
10% debenture of Rs. 100 each	300,000	Land & building	350,000
Accounts payable	100,000	Plant & machinery	500,000
Reserve fund	50,000	Inventory	80,000
Retained earning	150,000	Accounts receivable	100,000
		Cash at bank	20,000
	1,100,000		1,100,000

ABC Company purchased the assets and the trade liabilities of XYZ Ltd. The consideration agreed was to issue 15% debenture in ABC Ltd. of Rs. 100 each to discharge the debenture debs in XYZ Ltd; issue of 5,000 shares of Rs. 100 each at par, and balance in cash for sufficient to pay a goodwill of Rs. 100,000.

Required:

(a) Purchase consideration
(b) Closing entries in XYZ Ltd.
(c) Realisation account
(d) ABC Company Ltd. account in the books of XYZ Co.

Ans: Rs.10,50,000 , Realisation Profit=Rs.50,000 , Cash paid=2,50,000

8. 2057 Q.No.6

Chanda Ltd. and Sandhya Ltd. agreed to amalgamate and form a third company Rajani Ltd. the summarized balance sheets of Chanda Ltd. and Sandhya Ltd. as on the date of amalgamation are as follows.

Liabilities	Chanda Ltd.	Sandhya Ltd.	Assets	Chanda Ltd.	Sandhya Ltd.
Ordinary shares of Rs.10 each	50,000	30,000	Fixed assets	70,000	25,000
10% debentures of Rs. 10 each	10,000	—	Stock	8,000	4,000
Retained earning	20,000	—	Debtors	7,000	4,000
Current liabilities	6,000	4,000	Cash	1,000	1,000
	86,000	34,000		86,000	34,000

Both the companies were to receive 10% of net valuation of their respective business as goodwill. The debentures of Chanda Ltd. are to be discharged by issuing 15% debentures of Rajani Ltd. at par. The entire purchase price was paid by Rajani Ltd. in fully paid shares of Rs. 10 each.

Required: Amalgamated balance sheets. [8]

Ans: Total Balance Sheet = Rs. 130,000

9. 2057 Q.No.16 OR

The Balance Sheet of A Ltd. has been given below:

Liabilities	Rs.	Assets	Rs.
Equity share capital of Rs. 10 each	100,000	Plant & machinery	300,000
10% debenture of Rs. 100 each	100,000	Inventory	60,000
Reserve fund	50,000	Accounts receivable	70,000
Accounts payable	100,000	Cash at bank	20,000
Workman compensation fund	50,000		
Profit & loss	50,000		
	450,000		450,000

XYZ Ltd. purchased the business of A Ltd. The consideration agreed were:

a. Repayment of 10% debentures in A Ltd. at a premium of 10%.
b. Payment of Rs. 5 in cash for each share in A Ltd.
c. Issue of 2 share of Rs. 10 each in XYZ Ltd. for every share in A Ltd. at an agreed market value of Rs. 15.
d. Payment of cost of liquidation expenses of Rs. 10,000 of A Ltd.

Required:

a. Purchase consideration.
b. Entries in the book of A Ltd.
c. Realization account
d. Debenture holder's account [3+7+3+2]

Ans: a. Rs. 4,70,000; c. Realization gain = Rs. 50,000