

FINACIAL ACCOUNTING
GUESS PAPER OF T.Y. B.com BY CA JUJAR SINGH RATHORE
SEMESTER VI (MUMBAI UNIVERSITY)

1. (A) Rewrite sentence after selecting correct alternative(Any Eight) 8 marks
1. The underwriter is entitled to claim remuneration on
 - a) The issue price of sharesunderwritten
 - b) The face value of shares actually purchased
 - c) The face value of shares not purchased by him
 - d) None of the above
 2. Accounting for amalgamation is governed by
 - a) Accounting Standard 1
 - b) Accounting Standard 13
 - c) Accounting Standard 14
 - d) Accounting Standard 11
 3. Amount of calls in advance is treated as
 - a) Secured creditor
 - b) Asset not specifically pledged
 - c) Preferential creditor
 - d) Unsecured creditor
 4. Interest on debenture and unsecured loan is payable up to the date of actual payment
 - a) If the company is solvent
 - b) If the company is insolvent
 - c) Whether the company is solvent or insolvent
 - d) None of the above
 5. Marked applications refer to
 - a) Applications bearing the stamp of the underwriters
 - b) Applications carrying the signature of public who applied for shares
 - c) Applications carrying the stamp of company which offered the shares
 - d) None of the above
 6. Amalgamation Adjustment account is opened in the books of Transferee Company to incorporate
 - a) The Assets of the transferor company
 - b) The liabilities of the transferor company
 - c) The statutory reserve of the transferor company
 - d) None of the above
 7. Statement of affairs should be prepared in the format prescribed _____
 - a) Form 153
 - b) Form 156
 - c) Form 57
 - d) Schedule VI

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8. The asset which is not taken under the Net assets method of calculating purchase consideration is

- a) Loose Tools
- b) Bills Receivables
- c) Machinery
- d) Share issue expenses

Ans:- 1 - a, 2- c, 3 - b, 4 - a, 5-a, 6 -c, 7-c, 8-d

B) State whether given statements are True or False(Any7) 7 marks

1. Underwriting Commission cannot exceed 5% of the issued price of shares
2. Marked applications are also known as direct applications.
3. List F shown preference shareholders including unclaimed dividend
4. In the case of amalgamation there are two or more liquidations and one formation.
5. If the company is insolvent, interest on debentures is payable up to the date of actual payment.
6. Pooling of interest is a method of calculating Interest on debenture.
7. Exchange rate is the ratio for exchange of two currencies
8. Average rate is the mean of the exchange rates in force during a period.

Ans. 1.True, 2.False 3. True 4. True 5. False 6. False 7.True 8. True

Q.2 Jupiter Ltd. Issued 10,000 shares of Rs.10 each. The entire issue was underwritten as follows: 15 marks

Sun – 5,000 shares (firm underwriting - 1,000 shares)
 Moon – 3,000 shares (firm underwriting - 500 shares)
 Star – 2000 shares (firm underwriting – 500 shares)
 Shares applied for were 9,000 shares, the following being the marked application forms including firm underwriting :

Sun – 3500 shares
 Moon – 1400 shares
 Star – 1600 shares

Calculate the liability of each underwriter.

SOLUTION :-

- i. Benefit of firm UW given/firm = Marked

LIABILITY OF UNDERWRITERS				(NO. of securities)		
STEP	PARTICULARS	BASIS	SUN	MOON	STAR	TOTAL
A.	Gross liability	5:3:2	5000	3000	2000	10000
B.	Less : marked applications	actual	(2500)	(900)	(1100)	(4500)
C.	Balance	[A-B]	2500	2100	900	5500
D.	Less: unmarked application	5:3:2	(1250)	(750)	(500)	(2500)
E.	Balance	[C-D]	1250	1350	400	3000

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F.	Less : firm underwriting	Actual	(1000)	(500)	(500)	(2000)
G.	Balance	[E-F]	250	850	(100)	1000
H.	Less: credit adjusted	5:3	(63)	(37)	100	0
I.	Balance	[G-H]	187	813	0	1000
J.	Add: firm underwriting	Actual	1000	500	500	1000
K.	Net Liability	[I-J]	1187	1313	500	3000

Working note :

1.Total received	9000
Less - marked	(6500)
Unmarked	2500

ii. Benefit of firm u/w not given/firm = unmarked

LIABILITY OF UNDERWRITERS				(NO. of securities)		
STEP	PARTICULARS	BASIS	SUN	MOON	STAR	TOTAL
A.	Gross liability	5:3:2	5000	3000	2000	10000
B.	Less : marked applications	actual	(2500)	(900)	(1100)	(4500)
C.	Balance	[A-B]	2500	2100	900	5500
D.	Less:unmarked application	5:3:2	(1250)	(750)	(500)	(2500)
E.	Balance	[C-D]	1250	1350	400	3000
F.	Less : firm underwriting	Actual	(1000)	(600)	(400)	(2000)
G.	Balance	[G-H]	250	750	0	1000
H.	Add: firm underwriting	Actual	1000	500	500	2000
I.	Net Liability	[I-J]	1250	1250	500	3000

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OR

Q.2. Kanta & Shanta are partners sharing profits & losses equally. From the following Trial Balance and adjustments you are required to prepare a Trading A/c, Profit & Loss A/c for the year ended on 31st March, 2010 and Balance Sheet of the LLP.

Trial Balance as on 31-3-2010

Debit Balances		Credit Balances	
Carriage	2,000	Capitals:	
Opening Stock	30,760	Kanta	60,000
Salary	4,000	Shanta	40,000
Wages	1,000	Commission	4,000
Discount	500	Interest	4,200
Interest	750	Sales	92,000
Motive Power	4,500	Purchase return	3,800
Motor Van	28,000	Sundry Creditors	27,400
Bad Debts	1,920	Outstanding Salary	400
Building	34,000		
Debtors	20,000		
Cash at Bank	16,120		
Machinery	10,000		
Investment	12,000		
Purchases	60,250		
Drawings:			
Kanta	2,800		
Shanta	3,200		
TOTAL	2,31,800	TOTAL	2,31,800

Adjustments:

1. Outstanding wages ` 400.
2. Provide depreciation at 10% p.a. on Building & Motor Van.
3. Accrued interest on investment ` 360.
4. Provide 5% R.B.D.D. on Debtors.
5. Stock at 31st March, 2010 was Market Value ` 40,000; Cost Price ` 50,000.

Statement of Income & Expenditure of Kanta & Shanta [LLP] For the period From 1-4-2009 to 31-3-2010

Particulars	Rs	Rs	Rs
I. Income			
1 Turnover		92,000	
2 Other Income (Specify)			
Interest	4,200		
Add: Accrued	360		
	4,560		
Commission	4,000	8,560	
3. Increase/(Decrease) in Stocks			
Closing Stock	40,000		
Less: Opening stocks	30,760	9,240	

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TOTAL INCOME			109,800
II. Expenses			
1. Purchase & Direct Expenses			
Gross	60,250		
Less: Returns Outward	3,800		
	56,450		
Carriage	2,000		
Motive power	4,500	62,950	
2. Personal Expenses			
Wages	1,000		
Add: Outstanding	400		
	1,400		
Salaries	4,000	5,400	
3. Administrative Expenses		NIL	
4. Selling Expenses			
Discount	500		
Bad debts	1,920	2,420	
5. Depreciation			
Motor Van (10% of 28,000)	2,800		
Buildings (10% of 34,000)	3,400	6,200	
6. Interest		750	
7. Other Expenses (to specify)			
Reserve for DD		1,000	
TOTAL EXPENSES			78,720
III. Profit before Taxes			31,080
IV. Provision for Tax			NIL
V. Profit after Tax			31,080
VI. Profit transferred to Partner's Account			
Kanta (1/2)	15,540		
Shanta (1/2)	15,540		31,080
VII. Profit transferred to Reserves & Surplus			NIL

Particulars	Rs	Rs	Rs
I. CONTRIBUTION AND LIABILITIES			
1. Partner's Funds			
(a) Contribution			
kanta			
Balance b/d	60,000		
Add: Net Profit	15,540		
	75,540		
Less: Drawings	2,800	72,740	
Shanta			
Balance b/d	40,000		

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Add: Net Profit	15,540		
	55,540		
Less: Drawings	3,200	52,340	
(b) Reserves & Surplus		NIL	125,080
2. Liabilities			
(a) Secured Loans		NIL	
(b) Unsecured Loan		NIL	
(c) Short term Loans		NIL	
(d) Creditors/ Trade Payables			
Sundry Creditors	27,400		
Salary Outstanding	400		
Wages Outstanding	400	28,200	
(e) Other Liabilities (to specify)		NIL	
(f) Provisions		NIL	
			28,200
TOTAL			153,280
II. ASSETS			
(a) Fixed Assets			
Machinery		10,000	
Building	34,000		
Less : Depreciation	3,400	30,600	
Motor Van	28,000		
Less: Depreciation	2,800	25,200	65,800
(b) Investments		12,000	
Accrued Interest		360	12,360
© Loans & Advances			NIL
(d) inventories			40,000
(e) Debtors/ Trade Receivables			
Debtors	20,000		
Less: Reserve for D.D.	1,000		19,000
(f) Cash & cash Equivalent			
Cash in hand			
Bank	16,120		16,120
(g) Other Assets (to specify)			NIL
TOTAL			153,280

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Q.3 The following was the Balance Sheet of X Limited as on 31.3.1998 :

15 Marks

<i>Liabilities</i>	<i>Amount</i>	<i>Assets</i>	<i>Amount</i>
Share Capital		Fixed Assets	
14%, 40,000 preference shares of Rs. 100 each fully paid up.....	4,00,000	Land.....	40,000
8,000 equity shares of Rs. 100 each Rs. 60 per share paid up.....	4,80,000	Buildings.....	1,60,000
Reserves and Surplus		Plant and Machinery.....	5,40,000
Secured Loans		Patents.....	40,000
14% debentures.....	2,30,000	Investments.....	Nil
(Having a floating charge on all assets)		Current assets, loans and advance.	
Interest accrued on above debentures.....	32,200	Current Assets	
(Also having a floating charge as above)		Stock at cost.....	1,00,000
Loan on mortgage of land and building.....	1,50,000	Sundry debtors.....	2,30,000
Unsecured Loan.....	Nil	Cash at bank.....	60,000
Current Liabilities and provisions		Loans and Advances.....	Nil
Current liabilities		Miscellaneous expenses	
Sundry creditors.....	1,17,800	Profit and Loss A/c.....	2,40,000
	14,10,000		14,10,000

On 31.3.1998 the company went into voluntary liquidation. The dividend on 14% preference shares was in arrears for one year. Sundry creditors include preferential creditors amounting to Rs. 30,000.

The assets realised the following sums

Land Rs. 80,000; Buildings Rs. 2,00,000; Plant and machinery Rs. 5,00,000; Patent Rs. 50,000; Stock Rs. 1,60,000; Sundry debtors Rs. 2,00,000.

The expenses of liquidation amounted to Rs. 29,434. The liquidator is entitled to a commission of 2% on all assets realised (except cash at bank) and 2% on amounts among unsecured creditors other than preferential creditors. All payments were made upto 30th June, 1998. Interest on mortgage loan shall be ignored at the time of payment.

Prepare the liquidator's final statement of account.

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Liquidator Final Statement of Account

Receipts	Amount	Payments	Amount
<i>Assets Realized :</i>		<i>Liquidator Remuneration</i>	
- Cash at Bank.....	60,000	(i) 2% on Assets Realised23,800	
- Sundry Debtors.....	2,00,000	2% of (60000+200000+160000+	
- Stock	1,60,000	500000+50000+80,000+2,00,000)	
- Plant & Machinery.....	5,00,000	(ii) 2% on Amount paid to Unsecured	
- Patents.....	50,000	Creditors.....1,756	25,556
		(2 % of 87,800)	
<i>Surplus From Securities</i>			
Sale of Land 80,000		<i>Liquidation Expense (Given).....</i>	29,434
Sale of Building 2,00,000		<i>Preferential Creditors (given).....</i>	30,000
Less :- Mortgage Loan (1,50,000)....	1,30,000	<i>Debenture holders</i>	
		-14% Debenture	2,30,000
		-Interest Accrued As per B/s..	32,200
		-Interest From B/s to	
		Payment date	8,050*
		<i>Unsecured Creditors</i>	87,800
		(1,17,800- 30,000**)	
		<i>Preference Shares holders</i>	
		-Capital.....	4,00,000
		<i>Arrears Of Divined</i>	56,000
		<i>Equity Share holders (B/F)</i>	
		(on 2000 Shares @ Rs. 25.12 per	
		Share)	2,00,960
	11,00,000		11,00,000

* Interest Form B/s Date To Payment date
 $2,30,000 * 14\% * 3/12 = 8050$

**Unsecured Creditors is After Payment to
 Preferntial Creditors

OR

Q.3 Rathore Ltd. went into voluntary liquidation on 31st December, 2016 when their Balance Sheet read as follows:—

Liabilities	
Issued and subscribed capital :	
5,000 10% cumulative preference shares	

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of ` 100 each, fully paid	5,00,000
2,500 equity shares of ` 100 each, ` 75 paid	1,87,500
7,500 equity shares of ` 100 each, ` 60 paid	4,50,000
15% Debentures secured by a floating charge	2,50,000
Interest outstanding on Debentures	37,500
Creditors	3,18,750
	17,43,750
Assets	
Land and Building	2,50,000
Machinery and Plant	6,25,000
Patents	1,00,000
Stock	1,37,500
Trade receivables	2,75,000
Cash at Bank	75,000
Profit and Loss A/c	2,81,250
	17,43,750

Preference dividends were in arrears for 2 years and the creditors included Preferential creditors of Rs.38,000.

The assets realised as follows :

Land and Building Rs.3,00,000; Machinery and Plant Rs.5,00,000; Patents Rs.75,000; Stock ` 1,50,000; Trade receivables Rs.2,00,000.

The expenses of liquidation amounted to Rs.27,250. The liquidator is entitled to a commission of 3% on assets realised except cash. Assuming the final payments including those on debentures is made on 30th June, 2017 show the liquidator's Statement of Account.

Ans.

Receipts		Payments	
To Assets realised -		By Liquidation expenses	27,250
Bank	75,000	By Preferential creditors	38,000
		By Liquidator's Remuneration (W.N.1)	36,750
Other assets:		By Debenture holders:	
Land etc.	3,00,000	Debentures	2,50,000

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Machineryetc.	5,00,000		Interest accrued	37,500	
Patents	75,000		Interest 1-1-17/30-6-17	<u>18,750</u>	3,06,250
Stock	1,50,000				
Trade receivables	<u>2,00,000</u>	12,25,000			
To Call on equity shareholders (7,500 × ` 2.65) (1)		19,875	By Unsecured creditors		2,80,750
			By Preferential shareholders :		
			Preference capital	5,00,000	
			Arrear of Dividend	<u>1,00,000</u>	<u>6,00,000</u>
					12,89,000
			By Equity shareholders - ` 12.35 on 2,500 shares		<u>30,875</u>
		<u>13,19,875</u>			<u>13,19,875</u>

Working Notes:

- (1) Liquidator's remuneration $12,25,000 \times 3/100 = ` 36,750$
- (2) As the company is solvent, interest on the debentures will have to be paid for the period 1-1-2017 to 30-6-2017
- (3) *Calls From Contributories'*

Amount Available For Equity Shareholders	11,000
<i>Add:- Notional Call</i>	
2500 * 25.....	62,500
7500*40.....	3,00,000
<i>Total</i>	3,73,500

Divided By No. Of Shars.....	10,000
Refund Per Share.....	37.35

Call	Refund	Net	No. of Shares	Amount
25	37.35	12.35 Refund	2500	30875
40	37.35	2.65 Call	7500	19875

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Q.4 Pass necessary Journal Entries in the books of N Ltd. Of Nasik.

15 Marks

A machine was imported on 20th January, 2010 from Jackie Chan of China for US \$200000. The payment for the same was made as follows :

US \$ 150000 on 27th February, 2010. US \$ 50000 on 15th March, 2010

The exchange rate for \$ 1 was as follows :

On 20th January, 2010 Rs. 47.00

On 27th February, 2010 Rs. 46.50

On 15th March, 2010 Rs. 48.00

The company follows financial year as accounting year.

Date	Particulars	Dr. Rs.	Cr. Rs
2010 Jan. 20	Machinery A/c Dr. To Jackie Chan A/c (Being machinery purchased at \$ 200000 and Exchange rate of \$ 1 was Rs 47)	94,00,000	94,00,000
Feb 20	Jackie Chan A/c Dr. To Bank A/c To Foreign Exchange Fluctuation A/c (Being amount paid \$ 150000 @ Rs 46.50, Fluctuation \$ 150000 [46.5-47])	70,50,000	69,75,000 75,000
Mar.15	Jackie Chan A/c Dr. Foreign Exchange Fluctuation A/c Dr. To Bank A/c (Being payment made \$ 50000 @ Rs 48, Fluctuation \$ 50000[48-47])	23,50,000 50,000	24,00,000
Mar.31	Foreign Exchange Fluctuation A/c Dr. To Profit & Loss A/c (Being loss on foreign exchange transferred to Profit & Loss A/c)	25,000	25,000

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Jackie Chan A/c

Date 2010	Particulars	Rs	Date 2010	Particulars	Rs
Feb 20	To Bank A/c	6975000	Jan. 20	By Machinery	9400000
Feb 20	To Fluctuation Exchange A/c	75000	Mar.15	By Fluctuation Exchange A/c	50000
Mar.15	To Bank A/c	2400000			
		9450000			9450000

Foreign Exchange Fluctuation A/c

Date 2010	Particulars	Rs	Date 2010	Particulars	Rs
Mar. 15	To Jackie Chan A/c	50000	Feb. 20	By Jackie Chan A/c	75000
Mar. 31	To Jackie Chan A/c	25000			
		75000			75000

Q.4 A Ltd. and B Ltd. were carrying on the business of manufacturing of auto components. Both the companies decided to amalgamate and a new company AB Ltd. is formed with an Authorized Capital of Rs.10, 00,000 divided into 1, 00,000 Equity shares of Rs.10 each. The Balance Sheet of the companies as on 31-3-2018 were as under

Particulars	A Ltd	B Ltd
I. EQUITY AND LIABILITIES		
1. Shareholders Funds		
a. Share Capital.....	1,40,000	2,50,000
b. Reserves and Surplus		
Profit and Loss A/c.....	30,000	35,000
General Reserve.....	-	1,20,000
2. Non-Current Liabilities		
8% Secured Debentures.....	1,10,000	-
3. Current Liabilities		
Trade payables.....	54,000	1,40,000
<i>Total</i>	3,34,000	5,45,000
II. ASSETS		
1. Non-Current Assets		
Fixed Assets		
Building.....	1,00,000	1,90,000

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Plant and Machinery.....	-	80,000
Furniture and Fixture.....	25,000	25,000
2. Current Assets		
a. Inventories.....	1,35,000	50,000
b. Trade Receivables.....	44,000	1,42,000
c. Cash at Bank.....	30,000	58,000
Total	3,34,000	5,45,000

The assets and liabilities of the existing companies are to be transferred at book value with the exception of some items detailed below:

1. Goodwill of A Ltd. was worth Rs.50,000 and B Ltd worth Rs.1,50,000.
2. Furniture and Fixture of B Ltd was valued at Rs.35,000.
3. The debentures of A Ltd. are to be discharged by issue of 8% 11000 debentures of AB Ltd. at premium of 10%.

You are required to:

- i) Compute Purchase consideration.
- ii) Pass opening entries in the books of AB Ltd and draw a Balance sheet of AB Ltd. as per Purchase Method

- Q.5 a) Explain the Various Type of Underwriting
 b) Modes of winding up in case of liquidation

15 Marks

OR

Q.5. Write Short Notes (Any Four) (2 extra question is given for students Benefits)

1. Foreign Exchange Fluctuation Account.
2. Spot Rate Vs Average Rate
3. Firm Underwriting & Partial Underwriting
4. Designated Partner
5. Purchase Method V/s Merger Method
6. Feature of LLP
7. Preferential Creditors
8. Purchase Consideration

Ans. A) Various Type of Underwriting

1. **Firm underwriting:** Firm underwriting is an underwriting agreement where an underwriter agrees to buy a definite number of shares or debentures in addition to the shares or debentures he has already promised to subscribe under the underwriting agreement. In firm underwriting, the underwriters are liable to take up the agreed number of shares or debentures even if the issue is over subscribed.
2. **Complete underwriting:** when the whole issue of shares or debentures of a company is underwritten, it is called complete underwriting. In such a case the whole issue is underwritten either by an individual/institution agreeing to take the entire risk or by a number of firms or institutions, each agreeing to take the risk to a limited extent.
3. **Partial underwriting.** When only a part of the issue of shares or debentures of a company is underwritten, it is known as partial underwriting. In such a case the part of the issue is underwritten either by an individual/institution or by a number of firms or institutions each agreeing to take the risk to a limited extent.



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4. **Syndicate Underwriting:** When the issue is very big and it is impossible to be underwritten by a single underwriter syndicate underwriting comes to rescue. In syndicate underwriting, few underwriting firms form a syndicate and jointly undertake to underwrite the issue. The amount to be underwritten and the ratio is determined in advance among the firms. For example, For an issue of 10,000 6 underwriters may form a syndicate and underwrite in the ratio of 30:20:20:10:10:10.
5. **Joint Underwriting:** In Joint underwriting, when the issue is too large, the issuer company itself appoint more than one underwriter to reduce the burden from a single underwriter. Each Underwriter underwrites for a specified amount and in a specified ratio. It is different from a syndicate underwriting in a way that in Syndicate underwriting the underwriting firm themselves form a syndicate and represent themselves as single underwriting firm but in Joint underwriting, the issuer company itself appoint a number of firms to underwrite the issue.
6. **Sub-underwriting:** If an underwriter has promised to underwrite an issue and later on it feels that it is beyond his individual capacity, then he may appoint a sub-underwriter to safeguard himself. For example, if an underwriter A has underwritten for an amount of 40 crores, and later on he finds it difficult to underwrite single Handadley he may appoint a sub-underwriter to underwrite 10 crores. In this case, the sub-underwriter is liable to underwriter only and he has no connection with the company. the relationship between underwriter and sub-underwriter is same as an agent and sub-agent.

B) Modes of winding up in case of liquidation

i. Petition by the Company - A company can file a petition to the Tribunal for its winding up when the members of the company have resolved by passing a Special Resolution to wind up the affairs of the company. Managing Director or the directors cannot file such a petition on their own account unless they do it on behalf of the company and with the proper authority of the members in the General Meeting.

ii. Petition by the Contributories - A contributory shall be entitled to present a petition for the winding up of the company, notwithstanding that he may be the holder of fully paid-up shares or that the company may have no assets at all, or may have no surplus assets left for distribution among the holders after the satisfaction of its liabilities. It is no more required of a contributory making petition to have tangible interest in the assets of the company

iii. Petition by the Central Government or a State Government on the ground that company has acted against the interests of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality.

iv. Liquidation under Insolvency and Bankruptcy Code 2016

The Insolvency and Bankruptcy Code, 2016 relates to re-organisation and insolvency resolution of companies, partnership firms and individuals in a time bound manner.

The Insolvency and Bankruptcy Code, 2016 applies to matters relating to the insolvency and liquidation of a company where the minimum amount of the default is Rs. 1 lakh (may be increased up to Rs.1 cr by the Government, by notification).

v. Any person authorised by the Central Government in that behalf.

Short Notes Ans.

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1) Foreign Exchange Fluctuation Account

Record the initial transaction entered in foreign currency by converting in Indian Rs. by multiplying the transaction amount with the foreign exchange rate as on the date of transaction.

Subsequently when the payment is made or is received in the same year it should be recorded at foreign exchange rate on the date of settlement.

Any profit or loss arising due to exchange fluctuation should be transferred to account called Foreign Exchange Fluctuation A/c and it should be transferred to profit and loss A/c. at the end of the year.

2) Spot Rate Vs Average Rate

The spot rate is the price quoted for immediate settlement on a commodity, a security or a currency. The spot rate, also referred to as the "spot price," is the current market value of an asset at the moment of the quote. (i.e. Spot rate is rate on the transaction took place) The average rate of change is finding the rate something changes over a period of time. We can look at average rate of change as finding the slope of a series of points. The slope is found by finding the difference in one variable divided by the difference in another variable.

3) Firm Underwriting & Partial Underwriting

In firm underwriting the underwriter agrees to subscribe upto a certain number of shares/debentures irrespective of the nature of public response to issue of securities. He gets these securities even if the issue is fully subscribed or over-subscribed. These securities are taken by the underwriter in addition to his liability for securities not subscribed by the public.

Under partial underwriting along with firm underwriting, unless otherwise agreed, individual underwriter does not get the benefit of firm underwriting in determination of number of shares/debentures to be taken up by him.

Firm' underwriting signifies a definite commitment to take up a specified number of shares irrespective of the number of shares subscribed for by the public. In such a case, unless it has been otherwise agreed, the underwriter's liability is determined without taking into account the number of shares taken up 'firm' by him, i.e. the underwriter is obliged to take up :

1. the number of shares he has applied for 'firm'; and
2. the number of shares he is obliged to take up on the basis of the underwriting agreement.

4) Designated partner

- ❖ Designated partner in a LLP both are responsible for all acts, matters and things required to be done in a limited liability partnership (LLP).
- ❖ The duties of designated partners in a Limited Liability Partnership (LLP) are same as that of partners.

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- ❖ Also they perform the same role as that of a director performs in a Company. They are governed by mutual rights and duties as provided in the LLP agreement.
- ❖ Designated Partner is a term used in case of Limited Liability Partnerships. The duties, rights and liabilities of a partner are generally laid down in a partnership deed where as in case of a designated partner;
- ❖ his duties, rights and liabilities are mentioned in the LLP Agreement.
- ❖ The liability of a designated partner is only up to the capital introduced by them or as provided in the LLP Agreement.
- ❖ The Designated Partners are solely responsible for the management and the execution of all the acts and things required to be carried out by the LLP including compliance of the provisions such as filing of documents/returns/statements as required by the LLP Act.
- ❖ The extent of liability on the partners and the designated partners for penalties imposed for any contravention of the provisions shall be governed by the Partnership Deed and the LLP Agreement respectively.

5) Purchase Method V/s Merger Method

1. Transfer of Assets and Liabilities

- Nature of Merger: There is transfer of all assets & liabilities.
- Nature of Purchase: There need not be transfer for all assets & liabilities.

2. Equity Shareholder's holding 90%

- Nature of Merger: Equity shareholders holding 90% equity shares in transferor company become shareholders of transferee company.
- Nature of Purchase: Equity shareholders need not become shareholders of transferee company.

3. Purchase Consideration

- Nature of Merger: Purchase consideration is discharged wholly by issue of equity shares (except cash for fractional shares)
- Nature of Purchase: Purchase consideration need not be discharged wholly by issue of equity shares.

4. Same Business

- Nature of Merger: The same business of the transferor company is intended to be carried on by the transferee company.
- Nature of Purchase: The business of the transferor company need not be intended to be carried on by the transferee company.

5. Recording of Assets & Liabilities

- Nature of Merger: The assets & liabilities taken over are recorded at their existing carrying amounts except where adjustment is required to ensure uniformity of accounting policies.
- Nature of Purchase: The assets & liabilities taken over are recorded at their existing carrying amounts or the basis of their fair values.

6) Feature of LLP

The salient features of LLP Act, 2008, inter alia, are as follows:

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1. *It is a body corporate with separate legal entity from its partners. The mutual rights and duties of the partners of an LLP are governed by LLP Agreement.*
2. *LLP is liable to the extent of its assets. Partner's liability is limited to the extent of agreed contribution (capital) in the LLP Agreement.*
3. *No partner is liable on account of the independent or unauthorized action of other partners or for their misconduct.*
4. *Every LLP should have at least two partners with at least two individuals as "designated partners", of whom at least one must be resident in India. Only designated partners are responsible for compliance with the Act.*
5. *A firm, private company or an unlisted public company can be converted into LLP.*
6. *The winding up of LLP is either voluntary or by the High Court*

7) Preferential Creditors

Preferential Creditor:-

- ❖ *The payment of Government dues for taxes provided they have arisen within the period of 12 months before the date of liquidation.*
- ❖ *The payment of wages & salaries to employees and workers (not directors and officers) for a maximum period of 4 months. The salaries and wages should have arisen within a period of 12 months before the date of liquidation. However the amount payable to an individual should not exceed Rs. 20,000/-.*
- ❖ *The payment of provident fund, gratuity, pension as per the provision of the relevant acts.*
- ❖ *Any leave salary which is payable to the employees and workers.*
- ❖ *Compensation paid as per the provisions of the workmen compensation Act and Industrial Disputes Act.*
- ❖ *Cost of investigation as per the provisions of Sec. 235 or 237 of the Co's act. 1956.*

8) Purchase Consideration

As per section 14 it is the price paid by Transferee Company to the transferor company for the purchase of its business.

Methods of purchase consideration:

There are different methods of purchase consideration depending upon the terms and conditions settled between the transferor company.

- 1) **Net asset method:** *under this method the net asset value is calculated by deducting all the liabilities taken over by the transferee company from the entire asset taken by the transferee company. The value of the assets and liabilities is not that appear in the balance sheet but it is that which is decided between the two companies.*

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- 2) **Net payment method:** in this case purchase consideration is calculated by adding all the payments made by the transferee company to the shareholders of the transferor company. Payment can be in the form of cash, shares or debentures.
- 3) **Lump sum method:** this is the case when Transferee Company agrees to pay Transferor Company a fixed sum of money. Like xyz limited agrees to pay abc ltd 25 lakh. This is lump sum method.
- 4) **Intrinsic value or share exchange method:**
Under this method, net value of assets is calculated according to net assets method and it is divided by the value of one share of transferee company which gives the total number of shares to be received by the share-holders of transfer or company from the transferee company. When the number of shares to be received by the transferor company is known then it is divided by the existing shares of the transferor company and thus the ratio of shares can be found out.

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ALL THE BEST WITH GOOD LUCK 😊



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About Author :- He is Chartered Accountant. Presently he is Core Faculty of Accounts & Advance Accounts in Various Coaching Classes & Visiting Faculty of CA Institute(ICAI) . He has 8 years teaching experience at CA-CPT/FOUNDATION,CA-INTER/IPCC, B.COM/BAF/BMS .

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