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CS EXECUTIVE JUNE 2019EXAM

SUBJECT-CORPORATE ACCOUNTING

Test Code - CSE 2016

BRANCH - () (Date :)

Head Office :Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

ANSWER-1

ANSWER-A (5 MARKS)

When shares are issued at a price higher than the face value, they are said to be issued at a premium. Thus, the excess of issue price over the face value is the amount of premium. For example, if a share of Rs.10 is issued at Rs. 12Rs. (12 - 10) =Rs. 2 is the premium.

The premium on issue of shares must be regarded as **capital receipt** and must be credited to a separate account called "Securities Premium Account" There are no restrictions on the issue of shares at a premium, but there are restrictions on its disposal.

Under **Section 52** of the **Companies Act, 2013**, the securities premium account may be used wholly or in part for:

(1) Issuing fully paid bonus shares
(2) Writing off preliminary expenses
(3) Writing off the expenses or commission or discount on issue of shares or debentures
(4) Providing for the premium on the redemption of preference shares or debentures
(5) To buy back its own shares or other specified securities as per **Section 68.**

Securities premium account must be shown in liabilities side of the balance sheet under the head **"Reserves & Surplus"** in shareholders funds.

ANSWER-B

Journal Entries in the books of JKS Ltd

			Rs.	*Rs.*
15.03.2018 to 31.3.18	Bank A/c (3,600 x *Rs.* 30)	Dr.	1,08,000	
	Employee compensation expense A/c (3,600 x *Rs.* 20)	Dr.	72,000	
	To Equity share capital A/c (3600 x *Rs.* 10)			36,000
	To Securities premium A/c (3600 x *Rs.* 40)			1,44,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.18	Profit and Loss A/c	Dr.	72,000	
	To Employee compensation expenses A/c			72,000

	(Being transfer of employee compensation expenses transfer to Profit and Loss Account)		

Working Notes:

1. No entry is passed when stock options are granted to employees. Hence, no entry will be passed on 1stJanuary 2018;
2. Market Price = Rs. 50 per share and as stock option price = Rs. 30, Hence, the difference Rs. 50 – Rs. 30 = Rs. 20 per share is equivalent to employee cost or employee compensation expense and will be charged to P &L Account as such for the number of options exercised i.e. 3,600shares.

(5 MARKS)

ANSWER-2

(i) Computation of liability of underwriters in respect of shares

	(In shares)		
	A	**B**	**C**
Gross liability (Total Issue of 30,00,000 equity shares) in agreed ration of 3 : 2 : 1	15,00,000	10,00,000	5,00,000
Less: Unmarked applications (Subscribed shares – marked shares) in 3 : 2 : 1	(3,00,000)	(2,00,000)	(1,00,000)
Marked shares as per agreed ratio	12,00,000	8,00,000	4,00,000
Less: Marked applications actually received	(8,00,000)	(7,00,000)	(6,00,000)
Shortfall / surplus in marked shares	4,00,000	1,00,000	(2,00,000)
Surplus of C distributed to A & B in 3:2 ratio	(1,20,000)	(80,000)	2,00,000
Net liability for underwriting shares	2,80,000	20,000	Nil

(5 MARKS)

(ii) Journal Entries in the books of Gemini Ltd. Rs. Rs.

A's Account (2,80,000 x 15)	Dr.	42,00,000	
B's Account (20,000 x 15)	Dr.	3,00,000	
To Share Capital Account (3,00,000 x 10)			30,00,000
To Securities Premium Account (3,00,000 x 5)			15,00,000
(Being the shares to be taken up by the underwriters)			
Underwriting Commission Account	Dr.	15,00,000	
To A's Account (15,00,000 x 10 x 5%)			7,50,000
To B's Account (10,00,000 x 10 x 5%)			5,00,000

To C's Account (5,00,000 x 10 x 5%) (Being the underwriting commission due to the underwriters)			2,50,000
Bank Account To A's Account (Being the amount received from underwriter A for the shares taken up by him after adjustment of his commission)	Dr.	34,50,000	34,50,000
B's Account To Bank Account (Being the amount paid to underwriter B after adjustment of the shares taken by him against underwriting commission due to him)	Dr.	2,00,000	2,00,000
C's Account To Bank Account (Being the underwriting commission paid to C)	Dr.	2,50,000	2,50,000

Note : C had sold in excess of the underwriting obligation and hence he will not be required to purchase any shares but will get commission for underwriting.

(5*1 = 5 MARKS)

ANSWER-3

ANSWER-A

In the books of AB Ltd.
Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Profit & Loss A/c To Investment A/c (Being, investment sold at loss)	Dr. Dr.	40,000 5,000	 45,000
	Equity Share Capital A/c (150 X 8) To Equity Share Forfeited A/c (150 X 6) To Call-in-Arrear A/c (150 X 2) (Being, forfeiture of 150 equity shares for non-payment of Call-in-Arrear)	Dr.	1,200	 900 300
	Bank A/c (500 X 105) To 14% Debenture A/c (500 X 100) To Securities Premium A/c (Being, 500, 14% debenture issued at 5% premium)	Dr.	52,500	 50,000 2,500
	Bank A/c (200 X 20) To Call-in-Arrear A/c (Being, Call-in-Arrear received on	Dr.	4,000	 4,000

	200 preference shares)			
	11% Preference Share Capital A/c (50 X 100) To Preference Share Forfeited A/c (50 X 80) To Call-in-Arrear A/c (50 X 20) (Being, forfeiture of 50,11% preference shares for non-payment of Call-in- Arrear)	Dr.	5,000	 4,000 1,000
	Bank A/c (50 X 50) Preference Share Forfeited A/c (50 X 50) To 11% Preference Share Capital A/c (Being, Re-issue of forfeited preference shares @ 50 per share)	Dr. Dr.	2,500 2,500	 5,000
	Bank A/c (150 X 12) To Equity Share Capital A/c (150 X 8) To Securities Premium A/c (150 X 4) (Being, Re-issue of forfeited equity shares @ 12 each as Rs. 8 paid up)	Dr.	1,800	 1,200 600
	Equity Share Forfeited A/c Preference Share Forfeited A/c To Capital Reserve A/c (Being, balance of share forfeited account transferred to Capital Reserve Account)	Dr. Dr.	900 1,500	 2,400
	11% Preference Share Capital A/c To Bank A/c (Being, preference shares redeemed)	Dr.	1,00,000	 1,00,000
	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being, amount transferred to CRR as per requirement of Section 55 of Companies Act, 2013)	Dr. Dr.	50,000 50,000	 1,00,000

(6 MARKS)

ANSWER-B

Application	2
Allotment (3+2)	5
First call	2
Final call	3
	12

In the books of X Ltd.
Journal Entries

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Share Capital A/c (500 X 10) To Share Forfeited A/c (500 X 5) To Share First Call A/c (500 X 2) To Share Final Call A/c (500 X 3) (Being, 500 equity shares forfeited of Rs. 10 fully called up for non-payment of first call of Rs. 2 and final call of Rs. 3 per share as per Board's resolution No....dated.....)	Dr.	5,000	 2,500 1,000 1,500
	Bank A/c (300 X 8)	Dr.	2,400	

	Share Forfeited A/c (300 X 2) To Share Capital A/c (300 X 10) (Being, re-issue of 300 shares @ Rs. 10 paid up atRs. 2 discount as per Board's Resolution No....dated....)	Dr.	600	3,000
	Share Forfeited A/c (See Note 1) To Capital Reserve A/c (Being, profit on re-issue transferred to capital reserve)	Dr.	900	900

(3*1 = 3 MARKS)

Note 1: Calculation of capital reserve: **(1 MARK)**

	Rs.
Share Forfeited A/c credited at the time of forfeiture for 500 share	2,500
Proportionate Share Forfeited A/c balance for 300 share (2,500 X 300/500)	1,500
Share Forfeited A/c debited at the time of re-issue	(600)
Amount to be credited to capital reserve	900

ANSWER-4

ANSWER-A

Following are the main points of distinction between calls-in-advance & calls-in-arrear:

Points	Calls-in-Advance	Calls-in-Arrear
Meaning	A company may receive from a shareholder the amount remaining unpaid on shares. This is known as calls-in-advance.	When calls are made upon shares allotted, the shareholders holding the shares are bound to pay the call money within the date fixed for such payment. If a shareholder makes a default in sending the call money within the appointed date, the amount thus failed is called calls-in-arrear.
Interest	**Regulation 18 of Table F of the Companies Act, 2013** provides that the Board may receive from any member calls in advance and may pay interest at such rate not exceeding **12% p.a.** The Company is liable to pay interest on the amount of calls-in-advance from the date of receipt of the amount till the date when the call is due for payment.	**Regulation 16 of Table F of the Companies Act,2013** provides that, if a call is not paid before or on the day appointed for payment, the shareholder shall pay interest from the day appointed for payment to the time of actual payment at **10% p.a.** or at such lower rate, as the Board may determine.
Nature	Interest on calls-in-advance is expenses and debited to profit & loss account.	Interest on calls-in-arrear is income and credited to profit & loss account.

(5 MARKS)

ANSWER-B

As per **Section 2(88),**“sweat equity shares” means such equity shares as are issued by a company to its directors or employees at a discount or for consideration, other than cash, for providing their know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

Section 54of the **Companies Act, 2013**provides that a company may issue sweat equity shares if the following conditions are fulfilled, namely:

(a) Such shares are of a class of shares already issued. (In simple words first issue of any class of shares cannot be issue of sweat equity shares);

(b) The issue is authorized by a **special resolution**passed by the company;

(c) The resolution specifies the number of shares, the current market price, consideration and the class of directors or employees to whom such equity shares are to be issued;

(d) Such issue is at any time but after **1 year from the date of commencement of business;**

(e) In case of listed company the regulations made by the SEBI are complied with and in case of unlisted company shares has to issue as per rules made by Central Government.

Important points to be noted:

(1) Such sweat equity shares are issued to **employees or directors**, (not to public)

(2) Such sweat equity shares are issued at a **discount or for consideration other than cash.**

(3) Such sweat equity shares are issued for **providing know-how or making available right in the nature of intellectual property rights or value additions.**

(5 MARKS)

ANSWER-5

In the books of Light Co. Ltd.
Journal Entries

Rs. in lakhs

Date	Particulars		Dr. (Rs.)	Cr. (Rs.)
	Bank A/c	Dr.	5.90	
	To Investment A/c			2.80
	To Profit & Loss A/c			3.10
	(Being, sale of investment at profit)			
	Equity Share Capital A/c	Dr.	1.50	
	Securities Premium A/c	Dr.	2.40	
	Profit & Loss A/c	Dr.	2.10	
	To Equity Shareholder A/c			6.00
	(Being, amount due on buy back of equity shares as per Shareholder’s Resolution No... dated.........)			
	Equity Shareholder A/c	Dr.	6.00	
	To Bank A/c			6.00
	(Being, amount paid to equity shareholder on buy back)			
	Reserve A/c	Dr.	1.5	
	To Capital Redemption Reserve A/c			1.5
	(Being, amount transferred to CRR as per			

requirement of Section 69 of the Companies Act, 2013)

(4*1 = 4 MARKS)

Balance Sheet of Light Co. Ltd.
As at 1.4.2014

EQUITIES & LIABILITIES	**(Rs.in Lakhs)**
Shareholder's Funds	
Equity Share Capital	8.50
Reserve	6.00
Profit & Loss Account 3.80	
Capital Redemption Reserve	1.50
Non-Current Liabilities	
11% Debentures	16.00
Current Liabilities	
Sundry Creditors	4.30
	40.10
ASSETS	**(Rs.in Lakhs)**
Non-Current Assets	
Fixed Assets	20.40
Investments	1.40
Current Assets	
Stock	5.00
Sundry Debtors	4.30
Bank Balance	9.00
	40.10

Note 1:

Sale price of investment	5.90
Book value of investment (4.20 X 2/3)	(2.80)
Profit on sale	3.10

Note 2:

Free Reserves			Capital Profits		
	General Reserve	P& L		Securities Premium	CRR
Balance	7.50	2.80	Balance	2.40	1.50
Profit on sale investment		3.10	Premium on buyback	(2.40)	
		5.90			
Premium on buyback		(2.10)			
		3.80			
Buyback of capital	(1.50)				
	6.00	-			
Equity capital to be brought back		1.50	Premium on buyback		4.50
Out of general reserve		(1.50)	Out of securities premium		(2.40)
		-			2.10
			Out of P & L		(2.10)

(6 MARKS)