CA INTERMEDIATE

J.K. SHAH TEST SERIES
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SUBJECT- ADVANCED ACCOUNTS

Test Code – CIM 8681

(Date :)

(Marks - 50)

TOPIC : Buy Back, ESOP, Internal Reconstruction

QUESTION : 1

(A) Suvidhi Ltd. offered 50 shares to each of its 1500 employees on 1st April 2017 for Rs. 30. Option would be exercisable within a year it is vested. The shares issued under the plan shall be subject to lock – in on transfer for three years from the grant date. The market price of shares of the company is Rs. 50 per share on grant date. Due to post vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at Rs. 38 per share.

On 31st March, 2018, 1200 employees accepted the offer and paid Rs. 30 per share purchased. Nominal value of each share is Rs. 10.

Record the issue of shares in the books of the company under the aforesaid plan.

(4 MARKS)

(B) The following particulars in respect of stock options granted by a company are available:

Grant date	April 1, 2016
Number of employees covered	50
Number of options granted per employee	1,000
Fair value of option per share on grant date (Rs.)	9

The options will vest to employees serving continuously for 3 years from granting date, provided the share price is Rs. 65 or above at the end of 2018-19.

The estimates of number of employees satisfying the condition of continuous employment were 48 on 31/03/17, 47 on 31/03/18. The number of employees actually satisfying the condition of continuous employment was 45.

The share price at the end of 2018-19 was Rs. 68.

You are required to compute expenses to be recognised in each year in the books of the company. **(6 MARKS)**

QUESTION : 2

SMM Ltd. has the following capital structure as on 31st March, 2017: Rs. in crore

	Particulars	Situation	Situation
(i)	Equity share capital (shares of Rs. 10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
	Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii)	Loan Funds	3,200	6,000

The company has offered buy back price of Rs. 30 per equity share. **<u>You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries.</u>**

(12 MARKS)

QUESTION : 3

Following is the Balance Sheet of Chandru Ltd as at 31st March, 2018:

Liabilities	**Rs.**	**Assets**	**Rs.**
15,000,10% Preference Shares of Rs. 100 each	15,00,000	Goodwill	3,50,000
35,000 Equity Shares of Rs. 100 each	35,00,000	Land & Buildings	15,00,000
Securities Premium	1,00,000	Plant & Machinery	10,00,000
7% Debentures of Rs. 100 Each	5,00,000	Stock	6,00,000
Creditors	12,50,000	Debtors	15,00,000
Loan from Director	1,50,000	Cash at Bank	1,00,000
		Preliminary Expenses	4,00,000
		Profit & Loss A/c	
			15,50,000
Total	**70,00,000**	**Total**	**70,00,000**

No dividend on Preference Shares has been paid for the last 5 years.

The following scheme of reorganization was duly approved by the Court:

1. Each Equity Share to be reduced to Rs. 25.
2. Each existing Preference Share to be reduced to Rs. 75, and then exchanged for 1 new 13% Preference Share of Rs. 50 each and 1 Equity Share of Rs. 25 each.
3. Preference Shareholders have foregone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in Fully Paid Equity Shares of Rs. 25 each.
4. Debenture holders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference Shares of Rs. 50 each issued at par. One half (in value) of the Debenture holders accepted Preference Shares for their claims. The rest were paid cash.
5. Contingent Liability of Rs. 1,50,000 is payable, which has been created by wrong action of one Director. He has agreed to compensate this loss out of the Loan given by the Director to the Company.
6. Goodwill does not have any value in the present. Decrease the value of Plant and Machinery, Stock and Debtors by Rs. 4,00,000, Rs. 1,00,000 and Rs. 1,50,000 respectively. Increase the value of Land and Buildings to Rs. 18,00,000.
7. 40,000 New Equity Shares of Rs. 25 each are to be issued at par, payable in full on application. The issue was underwritten for a commission of 4%.
8. Expenses incurred by the Company for the Scheme, excluding Underwriting Commission amounted to Rs. 15,000.

<u>Pass necessary Journal Entries to record the above transactions</u>. **(15 MARKS)**

QUESTION : 4(A)

On 1st April, a Company offered 100 Shares to each of its 400 Employees at Rs. 25 per Share. The Employees are given a month to accept the Shares. The Shares issued under the Plan shall be subject to lock-in to transfer for 3 years from the Grant Date i.e. 30th April. The Market Price of Shares of the Company on the Grant Date is Rs. 30 per Share. Due to post-vesting restrictions on transfer, the Fair Value of Shares issued under the Plan is estimated at Rs. 28 per Share. Upto 30th April, 50% of the Employees accepted the Offer and paid Rs. 25 per Share purchased. Nominal Value of each Share is Rs. 10. **Record the issue of Shares** in the Books of the Company under the aforesaid plan.

(5 MARKS)

QUESTION : 4(B)

(a) What is meant by "equity shares with differential rights". Can preference shares be also issued with differential rights?

(b) L, M, N and O hold Equity capital in the proportion of 30:30:20:20 in AB Ltd. X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10.

You are required to **identify the voting rights** of shareholders in case of resolution of winding up of the company if the paid-up capital of the company is Rs. 80 Lakh and Preference share capital is Rs. 40 Lakh.

(5 MARKS)

QUESTION : 4(C)

Ajanta grants 120 share options to each of its 460 employees. Each grant is conditional on the employee working for Ajanta over the next three years. Ajanta has estimated that the fair value of each share option is Rs. 12. Ajanta estimates that 25% of employees will leave during the three-year period and so forfeit their rights to the share options. Everything turns out exactly as expected.

Required:

Calculate the amounts to be recognized as expense during the vesting period.

(3 MARKS)