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CA INTERMEDIATE

SUBJECT- ADVANCE ACCOUNTS

Test Code – CIM 8681

BRANCH - () (Date :)

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ANSWER : 1

(A)

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
31.3.18	Bank A/c (60,000 shares × Rs. 30) Dr.	18,00,000	
	Employees stock compensation expenses A/c. Dr.	4,80,000	
	To Share Capital A/c. (60,000 shares × Rs. 10)		6,00,000
	To Securities Premium (60,000 shares × Rs. 28)		16,80,000
	(Being shares issued under ESOP @ Rs. 30 to 1,200 employees)		
	Profit & Loss A/c. Dr.	4,80,000	
	To Employees stock compensation expense A/c.		4,80,000
	(Being Employees stock compensation expense transferred to Profit & Loss A/c.)		

(2 MARKS)

Working Note :

Fair value of an option = Rs. 38 – Rs. 30 = Rs.8

Number of shares issued = 1,200 employees × 50 Shares / employee = 60,000 shares

Fair value of ESOP which will be recognized as expenses in the year 2017 – 2018

= 60,000 shares × Rs. 8 = Rs. 4,80,000

Vesting period = 1 year

Expenses recognized in 2017 – 2018 = Rs. 4,80,000

(2 MARKS)

(B) The vesting of options is subject to satisfaction of two conditions viz. service condition of continuous employment for 3 years and market condition that the share price at the end of 2018-19 is not less than Rs. 65. The company should recognize value of option over 3-year vesting period from 2016-17 to 2018-19.

Year 2016-17

Fair value of option per share = Rs. 9

Number of shares expected to vest under the scheme = 48 × 1,000 = 48,000

Fair value = 48,000 × Rs. 9 = Rs. 4,32,000

Expected vesting period = 3 years

Value of option recognised as expense in 2016-17 = Rs. 4,32,000 /3 = Rs. 1,44,000

(2 MARKS)

Year 2017-18

Fair value of option per share = Rs. 9

Number of shares expected to vest under the scheme = 47 × 1,000 = 47,000

Fair value = 47,000 × Rs. 9 = Rs. 4,23,000

Expected vesting period = 3 years

Cumulative value of option to recognise as expense in 2016-17 and 2017-18

= (Rs. 4,23,000/ 3) × 2 = Rs. 2,82,000

Value of option recognised as expense in 2016-17 = Rs. 1,44,000

Value of option recognised as expense in 2017-18

= Rs. 2,82,000 – Rs. 1,44,000 = Rs. 1,38,000

(2 MARKS)

Year 2018-19

Fair value of option per share = Rs. 9

Number of shares actually vested under the scheme = 45 × 1,000 = 45,000

Fair value = 45,000 × Rs. 9 = Rs. 4,05,000

Vesting period = 3 years

Cumulative value of option to recognise as expense in 2016-17, 2017-18 and 2018-19 =Rs. 4,05,000

Value of option recognised as expense in 2016-17 and 2017-18 = Rs. 2,82,000

Value of option recognised as expense in 2018-19 = Rs. 4,05,000 – Rs. 2,82,000 = Rs. 1,23,000

(2 MARKS)

ANSWER : 2

Statement determining the maximum number of shares to be bought back

Number of shares (in crores)

Particulars	**When loan fund is**	
	Rs. 3,200 crores	**Rs. 6,000 crores**
Shares Outstanding Test (W.N.1)	30	30
Resources Test (W.N.2)	24	24
Debt Equity Ratio Test (W.N.3)	32	Nil
Maximum number of shares that can be bought back [least of the above]	24	Nil

(2 MARKS)

Journal Entries for the Buy Back (applicable only when loan fund is Rs. 3,200 crores)

				Rs. in crores
			Debit	**Credit**
(a)	Equity share buyback account	Dr.	720	
	To Bank account			720
	(Being payment for buy back of 24 crores equity shares of Rs. 10 each @ Rs. 30 per share)			
(b)	Equity share capital account	Dr.	240	

	Premium Payable on buyback account	Dr.	480	
	To Equity share buyback account			720
	(Being cancellation of shares bought back)			
	Securities Premium account	Dr.	400	
	General Reserve / Profit & Loss A/c	Dr.	80	
	To Premium Payable on buyback account			480
	(Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)			
(c)	General Reserve / Profit & Loss A/c	Dr.	240	
	To Capital redemption reserve account			240
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

(5 MARKS)

Working Notes:

1. Shares Outstanding Test

Particulars	**(Shares in crores)**
Number of shares outstanding	120
25% of the shares outstanding	30

2. Resources Test

Particulars	
Paid up capital (Rs. in crores)	1,200
Free reserves (Rs. in crores) (1,080 + 400 +200)	1,680
Shareholders' funds (Rs. in crores)	2,880
25% of Shareholders fund (Rs. in crores)	Rs. 720 crores
Buy back price per share	Rs. 30
Number of shares that can be bought back	24 rores shares

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back

	Particulars	**When loan fund is**	
		Rs. 3,200 crores	Rs. 6,000 crores
(a)	Loan funds (Rs.)	3,200	6,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	1,600	3,000
(c)	Present equity shareholders fund (Rs.)	2,880	2,880
(d)	Future equity shareholders fund (Rs.) (see W.N.4)	2,560 (2,880-320)	N.A.
(e)	Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	960	Nil
(f)	Maximum number of shares that can be bought back @ Rs. 30 per share	32 crore shares	Nil
	As per the provisions of the Companies Act, 2013, company	Qualifies	Does not Qualify

Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y' Then

Equation 1 : (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy Back

$$= (2,880 - x) - 1,600 = y$$

$$= \quad 1280 - x = y \qquad (1)$$

Equation 2: Maximum Permitted Buy Back *X* Nominal Value Per Share/Offer Price Per Share

$$= \left(\frac{y}{30} \times 10\right) = x \quad \text{Or} \quad 3x = y \qquad (2)$$

by solving the above two equations we get

x= Rs. 320

y = Rs. 960

(5 MARKS)

ANSWER : 3

Journal Entries in the books of Chandru Ltd

S.No.	Particulars		Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Rs. 100) A/c	Dr	35,00,000	
	To Equity Share Capital (Rs. 25) A/c			8,75,000
	To Reconstruction A/c			26,25,000
	(Being Equity Shares of Rs. 100 each reduced to 25 each, and balance transferred to Reconstruction A/c, as per approved Scheme of Reconstruction dated...)			
2.	10% Preference Share Capital (Rs.100) A/c	Dr.	15,00,000	
	To 10% Preference Share Capital (Rs. 75) A/c			11,25,000
	To Reconstruction A/c			3,75,000
	(Being Preference Shares of Rs. 100 each reduced to Rs. 75 and balance transferred to Reconstruction a/c as per approved Scheme of Reconstruction dated...)			
3.	10% Preference Share Capital (Rs. 75) A/c	Dr.	11,25,000	
	To 13% Preference Share Capital (Rs. 50) A/c			7,50,000
	To Equity Share Capital (Rs. 25) A/c			3,75,000
	(Being one new 13% Preference Share of Rs. 50 each and one Equity Share of Rs. 25 each issued against 10% Preference Share of Rs. 75 each)			
4.	Reconstruction A/c	Dr.	1,50,000	
	To Preference Dividend Payable (10%) A/c			1,50,000
	(Being arrear of Dividend on Preference Shares payable for one year)			
5.	Preference Dividend Payable (10%) A/c	Dr.	1,50,000	
	To Equity Share Capital (Rs. 25) A/c			1,50,000
	(Being Equity Shares of Rs. 25 each issued for			

	arrears of Pref. Share Dividend)			
6.	7% Debentures A/c	Dr.	5,00,000	
	To Debenture holders A/c			5,00,000
	(Being balance of 7% Debentures transferred to Debenture holders A/c)			
7.	Debenture holders A/c	Dr.	5,00,000	
	To 13% Preference Share Capital (Rs. 50) A/c			2,50,000
	To Bank A/c			2,25,000
	To Reconstruction A/c			25,000
	(Being 50% of Debenture holders opting to take 13% Preference Shares at par, and remaining Debenture holders taking 90% cash payment for their Claims.)			
8.	Loan from Director A/c	Dr.	1,50,000	
	To Provision for Contingent Liability A/c			1,50,000
	(Being Contingent Liability of Rs. 1,50,000 able, adjusted against Loan from Director)			
9.	Bank A/c	Dr.	10,00,000	
	To Equity Share Application & Allotment A/c			10,00,000
	(Being application money received on the 40,000 Equity Shares at Rs. 25 each)			
10.	Equity Share Application & Allotment A/c	Dr.	10,00,000	
	To Equity Share Capital (Rs. 25) A/c			10,00,000
	(Being Application Money transferred to Equity Capital A/c, on allotment)			
11.	Underwriting Commission A/c	Dr.	40,000	
	To Bank A/c			40,000
	(Being Underwriting Commission paid)			
12.	Land and Buildings A/c	Dr.	3,00,000	
	To Reconstruction A/c			3,00,000
	(Being value of Land and Buildings appreciated)			
13.	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of expenses on reconstruction)			
14.	Reconstruction A/c	Dr.	30,05,000	
	To Goodwill A/c			3,50,000
	To Plant and Machinery A/c			4,00,000
	To Stock A/c			1,00,000
	To Debtors A/c			1,50,000
	To Preliminary Expenses A/c			4,00,000
	To Profit & Loss A/c			15,50,000
	To Expenses on Reconstruction A/c			15,000
	To Underwriting Commission A/c			40,000
	(Being various losses / intangible items written off using Reconstruction A/c, as per approved Scheme of Reconstruction dated...)			
15.	Reconstruction A/c	Dr.	1,55,000	
	To Capital Reserve A/c			1,55,000
	(See Reconstruction A/c below)			
	(Being balance in Reconstruction A/c transferred to Capital Reserve)			

(15*1 = 15 MARKS)

Reconstruction A/c

Particulars	Rs.	Particulars	Rs.
To Preference Dividend Payable (10%) A/c	1,50,000	By Equity Share Capital (Rs. 100) A/c	26,25,000
To Bank (Expenses on Reconstruction)	15,000	By 10% Preference Share Capital (Rs. 100) A/c	3,75,000
To Goodwill A/c	3,50,000	By Debenture holders A/c	25,000
To Plant and Machinery A/c	4,00,000	By Land and Buildings A/c	3,00,000
To Stock A/c	1,00,000		
To Debtors A/c	1,50,000		
To Preliminary Expenses A/c	4,00,000		
To Profit & Loss A/c	15,50,000		
To Expenses on Reconstruction A/c	15,000		
To Underwriting Commission A/c	40,000		
To Capital Reserve A/c (balancing figure)	1,55,000		
Total	**33,25,000**	**Total**	**33,25,000**

Note: Reconstruction A/c is prepared for clarification of Journal Entries, and computing the amt trfd to Capital Reserve.

ANSWER : 4 (A)

1. Computation of Expense to be recognised (Vesting Period = 1 month)

Particulars	Result
(a) Fair Value of Option per Share = Fair Value per Share under the Plan Rs. 28 less Issue Price Rs. 25	Rs.3
(b) No. of Shares expected to vest under the Scheme = 400 Employees x 100 Shares x 50%	20,000 Shares
(c) Total Fair Value of Options = 20,000 x Rs. 3, to be recognised as Expense	Rs. 60,000

Note: Market Price of Shares on Grant Date is not considered for accounting here since Fair Value is specifically given.

(3 MARKS)

2. Journal Entry for ESOP

Particulars		Dr.(Rs.)	Cr. (Rs.)
Bank A/c (20,000 Shares x Rs. 25)	Dr.	5,00,000	
Employees' Compensation Expense A/c (20,000 Shares x Rs. 3)	Dr.	60,000	
To Equity Share Capital A/c (20,000 Shares x Rs. 10)			2,00,000
To Securities Premium A/c (20,000 Shares x Rs. 18)			3,60,000
(Being 20,000 Shares allotted to Employees under ESOP at a Premium of Rs. 18 per Share)			

(2 MARKS)

ANSWER : 4 (B)

(a) Equity shares with Differential Rights means the share with dissimilar rights as to dividend, voting or otherwise. Preference shares cannot be issued with differential rights. It is only the equity shares, which are issued.

(1 MARK)

(b) L, M, N and O hold Equity capital is held by in the proportion of 30:30:20:20 and X, Y, Z and K hold preference share capital in the proportion of 40:30:20:10. As the paid- up equity share capital of the company is Rs. 80 Lakhs and Preference share capital is Rs. 40 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

L	=	2/3X30/100	=	3/15
M	=	2/3X30/100	=	3/15
N	=	2/3X20/100	=	2/15
O	=	2/3X20/100	=	2/15
X	=	1/3X40/100	=	2/15
Y	=	1/3X30/100	=	1/10
Z	=	1/3X20/100	=	1/15
K	=	1/3X10/100	=	1/30

(4 MARKS)

ANSWER : 4(C)

Computation of Expense to be recognised

Year	**Calculation**	**Expense for Period Rs.**	**Cumulative expense Rs.**
1	55,200 options x 75% x Rs. 12 x 1/3 years	1,65,600	1,65,600
2	(55,200 options x 75% x Rs. 12 x 2/3 years) - Rs. 165,600	1,65,600	3,31,200
3	(55,200 options x 75% x Rs. 12 x 3/3 years) - Rs. 331,200	1,65,600	4,96,800

An enterprise should review all estimates taken in consideration for valuation of option. The value of options recognised as expense in an accounting period is the excess of cumulative expense as per latest estimates upto the current accounting period over total expense recognised upto the previous accounting period.

(3 MARKS)