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**SUGGESTED SOLUTION**

**CA INTERMEDIATE**

**SUBJECT- ADVANCED ACCOUNTS**

**Test Code – CIM 8713**

**BRANCH - () (Date :)**

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- NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.  
(2) INTERNAL WORKING NOTES SHOULD ALSO BE CONSIDERED.  
(3) NEW QUESTION SHOULD BE ON NEW PAGE**

**ANSWER - 1**

	Dr. Rs.	Cr. Rs.
Equity Share Capital (Rs. 100) A/c	Dr. 10,00,000	
To Share Surrender A/c		5,00,000
To Equity Share Capital (Rs. 10) A/c		5,00,000
(Subdivision of 10,000 equity shares of Rs. 100 each into 1,00,000 equity shares of Rs. 10 each and surrender of 50,000 of such subdivided shares as per capital reduction scheme)		
12% Debentures A/c	Dr. 1,50,000	
Accrued Interest A/c	Dr. 18,000	
To Reconstruction A/c		1,68,000
(Transferred 75% of the claims of the debentureholders to reconstruction account in consideration of which 12% preference shares are being issued out of share surrender account as per capital reduction scheme)		
Trade payables A/c	Dr. 72,000	
To Reconstruction A/c		72,000
(Transferred claims of the trade payables to reconstruction account, 50% of which is being clear reduction and equity shares are being issued in consideration of the balance)		
Share Surrender A/c	Dr. 5,00,000	
To 12% Preference Share Capital A/c		1,00,000
To Equity Share Capital A/c		36,000
To Reconstruction A/c		3,64,000
(Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as a per scheme and the balance in share surrender account is being transferred to reconstruction account)		
Reconstruction A/c	Dr. 6,04,000	
To Profit and Loss A/c		6,00,000
To Capital Reserve A/c		4,000
(Adjusted debit balance of profit and loss account		

against the reconstruction account and the balance in the latter is being transferred to capital reserve)

(5\*1 = 5 MARKS)

**Balance Sheet of Revise Limited (and reduced) as on...**

Particulars	Note No.	Rs.
<b>I. Equity and Liabilities</b>		
<b>(1) Shareholder's Funds</b>		
(a) Share Capital	1	6,36,000
(b) Reserves and Surplus	2	4,000
<b>(2) Non-Current Liabilities</b>		
(a) Long-term borrowings	3	50,000
<b>(3) Current Liabilities</b>		
(a) Other current liabilities	4	6,000
(b) Short-term provisions	5	24,000
<b>Total</b>		<b>7,20,000</b>
<b>II. Assets</b>		
<b>(1) Non-current assets</b>		
(a) Fixed assets		
(i) Tangible assets	6	1,00,000
<b>(2) Current assets</b>		
(a) Current investments		
(b) Inventories		3,20,000
(c) Trade receivables		2,70,000
(d) Cash and cash equivalents		30,000
<b>Total</b>		<b>7,20,000</b>

**Notes to Accounts**

	Rs.
<b>1. Share Capital</b>	
Equity Share Capital	
Issued Capital : 53,600 Equity Shares of Rs. 10 each	5,36,000
Preference Share Capital	
Preference Shares	1,00,000
(Of the above shares all are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment being received in cash)	
	6,36,000

<b>2. Reserve and Surplus</b>	
Capital Reserve	4,000
<b>3. Long-term borrowings</b>	
Unsecured Loans	
12% Debentures	50,000
<b>4. Other current liabilities</b>	
Accrued interest	6,000
<b>5. Short-term provisions</b>	
Provision for Income-tax	24,000
<b>6. Tangible assets</b>	
Machineries	1,00,000

(5 MARKS)

## ANSWER - 2

(a) Determination of maximum no. of shares that can be bought back as per the Companies Act, 2013

### 1. Shares Outstanding Test

<i>Particulars</i>	<i>(Shares)</i>
Number of shares outstanding	1,70,000
25% of the shares outstanding	42,500

### 2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

<i>Particulars</i>	
Paid up capital (Rs.)	17,00,000
Free reserves (Rs.) (23,50,000 + 2,50,000 + 2,00,000)	<u>28,00,000</u>
Shareholders' funds (Rs.)	<u>45,00,000</u>
25% of Shareholders fund (Rs.)	11,25,000
Buy back price per share	Rs. 30
Number of shares that can be bought back (shares)	37,500
Actual Number of shares proposed for buy back	35,000

(4 MARKS)

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

	<i>Particulars</i>	<i>Rs.</i>
(a)	Loan funds (Rs.) (22,50,000 + 8,50,000 +15,50,000)	46,50,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	23,25,000
(c)	Present equity/shareholders fund (Rs.)	45,00,000
(d)	Future equity/shareholders fund (Rs.) (see W.N.) (45,00,000 – 5,43,750)	39,56,250*
(e)	Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	16,31,250
(f)	Maximum number of shares that can be bought back @ Rs. 30 per share	54,375 shares
(g)	Actual Buy Back Proposed	35,000 Shares

**Summary statement determining the maximum number of shares to be bought back**

<i>Particulars</i>	<i>Number of shares</i>
Shares Outstanding Test	42,500
Resources Test	37,500
Debt Equity Ratio Test	54,375
Maximum number of shares that can be bought back	37,500
[least of the above]	

Company qualifies all tests for buy-back of shares and it can buy back maximum 37,500 shares on 1st April, 2018.

However, company wants to buy-back only 35,000 equity shares @ Rs. 30. Therefore, buy-back of 35,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

**Working Note:**

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

$$(45,00,000 - x) - 23,25,000 = y \quad (1)$$

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

by solving the above equation, we get

$$x = ₹ 5,43,750$$

$$y = ₹ 16,31,250$$

**ANSWER - 3****1. Journal Entries in the books of Platinum Ltd.**

		Rs.	Rs.
Bank A/c (1,00,000 x Rs. 10)	Dr.	10,00,000	
To Equity share capital A/c			10,00,000
(Being money on final call received)			
Equity share capital (Rs. 50) A/c	Dr.	75,00,000	
To Equity share capital (Rs. 40) A/c			60,00,000
To Capital Reduction A/c			15,00,000
(Being conversion of equity share capital of Rs. 50 each into Rs. 40 each as per reconstruction scheme)			
Bank A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Being new shares allotted at Rs. 40 each)			
Trade payables A/c	Dr.	12,40,000	
To Equity share capital A/c			7,50,000
To Bank A/c (4,90,000 x 70%)			3,43,000
To Capital Reduction A/c			1,47,000
(Being payment made to trade payables in shares or cash to the extent of 70% as per reconstruction scheme)			
8% Debentures A/c	Dr.	3,00,000	
12% Debentures A/c	Dr.	4,00,000	
To Shiv A/c			7,00,000
(Being cancellation of 8% and 12% debentures of Shiv)			
Bank A/c	Dr.	1,00,000	
To Shiv A/c			1,00,000
(Being new debentures subscribed by Shiv)			
Shiv A/c	Dr.	8,00,000	
To 15% Debentures A/c			6,00,000
To Capital Reduction A/c			2,00,000

(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)				
8% Debentures A/c	Dr.	1,00,000		
12% Debentures A/c	Dr.	2,00,000		
To Ganesh A/c			3,00,000	
(Being cancellation of 8% and 12% debentures of Ganesh)				
Ganesh A/c	Dr.	3,00,000		
To 15% Debentures A/c			2,50,000	
To Capital Reduction A/c			50,000	
(Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)				
Land and Building	Dr.	9,14,000		
( 51,84,000 – 42,70,000)				
Inventories	Dr.	30,000		
To Capital Reduction A/c			9,44,000	
(Being value of assets appreciated)				
Outstanding expenses A/c	Dr.	10,60,000		
To Bank A/c			10,60,000	
(Being outstanding expenses paid in cash)				
Capital Reduction A/c	Dr.	33,41,000		
To Machinery A/c			1,30,000	
To Computers A/c			1,20,000	
To Trade receivables A/c			1,09,000	
To Goodwill A/c			22,00,000	
To Profit and Loss A/c			7,82,000	
(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)				
Capital Reserve A/c	Dr.	5,00,000		

To Capital Reduction A/c (Being debit balance of capital reduction account adjusted against capital reserve)	5,00,000
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(13\*1 = 13 MARKS)

**Balance Sheet (as reduced) as on 31.3.2019**

Particulars	Notes	Rs.
<b>Equity and Liabilities</b>		
<b>1 Shareholders' funds</b>		
a Share capital	1	80,00,000
<b>2 Non-current liabilities</b>		
a Long-term borrowings	2	<u>8,50,000</u>
<b>Total</b>		<b><u>88,50,000</u></b>
<b>Assets</b>	3	
<b>1 Non-current assets</b>		
a Property, Plant and Equipment		
Tangible assets		<u>63,04,000</u>
<b>2 Current assets</b>		
a Inventories		<u>3,50,000</u>
b Trade receivables		<u>9,81,000</u>
c Cash and cash equivalents		<u>12,15,000</u>
<b>Total</b>		<b><u>88,50,000</u></b>

**Notes to accounts**

		Rs.
<b>1. Share Capital</b>		
2,00,000 Equity shares of Rs. 40		80,00,000
<b>2. Long-term borrowings</b>		
Secured		
15% Debentures (assumed to be secured)		8,50,000
<b>3. Tangible assets</b>		
Land & Building	51,84,000	
Machinery	7,20,000	
Computers	<u>4,00,000</u>	
		<u>63,04,000</u>

(3 MARKS)

**Working Notes:**

**1. Cash at Bank Account**

Particulars	Rs.	Particulars	Rs.
To Balance b/d	2,68,000	By Trade Creditors A/c	3,43,000
To Equity Share capital A/c	10,00,000	By Outstanding expenses A/c	10,60,000
To Equity Share Capital A/c	12,50,000	By Balance c/d (bal. fig.)	12,15,000
To Shiv A/c	<u>1,00,000</u>		
	<u>26,18,000</u>		<u>26,18,000</u>



**2. Capital Reduction Account**

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Machinery A/c	1,30,000	By Equity Share Capital A/c	15,00,000
To Computers A/c	1,20,000	By Trade Creditors A/c	1,47,000
To Trade receivables A/c	1,09,000	By Shiv A/c	2,00,000
To Goodwill A/c	22,00,000	By Ganesh A/c	50,000
To Profit and Loss A/c	7,82,000	By Land & Building	9,14,000
		By Inventories	30,000
		By Capital Reserve A/c	<u>5,00,000</u>
	<u>33,41,000</u>		<u>33,41,000</u>

(2\*2 = 4 MARKS)

**ANSWER - 4**

(i) **Journal Entries in the books of C Ltd. (Rs. in lakhs)**

	<b>Particulars</b>			
1	Bank A/c To Investments A/c To Profit and Loss A/c (Being investment sold on profit for the purpose of buy- back)	Dr.	2,500	2,350 150
2	10% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Being redemption of preference share capital at premium of 10%)	Dr. Dr.	2,500 250	2,750
3	Securities Premium A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	Dr.	250	250
4	Equity Share Capital A/c Premium on buyback To Equity buy-back A/c (Being Equity Share bought back, Share Capital cancelled, and Premium on Buyback accounted for)	Dr. Dr.	800 800	1,600
5	Securities Premium A/c (800-250) General Reserve A/c To Premium on Buyback A/c (Being premium on buyback provided first out of securities premium and the balance out of general reserves.)	Dr.	550 250	800

6	Preference Shareholders A/c Equity buy-back A/c To Bank A/c (Being payment made to preference shareholders and equity shareholders)	2,750 1,600	4,350
7	General Reserve Account To Capital Redemption Reserve Account (Being amount transferred to capital redemption reserve account towards face value of preference shares redeemed and equity shares bought back)	3,300	3,300

(7\*1 = 7 MARKS)

**(ii) Balance Sheet of C Ltd. (after Redemption and Buyback)**

(Rs. Lakhs)

	Particulars	Note No	Amount
(I)	EQUITY AND LIABILITIES		Rs.
	Shareholders' Funds:		
	(a) Share Capital	1	7,200
	(b) Reserves and Surplus	2	7,200
(2)	Non-Current Liabilities:		
	(a) Long Term Borrowings	3	5,000
(3)	Current Liabilities:		
	(a) Trade payables		2,300
	(b) Short Term Provisions		1,000
	Total		22,700
(II)	ASSETS		
(1)	Non-Current Assets		
	PPE		14,000
	Current Assets:		
	(a) Cash and Cash equivalents (W N)		450
	(b) Other Current Assets		8,250
			22,700

**Notes to Accounts**

		Rs. in Lakhs	
1.	<b>Share Capital</b> 720 lakh Equity Shares of Rs. 10 each Fully Paid up (80 lakh Equity Shares bought back)		7,200
2.	<b>Reserves and Surplus</b>		
	General Reserve	6,000	
	Less: Adjustment for premium paid on buy back	(250)	
	Less: Transfer to CRR	<u>(3,300)</u>	2,450
	Capital Redemption Reserve	1,000	
	Add: Transfer due to buy-back of shares from Gen. res.	<u>3,300</u>	4,300
	Securities premium	800	

	Less: Adjustment for premium paid on redemption of preference shares	(250)		
	Less: Adjustment for premium paid on buy back	<u>(550)</u>	-	
	Profit & Loss A/c	300		
	Add: Profit on sale of investment	150	450	7,200
<b>3.</b>	<b>Long-term borrowings</b>			
	Secured			
	9 % Debentures			5,000

**Working Note:**

**Bank Account**

<b>Receipts</b>	<b>Amount</b>	<b>Payments</b>	<b>Amount</b>
	<b>(Rs. Lakhs)</b>		<b>(Rs. Lakhs)</b>
To balance b/d	2,300	By Preference Shareholders A/c	2,750
To Investment A/c (sale Proceeds)	2,500	By Equity Shareholders A/c	1,600
		By Balance c/d (Balancing figure)	<u>450</u>
	4,800		<u>4,800</u>

**(3 MARKS)**