



INTER CA – NOVEMBER 2018

Sub: ADVANCED ACCOUNTS

Topics – Underwriters liability, Buy-back of shares, ESOP, Internal Reconstruction, Insurance Final Accounts.

Test Code – N1

Branch: Multiple

Date: 26/04/2018

(50 Marks)

Note: *All questions are compulsory.*

- Q1.** A joint stock company resolved to issue 10 lakh equity shares of ` 10 each at a premium of ` 1 per share. One lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

The issue was underwritten by X, Y and Z for a commission @ 2% of the issue price, 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively. Their firm underwriting was as follows:

X 30,000 shares, Y 20,000 shares and Z 10,000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public.

Marked applications were as follows:

X - 1,19,500 shares, Y- 57,500 shares and Z -10,500 shares.

Unmarked applications totaled 7,00,000 shares.

Accounts with the underwriters were promptly settled.

You are required to:

- i. Prepare a statement calculating underwriters' liability for shares other than shares underwritten firm.
 - ii. Pass journal entries for all the transactions including cash transactions. **(8 marks)**
- Q2.** P Ltd. granted option for 8,000 equity shares of nominal value of ` 10 on 1st October, 20X0 at ` 80 when the market price was ` 170. The vesting period is 4½ years, 4,000 unvested options lapsed on 1st December, 20X2, 3,000 options were exercised on 30th September, 20X5 and 1,000 vested options lapsed at the end of the exercise period. Pass Journal Entries for above transactions. **(8 marks)**
- Q3.** Extra Ltd. (a non-listed company) furnishes you with the following summarized Balance Sheet as on 31st March, 20X1:

Liabilities	Amount	Assets	Amount
Equity shares of ` 10 each fully paid	100	Fixed assets less depreciation	50
9% Redeemable preference share of ` 100 each fully paid	20	Investments at cost	120
Capital reserves	8	Current assets	142

Revenue reserves	50		
Securities premium	60		
10% Debentures	4		
Current liabilities	70		
	312		312

- i. The company redeemed the preference shares at a premium of 10% on 1st April, 20X1.
- ii. It also bought back 3 lakhs equity shares of ` 10 each at `30 per share.
The payment for the above was made out of huge bank balances, which appeared as a part of the current assets.
- iii. Included in its investment were "investments in own debentures" costing ` 2 lakhs (face value ` 2.20 lakhs). These debentures were cancelled on 1st April, 20X1.
- iv. The company had 1,00,000 equity stock options outstanding on the above mentioned date, to the employees at ` 20 when the market price was ` 30 (This was included under current liabilities). On 1.04.20X1 employees exercised their options for 50,000 shares.
- v. Pass the journal entries to record the above.
- vi. Prepare Balance Sheet as at 01.04.20X1. **(12 marks)**

- Q4.** From the following information as on 31st March, 2013 of Bachao Insurance Co. Ltd. engaged in fire insurance business, prepare the Revenue Account, reserving 40% of the net premiums for unexpired risks and an additional reserve of ` 3,50,000:

Particulars	Amount `
Reserve for unexpired risk on 31st March, 2012	7,50,000
Additional reserve on 31st March, 2012	1,50,000
Claims paid	9,60,000
Estimated liability in respect of outstanding claims on 31st March, 2012	97,500
Estimated liability in respect of outstanding claims on 31st March, 2013	1,35,000
Expenses of management (including ` 45,000 in connection with claims)	4,20,000
Re-insurance premium paid	1,12,500
Re-insurance recoveries	30,000
Premiums	16,80,000
Interest and dividend	75,000
Profit on sale of investments	15,000
Commission	1,75,000

(8 marks)

- Q5.** The following is the summarized Balance Sheet of X Ltd. as on 31st March, 20X1:

Liabilities	`	Assets	`
12,000, 10% Preference shares of ` 100 each	12,00,000	Goodwill	90,000
24,000, Equity shares of ` 100 each	24,00,000	Land & building	12,00,000
10% Debentures	6,00,000	Plant & Machinery	18,00,000
Bank overdraft	6,00,000	Inventories	2,60,000
Trade payables	3,00,000	Trade receivables	2,80,000
		Cash	30,000
		Profit & Loss Account	14,40,000
	51,00,000		51,00,000

On the above date, the company adopted the following scheme of reconstruction:

- (i) The equity shares are to be reduced to shares of ` 40 each fully paid and the preference shares to be reduced to fully paid shares of ` 75 each.

- (ii) The debenture holders took over Inventories and Trade receivables in full satisfaction of their claims.
- (iii) The Land and Building to be appreciated by 30% and Plant and machinery to be depreciated by 30%.
- (iv) The debit balance of profit and loss account and intangible assets are to be eliminated.
- (v) Expenses of reconstruction amounted to ` 5,000.

Give journal entries incorporating the above scheme of reconstruction and prepare the reconstructed Balance Sheet. **(14 marks)**
