



**J.K. SHAH<sup>®</sup>**  
**TEST SERIES**  
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**SUGGESTED SOLUTION**

**CA INTERMEDIATE**

**SUBJECT- ADVANCED ACCOUNTS**

**Test Code – CIM 8561**

**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

$$= (\text{Rs. } 4,23,000 / 3) \times 2 = \text{Rs. } 2,82,000$$

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

Value of option recognised as expense in 2017-18

$$= \text{Rs. } 2,82,000 - \text{Rs. } 1,44,000 = \text{Rs. } 1,38,000$$

(2 MARKS)

### Year 2018-19

Fair value of option per share = Rs. 9

Number of shares actually vested under the scheme =  $45 \times 1,000 = 45,000$

Fair value =  $45,000 \times \text{Rs. } 9 = \text{Rs. } 4,05,000$

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 =  $\text{Rs. } 4,05,000 - \text{Rs. } 2,82,000 = \text{Rs. } 1,23,000$

(2 MARKS)

### ANSWER : 2

#### Statement determining the maximum number of shares to be bought back

Particulars	Number of shares (in crores)	
	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
<b>Maximum number of shares that can be bought back [least of the above]</b>	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. To Bank account (Being payment for buy back of 24 crores equity shares of Rs. 10 each @ Rs. 30 per share)	720	720
(b)	Equity share capital account Dr.	240	

	Premium Payable on buyback account To Equity share buyback account (Being cancellation of shares bought back)	Dr.	480	720
	Securities Premium account General Reserve / Profit & Loss A/c To Premium Payable on buyback account (Being Premium Payable on buyback account charged to securities premium and general reserve/Profit & Loss A/c)	Dr. Dr.	400 80	480
(c)	General Reserve / Profit & Loss A/c To Capital redemption reserve account (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)	Dr.	240	240

(3 MARKS)

**Working Notes:**

**1. Shares Outstanding Test**

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

(1 MARK)

**2. Resources Test**

Particulars	
Paid up capital (Rs. in crores)	1,200
Free reserves (Rs. in crores) (1,080 + 400 + 200)	<u>1,680</u>
Shareholders' funds (Rs. in crores)	<u>2,880</u>
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

(2 MARKS)

**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
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(2 MARKS)

**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

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

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

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

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

by solving the above two equations we get

$$x = \text{Rs. } 320$$

$$y = \text{Rs. } 960$$

(2 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 To Preference Dividend Payable (10%) A/c (Being arrear of Dividend on Preference Shares payable for one year)	Dr.	1,50,000	1,50,000
5.	Preference Dividend Payable (10%) A/c To Equity Share Capital ( Rs. 25) A/c (Being Equity Shares of Rs. 25 each issued for arrears of Pref. Share Dividend)	Dr.	1,50,000	1,50,000
6.	7% Debentures A/c To Debenture holders A/c (Being balance of 7% Debentures transferred to Debenture holders A/c)	Dr.	5,00,000	5,00,000
7.	Debenture holders A/c To 13% Preference Share Capital ( Rs. 50) A/c To Bank A/c To Reconstruction A/c (Being 50% of Debenture holders opting to take 13% Preference Shares at par, and remaining Debenture holders taking 90% cash payment for their Claims.)	Dr.	5,00,000	2,50,000 2,25,000 25,000
8.	Loan from Director A/c To Provision for Contingent Liability A/c (Being Contingent Liability of Rs. 1,50,000 able, adjusted against Loan from Director)	Dr.	1,50,000	1,50,000
9.	Bank A/c To Equity Share Application & Allotment A/c (Being application money received on the 40,000 Equity Shares at Rs. 25 each)	Dr.	10,00,000	10,00,000
10.	Equity Share Application & Allotment A/c To Equity Share Capital ( Rs. 25) A/c (Being Application Money transferred to Equity Capital A/c, on allotment)	Dr.	10,00,000	10,00,000
11.	Underwriting Commission A/c To Bank A/c (Being Underwriting Commission paid)	Dr.	40,000	40,000
12.	Land and Buildings A/c To Reconstruction A/c (Being value of Land and Buildings appreciated)	Dr.	3,00,000	3,00,000
13.	Reconstruction A/c To Bank A/c (Being payment of expenses on reconstruction)	Dr.	15,000	15,000
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		
<b>Total</b>	<b>33,25,000</b>	<b>Total</b>	<b>33,25,000</b>

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

(5 MARKS)

**ANSWER : 4**

Calculation of provision required on advances as on 31st March, 2017 as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016

	<b>Amount Rs. in lakhs</b>	<b>Percentage of provision</b>	<b>Provision Rs. in lakhs</b>
Standard assets	16,800	0.25	42.00
Sub-standard assets	1,340	10	134.00
Secured portions of doubtful debts-			
- upto one year	320	20	64.00
- one year to three years	90	30	27.00
- more than three years	30	50	15.00
Unsecured portions of doubtful debts	97	100	97.00
Loss assets	48	100	48.00
			<b>427.00</b>

**(4 MARKS)**

Calculation of provision required on advances as on 31st March, 2017 as per the Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016

	<b>Amount Rs. in lakhs</b>	<b>Percentage of provision</b>	<b>Provision Rs. in lakhs</b>
Standard assets	16,800	0.35	58.80
Sub-standard assets	1,340	10	134.00
Secured portions of doubtful debts-			
- upto one year	320	20	64.00
- one year to three years	90	30	27.00
- more than three years	30	50	15.00
Unsecured portions of doubtful debts	97	100	97.00
Loss assets	48	100	48.00
			443.80

**(4 MARKS)**