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INTERMEDIATE M'19 EXAM

SUBJECT- ADVANCED ACCOUNTS

Test Code – CIM 8048

(Date :02.09.2018)

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ANSWER-1**Journal Entries in the books of Chandru Ltd**

S.No.	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	Equity Share Capital (Rs. 100) A/c To Equity Share Capital (Rs. 25) A/c To Reconstruction A/c (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...)	Dr 35,00,000	8,75,000 26,25,000
2.	10% Preference Share Capital (Rs.100) A/c To 10% Preference Share Capital (Rs. 75) A/c To Reconstruction A/c (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...)	Dr. 15,00,000	11,25,000 3,75,000
3.	10% Preference Share Capital (Rs. 75) A/c To 13% Preference Share Capital (Rs. 50) A/c To Equity Share Capital (Rs. 25) A/c (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)	Dr. 11,25,000	7,50,000 3,75,000
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	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*0.5=7.5 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.

(2.5 MARKS)

ANSWER-2

(**Note:** Buyback is approved by Shareholders by Special Resolution in their General Meeting.)

Rule 1: Percentage of Shares Bought Back: Maximum Permissible Percentage of Buyback Shares = 25% of Total Shares Outstanding, i.e. 25% of 30 Crore Shares = 7.5 Crore Shares. (Shareholders' approval by Special Resolution)

Rule 2: Amount < 25% of (ESC + Free Reserves): (For Sec.68, Free Reserves include Securities Premium A/c.)

- 25% of Paid Up Capital and Free Reserves = 25% x (300 + 270 + 100 + 50) = 25% of 720 =

Rs.180 Crores.

[It is assumed that the Company has adequate resources to an extent of 25% of its Net Worth.] Note: Export Reserve is not considered in above computation.

- Offer Price for Buyback = Market Price + 20% = Rs. 25 + 20% thereon = Rs. 30 per Share.
- Maximum Permissible Buyback = Rs. 180 Crores ÷ Rs. 30 per Share = 6 Crore Shares.

Rule 3: Debt Equity Ratio to be 2:1

Particulars	Situation I	Situation II	Situation III
(a) Desired Debt Equity Ratio after Buyback	2:1	2:1	2:1
(b) Debt (given in the question)	800	1200	1500
(c) Equity to be maintained after Buyback = (b) ÷ 2	400	600	750
(d) Existing Equity (Share Capital & All Free Reserves)	720	720	720
(e) Permissible Dilution in Equity = (c) - (d)	320	120	Nil
(f) Buyback Price as calculated above	30	30	30
(g) Maximum Permissible Buyback in Crores of Shares = (e) + [(f) + FV]	8	3	Not Applicable

Summary of above for determining the maximum number of shares that can be bought back

Particulars (in Crore Shares)	Situation I	Situation II	Situation III
Rule 1: Percentage of Shares Bought Back	7.50	7.50	7.50
Rule 2: Amount ≤ 25% of (ESC + Free Reserves)	6.00	6.00	6.00
Rule 3: Debt Equity Ratio to be 2:1	8.00	3.00	Not Applicable
Maximum Permissible Buyback = Least of the above	6.00	3.00	No buy back is possible

(6 MARKS)

Journal Entries in the books of Rudra Ltd in respect of Situation I (in Rs. Crores)

Particulars	Dr.	Cr.
1. Equity Share Capital A/c	Dr. 60	
Premium on Buyback A/c	Dr. 120	
To Equity Shareholders A/c		180
(Being Equity Shares Bought Back vide Resolution No dated..., Share Capital cancelled and Premium on Buyback payable to Shareholders)		

2.	Securities Premium A/c	Dr.	100	
	General Reserve A/c	Dr.	20	
	To Premium on Buyback A/c			120
	(Being Premium on Equity Shares Buyback provided out of Securities Premium first and balance from General Reserve)			
3.	General Reserve A/c	Dr.	60	
	To Capital Redemption Reserve A/c			60
	(Being transfer to Capital Redemption Reserve on account of Equity Shares being bought back)			
4.	Equity Shareholders A/c	Dr.	180	
	To Bank A/c			180
	(Being payment to Equity Shareholders on Buyback)			

(4*1=4 MARKS)

ANSWER-3

ANSWER-A

1. Computation of Expense to be recognized (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-B

Journal Entries

Date	Particulars	Dr.	Cr.
21st Apr	Bank A/c	Dr. 2,50,000	
	To Investments A/c		2,00,000
	To Profit and Loss A/c		50,000
	(Being Investments sold at a Profit)		
25th Apr	Equity Share Capital A/c (25,000 x Rs. 10)	Dr. 2,50,000	
	Premium on Buyback A/c (FV Rs. 10, Offer Price Rs. 15, So Premium 50%)	Dr. 1,25,000	
	To Equity Shareholders A/c		3,75,000
	(Being Share Capital and Premium on Buyback transferred to Equity Shareholders A/c vide Board's Resolution No...dated...)		
25th Apr	Securities Premium A/c	Dr. 1,25,000	
	To Premium on Buyback A/c		1,25,000
	(Being Premium on Buy Back provided from Securities Premium)		
25th Apr	Equity Shareholders A/c	Dr. 3,75,000	
	To Bank A/c		3,75,000
	(Being amount paid to Equity Shareholders on Buy Back)		
25th Apr	General Reserve A/c	Dr. 2,50,000	
	To Capital Redemption Reserve A/c		2,50,000
	(Being amount transferred to Capital		

	Redemption Reserve, to the extent of Nominal Value of Shares bought back)		
1st May	Capital Redemption Reserve A/c	Dr.	1,50,000
	To Bonus to Equity Shareholders A/c		1,50,000
	(Being Capital Redemption Reserve used for the purpose of issue of Bonus Shares = 1,00,000 - 25,000 = 75,000 Shares x 1/5 = 15,000 Shares)		
30th Apr	Bonus to Equity Shareholders A/c	Dr.	1,50,000
	To Equity Share Capital A/c		1,50,000
	(Being Bonus Shares allotted to Equity Shareholders)		

(5 MARKS)

ANSWER-4

Computation of Expense to be recognized under Stock Appreciation Rights (SAR)

Details	FY 2015-2016	FY 2016-2017	FY 2017-2018
(a) Number of Employees at year end	600 - 25 = 575	575 - 15 = 560	560 - 10 = 550
(b) Annual Forfeiture Expected	3%	5%	-
(c) Total Number of Options Expected to Vest on Exercise Date	54,100 [(a) x 100 Shares x 97% x 97%]	53,200 [(a) x 100 Shares x 95%]	55,000 [(a) x 100 Shares]
(d) Total Value of Options Expected to Vest at the end of Vesting Period = [(c) x Fair Value]	54,100 x Rs. 25 = Rs. 13,52,500	53,200 x Rs. 28 = Rs. 14,89,600	55,000 x Rs. 32 = Rs. 17,60,000
(e) Total Cumulative Cost of Options	[(d) x 1/3] = Rs. 4,50,833	[(d) x 2/3] = Rs. 9,93,067	[(d) x 3/3] = Rs. 17,60,000
(f) Less: Already recognized in Previous Years	0	(Rs. 4,50,833)	(Rs. 9,93,067)
(g) Amount to be Expensed this Year	Rs. 4,50,833	Rs. 5,42,234	Rs. 7,66,933

Year 2017-2018

Cash Payment of SAR's (55,000 Shares x Intrinsic Value of SAR per Share Rs. 35)	19,25,000
Less: Value of SAR already recognized as Expense in Books as above	<u>17,60,000</u>
Value of SAR recognized as Expense in 2018-2018	<u>1,65,000</u>

(6 MARKS)

2. Provision for Stock Appreciation Right A/c

Year	Particulars	Rs.	Particulars	Rs.
2015-2016	To Balance c/d	4,50,833	By Employees' Compensation Expense A/c	4,50,833
	Total	4,50,833	Total	4,50,833
2016-2017	To Balance c/d	9,93,067	By Balance b/d	4,50,833
			By Employees' Compensation Expense A/c	5,42,234
	Total	9,93,067	Total	9,93,067
2017-2018	To Balance c/d	17,60,000	By Balance b/d	9,93,067
			By Employees' Compensation Expense A/c	7,66,933
	Total	17,60,000	Total	17,60,000
2018-2018	To Bank (55,000 x 35)	19,25,000	By Balance b/d	17,60,000
			By Employees' Compensation Expense A/c	1,65,000
	Total	19,25,000	Total	19,25,000

(4 MARKS)

ANSWER-5

1. Loss to be borne by Equity and Preference Shareholders and Sharing of Loss

Particulars	Rs.
Profit and Loss Account (Debit Balance)	7,00,000
Preliminary Expenses	1,00,000
Goodwill	2,00,000
Plant and Machinery (Rs.18,00,000 - Rs. 15,00,000)	3,00,000
Debtors (Rs. 7,50,000 - Rs. 4,00,000)	3,50,000
Amount to be Written off	16,50,000
Less: 50% of Sundry Creditors = Claim foregone	3,50,000
Total Loss to be Borne by the Equity and Preference Shareholders	13,00,000
Total Loss of Rs. 13,00,000 being more than 50% of Equity Share Capital, i.e. Rs. 10,00,000	
(a) Pref. Shareholders' Share of Loss (20% of Rs. 10,00,000), contributed by Pref. Capital Reduction	2,00,000

(b) Balance being Equity Shareholders' Share of Loss (Rs. 13,00,000 - Rs. 2,00,000), contributed by Equity Capital Reduction	11,00,000
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Note: Two years' Preference Dividend (Arrears) has been ignored in the computation of Loss to be borne by Equity and Preference Shareholders. **(3 MARKS)**

2. New Structure of Share Capital after Reorganization

Particulars	Rs.
Equity Shares: 20,000 Equity Shares of Rs. 45 each fully paid up (Rs. 20,00,000 - Rs. 11,00,000)	9,00,000
Preference Shares: 10,000, 9% Preference Shares of Rs. 80 each fully paid up (Rs. 10,00,000 - Rs. 2,00,000)	8,00,000
Total	17,00,000

(1 MARK)

3. Working Capital of the Reorganized Company:

Particulars	Rs.	Rs.
Current Assets:		
Stock	3,00,000	
Debtors	4,00,000	
Cash	1,50,000	8,50,000
Less: Current Liabilities:		
Creditors	3,50,000	
Bank Overdraft (See Note)	75,000	4,25,000
Working capital		4,25,000

Note: Required Current Ratio = 2:1. So, required Current Liabilities = $\frac{CA}{2} = \frac{8,50,000}{2} = \text{Rs. } 4,25,000$,
of which Revised Creditors = Rs. 3,50,000. Hence, balance Bank Overdraft = Rs. 4,25,000 - Rs. 3,50,000 = Rs. 75,000 **(2.5 MARKS)**

4. Balance Sheet of Shiva Ltd as on 31st March (after Reconstruction)

Particulars as at 31st March	Note	This Year	Prev. Yr
I EQUITY AND LIABILITIES:			
(1) Shareholders' Funds:			
Share Capital	1	17,00,000	
(2) Non-Current Liabilities:			
Long Term Borrowings - Term Loan with Bank (Secured)		2,25,000	
(3) Current Liabilities:			
(a) Short Term Borrowings - Bank Overdraft		75,000	
(b) Trade Payables - Sundry Creditors		3,50,000	
Total		23,50,000	
II ASSETS			
(1) Non-Current Assets - Fixed Assets: Tangible Assets-			
Plant & Machinery (Cost 18,00,000 - Decr, under Reconstruction 3,00,000)		15,00,000	
(2) Current Assets:			
(a) Inventories - Stock-in-Trade		3,00,000	
(b) Trade Receivables - Sundry Debtors		4,00,000	
(c) Cash and Cash Equivalentents - Cash on Hand		1,50,000	
Total		23,50,000	

Note 1: Share Capital

Particulars	This Year	Prev. Yr
Authorized: 20,000 Equity Shares of Rs. 45 each	9,00,000	
10,000 9% Preference Shares of Rs. 80 each	8,00,000	
Issued, Subscribed & Paid up: 20,000 Equity Shares of Rs. 45 each	9,00,000	
10,000 9% Preference Shares of Rs. 80 each	8,00,000	
Total	17,00,000	

(3.5 MARKS)