SUGGESTED SOLUTION

INTERMEDIATE M'19 EXAM

SUBJECT- ADVANCED ACCOUNTS

Test Code - CIM 8150

BRANCH - () (Date :)

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ANSWER-1

ANSWER-A

(i) Computation of liability of underwriters in respect of shares

	(In shares)		
	A	**B**	**C**
Gross liability (Total Issue of 30,00,000 equity shares) in agreed ration of 3 : 2 : 1	15,00,000	10,00,000	5,00,000
Less: Unmarked applications (Subscribed shares – marked shares) in 3 : 2 : 1	(3,00,000)	(2,00,000)	(1,00,000)
Marked shares as per agreed ratio	12,00,000	8,00,000	4,00,000
Less: Marked applications actually received	(8,00,000)	(7,00,000)	(6,00,000)
Shortfall / surplus in marked shares	4,00,000	1,00,000	(2,00,000)
Surplus of C distributed to A & B in 3:2 ratio	(1,20,000)	(80,000)	2,00,000
Net liability for underwriting shares	2,80,000	20,000	Nil

(3 MARKS)

(ii) Journal Entries in the books of Gemini Ltd. Rs. Rs.

A's Account (2,80,000 x 15)	Dr.	42,00,000	
B's Account (20,000 x 15)	Dr.	3,00,000	
To Share Capital Account (3,00,000 x 10)			30,00,000
To Securities Premium Account (3,00,000 x 5)			15,00,000
(Being the shares to be taken up by the underwriters)			
Underwriting Commission Account	Dr.	15,00,000	
To A's Account (15,00,000 x 10 x 5%)			7,50,000
To B's Account (10,00,000 x 10 x 5%)			5,00,000
To C's Account (5,00,000 x 10 x 5%)			2,50,000
(Being the underwriting commission due to the underwriters)			
Bank Account	Dr.	34,50,000	
To A's Account			34,50,000
(Being the amount received from underwriter A for the shares taken up by him after adjustment of his commission)			
B's Account	Dr.	2,00,000	

To Bank Account			2,00,000
(Being the amount paid to underwriter B after adjustment of the shares taken by him against underwriting commission due to him)			
C's Account	Dr.	2,50,000	
To Bank Account			2,50,000
(Being the underwriting commission paid to C)			

Note : C had sold in excess of the underwriting obligation and hence he will not be required to purchase any shares but will get commission for underwriting.

(5*1 = 5 MARKS)

ANSWER-B

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 recognized as expense in an accounting period is the excess of cumulative expense as per latest estimates upto the current accounting period over total expense recognized upto the previous accounting period.

(2 MARKS)

ANSWER-2

Journal entries in the books of Anu Ltd.

Rs. in crores

	Particulars		**Debit**	**Credit**
1st April 20X1	12% Preference share capital A/c	Dr.	75	
	To Preference shareholders A/c			75
	(Being preference share capital account transferred to shareholders account)			
	Preference shareholders A/c	Dr.	75	

To Bank A/c (Being payment made to shareholders)			75
Shares buy back A/c To Bank A/c (Being 50 lakhs equity shares bought back @ Rs. 50 per share)	Dr.	25	25
Equity share capital A/c (50 lakhs x Rs. 10) Securities premium A/c (50 lakhs x Rs. 40) To Shares buy back A/c (Being cancellation of shares bought back)	Dr. Dr.	5 20	25
Revenue reserve A/c To Capital Redemption Reserve A/c (75+5) (Being creation of capital redemption reserve to the extent of the face value of preference shares redeemed and equity shares bought back)	Dr.	80	80

(5*1 = 5 MARKS)

(ii) Balance Sheet of Anu Ltd as at 1.4.20X1

Particulars			**Note No**	**Rs. in crores**
I.	**Equity and Liabilities**			
(1)	**Shareholder's Funds**			
	(a)	Share Capital	1	20
	(b)	Reserves and Surplus	2	280
(2)	**Current Liabilities**			
	(a)	Trade payables		40
		Total		**340**
II.	**Assets**			
(1)	**Non-current assets**			
	(a)	Fixed assets	3	-
	(b)	Non-current investments -Investment at cost (Market value Rs. 400 crores)		100
(2)	**Current assets**		4	240

Total	**340**

Notes to Accounts

1.	**Share Capital**			**Rs. in crores**
	Authorised, Issued and Subscribed			
	200 lakhs Equity shares of Rs. 10 each			20
2.	**Reserves and Surplus**			
	Capital reserve		15	
	Capital redemption reserve		80	
	Securities premium	25		
	Less: Utilisation for buy back of shares	(20)	5	
	Revenue Reserve	260		
	Less: transfer to Capital redemption reserve	(80)	180	280
3.	**Fixed Assets**			
	Cost		100	
	Less : Provision for depreciation		(100)	-
4.	**Current assets**			
	Current assets as on 31.3.20X1		340	
	Less: Bank payment for redemption and buy back		(100)	240

(5 MARKS)

ANSWER-3

ANSWER-A

Computation of Average Capital employed

(Rs. in lakhs)

Total Assets as per Balance Sheet		591.20
Less: Non-trade investments (20% of Rs. 40 lakhs)		(8.00)
		583.20
Less: Outside Liabilities:		
10% Debentures	20.00	
12% Term Loan	72.00	
Trade Payables	64.00	
Provision for Taxation	25.60	(181.60)
Capital Employed as on 31.03.2017		401.60
Less: ½ of profit earned during the year:		
Increase in General Reserve balance	2.00	

Increase in Profit & Loss A/c	78.40	
	80.40 /2	40.20
Average capital employed		361.40

(5 MARKS)

ANSWER-B

Journal Entries in the books of M Ltd.

			Dr. Rs. in '000	Cr. Rs. in '000
1.	Bank A/c	Dr.	2,500	
	Profit and Loss A/c	Dr.	500	
	To Investment A/c			3,000
	(Being investment sold for the purpose of buy-back of Equity Shares)			
2.	Equity share capital A/c	Dr.	600	
	Premium payable on buy-back	Dr.	300	
	To Equity shares buy-back A/c			900
	(Being the amount due on buy-back of equity shares)			
3.	Equity shares buy-back A/c	Dr.	900	
	To Bank A/c			900
	(Being payment made for buy-back of equity shares)			
4.	Securities Premium A/c	Dr.	300	
	To Premium payable on buy-back			300
	(Being premium payable on buy-back charged from Securities premium)			
5.	Revenue reserve A/c	Dr.	600	
	To Capital Redemption Reserve A/c			600
	(Being creation of capital redemption reserve to the extent of the equity shares bought back)			

(5*1 = 5 MARKS)

ANSWER-4

1. 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	17,60,000
Value of SAR recognized as Expense in 2018-2018	**1,65,000**

(5 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 By Employees' Compensation Expense A/c	4,50,833 5,42,234
	Total	**9,93,067**	**Total**	**9,93,067**
2017-2018	To Balance c/d	17,60,000	By Balance b/d By Employees' Compensation Expense A/c	9,93,067 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 By Employees' Compensation Expense A/c	17,60,000 1,65,000
	Total	**19,25,000**	**Total**	**19,25,000**

(5 MARKS)

ANSWER-5

1. Future Maintainable Profits (Rs. Lakhs)

Particulars	2014-2015	2015-2016	2016-2017	2017-2018
Profit Before Tax	4,100	2,725	3,200	3,060
Less: Income from Non Trade Investments	(100)	(100)	-	-
Less: Special Income due to Fair	-	(150)	-	-
Add: Abnormal Loss due to Earthquake	-	-	75	-
Less: Revaluation of Stock	-	-	-	(35)
Bad Debts	-	-	-	(20)
Liability for Damages	-	-	-	(5)
Adjusted Net Profit	**4,000**	**2,475**	**3,275**	**3,000**
Average Adjusted Trading Profits = $\frac{4{,}000+2{,}475+3{,}275+3{,}000}{4}$				3,187.50
Less: Additional Remuneration to Directors				70.00
Adjusted Net Profit Before Tax				3,117.50
Less: Income Tax at 40% (Rs. 3,117.50 x 40%)				1,247.00
Future Maintainable Profits				**1,870.50**

(3 MARKS)

2. Effect of Adjustments on Taxation Liability

- Reduction in 2017-2018 Profit = Stock + Bad Debts + Damages = 35 + 20 + 5 = Rs. 60 Lakhs.
- Tax Savings thereon at 35% of Rs. 60 Lakhs = Rs. 21 Lakhs.
- Hence, Revised Provision for Taxation for the year 2017-2018 = 110 (as per Books) - 21 = Rs.89 Lakhs.

Note: It is assumed that the above adjustments are tax deductible during the last financial year itself.

(2 MARKS)

3. Average Capital Employed (Rs. Lakhs)

Particulars		Rs. Lakhs	Rs. Lakhs
Plant and Machinery	(at Balance Sheet Value)		4,780
Furniture and Fittings	(at Balance Sheet Value)		1,090
Trade Marks & Patents	(at Balance Sheet Value)		20
Stocks	(at Revalued Amount given)		1,230
Debtors	(Rs. 644 Less Rs. 20 Bad Debts)		624
Cash 8i Bank Balances	(at Balance Sheet Value)		1,415
Total Tangible Assets			**9,159**
Less: External Liabilities	Sundry Creditors	1,204	
	Liability for Damages	5	
	Provision for Taxation - as per WN 2	89	(1,298)
Closing Capital Employed			7,861
Less: 50% of Adjusted Post Tax Profit for the year (3,000 - 35% Tax) x 50%			975
Average Capital Employed			**6,886**

(3.5 MARKS)

4. Computation of Goodwill

Particulars		Rs. Lakhs
	Expected Profit = Future Maintainable Profits as above	1,870
Less:	Normal Profits = Normal Rate of Return x Average Capital Employed = 20% x 6,886	(1,377)
	Super Profit	493
	Goodwill at 4 years purchase of Super Profits	**1,972**

Note: Alternatively, Normal Profits can be computed based on Closing Capital Employed.

(1.5 MARKS)