# SUGGESTED SOLUTION

# INTERMEDIATE M'19 EXAM

**SUBJECT- ADVANCED ACCOUNTS**

## Test Code – CIM 8164

**(Date :)**

**Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.**

**Tel : (022) 26836666**

## ANSWER-1

## ANSWER-A

**Statement of Affairs of Insol Ltd. (in Liquidation)**

**as on 30th September, 2016**

| | | | | | Estimated Realisable Value (Rs.) |
|---|---|---|---|---|---|
| Assets not specifically pledged (As per list A) : | | | | | |
| Other fixed assets | | | | | 18,00,000 |
| Current assets | | | | | 35,00,000 |
| | | | | | 53,00,000 |
| Assets specifically pledged(As per List B) | | | | | |
| | **Estimated realisable value** | **Due to secured creditors** | **Deficiency** | **Surplus** | |
| | **Rs.** | **Rs.** | **Rs.** | **Rs.** | |
| Land & Buildings | 11,00,000 | 10,00,000 | | 1,00,000 | |
| | Estimated total assets available to unsecured creditors | | | | 54,00,000 |
| | Summary of Gross Assets | | | | |
| | Gross realisable value of assets specifically pledged | | | 11,00,000 | |
| | Other assets | | | 53,00,000 | |
| | Gross Assets | | | 64,00,000 | |
| **Gross liabilities Rs.** | **Liabilities** | | | | |
| | Secured Creditors (as per list B) to the extent to which claims are estimated to be covered by assets | | | | |
| 10,00,000 | Specifically pledged | | | | |
| 1,50,000 | Preferential creditors (as per list C) | | | | 1,50,000 |
| | | | | | 52,50,000 |
| | Unsecured creditors(as per list E) | | | | |
| 20,00,000 | Unsecured Loans | | | | 20,00,000 |
| 35,00,000 | Trade creditors | | | | 35,00,000 |
| 1,00,000 | Contingent Liability on Bills Discounted | | | | 1,00,000 |
| 67,50,000 | Estimated deficiency as regards creditors | | | | 3,50,000 |
| | (67,50,000 — 64,00,000) | | | | |
| | 2,50,000 Equity Shares of Rs. 10 each : (as per list G) | | | | 25,00,000 |
| | Estimated deficiency as regards members | | | | 28,50,000 |

**(7 MARKS)**

## ANSWER-B (3 MARKS)

Fair value of an option = Rs. 56 – Rs. 50 = Rs. 6

Number of shares issued = 400 employees x 100 shares/employee = 40,000 shares

Fair value of ESOP = 40,000 shares x Rs. 6 = Rs. 2,40,000

Vesting period = 1 month

Expenses recognized in 20X1 – X2 = Rs. 2,40,000

| Date | Particulars | | Rs. | Rs. |
|---|---|---|---|---|
| 31.03.20X1 | Bank (40,000 shares x Rs. 50) | Dr. | 20,00,000 | |
| | Employees stock compensation expense A/c | Dr. | 2,40,000 | |
| | To Share Capital (40,000 shares x Rs.10) | | | 4,00,000 |
| | To Securities Premium (40,000shares x Rs. 46) | | | 18,40,000 |
| | (Being option accepted by 400 employees & payment made @ Rs. 56 share) | | | |
| | Profit & Loss A/c | Dr. | 2,40,000 | |
| | To Employees stock compensation expense A/c | | | 2,40,000 |
| | (Being Employees stock compensation expense transferred to Profit & Loss A/c) | | | |

## 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 | | | 75 |
| | (Being payment made to shareholders) | | | |
| | Shares buy back A/c | Dr. | 25 | |

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

**(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** |

**(3MARKS)**

**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 | |

**(4*0.5=2 MARKS)**

## ANSWER-3

**Capital Employed at the end of each year**

| | **31.3.2013 Rs.** | **31.3.2014 Rs.** | **31.3.2015 Rs.** |
|---|---|---|---|
| Goodwill | 20,00,000 | 16,00,000 | 12,00,000 |
| Building and Machinery (Revaluation) | 36,00,000 | 40,00,000 | 44,00,000 |
| Inventory (Revalued) | 24,00,000 | 28,00,000 | 32,00,000 |
| Trade Receivables | 40,000 | 3,20,000 | 8,80,000 |
| Bank Balance | 2,40,000 | 4,00,000 | 8,00,000 |
| Total Assets | 82,80,000 | 91,20,000 | 104,80,000 |
| Less: Trade Payables | (12,00,000) | (16,00,000) | (20,00,000) |
| Closing Capital | 70,80,000 | 75,20,000 | 84,80,000 |
| Add: Opening Capital | 73,20,000 | 70,80,000 | 75,20,000 |
| Total | 1,44,00,000 | 1,46,00,000 | 1,60,00,000 |
| Average Capital | 72,00,000 | 73,00,000 | 80,00,000 |

**(5 MARKS)**

Since the goodwill has been purchased, it is taken as a part of Capital employed.

**Valuation of Goodwill**

| | | | | |
|---|---|---|---|---|
| (i) | Future Maintainable Profit | 31.3.2013 | 31.3.2014 | 31.3.2015 |
| | Net Profit as given | 8,40,000 | 12,40,000 | 16,40,000 |
| | Less: Opening Balance | (2,40,000) | (2,80,000) | (3,20,000) |
| | Adjustment for Valuation of Opening Inventory | - | (4,00,000) | (4,00,000) |
| | Add: Adjustment for Valuation of closing inventory | 4,00,000 | 4,00,000 | 4,00,000 |
| | Goodwill written off | - | 4,00,000 | 4,00,000 |
| | Transferred to General Reserve | 4,00,000 | 4,00,000 | 4,00,000 |
| | Future Maintainable Profit | 14,00,000 | 17,60,000 | 21,20,000 |
| | Less: 12.50% Normal Return | (9,00,000) | (9,12,500) | (10,00,000) |
| (ii) | Super Profit | 5,00,000 | 8,47,500 | 11,20,000 |

(iii) Average Super Profit = Rs. (5,00,000 + 8,47,500+11,20,000) ÷3 = Rs. 8,22,500

(iv) Value of Goodwill at five years' purchase= Rs. 8,22,500 × 5 = Rs. 41,12,500.

**(5 MARKS)**

## ANSWER-4

## ANSWER-A

Paragraph 19 of the Guidance Note on Share Based Payments requires, for a performance condition that is not a market condition, the enterprise to recognize the services received during the vesting period based on the best available estimate of the number of shares or stock options expected to vest and to revise that estimate, if necessary, if subsequent information indicates that the number of shares or stock options expected to vest differs from previous estimates. On vesting date, the enterprise revises the estimate to equal the number of instruments that ultimately vested. However, paragraph 24 of the Guidance Note requires, irrespective of any modifications to the terms and conditions on which the instruments were granted, or a cancellation or settlement of that grant of instruments, the enterprise to recognize, as a minimum, the services received, measured at the grant date fair value of the instruments granted, unless those instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date.

Furthermore, paragraph 26(c) of the Guidance Note specifies that, if the enterprise modifies the vesting conditions in a manner that is not beneficial to the employee, the enterprise does not take the modified vesting conditions into account when applying the requirements for treatment of vesting conditions as specified in Guidance Note.

Therefore, because the modification to the performance condition made it less likely that the stock options will vest, which was not beneficial to the employee, the enterprise takes no account of the modified performance condition when recognizing the services received. Instead, it continues to recognize the services received over the three-year period based on the original vesting conditions. Hence, the enterprise ultimately recognizes cumulative remuneration expense of Rs. 1,80,000 over the three- year period (12 employees × 1,000 options × Rs. 15).

The same result would have occurred if, instead of modifying the performance target, the enterprise had increased the number of years of service required for the stock options to vest from three years to ten years. Because such a modification would make it less likely that the options will vest, which would not be beneficial to the employees, the enterprise would take no account of the modified service condition when recognizing the services received. Instead, it would recognize the services received from the twelve employees who remained in service over the original three- year vesting period.

**(6 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) | | | |

**(4 MARKS)**

## ANSWER-5

### 1. Determination of Surplus received by Liquidator from Receiver

| Receipts from Sale of | Rs. | Payments towards - | Rs. |
|---|---|---|---|
| Land and Buildings | 1,60,000 | Debenture Interest(1,50,000 x 13% x6/12) | 9,750 |
| Sundry Current Assets | 2,00,000 | Income Tax Arrears | 25,000 |
| | | Expenses of Receiver Given | 1,950 |
| | | Mortgage Loan Given | 70,000 |
| | | Debenture holders | 1,50,000 |
| | | Balance Surplus handed over to Liquidator (bal. fig.) | **1,03,300** |
| **Total** | **3,60,000** | **Total** | **3,60,000** |

**(2 MARKS)**

### 2. Liquidator's Final Statement of Account

| Receipts | Rs. | Payments | Rs. | Rs. |
|---|---|---|---|---|
| Surplus received from Receiver(WN 1) | 1,03,300 | Remuneration to Liquidator (1,50,000 x 2%) | | 3,000 |
| Sundry Assets realised | 1,50,000 | Costs of Liquidation | | 3,000 |
| Calls on Contributories: | | Unsecured Creditors: | | |
| From 5,000 Partly Paid Shares at Rs.1.38 per Share **(WN 3)** | 6,900 | Trade Creditors | 38,000 | |
| | | Directors (for Bank OD paid) | 30,000 | 68,000 |
| | | Preference Shareholders: | | |
| | | Share Capital | 1,50,000 | |
| | | Arrears of Dividend (2 years) | 30,000 | 1,80,000 |
| | | Equity Shareholders: (paid to Holders of 10,000 | | |
| | | Fully Paid Shares at Rs.0.62 each) (WN 3) | | 6,200 |
| **Total** | **2,60,200** | **Total** | | **2,60,200** |

**(4 MARKS)**

### 3. Calls from Holders of Partly Paid Shares

| | Particulars | Rs. |
|---|---|---|
| (a) | Total Receipts before considering Call Money (1,03,300 + 1,50,000) | 2,53,300 |
| (b) | Total Payments before final payment to Equity Shares | 2,54,000 |
| (c) | Surplus / (Deficit) from above before Calls made on Equity Shares (a - b) | |
| | (+ve = Surplus, -ve = Deficit) | (700) |
| (d) | Notional Call on 5,000 Partly Paid Shares at Rs. 2 each | 10,000 |

| | | |
|---|---|---|
| (e) | Surplus Cash Balance after Notional Call (c + d) | 9,300 |
| (f) | Number of Shares deemed fully paid (10,000 + 5,000) | 15,000 |
| (g) | Hence, Refund on Fully Paid Shares (e ÷ f) = Rs.9,300 ÷ 15,000 Shares | Rs.0.62 |
| (h) | Therefore, Required Call on Partly Paid Shares = Notional Call Rs.2.00 – Refund Rs. 0.62 | Rs. 1.38 |

**(4 MARKS)**