SUGGESTED SOLUTION

INTERMEDIATE N' 2018 EXAM

SUBJECT- ADVANCED ACCOUNTS

Test Code - CIN 5009

Date : 19.08.2018

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

Tel : (022) 26836666

ANSWER-1

ANSWER-A

1. Computation of Expense to be recognised (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

(2 Marks)

Note: Market Price of Shares on Grant Date is not considered for accounting here since Fair Value is specifically given.

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)			

(3 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)			

(1*5 = 5 Marks)

ANSWER-C

Liquidator's Final Statement of Account

Receipts	Rs.	Payments	Rs.
Assets realized	3,80,400	Liquidation Expenses	1,000
Call on contributories: 2,000	20,000	Liquidator's Remuneration	400
Equity Shares @ Rs.10 per share		Unsecured Creditors	99,000
(W.N.)		Preference Shareholders	3,00,000
	4,00,400		4,00,400

(4 Marks)

Working Notes:

(i) **Calculation of Shortage of funds**	Rs.
Total Amount Available	3,80,400
Less: liquidation Expenses	(1,000)
Balance	3,79,400
Less: Unsecured Creditors	(99,000)
Balance	2,80,400
Less: Pref. Shareholders	(3,00,000)
Shortage of Funds	19,600

(3 Marks)

(ii) Calculation of funds required to meet shortage and commission payable on Calls to be made (to be called from equity shareholders)

$$\text{Shortage of funds} \times \frac{100}{100 - Rate\ of\ commission}$$

$$= \frac{19{,}600 \times 100}{98}$$

=20,000

(iii) Uncalled Capital @ Rs.25 on 2,000 shares = Rs. 50,000

(iv) Amount of Calls to be made (least of funds required and uncalled capital) i.e. Rs. 20,000 i.e. Rs.10 per Share (20,000 /20)

(v) Commission on Call = Rs.20,000 x 2/100 = Rs.400 **(3 Marks)**

ANSWER-2

ANSWER-A

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

(5 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)			

(5 Marks)

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.

ANSWER-B

Allocation of earnings

	Old unit holders (9 lakh units) (Rs. Lakh)	**New unit holders (1 lakh units) (Rs. Lakh)**	**Total earning (Rs. Lakh)**
First half-year (Rs. 5.00 per unit)	45.0	Nil	45.0
Second half-year (Rs. 3.60 per unit)	32.4	3.6	36.0
	77.4	3.6	81.0
Add: Equalisation payment recovered			5.0
Total available for distribution			86.0

Note: Equalisation payment = Rs. 45 lakh / 9 lakh = Rs. 5 per unit. **(3 Marks)**

Distribution of earning per unit

	Old unit holders Rs.	**New unit holders Rs.**
Dividend distributed	8.60	8.60
Less: Equalisation payment		(5.00)
Net distributed income	8.60	3.60

(2 Marks)

Journal Entries

Date				Rs. lakh	Rs. lakh	
30.09.16	Bank	Dr.		65		1 lakh x Rs. 65
		To Unit Capital			10	1 lakh x Rs. 10
		To Reserves			50	1 lakh x Rs. 50
		To Dividend Equalisation			5	1 lakh x Rs. 5
31.03.17	Dividend Equalisation		Dr.	5		
		To Revenue A/c			5	
31.03.17	Revenue A/c		Dr.	86		
		To Bank			86	10 lakh x Rs. 8.60

(5 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	Dr.	1,50,000	
	To Preference Dividend Payable (10%) A/c			1,50,000
	(Being arrear of Dividend on Preference Shares payable for one year)			
5.	Preference Dividend Payable (10%) A/c	Dr.	1,50,000	
	To Equity Share Capital (Rs. 25) A/c			1,50,000
	(Being Equity Shares of Rs. 25 each issued for arrears of Pref. Share Dividend)			
6.	7% Debentures A/c	Dr.	5,00,000	
	To Debenture holders A/c			5,00,000
	(Being balance of 7% Debentures transferred to Debenture holders A/c)			
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)			

(1*15=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		
Total	**33,25,000**	**Total**	**33,25,000**

Note: Reconstruction A/c is prepared for clarification of Journal Entries, and computing the amount transferred to Capital Reserve. **(5 Marks)**

ANSWER-4

ANSWER-A

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

	Amount Rs. in lakhs	**Percentage of provision**	**Provision Rs. in lakhs**
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
			427.00

(5 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

	Amount Rs. in lakhs	**Percentage of provision**	**Provision Rs. in lakhs**
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

(5 Marks)

ANSWER-B

In the books of P Ltd.

Journal Entries

Date	Particulars		(Rs.)	(Rs.)
31.3.20X1	Employees compensation expense account	Dr.	80,000	
	To Employee stock option outstanding account			80,000
	(Being compensation expenses for 6 months recognized in respect of the employee stock options i.e. 8,000 options granted to employees at a discount of Rs. 90 (170-80) each, amortized on straight line basis over 4 ½ years [(8,000 stock options x Rs. 90) / 4.5 years] x 0.5) (W.N.1)			
	Profit and loss account	Dr.	80,000	
	To Employees compensation expenses account			80,000
	(Being expenses transferred to profit and loss account at the year end)			
31.3.20X2	Employees compensation expense account	Dr.	1,60,000	
	To Employee stock option outstanding account			1,60,000
	(Being compensation expense recognized in respect of the employee stock option i.e.			

	8,000 options granted to employees at a discount of Rs. 90 each, amortized on straight line basis over 4 ½ years (8,000 stock options x Rs. 90) / 4.5 years) x 1 year)			
	Profit and loss account	Dr.	1,60,000	
	To Employees compensation expense account			1,60,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.20X3	Employees compensation expense account	Dr.	80,000	
	To Employee stock option outstanding account			80,000
	(Being compensation expense recognized in respect of the employee stock option i.e. 4,000 options at a discount of Rs. 90 each, amortized on straight line basis over 4 ½ years (4,000 stock options x Rs. 90) / 4.5 years)			
	Employee stock option outstanding account (W.N.2)	Dr.	1,20,000	
	To General Reserve account (W.N.2)			1,20,000
	(Being excess of employees compensation expenses transferred to general reserve account)			
	Profit and loss account	Dr.	80,000	
	To Employees compensation expenses account			80,000
	(Being expenses transferred to profit and loss account at year end)			
31.3.20X4	Employees compensation expense account	Dr.	80,000	
	To Employee stock option outstanding account			80,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of Rs. 90 each, amortized on straight line basis over 4 ½ years			

	(4,000 stock options x Rs. 90) / 4.5 years)			
	Profit and loss account To Employees compensation expenses account (Being expenses transferred to profit and loss account at year end)	Dr.	80,000	80,000
31.3.20X5	Employees compensation expense account To Employee stock option outstanding account (Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of Rs.90 each, amortised on straight line basis over 4 ½ years [(4,000 stock options x Rs. 90) / 4.5 years])	Dr.	80,000	80,000
	Profit and loss account To Employees compensation expense account (Being expenses transferred to profit and loss account at year end)	Dr.	80,000	80,000
30.9.20X5	Bank A/c (3,000 × Rs. 80) Employee stock option outstanding To Equity share capital account (3,000 x 30,000 Rs. 10) To Securities premium (Rs. 170 – Rs. 10) x 3,000 (Being 3,000 employee stock option exercised at an exercise price of Rs. 80 each)	Dr. Dr.	2,40,000 2,70,000	30,000 4,80,000
	Employee stock option outstanding account (W.N.3) To General reserve account (W.N.3) (Being ESOS outstanding A/c transferred to General Reserve A/c on lapse of 1000 vested options at the end of the exercise period)	Dr.	90,000	90,000

(8 Marks)

Working Notes:

1. Fair value = Rs. 170 – Rs. 80 = Rs. 90

2. At 1.12.X2, 4,000 unvested option lapsed on which till date expenses recognized to be transferred to general reserve = Rs. (80,000 + 1,60,000) x 4,000 / 8,000

   = Rs. 1,20,000

3. Expenses charged on lapsed vested options transferred to general reserve

   = 1,000 x Rs. 90 = Rs. 90,000

(2 Marks)

ANSWER-5

Determination of Buy back of maximum no. of shares as per the Companies Act, 2013

1. Shares Outstanding Test Particulars (Shares)

Number of shares outstanding	1,25,000
25% of the shares outstanding	31,250

2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	Rs.
Paid up capital (Rs.)	12,50,000
Free reserves (Rs.) (15,00,000 + 2,50,000 + 1,25,000)	18,75,000
Shareholders' funds (Rs.)	31,25,000
25% of Shareholders fund (Rs.)	7,81,250
Buy back price per share	Rs. 20
Number of shares that can be bought back (shares)	39,062
Actual Number of shares for buy back	25,000

(2 Marks)

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back

	Particulars	Rs.
(a)	Loan funds (Rs.) (18,75,000+10,00,000+16,50,000)	45,25,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1 (Rs.) (a/2)	22,62,500
(c)	Present equity/shareholders fund (Rs.)	31,25,000
(d)	Future equity/shareholders fund (Rs.) (see W.N.) (31,25,000 – 2,87,500)	28,37,500"
(e)	Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	5,75,000
(f)	Maximum number of shares that can be bought back @ Rs. 20 per share	28,750 shares
(g)	Actual Buy Back Proposed	25,000 Shares

(3 Marks)

Summary statement determining the maximum number of shares to be bought back

Particulars	Number of shares
Shares Outstanding Test	31,250
Resources Test	39,062
Debt Equity Ratio Test	28,750
Maximum number of shares that can be bought back [least of the above]	28,750

(2 Marks)

Company qualifies all tests for buy-back of shares and came to the conclusion that it can buy maximum 28,750 shares on 1st April, 20X1.

*As per Section 68 (2) (d) of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserves after such buy-back. Further under Section 69 (1), on buy-back of shares out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 69 (2) utilization of CRR is restricted to fully paying up unissued shares of the Company which are to be issued as fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be excluded from the present equity.

However, company wants to buy-back only 25,000 equity shares @ Rs. 20. Therefore, buy-back of 25,000 shares, as desired by the company is within the provisions of the Companies Act, 2013.

Journal Entries for buy-back of shares Debit (Rs.) Credit (Rs.)

			Debit Rs.	**Credit Rs.**
(a)	Equity shares buy-back account	Dr.	5,00,000	
	To Bank account			5,00,000
	(Being buy back of 25,000 equity shares of Rs. 10 each @ Rs. 20 per share)			
(b)	Equity share capital account	Dr.	2,50,000	
	Securities premium account	Dr.	2,50,000	
	To Equity shares buy-back account			5,00,000
	(Being cancellation of shares bought back)			
(c)	Revenue reserve account	Dr.	2,50,000	
	To Capital redemption reserve account			2,50,000

(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)

(3 Marks)

Balance Sheet of M/s. Competent Ltd. as on 31st March, 20X1

	Particulars		Note No	Amount Rs.
	EQUITY AND LIABILITIES			
1	**Shareholders' funds**			
	(a)	Share capital	1	10,00,000
	(b)	Reserves and Surplus	2	16,25,000
2	**Non-current liabilities**			
	(a)	Long-term borrowings	3	28,75,000
3	**Current liabilities**			**16,50,000**
	Total			71,50,000
	ASSETS			
1	**Non-current assets**			
	(a)	Fixed assets		46,50,000
2	Current assets (30,00,000-5,00,000)			25,00,000
	Total			**71,50,000**

Notes to accounts

			Rs.	Rs.
1.	**Share Capital**			
	Equity share capital			
	1,00,000 Equity shares of Rs.10 each			10,00,000
2.	**Reserves and Surplus**			
	Profit and Loss A/c		1,25,000	
	Revenue reserves	15,00,000		
	Less: Transfer to CRR	(2,50,000)	12,50,000	
	Securities premium	2,50,000		
	Less: Utilisation for share buy-back	(2,50,000)	-	

	Capital Redemption Reserves	2,50,000	16,25,000
3.	**Long-term borrowings**		
	Secured		
	12% Debentures	18,75,000	
	Unsecured loans	10,00,000	28,75,000

(8 Marks)

Working Note

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

(31,25,000 – x) – 22,62,500 = y (1)

$\left(\frac{y}{20} \text{ x } 10\right)$ = x Or 2x = y (2)

by solving the above equation, we get

x = Rs.2,87,500

y = Rs. 5,75,000

(2 Marks)

ANSWER-6

ANSWER-A

Prakash Processors Limited Liquidator's Statement of Account

Receipts		Rs.	Payments		Rs.
To Assets realised -			By Liquidation expenses		27,250
Bank		75,000	By Preferential creditors		38,000
			By Liquidator's Remuneration (W.N.1)		36,750
Other assets:			By Debenture holders:		
Land etc.	3,00,000			2,50,000	
Machinery etc.	5,00,000		Debentures	37,500	

	Patents	75,000		Interest accrued		
				Interest 1-1-17/30-6- 17	18,750	3,06,250
	Stock	1,50,000				
	Trade receivables	2,00,000	12,25,000			
To	Call on equity shareholders (7,500 × Rs.2.65) (1)		19,875	By Unsecured creditors		2,80,750
				By Preferential shareholders :Preference capital	5,00,000	
				Arrear of Dividend	1,00,000	6,00,000
						12,89,000
				By Equity shareholders - Rs.12.35 on 2,500 shares		30,875
			13,19,875			13,19,875

(7 Marks)

Working Notes:

(1) Liquidator's remuneration 12,25,000 × 3/100 = Rs.36,750

(2) As the company is solvent, interest on the debentures will have to be paid for the period 1-1-2017 to 30-6-2017

$$\mathbf{25000} \times \frac{15}{100} \times \frac{1}{2}$$

= Rs.18,750

(3) Total equity capital - paid up Rs.6,37,500

Less : Balance available after payment to unsecured and preference shares (13,00,000 — 12,89,000) Rs. (11,000)

Loss to be born by 10,000 equity shares Rs.6,26,500

Loss per share Rs.62.65

Hence, amount of call on Rs. 60 paid share Rs.2.65

Refund to share on Rs. 75 paid Rs.12.35

(3 Marks)

ANSWER-B

Libra Ltd.

Journal

		Rs.	**Rs.**
Bank A/c	Dr.	3,75,000	
To Share Application A/c			3,75,000
(Application money received on firm applications for 50,000 each @ Rs. 2.50 per share from Anand, Vijay & Ashok)			
Anand	Dr.	1,00,000	
Vijay	Dr.	1,00,000	
Ashok	Dr.	3,38,500	
Share Application A/c	Dr.	3,75,000	
To Share Capital A/c			9,13,500
(Allotment of shares to underwriters 50,000 to Anand; 50,000 to Vijay and 1,03,000 to Ashok; application and allotment money credited to share capital)			
Underwriting Commission A/c	Dr.	7,50,000	
To Anand			2,50,000
To Vijay			2,50,000
To Ashok			2,50,000
(Amount of underwriting commission payable to Anand, Vijay and Ashok @ 5% on the amount of shares underwritten.)			
Bank A/c	Dr.	88,500	
To Ashok			88,500
(Amount received from Ashok on shares allotted less underwriting commission)			
Anand	Dr.	1,50,000	
Vijay	Dr.	1,50,000	

To Bank A/c	3,00,000
(Amount paid to Anand & Vijay in final settlement of underwriting commission due less amount payable on shares allotted payable to him.)	

(6 Marks)

Working Notes :

(1) Calculation of Liability of Underwriters

	Anand	Vijay	Ashok
Gross Liability (No. of shares)	5,00,000	5,00,000	5,00,000
Less : Marked Applications(excluding firm underwriting)	(4,25,000)	(4,50,000)	(3,50,000)
	75,000	50,000	1,50,000
Less :Unmarked Applications (equally)	(24,000)	(24,000)	(24,000)
	51,000	26,000	1,26,000
Less : Firm Underwriting	(50,000)	(50,000)	(50,000)
	1,000	(24,000)	76,000
Surplus of Vijay distributed between Anand & Ashok equally	(12,000)	24,000	(12,000)
	(11,000)	—	64,000
Surplus of Anand allocated to Ashok totally	11,000	—	(11,000)
Net liability, excluding firm underwriting	—	—	53,000
Add: Firm underwriting	50,000	50,000	50,000
Total liability of underwriters	50,000	50,000	1,03,000

(2 Marks)

(2) Calculation of Amounts Payable by Underwriters

	Anand	Vijay	Ashok
Liability (No. of shares)	50,000	50,000	1,03,000
Amount payable @ Rs. 4.50 per share	2,25,000	2,25,000	4,63,500
Less : Amount paid on Firm Applications of 50,000 each @ Rs. 2.50	(1,25,000)	(1,25,000)	(1,25,000)
Balance payable	1,00,000	1,00,000	3,38,500
Underwriting Commission (50,000 x 10 x 5%)	2,50,000	2,50,000	2,50,000
Amount Paid	1,50,000	1,50,000	—
Amount received by the Co.	—	—	88,500

(2 Marks)