



INTER CA – MAY 2018

Sub: ADVANCED ACCOUNTS

Topics – Buy back of shares, ESOP, Underwriters Liability, Liquidation, Banking Final Accounts.

Test Code – M8

Branch: MULTIPLE Date: 24.12.2017

(50 Marks)

Note: All questions are compulsory.

Question 1 (10 marks)

OM LTD
Liquidator's Final Statement of Account
(6 Marks)

Receipts	Value Realised		Payments	Payments
<i>Assets Realised:</i>				
Cash at Bank	2,40,000	Liquidator's Remuneration (W.N. 1)		1,02,224
Sundry Debtors	8,00,000	Liquidation Expenses		1,17,736
Inventory	6,40,000	Debentureholders:		
Plant and Machinery	20,00,000	14% Debentures	9,20,000	
Patent	2,00,000	Interest Accrued (W.N. 2)	<u>1,61,000</u>	10,81,000
Surplus from Securities (W.N. 3)	5,20,000	Creditors:		
		Preferential	1,20,000	
		Unsecured	<u>3,51,200</u>	4,71,200
		Preference Shareholders:		
		Preference Share Capital	16,00,000	
		Arrears of Dividend	<u>2,24,000</u>	18,24,000
		Equity Shareholders (W.N.4) :		
		₹25.12 per share on 32,000 shares		<u>8,03,840</u>
	<u>44,00,000</u>			<u>44,00,000</u>

Working Notes: (4 marks)

1 Liquidator's remuneration:

2% on assets realised (2% of ₹47,60,000)	95,200
2% payments to unsecured creditors (2% on on ₹3,51,200)	<u>7,024</u>
	1,02,224

2 Interest accrued on 14% Debentures:

Interest accrued as on 31.3.2016	1,28,800
Interest accrued upto the date of payment i.e. 30.6.2016	<u>32,200</u>
	1,61,000
3 Surplus from Securities:	
Amount realised from Land and Buildings (₹3,20,000 + ₹8,00,000)	11,20,000
Less: Mortgage Loan	(6,00,000)
	5,20,000
4 Amount payable to Equity Shareholders:	
Equity share capital (paid up)	19,20,000
Less: Amount available for equity shareholders	<u>(8,03,840)</u>
Loss to be borne by equity shareholders	11,16,160
Loss per equity share (₹11,16,160/32,000)	34.88
Amount payable to equity shareholders for each equity share (60-34.88)	25.12

Question 2 (8 marks)

1. Determination of Buy back of maximum no. of shares as per the Companies Act, 2013 1. Shares Outstanding Test (1/2 Mark)

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(1 Mark)

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

(a) Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy Back(1 Mark)

	Particulars	`
(a)	Loan funds (`) (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 (`) (a/2)	22,62,500
(c)	Present equity/shareholders fund (`)	31,25,000
(d)	Future equity/shareholders fund (`) (see W.N.) (31,25,000 – 2,87,500)	28,37,500
(e)	Maximum permitted buy back of Equity (`) [(d) – (b)]	5,75,000
(f)	Maximum number of shares that can be bought back @ ` 20 per share	28,750 shares
(g)	Actual Buy Back Proposed	25,000 Shares

Summary statement determining the maximum number of shares to be bought back(1 Mark)

<i>Particulars</i>	<i>Number of shares</i>
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

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.

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, 2012.

However, company wants to buy-back only 25,000 equity shares @ ` 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 (1 ½ mark)

		<i>Debit(₹)</i>	<i>Credit (₹)</i>
(a)	Equity shares buy-back account To Bank account (Being buy back of 25,000 equity shares of ` 10 each @ ` 20 per share)	Dr. 5,00,000	5,00,000
(b)	Equity share capital account Securities premium account To Equity shares buy-back account (Being cancellation of shares bought back)	Dr. 2,50,000 Dr. 2,50,000	5,00,000
(c)	Revenue reserve account To Capital redemption reserve account (Being transfer of free reserves to capital redemption reserve to the extent of nominal value of capital bought back through free reserves)	Dr. 2,50,000	2,50,000

Balance Sheet of M/s. Competent Ltd.

as on 31st March, 2012 (2 marks)

	<i>Particulars</i>	<i>Note No</i>	<i>Amount</i>
	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		<u>16,50,000</u>
			Total	<u>71,50,000</u>
		ASSETS		
1		Non-current assets		
	(a)	Fixed assets		46,50,000
2		Current assets (30,00,000-5,00,000)		<u>25,00,000</u>
			Total	<u>71,50,000</u>

Notes to accounts (1 marks)

1.	Share Capital		
	Equity share capital		
	1,00,000 Equity shares of ₹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	<u>(2,50,000)</u>	12,50,000
	Securities premium	2,50,000	
	Less: Utilisation for share buy-back	<u>(2,50,000)</u>	-
	Capital Redemption Reserves	<u>2,50,000</u>	<u>16,25,000</u>
3.	Long-term borrowings		
	Secured		
	12% Debentures	18,75,000	
	Unsecured loans	<u>10,00,000</u>	<u>28,75,000</u>

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

$$(31,25,000 - x) - 22,62,500 = y \quad (1)$$

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

by solving the above equation we get

$$x = ₹ 2,87,500$$

$$y = ₹ 5,75,000$$

Question 3 (8 marks)

When the benefit of firm underwriting is given to individual underwriters

(i) Total marked applications: (1/2 mark)

M	N	O	P	
2,50,000	2,00,000	2,00,000	80,000	= 7,30,000

(ii) Shares subscribed excluding firm underwriting (1/2 mark)

Total applications	8,00,000	shares
Less : Marked applications	(7,30,000)	shares

Statement showing Liability of underwriters (2 marks)

	M	N	O	P	Total
Gross liability	3,50,000	3,00,000	2,50,000	1,00,000	10,00,000
Less: Marked applications	<u>(2,50,000)</u>	<u>(2,00,000)</u>	<u>(2,00,000)</u>	<u>(80,000)</u>	<u>(7,30,000)</u>
	1,00,000	1,00,000	50,000	20,000	2,70,000
Less: Unmarked (in Gross Ratio)	<u>(24,500)</u>	<u>(21,000)</u>	<u>(17,500)</u>	<u>(7,000)</u>	<u>(70,000)</u>
	75,500	79,000	32,500	13,000	2,00,000
Less: Firm underwriting	<u>(30,000)</u>	<u>(50,000)</u>	<u>40,000</u>	<u>(18,500)</u>	<u>(1,38,500)</u>
	45,500	29,000	(7,500)	(5,500)	61,500
Less: Surplus of 'O' and 'P' allotted to M, & N (35:30)	<u>7,000</u>	<u>6,000</u>	<u>7,500</u>	<u>5,500</u>	<u>-</u>
Net liability	<u>38,500</u>	<u>23,000</u>	<u>-</u>	<u>-</u>	61,500

(iv) Statement of underwriters' liability (2 marks)

	M	N	O	P	Total
Firm	30,000	50,000	40,000	18,500	1,38,500
Others	<u>38,500</u>	<u>23,000</u>	<u>-</u>	<u>-</u>	<u>61,500</u>
TOTAL	<u>68,500</u>	<u>73,000</u>	<u>40,000</u>	<u>18,500</u>	<u>2,00,000</u>

**(v) Amounts due from underwriters
(1 ½ marks)**

	M	N	O	P	Total
Shares to be subscribed as per (iv) above	68,500	73,000	40,000	18,500	2,00,000
Amount due @ ` 60 per share	41,10,000	43,80,000	24,00,000	11,10,000	1,20,00,000
Less: Commission due on shares underwritten	<u>(10,50,000)</u>	<u>(9,00,000)</u>	<u>(7,50,000)</u>	<u>(3,00,000)</u>	<u>(30,00,000)</u>
	<u>30,60,000</u>	<u>34,80,000</u>	<u>16,50,000</u>	<u>8,10,000</u>	<u>90,00,000</u>

(vi) Commission payable to underwriters (1 mark)

M	$10,00,000 \times 100 \times 35\% \times 3\% =$	10,50,000
N	$10,00,000 \times 100 \times 30\% \times 3\% =$	9,00,000
O	$10,00,000 \times 100 \times 25\% \times 3\% =$	7,50,000
P	$10,00,000 \times 100 \times 10\% \times 3\% =$	3,00,000

Journal Entry (1/2 mark)

Bank A/c		5,70,00,000	
Underwriting Commission A/c	Dr.	30,00,000	
To Equity share Application A/c			6,00,00,000

Question 4 (12 marks)

(a)

KLM Bank Limited**Profit and Loss Account for the year ended 31st March, 2012 (5 marks)**

	Schedule	Year ended 31.03.2012

I.	Income:		
	Interest earned	13	37,95,160
	Other income	14	<u>4,87,800</u>
	Total		<u>42,82,960</u>
II.	Expenditure		
	Interest expended	15	22,95,360
	Operating expenses	16	5,70,340
	Provisions and contingencies (4,50,000+2,00,000+2,00,000)		<u>8,50,000</u>
	Total		<u>37,15,700</u>
III.	Profits/Losses		
	Net profit for the year		5,67,260
	Profit brought forward		<u>Nil</u>
			<u>5,67,260</u>
IV.	Appropriations		
	Transfer to statutory reserve (25% of 5,67,260)		1,41,815
	Proposed dividend		50,000
	Balance carried over to balance sheet		<u>3,75,445</u>
			<u>5,67,260</u>

Profit & Loss Account balance of ` 3,75,445 will appear under the head 'Reserves and Surplus' in Schedule 2 of the Balance Sheet. (4 marks)

<i>Year ended</i>	
<i>31.3.2012</i>	

Schedule 13 – Interest Earned		
I.	Interest/discount on advances/bills (Refer W.N.)	<u>37,95,160</u>
		<u>37,95,160</u>
Schedule 14 – Other Income		
I.	Commission, exchange and brokerage	1,90,000
II.	Profit on sale of investment	2,25,800
III.	Rent received	<u>72,000</u>
		<u>4,87,800</u>
Schedule 15 – Interest Expended		
I.	Interests paid on deposits	<u>22,95,360</u>
		<u>22,95,360</u>
Schedule 16 – Operating Expenses		
I.	Payment to and provisions for employees (salaries & allowances)	2,50,000
II.	Rent, taxes paid	1,00,000
III.	Depreciation on assets	40,000
IV.	Director's fee, allowances and expenses	35,000
V.	Auditor's fee	12,000
VI.	Statutory (law) expenses	38,000
VII.	Postage and telegrams	65,340
VIII.	Preliminary expenses*	<u>30,000</u>

	<u>5,70,340</u>
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Working Note: (1 mark)

Interest and discount received	38,00,160
Add: Rebate on bills discounted on 31.3.2011	15,000
Less: Rebate on bills discounted on 31.3.2012	<u>(20,000)</u>
	<u>37,95,160</u>

Question 5 (14 marks)

In the books of R Ltd.

Ledger Accounts

Capital Reduction Account (2 marks)

To Intangibles (68,000 – 48,000)	20,000	By 8% Cumulative preference shares capital account	1,60,000
To Plant and equipment account (2,40,000 – 1,40,000)	1,00,000	By Equity share capital account	4,80,000
To Deferred revenue expenditure account	48,000	By Freehold premises account (3,80,000 – 1,40,000)	2,40,000
To Profit and loss account	4,40,000	By Stock account (2,50,000 – 2,48,000)	2,000
To Investment account (W.N. 2)	11,500		
To Provision for doubtful debts	6,400		
To Capital reserve account (Bal Fig)	<u>2,56,100</u>		
	<u>8,82,000</u>		<u>8,82,000</u>

Equity Share Capital Account (2 marks)

To Capital reduction account	4,80,000	By Balance b/d	4,80,000
To Balance c/d	6,60,000	By Equity share final call account (64,000 × ` 2.5)	1,60,000
		By Loan from Directors account (60,000 / 2.5 = 24,000 Equity Shares	60,000
		By Bank account (Further issue of 64,000 +24,000 Equity Shares: 2 for every 1 share held = 1,76,000 shares @ ` 2.5 each)	
	<u>11,40,000</u>		<u>4,40,000</u>
			<u>11,40,000</u>

8% Cumulative Preference Share Capital Account(2 marks)

To 10% Cumulative preference	4,80,000	By Balance b/d	6,40,000
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share capital account			
To Capital reduction account	1,60,000		
	<u>6,40,000</u>		<u>6,40,000</u>

Bank Account (2 marks)

To Equity share final call account	1,60,000	By Balance b/d (overdraft)	2,08,000
To Equity share capital account	4,40,000	By Balance c/d	5,12,000
To 10% Cumulative preference share capital account	1,20,000		
	<u>7,20,000</u>		<u>7,20,000</u>
To Balance b/d	5,12,000		

10% Cumulative Preferences Share Capital Account (2 marks)

To Balance c/d	6,00,000	By 8% Cumulative preference share capital account	4,80,000
		By Bank (1 for every 4 pref shares held = 64,000 /4 = 16.000 shares @ ` 7.5 each)	1,20,000
	<u>6,00,000</u>		<u>6,00,000</u>
		By Balance b/d	6,00,000

**R. Ltd., (and Reduced)
Balance Sheet as at 1 April, 2008 (2 marks)**

Particulars	Note No	
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	12,60,000
(b) Reserves and Surplus	2	2,56,100
(2) Current Liabilities	3	4,40,000
Total		<u>19,56,100</u>
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets	4	5,20,000
Intangible assets		48,000
(b) Non-current investments	5	3,12,500
(2) Current assets		
(a) Inventories		2,50,000
(b) Trade receivables	6	3,13,600
(c) Cash and cash equivalents		5,12,000
Total		<u>19,56,100</u>

Notes to Accounts (2 marks)

1. Share Capital <i>Authorised</i>	14,00,000
<i>Issued: 80,000 10% Cumulative preference shares of ` 7.5 each</i>	6,00,000
<i>2,64,000 equity shares of ` 2.5 each</i>	<u>6,60,000</u>
	<u>12,60,000</u>
2. Reserve and Surplus Capital Reserve	2,56,100
3. Current liability creditors	4,40,000
4. Fixed Assets Freehold premises Plant and equipment	3,80,000 <u>1,40,000</u>
	<u>5,20,000</u>
5. Non Current Investments Investment in Q Ltd., (W.N.1)	3,12,500
6. Trade receivables Debtors less provision for doubtful debts (`3,20,000 – `6,400)	3,13,600

Working Notes:

- Valuation of investments in shares of Q Ltd., = $\frac{2,50,000}{12\%100} \times 15 = ` 3,12,500$
- Reduction in the value of investment in shares of Q Ltd.
` 3,24,000 – `3,12,500 = `11,500.

Question 6 (8 marks)

**Books of Simran Ltd.
Journal Entries**

Date	Particulars	Debit Rs.	Credit Rs.
31.3.13	Employees Compensation Expense Account Dr. To Employees Stock Option Outstanding Account (Being compensation expense recognized in respect of 1,000 options granted to employees at discount of Rs.30) (1/2 mark)	12,000	12,000
	Profit and Loss Account Dr. To Employees Compensation Expense Account (Being employees compensation expense of the year transferred to P&L A/c) (1 mark)	12,000	12,000
31.3.14	Employees Compensation Expense Account Dr. To Employees Stock Option Outstanding Account (Being compensation expense recognized in respect of 1,000 options granted to employees at discount of Rs.30 each, amortized on straight line basis over 2½ years) (1/2 mark)	12,000	12,000
	Profit and Loss Account Dr.	12,000	

	To Employees Compensation Expense Account (Being employees compensation expense of the year transferred to P&L A/c) (1 mark)		12,000	
31.3.15	Employees Compensation Expense Account Dr.	6,000		
	To Employees Stock Option Outstanding Account (Being balance of compensation expense amortized Rs.30,000 less Rs.24,000) (1/2 mark)		6,000	
	Profit and Loss Account Dr.	6,000		
	To Employees Compensation Expense Account (Being employees compensation expense of the year transferred to P&L A/c) (1/2 mark)		6,000	
31.7.15	Bank Account (Rs.60 × 1,000) Dr.	60,000		
	To Equity Share Capital Account To Securities Premium Account (Being exercise of 1,000 options at an exercise price of Rs.60) (1 mark)		10,000 50,000	
31.7.15	Stock Option Outstanding A/c ('30 × 1,000) Dr.	30,000		
	To Securities Premium Account (Being the balance in the Employees Stock Option Outstanding Account transferred to Securities Premium A/c) (1 mark)		30,000	

Working Notes

- (i) Total employees compensation expense = 1,000 x (Rs.90 – Rs.60) = Rs.30,000 **(1 mark)**
- (ii) Employees compensation expense has been written off during 2½ years on straight line basis as under:
I year = Rs.12,000 (for full year) II year = Rs.12,000 (for full year) III year = Rs.6,000 (for half year) **(1 mark)**
