



**J.K. SHAH**<sup>®</sup>  
**TEST SERIES**  
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**SUGGESTED SOLUTION**

**CA INTERMEDIATE**

**SUBJECT-ADVANCED ACCOUNTS**

**Test Code – CIM 8706**

**BRANCH - () (Date :)**

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

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**TOPIC : ESOP & DISSOLUTION OF PARTNERSHIP FIRM**

- NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.  
 (2) INTERNAL WORKING NOTES SHOULD ALSO BE CONSIDERED BY PAPER CHECKER.  
 (3) NEW QUESTION SHOULD BE ON NEW PAGE**

**Answer 1:**

**(A)**

**Realization Account**

	Rs.		Rs.
To Plant and machinery	30,000	By Provision for doubtful debts	400
To Fixtures and fittings	2,000	By Loan on hypothecation of stock (W.N.3)	3,000
To Stock	10,400	By Creditors (W.N.2)	500
To Debtors	18,400	By Joint Life Policy A/c (W.N.4)	12,900
To Patents and Trademarks (W.N.5)	5,500	By Bank	
To Bank	2,300	Plant and machinery	17,000
		Fixtures and fittings	1,000
		Stock	9,000
		Debtors	16,500
		Patents and Trademarks	<u>2,000</u>
		By Partners' Capital Accounts	
		Ram	2,800
		Wazir	1,400
		Adil	<u>2,100</u>
	<u>68,600</u>		<u>68,600</u>

**(5 Marks)**

**Bank Account**

	Rs.		Rs.
To Balance b/d	8,000	By Adil's Capital A/c- drawings	5,300
To Joint Life Policy	15,500	By Loan on hypothecation of stock	3,200
To Realisation A/c	45,500		
To Adil's Capital A/c	5,400	By Creditors	12,800
		By Realisation A/c (expenses)	2,300
		By Ram's Loan A/c	15,000
		By Ram's Capital A/c	27,200
		By Wazir's Capital A/c	<u>8,600</u>
	<u>74,400</u>		<u>74,400</u>

**(3 Marks)**

### Partners' Capital Accounts

	Ram	Wazir	Adil		Ram	Wazir	Adil
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Bank			5,300	By Balance b/d	30,000	10,000	2,000
To Realisation A/c	2,800	1,400	2,100	By Bank A/c (bal.fig.)			5,400
To Bank (Bal. Fig.)	<u>27,200</u>	<u>8,600</u>					
	<u>30,000</u>	<u>10,000</u>	<u>7,400</u>		<u>30,000</u>	<u>10,000</u>	<u>7,400</u>

**(2 Marks)**

#### Working Notes:

1. **Ram's Loan Account**

	Rs.		Rs.
To Bank A/c	<u>15,000</u>	By Balance b/d	<u>15,000</u>
	<u>15,000</u>		<u>15,000</u>

**(1 Mark)**

2. **Sundry Creditors Account**

	Rs.		Rs.
To Patents and Trademarks A/c	4,500	By Balance b/d	17,800
To Realisation A/c	500		
To Bank A/c	<u>12,800</u>		
	<u>17,800</u>		<u>17,800</u>

**(1 Mark)**

3. **Loan on Hypothecation of Stock Account**

	Rs.		Rs.
To Realisation A/c	3,000	By Balance b/d	6,200
To Bank A/c	<u>3,200</u>		
	<u>6,200</u>		<u>6,200</u>

**(1 Mark)**

4. **Joint Life Policy Account**

	Rs.		Rs.
To Balance b/d	15,000	By Joint Life Policy Reserve A/c	12,400
To Realisation A/c	<u>12,900</u>	By Bank A/c (10,200 + 5,300)	<u>15,500</u>
	<u>27,900</u>		<u>27,900</u>

**(1 Mark)**

5. **Patents and Trademarks Account**

	Rs.		Rs.
To Balance b/d	10,000	By Creditors A/c	4,500
		By Realisation A/c	1,500
		By Realisation A/c (bal.fig.)	<u>4,000*</u>
	<u>10,000</u>		<u>10,000</u>

(1 Mark)

(B)

**In the books of Company**

**Journal Entries**

Date	Particulars	Dr. Rs.	Cr. Rs.
1-3-X2	Bank A/c Dr.	2,40,000	
to	Employees compensation expenses A/c Dr.	4,32,000	
31-3-X2	To Equity Share Capital A/c		48,000
	To Securities Premium A/c		6,24,000
	(Being allotment to employees 4,800 shares of Rs. 10 each at a premium of Rs. 130 at an exercise price of Rs. 50 each)		
31-3-X2	Profit and Loss account Dr.	4,32,000	
	To Employees compensation expenses A/c		4,32,000
	(Being transfer of employees compensation expenses)		

(4 Marks)

**Working Note:**

1. Employee Compensation Expenses = Discount between Market Price and option price = Rs. 140 – Rs. 50 = Rs. 90 per share = Rs. 90 x 4,800 = Rs. 4,32,000/- in total.
2. The Employees Compensation Expense is transferred to Securities Premium Account.
3. Securities Premium Account = Rs. 50 – Rs. 10 = Rs. 40 per share + Rs. 90 per share on account of discount of option price over market price = Rs. 130 per share = Rs. 130 x 4,800 = Rs. 6,24,000/- in total.

(1 Mark)

**Answer 2:****(A)**

In the books of M/s Amal and Bimal

## Realisation Account

	Rs.		Rs.
To Sundry Assets :		By Cash A/c :	
Plant & Machinery	2,500	Plant & Machinery	1,250
Furniture	500	Furniture	150
Debtors	1,000	Debtors	400
Stock	800	Stock	<u>500</u>
Cash A/c-expenses	175	By Partners' Capital A/c	
		Loss on realisation (Bal.fig.)	
		Amal	1,337
		Bimal	1,338
	4,975		2,675
			4,975

**(4 Marks)**

## Cash Account

	Rs.		Rs.
March 31, 20X1		March 31, 20X1	
To Balance b/d	200	By Realisation A/c- expenses	175
To Realisation A/c		By Sundry Creditors A/c (Bal.fig.)	2,525
- Sale of sundry assets	2,300		
To Bimal's Capital A/c	200		
	2,700		2,700

**(3 Marks)**

## Sundry Creditors Account

	Rs.		Rs.
To Cash A/c	2,525	By Balance b/d	4,800
To Deficiency A/c-transfer (bal.fig.)	2,275		
	4,800		4,800

**(0.5 Mark)**

### Partners' Capital Account

	Amal	Bimal		Amal	Bimal
	Rs.	Rs.		Rs.	Rs.
To Balance b/f	—	550	By Balance b/f	750	—
To Realisation A/c			By Cash A/c	—	200
- loss	1,337	1,338	By Deficiency		
			A/c- transfer (bal.fig.)	587	1,688
	1,337	1,888		1,337	1,888

(1.5 Marks)

### Deficiency Account

	Rs.		Rs.
To Partners' Capital A/c		By Sundry Creditors A/c	2,275
Amal	587		
Bimal	1,688		
	2,275		2,275

(1 Mark)

(B)

### Journal entries in the books of Lucky Ltd.

Date	Particulars		Rs.	Rs.
31.3.2015	Employees compensation expense A/c	Dr.	21,30,000	
	To ESOS outstanding A/c			21,30,000
	(Being compensation expense recognized in respect of the ESOP i.e. 100 options each granted to 1,500 employees at a discount of Rs. 30 each, amortised on straight line basis over vesting years (Refer W.N.))			
31.3.2016	Profit and Loss A/c	Dr.	21,30,000	
	To Employees compensation expenses A/c			21,30,000
	(Being expenses transferred to profit and Loss A/c)			
31.3.2016	Employees compensation expenses A/c	Dr.	5,90,000	
	To ESOS outstanding A/c			5,90,000
	(Being compensation expense recognized in respect of the ESOP- Refer W.N.)			
31.3.2017	Profit and Loss A/c	Dr.	5,90,000	
	To Employees compensation expenses A/c			5,90,000
	(Being expenses transferred to profit and Loss A/c)			
31.3.2017	Employees compensation Expenses A/c	Dr.	12,40,000	
	To ESOS outstanding A/c			12,40,000

	(Being compensation expense recognized in respect of the ESOP- Refer W.N.)			
	Profit and Loss A/c	Dr.	12,40,000	
	To Employees compensation expenses A/c			12,40,000
	(Being expenses transferred to profit and Loss A/c)			
2018-19	Bank A/c (1,250 x100 x40)	Dr.	50,00,000	
	ESOS outstanding A/c	Dr.	37,50,000	
	[(39,60,000 x 1,25,000/ 1,32,000)]			
	To Equity share capital (1250 x 100 x 10)			12,50,000
	To Securities premium A/c [ (1250 x 100 x (70-10))			75,00,000
	(Being 1,25,000 options exercised at an exercise price of Rs. 40 each)			
31.3.2019	ESOS outstanding A/c	Dr.	2,10,000	
	To General Reserve A/c			2,10,000
	(Being ESOS outstanding A/c on lapse of 7,000 options at the end of exercise of option period transferred to General Reserve A/c)			

(7 Marks)

**Working Note:**

**Statement showing compensation expense to be recognized at the end of:**

Particulars	Year 1 2014-15	Year 2 2015-16	Year 3 2016-17
Number of options expected to vest*	1,42,000 options	1,36,000 options	1,32,000 options
Total compensation expense accrued (70-40)	<u>Rs.42,60,000</u>	<u>Rs.40,80,000</u>	<u>Rs.39,60,000</u>
Compensation expense of the year	42,60,000 x 1/2 = Rs. 21,30,000	40,80,000 x 2/3 = Rs. 27,20,000	<u>Rs. 39,60,000</u>
Compensation expense recognized previously	<u>Nil</u>	<u>Rs. 21,30,000</u>	<u>Rs. 27,20,000</u>
Compensation expenses to be recognized for the year	<u>Rs. 21,30,000</u>	<u>Rs. 5,90,000</u>	<u>Rs. 12,40,000</u>

\*It is assumed that each share is of Rs. 10 each and Lucky Ltd. expects all the options to be vested after deducting actual lapses during the year.

(3 Marks)