SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- ADVANCED ACCOUNTS

Test Code – CIM 8708

BRANCH - () (Date :)

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

Tel : (022) 26836666

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

ANSWER -1

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.)			
	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.)			
	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	
	ToEmployees 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 [(39,60,000 x 1,25,000/ 1,32,000]	Dr.	37,50,000	
	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	Rs.42,60,000	Rs.40,80,000	Rs.39,60,000
expense accrued (70-40)			
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	Rs. 39,60,000
Compensation expense recognized previously	Nil	Rs. 21,30,000	Rs. 27,20,000
Compensation expenses to be recognized for the year	Rs. 21,30,000	Rs. 5,90,000	Rs. 12,40,000

*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)

ANSWER -2

BT Limited

Liquidator's Statement of Account

Receipts		Rs.	Payments		Rs.
To Assets realized: Bank		75,700	By Liquidation expenses		45,000
Other assets:					
Land & building	24,50,000		By Liquidator Remuneration (W.N.1)		1,29,600
Plant & Machinery	9,00,000		By Debenture holders:		
Furniture	2,85,000		Debentures	10,00,000	
Patents	90,000		Interest accrued	1,20,000	
Stock	2,80,000		Interest 1-4-18 to 30-6-18	30,000	11,50,000
Trade receivables	3,15,000	43,20,000	By Unsecured creditors	7,36,250	
			(+) Preferential creditors	75,000	8,11,250
			By Preferential shareholders		
			Preference capital	10,00,000	
			Arrear of Dividend	1,20,000	11,20,000
					32,55,850
			By Equity shareholders -		
			Rs. 32.995 on 20,000 Shares		6,59,900
			Rs. 47.995 on 10,000 shares		4,79,950

	43,95,700		43,95,700

(6 MARKS)

Working Notes:

(1) Liquidator's remuneration 43,20,000 × 3/100 =Rs. 1,29,600

(2) As the company is solvent, interest on the debentures will have to be paid for the period 1-4-2018 to 30-6-2018

10,00,000 x 12% x3/12 = Rs. 30,000

(3) Total equity capital - paid up (7,50,000 +12,00,000) Rs. 19,50,000

Less: Balance available after payment to unsecured and preference shares

(43,95,700 — 32,55,850) Rs. (11,39,850)

Rs.8,10,150

Loss to be born by 30,000 equity shares

Loss per share Rs.27.005

Hence, Refund for share on Rs. 60 paid share (60 - 27.005) Rs.32.995

Refund for share on Rs. 75 paid (75 - 27.005) Rs.47.995

(4 MARKS)

ANSWER : 3

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 -4

Statement of Liabilities of B list contributors (showing the amount realized)

Creditors Outstanding on the date of ceasing to be member	**P 1,500 Shares Rs.**	**D 2,000 Shares Rs.**	**B 700 Shares Rs.**	**S 300 Shares Rs.**	**Amount to be paid to the creditors Rs.**
a) 9,000	3,000	4,000	1,400	600	9,000
b) 3,000	-	2,000	700	300	3,000
c) 1,500	-	-	1,050	450	1,500
d) 1,000	-	-	-	1,000	1,000
Total (a)	3,000	6,000	3,150	2,350	
(b) maximum liability on shares held	7,500	10,000	3,500	1,500	
(c) Amount to be realized (a) or (b)					
Whichever is lower	3,000	6,000	3,150	1,500	

(5 MARKS)

Working Notes :

1. C will not be liable since he transferred his shares prior to one year preceding the date of winding up.
2. P will not be responsible for further debts incurred after 01.01.2017 (from the date when he ceases to be a member). Similarly, D & B will not be liable for the debts incurred after the date of their transfer of shares.
3. The increase between 1st August 2017 and 15th September 2017, is solely the responsibility of S. Liability of S has been restricted to the maximum allowable limit of Rs. 1,500. Therefore, amount payable by S on 15.09.2017 is Rs. 1,500 only.
4. Ratio of discharge of liability will be in the ratio of no. of shares held by B List Contributories which is as follows :

Calculation of Ratio for discharge of Liabilities

Date	Cumulative liability Rs.	Increase in liabilities Rs.	Ratio of no. of shares held by L, M, N, O
01.01.2017	9,000	-	15 : 20 : 7 : 3
01.04.2017	12,000	3,000	20 : 7 : 3
01.08.2017	13,500	1,500	7: 3
15.09.2017	14,500	1,000	Only S

(5 MARKS)

ANSWER -5

ANSWER -A

The vesting of options is subject to satisfaction of two conditions viz. service condition of continuous employment for 3 years and market condition that the share price at the end of 2018-19 is not less than Rs. 65. The company should recognize value of option over 3-year vesting period from 2016-17 to 2018-19.

Year 2016-17

Fair value of option per share = Rs. 9

Number of shares expected to vest under the scheme = 48 × 1,000 = 48,000

Fair value = 48,000 × Rs. 9 = Rs. 4,32,000

Expected vesting period = 3 years

Value of option recognised as expense in 2016-17 = Rs. 4,32,000 /3 = Rs. 1,44,000

Year 2017-18

Fair value of option per share = Rs. 9

Number of shares expected to vest under the scheme = 47 × 1,000 = 47,000

Fair value = 47,000 × Rs. 9 = Rs. 4,23,000

Expected vesting period = 3 years

Cumulative value of option to recognise as expense in 2016-17 and 2017-18

= (Rs. 4,23,000/ 3) × 2 = Rs. 2,82,000

Value of option recognised as expense in 2016-17 = Rs. 1,44,000

Value of option recognised as expense in 2017-18

= Rs. 2,82,000 – Rs. 1,44,000 = Rs. 1,38,000

Year 2018-19

Fair value of option per share = Rs. 9

Number of shares actually vested under the scheme = 45 × 1,000 = 45,000

Fair value = 45,000 × Rs. 9 = Rs. 4,05,000

Vesting period = 3 years

Cumulative value of option to recognise as expense in 2016-17, 2017-18 and 2018-19 =Rs. 4,05,000

Value of option recognised as expense in 2016-17 and 2017-18 = Rs. 2,82,000

Value of option recognised as expense in 2018-19 = Rs. 4,05,000 – Rs. 2,82,000 = Rs. 1,23,000

(5 MARKS)

ANSWER –B

Journal Entries in the books of Suvidhi Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
31.3.18	Bank A/c (60,000 shares × Rs. 30) Dr. Employees stock compensation expenses A/c. Dr. To Share Capital A/c. (60,000 shares × Rs. 10) To Securities Premium (60,000 shares × Rs. 28) (Being shares issued under ESOP @ Rs. 30 to 1,200 employees)	18,00,000 4,80,000	 6,00,000 16,80,000
	Profit & Loss A/c. Dr. To Employees stock compensation expense A/c. (Being Employees stock compensation expense transferred to Profit & Loss A/c.)	4,80,000	 4,80,000

(3 MARKS)

Working Note :

Fair value of an option = Rs. 38 – Rs. 30 = Rs.8

Number of shares issued = 1,200 employees × 50 Shares / employee = 60,000 shares

Fair value of ESOP which will be recognized as expenses in the year 2017 – 2018

= 60,000 shares × Rs. 8 = Rs. 4,80,000

Vesting period = 1 year

Expenses recognized in 2017 – 2018 = Rs. 4,80,000

(2 MARKS)