

TOPICS : Company Final Accounts, ESOP and Internal Reconstruction

NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.

(2) NEW QUESTION SHOULD BE ON NEW PAGE

QUESTION NO.1

A. The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2019.

Particulars		Rs.	Particulars		Rs.
Inventory 01.04.2018			Sales		17,10,000
- Raw Material	30,000		Interest		3,900
- Finished goods	<u>46,500</u>	76,500	Profit and Loss A/c.		48,000
Purchases		12,15,000	Share Capital		3,15,000
Manufacturing Expenses		2,70,000	Secured loans:		
			Short - term	4500	
			Long - term	<u>21,000</u>	25,500
Salaries and wages		40,200	Fixed Deposits		
			(unsecured):		
General Charges		16,500	Short – term	1,500	
Interim Dividend paid		27,000	Long – term	<u>3,300</u>	4,800
(inclusive of Dividend			Trade payables		3,27,000
Distribution Tax)					
Building		1,01,000			
Plant and Machinery		70,400			
Furniture		10,200			
Motor Vehicles		40,800			
Stores and Spare Parts		45,000			
Consumed					
Investments :					
Current	4,500				
Non - Current	<u>7,500</u>	12,000			
Trade receivables		2,38,500			
Cash in Bank		2,71,100			
		<u>24,34,200</u>			<u>24,34,200</u>

From the above balance and the following information, **prepare the company's Profit and Loss Account** for the year ended 31st March, 2019 and **Company's Balance Sheet** as on that date:

- Inventory on 31st March,2019 Raw material Rs. 25,800 & finished goods Rs. 60,000.
- Outstanding Expenses: Manufacturing Expenses Rs. 67,500 & Salaries & Wages Rs. 4,500.
- Interest accrued on Securities Rs. 300.
- General Charges prepaid Rs. 2,490.
- Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.

6. Current maturity of long term loan is Rs. 1,000
7. The Taxation provision of 40% on net profit is considered.

(15 MARKS)

- B. The following is the Draft Profit & Loss A/c of Harsha Ltd., the year ended 31st March, 20X1:

		Rs.			Rs.
To	Administrative, Selling and		By	Balance b/d	28,61,750
	distribution expenses	41,12,710	"	Balance from	201,26,825
"	Directors fees	6,73,900		Trading A/c	
"	Interest on debentures	1,56,200	"	Subsidies received from	13,69,625
"	Managerial remuneration	14,26,750		Govt.	
"	Depreciation on fixed assets	26,12,715			
"	Provision for Taxation	62,12,500			
"	General Reserve	20,00,000			
"	Investment Revaluation				
	Reserve	62,500			
"	Balance c/d	71,00,925			
		243,58,200			243,58,200

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs.28,76,725. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013.

(5 MARKS)

QUESTION NO.2

(20 MARKS)

Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the draft Balance Sheet of the company as on 31st March, 2019 before reconstruction:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share Capital		Goodwill	22,00,000
50,000 shares of Rs. 50 each fully paid up	25,00,000	Land & Building	42,70,000
1,00,000 shares of Rs. 50 each Rs. 40 paid up	40,00,000	Machinery	8,50,000
		Computers	5,20,000
Capital Reserve	5,00,000	Inventories	3,20,000
8% Debentures of Rs. 100 each	4,00,000	Trade receivables	10,90,000
12% Debentures of Rs. 100 each	6,00,000	Cash at Bank	2,68,000
Trade payables	12,40,000	Profit & Loss Account	7,82,000
Outstanding Expenses	<u>10,60,000</u>		
Total	<u>1,03,00,000</u>	Total	<u>1,03,00,000</u>

Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	<u>4,00,000</u>	<u>2,00,000</u>
Total	<u>7,00,000</u>	<u>3,00,000</u>

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of Rs. 40 each.
- (2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for Rs.12,50,000.
- (3) Trade payables are given option of either to accept fully paid equity shares of Rs. 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for Rs. 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. Shiv agrees to cancel debentures amounting to Rs. 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agrees to subscribe further 15% Debentures in cash amounting to Rs. 1,00,000.
- (5) Mr. Ganesh agrees to cancel debentures amounting to Rs. 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & Building to be revalued at Rs. 51,84,000, Machinery at Rs. 7,20,000, Computers at Rs. 4,00,000, Inventories at Rs. 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.
- (8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

QUESTION NO.3

(10 MARKS)

Lucky Ltd. grants 100 stock options to each of its 1,500 employees on 1-4-2014 for Rs. 40, depending upon the employees at the time of vesting of options. Options would be exercisable within a year it is vested. The market price of the share is Rs. 70 each. These options will vest at the end of year 1 if the earning of Lucky Ltd. is 15%, or it will vest at the end of the year 2 if the average earning of two years is 13% or lastly it will vest at the end of the third year if the average earning of 3 years will be 10% 8,000, unvested options lapsed on 31-3-2015. 6,000 unvested options lapsed on 31-3-2016 and finally 4,000 unvested options lapsed on 31-3-2017.

The earnings of Lucky Ltd. for the three financial years ended on 31st March, 2015; 2016 and 2017 are 14%, 10% and 8% respectively.

1,250 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life.

You are required to **give the necessary journal entries** for the above and **also prepare the statement showing compensation expense to be recognized at the end of each year.**