



SUGGESTED SOLUTION

IPCC MAY 2017 EXAM

ADVANCE ACCOUNTS

Test Code - I M J 7 1 2 2

BRANCH - (MULTIPLE) (Date : 13.11.2016)

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Answer-1 :

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	
Paid up capital (Rs.)	12,50,000
Free reserves (Rs.) (15,00,000 + 2,50,000 + 1,25,000)	<u>18,75,000</u>
Shareholders' funds (Rs.)	<u>31,25,000</u>
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

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 (.) (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

* 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.

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

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, 2013.

However, company wants to buy-back only 25,000 equity shares @ Rs.20. Therefore, buyback 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.)
(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)		

Balance Sheet of M/s. Competent Ltd. as on 31st March, 2013

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	<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

$$x = \text{Rs. } 2,87,500$$

$$y = \text{Rs. } 5,75,000$$

Answer-2 :

Realisation Account

	Rs.		Rs.	Rs.
To Sundry assets A/c (transfer):		By Sundry creditors A/c		20,000
Premises	1,20,000	By Cash A/c (assets realised):		
Furniture	40,000	Premises	90,000	
Stock	1,00,000	Furniture	16,000	
Sundry Debtors	40,000	Stock	60,000	
To Cash A/c (creditors paid)	32,000	Debtors	<u>24,000</u>	1,90,000
To Cash A/c (expenses)	4,000	By Loss transferred to Capital Accounts:		
		Naresh	54,000	
		Jay	36,000	
		Vinit	18,000	
		Pritam	<u>18,000</u>	<u>1,26,000</u>
	<u>3,36,000</u>			<u>3,36,000</u>

Cash Account

(2 Marks)

	Rs.		Rs.
To Balance b/d	8,000	By Realisation A/c (creditors)	32,000
To Realisation A/c (assets realised)	1,90,000	By Realisation A/c (expenses)	4,000
To Capital A/c (realisation loss made good):		By Mortgage loan	80,000
Naresh	54,000	By Naresh's Capital A/c	1,18,857
Jay	36,000	By Jay's Capital A/c	73,143
Pritam	<u>18,000</u>		
To Pritam's Capital A/c	<u>2,000</u>		
	<u>3,08,000</u>		<u>3,08,000</u>

Partners' Capital Accounts

(2 Marks)

Particulars	Naresh	Jay	Vinit	Pritam	Particulars	Naresh	Jay	Vinit	Pritam
	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.
To Balance b/d	-	-	10,000	12,000	By Balance b/d	1,00,000	60,000	-	-
To Realisation A/c (loss)	54,000	36,000	18,000	18,000	By General reserve A/c (3 : 2 : 1 : 1)	24,000	16,000	8,000	8,000
To Vinit's Capital A/c (loss)	11,143	6,857	-	-	By Capital reserve A/c (3 : 2 : 1 : 1)	6,000	4,000	2,000	2,000
To Cash A/c	1,18,857	73,143	-	-	By Cash A/c (loss on realization)	54,000	36,000	-	18,000
					By Naresh's Capital A/c	-	-	11,143	-
					By Jay's Capital A/c	-	-	6,857	-
					By Cash A/c	-	-	-	<u>2,000</u>
	<u>1,84,000</u>	<u>1,16,000</u>	<u>28,000</u>	<u>30,000</u>		<u>1,84,000</u>	<u>1,16,000</u>	<u>28,000</u>	<u>30,000</u>

Answer-3 :

In the Books of M/s/. LMS Statement of Piecemeal Distribution

Under Higher Relative Capital Method

Particulars	Amount Available Rs.	Creditors Rs.	Bank Loan Rs.	L's Loan Rs.	Capital L Rs.	Account M Rs.	S Rs.
Balance due	2,00,000	5,00,000	10,00,000	15,00,000	10,00,000	5,00,000	—
1st Instalment (including cash at Bank	5,00,000						
Less : Liquidator's expenses and fees	<u>(1,00,000)</u>						
	4,00,000						
Less : Payment to creditors and repayment of bank loan in the ratio of 2:5	<u>(4,00,000)</u>	<u>(1,14,286)</u>	<u>(2,85,714)</u>	—	—	—	—
Balance due 2 nd Instalment	15,00,000	85,714	2,14,286	10,00,000	15,00,000	10,00,000	5,00,000
Less : Payment to creditors and repayment of bank loan in full settlement	<u>(3,00,000)</u>	<u>(85,714)</u>	<u>(2,14,286)</u>				
	12,00,000						
Less : Repayment of L's loan	<u>(10,00,000)</u>			<u>(10,00,000)</u>			
	2,00,000						
Less : Payment to Mr. L towards relative higher capital [W.N.(i)]	<u>(2,00,000)</u>				<u>(2,00,000)</u>	—	—
Balances due 3 rd instalment	15,00,000				13,00,000	10,00,000	5,00,000
Less : Payment to Mr. L towards excess capital [W.N.(ii)]	<u>(3,00,000)</u>				<u>(3,00,000)</u>		
	12,00,000				10,00,000		
Less : Payment to Mr. L & Mr. M towards excess capital	<u>(10,00,000)</u>				<u>(5,00,000)</u>	<u>(5,00,000)</u>	

[W.N.(i) & (ii)]						
	2,00,000				5,00,000	5,00,000
Less :	<u>(2,00,000)</u>				<u>(66,667)</u>	<u>(66,667)</u>
Payment to all the partners equally						<u>(66,666)</u>
Balances Due 4 th Instalment	30,00,000				4,33,333	4,33,333
Less :	<u>(30,00,000)</u>				<u>(10,00,000)</u>	<u>(10,00,000)</u>
Payment to all the partners equally						<u>(10,00,000)</u>
Realisation profit credited to partners					5,66,667	5,66,667
Balances due 5 th Instalment	30,00,000				Nil	Nil
Less :	<u>(30,00,000)</u>				10,00,000	10,00,000
Payment to all partners equally						10,00,000
Realisation profit credited to partners					10,00,000	10,00,000
Total realisation profit					15,66,667	15,66,667

(8 Marks)

Working Notes :

- (i) Scheme of payment of surplus amount of Rs.2,00,000 out of second instalment :

	<u>L Rs.</u>	<u>M Rs.</u>	<u>S Rs.</u>
Balances (i)	15,00,000	10,00,000	5,00,000
Profit sharing ratio (ii)	1	1	1
Capitals taking S's capital as base (iii)	5,00,000	5,00,000	5,00,000
Excess capitals (iv) = (i) — (iii)	10,00,000	5,00,000	
Profit sharing ratio	1	1	
Capital taking M's capital as base (v)	5,00,000	5,00,000	
Higher relative excess (iv) — (v)	5,00,000	—	

So Mr. L should get Rs.5,00,000 first which will bring down his capital account balance from Rs.15,00,000 to Rs.10,00,000. Accordingly, surplus amounting to Rs.2,00,000 will be paid to Mr. L towards higher relative capital.

(2 Marks)

- (ii) Scheme of payment of Rs.15,00,000 realised in 3rd instalment.
- Payment of Rs.3,00,000 will be made to Mr. L to discharge higher relative capital. This makes the higher capital of both Mr. L and Mr. M Rs.5,00,000 as compared to capital of Mr. S.
 - Payment of Rs.5,00,000 each of Mr. L and Mr. M to discharge the higher capitals.
 - Balance Rs.2,00,000 equally to L, M and S, i.e. Rs.66,667, Rs.66,667 and Rs.66,666 respectively.

(2 Marks)

Answer-4 :

Journal of Quick Service Cars

2000		Rs.	Rs.
April 1	Speed Merchants Current Account To Sundry Debtors To Fox's Capital Account Being the sums received in 1999-2000 by Speed Merchants.	Dr. 1,150	700 450
1	Fox's Capital Account To Speed Merchant's Current Account Being the expenses incurred in 1999-2000 by Speed Merchants on behalf of Quick Service Cars. (The sum required to make their credit balance Rs. 5,800).	Dr. 4,350	4,350

(2 Marks)

Books of Fox and Stag:

Capital Accounts

Particulars	Fox Rs.	Stag Rs.	Particulars	Fox Rs.	Stag Rs.
To Speed Merchant's Current A/c	15,500	15,500	By Balance b/d	86,300	62,900
To Goodwill	60,000	20,000	By Net Assets purchased from:		
To Cash	—	37,650	Speed Merchants	4,52,000	2,44,250
To Balance c/d	7,02,000	2,34,000	Quick Service Cars	2,39,200	—
	7,77,500	3,07,150		7,77,500	3,07,150
			By Balance b/d	7,02,000	2,34,000

(3 Marks)

Balance Sheet of M/s. Fox and Stag as on April 1, 2000 (after amalgamation)

Liabilities	Rs.	Assets	Rs.
Creditors		Fixed Assets	6,85,500
Capital—Fox	7,02,000	Current Assets	5,44,300
Stag	<u>2,34,000</u>	Cash	1,48,550
Total	13,78,350	Total	13,78,350

(4 Marks)

Notes:

- (1) The problem does not mention the goodwill of M/s. Fox and Stag (before amalgamation) and hence the point has been ignored. But supposing goodwill of the firm was valued at Rs. 30,000, it would have been necessary to debit Fox and credit Stag with Rs. 7,500—one-fourth of goodwill because the new profit-sharing ratio means a loss of one-fourth in the profits to Stag and corresponding gain to Fox.
- (2) The capital accounts of Fox and Stag in the firm of Speed Merchants would be as follows:

	Fox Rs.	Stag Rs.
Balance as per balance sheet		
Add: Profit on revaluation of fixed assets—in the ratio of 4 : 1	3,64,000	2,22,250
Add: Goodwill—in the ratio of 4 : 1	48,000	12,000
	<u>40,000</u>	<u>10,000</u>

	Capital transferred to M/s. Fox and Stag	<u>4,52,000</u>	<u>2,44,250</u>
(3)	Capital of Fox in Quick Service Car had been ascertained as follows:-		Rs.
	Balance on April 1, 2000		1,99,600
	Add: Cash sales omitted from 1999-2000 accounts		450
	Add: Increase in value of Fixed Assets		13,500
	Add: Goodwill		<u>30,000</u>
			2,43,550
	Less: Expenses of 1999-2000 omitted from accounts		<u>4,350</u>
	Capital transferred to M/s. Fox and Stag		<u>2,39,200</u>
			(3 Marks)

Answer-5 :

In the books of Company Journal Entries

Date	Particulars		Dr. Rs	Cr. Rs.	
1-3-16 to	Bank A/c	Dr.	2,40,000		(4 Marks)
31-3-16	Employees compensation expenses A/c	Dr.	4,32,000		
	To Equity Share Capital A/c To			48,000	
	Securities Premium A/c			6,24,000	
	(Being all				
	otment to employees 4,800 shares of				
31-3-16	Profit and Loss account	Dr.	4,32,000		
	To Employees compensation expenses A/c (Being			4,32,000	
	transfer of employees compensation expenses)				

Working Note:

(2 Marks)

- (i) *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.*
- (ii) *The Employees Compensation Expense is transferred to Securities Premium Account.*
- (iii) *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.*