J.K. SHAH® TEST SERIES

Evaluate Learn Succeed

SUGGESTED SOLUTION

IPCC NOVEMBER 2016 EXAM

ADVANCED ACCOUNTING

Test Code - I N J 1 0 1 7

BRANCH - (MUMBAI) (Date : 15.05.2016)

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

Tel : (022) 26836666

Answer-1 :

(a) Statement of Distribution of Cash by 'Maximum Loss Method'

		Creditors Rs.	Amar's Loan Rs.	Amar Rs.	Akbar Rs.	Antony Rs.
Balance due		80,000	20,000	1,00,000	30,000	90,000
15th April 2010 realised	Rs. 60,000					
Paid to creditors		(60,000)	-	-	-	-
Balance due		20,000	20,000	1,00,000	30,000	90,000
1st May, 2010 realised	Rs. 1,46,000					
Paid to creditors	(Rs. 20,000)	20,000	-	-	-	-
Paid to Amar's loan	(Rs. 20,000)	-	20,000	-	-	-
Balance due (1)		Nil	Nil	1,00,000	30,000	90,000
Balance	Rs. 1,06,000					
Maximum Loss (1,00,000+30,000+90,000-1,06,000) =Rs. 1,14,000 shared in Profit & Loss ratio 5:3:2				(57,000)	(34,200)	(22,800)
				43,000	(4,200)	67,200
Akbar's deficiency shared by Amar & Antony in capital ratio 100:90				(2,210)	4,200	(1,990)
Cash paid [2]				40,790	-	65,210
Balance due (3) [1-2]				59,210	30,000	24,790
31st May 2010 realised Rs. 94,000						
Maximum Loss [59,210+30,000+24,790-94,000]= Rs. 20,000 shared in 5:3:2				(10,000)	(6,000)	(4,000)
Cash paid (4)				49,210	24,000	20,790
Balance/Loss* on realisation (3-4)				10,000	6,000	4,000

(6 Marks)

Cash Account

	Rs.		Rs.
To Realization Account	60,000	By Creditors Account	60,000
To Realization Account	1,46,000	By Creditors Account	20,000
To Realization Account	94,000	By Amar's Loan Account	20,000
		By Amar's Capital Account	40,790
		By Antony's Capital Account	65,210
		By Amar's Capital Account	49,210
		By Akbar's Capital Account	24,000
		By Antony's Capital Account	20,790
	3,00,000		**3,00,000**

(2 Marks)

Partners' Capital Accounts

	Amar Rs.	Akbar Rs.	Antony Rs.		Amar Rs.	Akbar Rs.	Antony Rs.
To Cash	40,790	-	65,210	By Balance b/d	1,00,000	30,000	90,000
To Cash	49,210	24,000	20,790				
To Balance c/d Realization loss*	10,000	6,000	4,000				
	1,00,000	**30,000**	**90,000**		**1,00,000**	**30,000**	**90,000**

* If no further realization takes place, then Amar, Akbar and Anthony will bear loss on realization Rs. 10,000, Rs. 6,000 and Rs. 4,000 respectively. **(2 Marks)**

Answer-2 :

Balance Sheet of M/s PQR & Co. as at 31st March, 2009

Liabilities		Rs.	Assets		Rs.
Capitals:			Building		
			(Rs. 1,00,000 + Rs. 60,000)		1,60,000
P	5,52,000		Plant & machinery		
			(Rs. 2,50,000+Rs. 2,00,000)		4,50,000
Q	3,68,000		Office equipment		
			(Rs. 20,000+Rs. 6,000)		26,000
R	1,84,000	11,04,000	Stock-in-trade		
			(Rs. 1,44,000+Rs. 1,68,000)		3,12,000
Sundry creditors			Sundry debtors		
(1,20,000+1,16,000)		2,36,000	(Rs. 1,60,000+Rs. 2,00,000)	3,60,000	
Bank overdraft		80,000	Less: Provision for doubtful debts		
			(Rs. 12,000+Rs. 26,000)	(38,000)	3,22,000
			Bank balance (Rs. 30,000+ Rs. 90,000)		1,20,000
			Cash in hand		30,000*
		14,20,000			**14,20,000**

* Rs. 20,000+Rs. 10,000+Rs. 1,53,000+Rs. 30,000 –Rs. 1,83,000 = Rs. 30,000.

(6 Marks)

In the books of P & Co.
Partners' Capital Accounts

Particulars	P Rs.	Q Rs.	Particulars	P Rs.	Q Rs.
To Capital A/cs – M/s PQR & Co.	4,89,000	2,43,000	By Balance b/d	2,40,000	1,60,000
			By Reserve (3:1)	37,500	12,500
			By Profit on Realisation A/c (W.N.4)	2,11,500	70,500
	4,89,000	**2,43,000**		**4,89,000**	**2,43,000**

(2 Marks)

In the books of R & Co.
Partners' Capital Accounts

Particulars	Q Rs.	R Rs.	Particulars	Q Rs.	R Rs.
To Capital A/cs – M/s PQR & Co.	3,68,000	1,84,000	By Balance b/d	2,00,000	1,00,000
			By Reserve (2:1)	1,00,000	50,000
			By Profit on Realisation (W.N.5)	68,000	34,000
	3,68,000	**1,84,000**		**3,68,000**	**1,84,000**

(2 Marks)

Working Notes:

1. Computation of purchase considerations

	P & Co. Rs.	R & Co. Rs.
Assets:		
Goodwill	1,20,000	60,000
Building	1,00,000	60,000
Plant & machinery	2,50,000	2,00,000
Office equipment	20,000	6,000
Stock-in-trade	1,44,000	1,68,000
Sundry debtors	1,60,000	2,00,000
Bank balance	30,000	90,000
Cash in hand	20,000	10,000
Due from R & Co.	1,00,000	-
(A)	**9,44,000**	**7,94,000**
Liabilities:		
Creditors	1,20,000	1,16,000
Provision for doubtful debts	12,000	26,000
Due to P & Co.	-	1,00,000
Bank overdraft	80,000	-
(B)	**2,12,000**	**2,42,000**
Purchase consideration (A-B)	**7,32,000**	**5,52,000**

(2 Marks)

2. Computation of proportionate capital

	Rs.
M/s PQR & Co. (Purchase Consideration) (Rs. 7,32,000+ Rs. 5,52,000)	12,84,000
Less: Goodwill adjustment	(1,80,000)
Total capital of new firm (Distributed in ratio 3:2:1)	11,04,000
P's proportionate capital	5,52,000
Q's proportionate capital	3,68,000
R's proportionate capital	1,84,000

(1 Mark)

3. Computation of Capital Adjustments

	P Rs.	Q Rs.	R Rs.	Total Rs.
Balance transferred from P & Co.	4,89,000	2,43,000		7,32,000
Balance transferred from R & Co.		3,68,000	1,84,000	5,52,000
	4,89,000	6,11,000	1,84,000	12,84,000
Less: Goodwill written off in the ratio of 3:2:1	(90,000)	(60,000)	(30,000)	(1,80,000)
Existing capital	3,99,000	5,51,000	1,54,000	11,04,000
Proportionate capital	5,52,000	3,68,000	1,84,000	11,04,000
Amount to be brought in (paid off)	1,53,000	(1,83,000)	30,000	

(1 Mark)

4. In the books of P & Co.

Realisation Account

	Rs.		Rs.
To Building	50,000	By Creditors	1,20,000

To Plant & machinery		1,50,000	By Bank overdraft	80,000
To Office equipment		20,000	By M/s PQR & Co.	7,32,000
To Stock-in-trade		1,20,000	(purchase consideration)	
To Sundry debtors		1,60,000	(W.N.1)	
To Bank balance		30,000		
To Cash in hand		20,000		
To Due from R & Co.		1,00,000		
To Partners' capital A/cs				
P	2,11,500			
Q	70,500	2,82,000		
		9,32,000		**9,32,000**

(1 Mark)

5. In the books of R & Co.

Realisation Account

		Rs.		Rs.
To Building		60,000	By Creditors	1,16,000
To Plant & machinery		1,60,000	By Due to P & Co.	1,00,000
To Office equipment		6,000	By M/s PQR & Co.	5,52,000
To Stock-in-trade		1,40,000	(purchase consideration)	
To Sundry debtors		2,00,000	(W.N.1)	
To Bank balance		90,000		
To Cash in hand		10,000		
To Partners' capital A/cs				
Q	68,000			
R	34,000	1,02,000		
		7,68,000		**7,68,000**

(1 Mark)

Note: The adjustments in the Capital Accounts of P, Q and R (both for Goodwill and the amounts paid to Q by P and R) can be shown in their Capital Accounts in the Books of P & Co and R & Co respectively. In such a case the Capital Account of the partners carried to PQR & Co will be the same amounts as shown in the Balance Sheet of PQR & Co.

Answer-3 (a) :

In the books of 3R Enterprises

Realisation Account

	Rs.		Rs.
To Land and Buildings	14,00,000	By Creditors	6,00,000
To Machinery	11,00,000	By 3R Enterprises (Pvt.) Ltd. A/c	42,00,000
To Furniture	6,10,000		
To Stock	8,40,000		
To Debtors	6,00,000		
To Cash at Bank	1,90,000		
To Ramesh's capital	30,000		
To Roshan's capital	20,000		
To Rohan's capital	10,000		
	48,00,000		**48,00,000**

(2 Marks)

Partners' Capital Accounts

	Ramesh Rs.	Roshan Rs.	Rohan Rs.		Ramesh Rs.	Roshan Rs.	Rohan Rs.
To Shares in 3R Enterprises (Pvt.) Ltd. A/c	21,00,000	14,00,000	7,00,000	By Balance b/d	16,80,000	11,60,000	6,70,000
To Bank A/c. (Settlement)	-	-	85,000	By General Reserve	3,15,000	2,10,000	1,05,000
				By Realization A/c (Profit)	30,000	20,000	10,000
				By Bank A/c. (Settlement)	75,000	10,000	-
	21,00,000	**14,00,000**	**7,85,000**		**21,00,000**	**14,00,000**	**7,85,000**

(2 Marks)

In the Books of 3R Enterprises (Private) Ltd
Journal Entries

			Rs.	Rs.
1.	Business Purchase A/c	Dr.	42,00,000	
	To M/s 3R Enterprises			42,00,000
	(Consideration payable for business purchased)			
2.	Land and Buildings A/c	Dr.	16,40,000	
	Machinery A/c Dr.	9,90,000		
	Furniture A/c	Dr.	6,10,000	
	Stock A/c	Dr.	8,40,000	
	Debtors A/c	Dr.	6,00,000	
	Bank A/c	Dr.	1,90,000	
	To Creditors A/c			6,00,000
	To Provision for doubtful debts A/c			30,000
	To Business Purchase A/c			42,00,000
	To Capital Reserve A/c (balancing figure)			40,000
	(Assets and liabilities taken over for Rs. 42,00,000; balance credited to capital reserve)			
3.	Capital reserve A/c (Expenses of takeover)	Dr.	23,000	
	To Bank A/c			23,000
	(Expenses for take over debited to capital reserve)			
4.	M/s 3R Enterprises A/c	Dr.	42,00,000	
	To Equity share capital A/c			42,00,000
	(Allotment of fully paid equity shares to discharge consideration for business)			
5.	Preliminary expenses A/c*	Dr.	57,000	
	To Bank A/c			57,000
	(Expenses incurred to get the company incorporated)			

(4 Marks)

*** As per para 56 of AS 26, preliminary expense is charged to Profit and Loss Account in the year it is incurred.**

Answer-3 (b) :

In the books of Company
Journal Entries

Date	Particulars		Dr. Rs.	Cr. Rs.
1-3-13 to 31-3-13	Bank A/c	Dr.	2,40,000	
	Employees compensation expenses A/c	Dr.	4,32,000	
	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)			
31-3-13	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.

(2 Marks)

Answer-4 (a) :

(i) Computation of liability of underwriters in respect of shares

(In shares)

	A	**B**	**C**
Gross liability (Total Issue – Promoters etc) in agreed ration of 3 : 2 : 1	15,00,000	10,00,000	5,00,000
Less: Unmarked applications (Subscribed shares – marked shares) in 3 : 2 : 1	(3,00,000)	(2,00,000)	(1,00,000)
Marked shares as per agreed ratio	12,00,000	8,00,000	4,00,000
Less: Marked applications actually received	(8,00,000)	(7,00,000)	(6,00,000)
Shortfall / surplus in marked shares	4,00,000	1,00,000	(2,00,000)
Surplus of C distributed to A & B in 3:2 ratio	(1,20,000)	(80,000)	2,00,000
Net liability for underwriting shares	2,80,000	20,000	Nil

(2 Marks)

(ii) Journal Entries in the books of Gemini Ltd.

		Rs.	**Rs.**
A's Account	Dr.	42,00,000	
B's Account	Dr.	3,00,000	
To Share Capital Account			30,00,000
To Securities Premium Account			15,00,000
(Being the shares to be taken up by the underwriters)			

Underwriting Commission Account	Dr.	15,00,000	
To A's Account			7,50,000
To B's Account			5,00,000
To C's Account			2,50,000
(Being the underwriting commission due to the underwriters)			
Bank Account	Dr.	34,50,000	
To A's Account			34,50,000
(Being the amount received from underwriter A for the shares taken up by him after adjustment of his commission)			
B's Account	Dr.	2,00,000	
To Bank Account			2,00,000
(Being the amount paid to underwriter B after adjustment of the shares taken by him against underwriting commission due to him)			
C's Account	Dr.	2,50,000	
To Bank Account			2,50,000
(Being the underwriting commission paid to C)			

(3 Marks)

Note: C had sold in excess of the underwriting obligation and hence he will not be required to purchase any shares but will get commission for underwriting.

Answer-4 (b) :

Section 68 to 70 of the Companies Act, 2013 lays down the provisions for a company to buy-back its own equity shares. The key provisions in this regard are as under:

(a) A company may purchase its own shares or other specified securities out of:

 (i) Its free reserves;

 (ii) The securities premium account;

 (iii) The proceeds of the issue of any shares or other specified securities (not being the proceeds of an earlier issue of the same kind of shares or other specified securities).

(0.5 Mark)

(b) The buy-back is authorized by its articles.

(0.5 Mark)

(c) A special resolution* has been passed in general meeting of the company authorising the buy-back (except where the buy back is of less than 10% of the paid up equity capital and free reserves of the company and the buy back is authorized by the Board by means of a resolution passed at a duly convened Board Meeting)

(0.5 Mark)

(d) The buy-back does not exceed 25% of the total paid up capital and free reserves of the company. Provided that in case of buy back of equity shares in any financial year, the 25% of paid up capital shall be construed as 25% of the total paid up equity capital in that financial year.

(0.5 Mark)

(e) The ratio of the secured and unsecured debt owed by the company after the buy back is not more than twice the paid up capital and its free reserves.

(0.5 Mark)

(f) All the shares and other securities for buy-back are fully paid up.

(0.5 Mark)

(g) The buy-back is completed within 12 months of the passing of the special resolution or a resolution passed by the Board.

(0.5 Mark)

(h) The buy-back of the shares listed on any recognized stock exchange is in accordance with the regulations made by the SEBI in this behalf.

(0.5 Mark)

(i) Before making such buy-back, a listed company has to file with the Registrar and the SEBI a declaration of solvency in the prescribed form.

(j) The buy back may be from
   - (i) the existing shareholders or security holders on proportionate basis;
   - (ii) the open market;
   - (iii) the shares or securities issued to the employees of the company pursuant to a scheme of Stock Option or Sweat Equity.

(0.5 Mark)

(k) Where a company purchases its own shares out of its free reserves or securities premium account it shall transfer an amount equal to the nominal value of such shares to Capital Redemption Reserve Account and details of such transfers should be given in the Balance Sheet.

(0.5 Mark)

----

*If the buy-back by the company is or less than 10% of the total paid-up equity capital and free reserves of the company then it can be authorised by the Board by means of resolution passed at its meeting and no special resolution will be required.