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TEST SERIES
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SUGGESTED SOLUTION
IPCC NOVEMBER 2016 EXAM
ADVANCED ACCOUNTS
Test Code - I N J 1 0 4 5
BRANCH - (MUMBAI) (Date : 12.06.2016)

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Answer-1 :

**Books of S Ltd.
Journal Entries**

Date	Particulars	Debit Rs.	Credit Rs.
31.3.11	Employees Compensation Expense Account To Employees Stock Option Outstanding Account (Being compensation expense recognized in respect of 1,000 options granted to employees at discount of Rs. 30 each, amortized on straight line basis over 2½ years)	Dr. 12,000	12,000
	Profit and Loss Account To Employees Compensation Expense Account (Being employees compensation expense of the year transferred to P&L A/c)	Dr. 12,000	12,000
31.3.12	Employees Compensation Expense Account To Employees Stock Option Outstanding Account (Being compensation expense recognized in respect of 1,000 options granted to employees at discount of Rs. 30 each, amortized on straight line basis over 2½ years)	Dr. 12,000	12,000
	Profit and Loss Account To Employees Compensation Expense Account (Being employees compensation expense of the year transferred to P&L A/c)	Dr. 12,000	12,000
31.3.13	Employees Compensation Expense Account To Employees Stock Option Outstanding Account (Being balance of compensation expense amortized Rs. 30,000 less Rs. 24,000)	Dr. 6,000	6,000
	Profit and Loss Account To Employees Compensation Expense Account (Being employees compensation expense of the year transferred to P&L A/c)	Dr. 6,000	6,000
31.7.13	Bank Account (Rs. 60 × 1,000) To Equity Share Capital Account To Securities Premium Account (Being exercise of 1,000 options at an exercise price of Rs. 60)	Dr. 60,000	10,000 50,000
31.7.13	Stock Option Outstanding A/c (Rs.30 x 1,000) To Securities Premium Account (Being the balance in the Employees Stock Option Outstanding Account transferred to Securities Premium A/c)	Dr. 30,000	30,000

(1 x 5 = 5Marks)

Working Notes:

1. Total employees compensation expense = 1,000 x (Rs. 90 – Rs. 60) = Rs. 30,000
2. Employees compensation expense has been written off during 2½ years on straightline basis as under:
I year = Rs. 12,000 (for full year)
II year = Rs. 12,000 (for full year)

III year = Rs. 6,000 (for half year)

(1 Mark)

Answer-2 :

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

(0.5 Marks)

2. Resources Test: Maximum permitted limit 25% of Equity paid up capital + Free Reserves

Particulars	Rs.
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

(0.5 Marks)

3. Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds postBuy 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 (Rs.) (see W.N.)(31,25,000 – 2,87,500)	28,37,500*
(e) Maximum permitted buy back of Equity (Rs.) [(d) – (b)]	5,75,000
(f) Maximum number of shares that can be bought back @ Rs. 20 per share	28,750 shares
(g) Actual Buy Back Proposed	25,000 Shares

(0.5 Marks)

*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

(0.5 Marks)

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, buy-back 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)			
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(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)			

(1 x 3 = 3 Marks)

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

Particulars	NoteNo	AmountRs.
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		<u>16,50,000</u>
Total		<u>71,50,000</u>
ASSETS		
1 Non-current assets		
(a) Fixed assets		46,50,000
2 Current assets(30,00,000-5,00,000)		<u>25,00,000</u>
Total		<u>71,50,000</u>

(3 Marks)

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>	28,75,000

(1 Mark)

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

$$(31,25,000 - x) - 22,62,500 = y$$

(1)

$$\left(\frac{y}{20} \times 10\right) = x \quad \text{Or} \quad 2x = y \quad (2)$$

by solving the above equation we get

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

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

(1 Mark)

Answer-3 :

Calculation of liability of each underwriter assuming that the benefit of firm underwriting is not given to individual underwriter

Particulars	No. of shares				Total
	L	M	N	O	
Gross underwriting	80,000	60,000	40,000	20,000	2,00,000
Less: Marked Application (excluding firm underwriting)	(55,000)	(40,000)	(42,000)	(8,000)	(1,45,000)
Balance	25,000	20,000	(2,000)	12,000	55,000
Less: Surplus of N allotted to L, M & O in the ratio of 4:3:1	(1,000)	(750)	2,000	(250)	-
Balance	24,000	19,250	-	11,750	55,000
Less: Unmarked application including firm underwriting(WN)	(7,200)	(5,400)	(3,600)	(1,800)	(18,000)
Net Liability	16,800	13,850	(3,600)	9,950	37,000
Less: Surplus of N allotted to L, M & O in the ratio of 4:3:1	(1,800)	(1,350)	3,600	(450)	-
Balance	15,000	12,500	-	9,500	37,000
Add: Firm Underwriting	5,000	4,000	2,000	2,000	13,000
Net Liability	20,000	16,500	2,000	11,500	50,000

(6 Marks)

Working Note:

Particulars	No. of shares
Application received from public	1,50,000
Add: Firm underwriting	13,000
Total Applications	1,63,000
Less: Marked application	(1,45,000)
Unmarked application including firm underwriting	18,000

(2 Marks)

Answer-4 :

Realisation Account

Particulars	Rs.	Particulars	Rs.
To Building	1,90,000	By Trade creditors	80,000
To Stock	1,30,000	By Bills payable	30,000
To Investment	50,000	By Cash	
To Debtors	70,000	Building	2,09,000
To Cash-creditors paid(W.N.1)	63,650	Stock	1,20,000
To Cash-expenses	8,000	Investments (W.N.2)	40,000
To Cash-bills payable(30,000-500)	29,500	Debtors (W.N. 3)	56,700
To Partners' Capital A/cs		By R -Debtors-unrecorded	7,000
P	4,183	By R- Investments-unrecorded	11,000
Q	4,183		
R	2,789		

S	<u>1,395</u>	12,550	
		5,53,700	5,53,700

(3 Marks)

Cash Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To Balance b/d	30,000	By Realisation-creditorspaid	63,650
To Realisation – assets realised		By Realisation-bills payable	29,500
Building	2,09,000	By Realisation-expenses	8,000
Stock	1,20,000	By Capital account	
Investments	40,000	P	1,51,132
Debtors	<u>56,700</u>	Q	1,51,132
To R's capital A/c	7,000	S	59,286
		4,62,700	4,62,700

(2 Marks)

Partners' Capital Accounts

Particulars	P Rs.	Q Rs.	R Rs.	S Rs.	Particulars	P Rs.	Q Rs.	R Rs.	S Rs.
To Balance b/d			40,000		By Balance b/d	1,50,000	1,5,000	-	60,000
To Realisation A/c. – Debtors – misappropriation			7,000		By General reserve	13,333	13,333	8,889	4,445
To Realisation A/c. – Investment misappropriation			11,000		By Realisation profit	4,183	4,183	2,789	1,395
To R's capital A/c. (W.N.4)	16,384	16,384		6,554	By Cash A/c.			7,000	
To Cash A/c.	1,51,132	1,51,132		59,286	By P's Capital A/c.			16,384	
					By Q's Capital A/c.			16,384	
					By S's Capital A/c.			6,554	
	1,67,516	1,67,516	58,000	65,840		1,67,516	1,67,516	58,000	65,840

(3 Marks)

Working Notes:

1. Amount paid to creditors in cash

	Rs.
Book value	80,000
Less: Creditors taking over investments	<u>(13,000)</u>
	67,000
Less: Discount @ 5%	<u>(3,350)</u>
	<u>63,650</u>
	(1 Mark)

2. Amount received from sale of investments

	Rs.
Book value	50,000
Less: Misappropriated by R	<u>(8,000)</u>
	42,000
Less: Taken over by a creditor	<u>(9,000)</u>
	33,000
Add: Profit on sale of investments	<u>7,000</u>
Cash received from sale of remaining investment	<u>40,000</u>
	(1 Mark)

3. Amount received from debtors

	Rs.
Book value	70,000
Less: Unrecorded receipt	<u>(7,000)</u>
	63,000
Less: Discount @ 10%	<u>(6,300)</u>
	<u>56,700</u>
	(1 Mark)

4. Deficiency of R

	Rs.
Balance of capital as on 31st March, 2014	40,000
Debtors-misappropriation	7,000
Investment-misappropriation	<u>11,000</u>
	58,000
Less: Realisation Profit	<u>(2,789)</u>
General reserve	<u>(8,889)</u>
Contribution from private assets	<u>(7,000)</u>
Net deficiency of capital	<u>39,322</u>
This deficiency of Rs. 39,322 in R's capital account will be shared by other partners P,Q and S in their capital ratio of 15 : 15 : 6.by	
Accordingly,	
P's share of deficiency = $[39,322 \times (15/36)] = \text{Rs. } 16,384$	
Q's share of deficiency = $[39,322 \times (15/36)] = \text{Rs. } 16,384$	
S's share of deficiency = $[39,322 \times (6/36)] = \text{Rs. } 6,554$	
	(1 Mark)

Answer-5 :

LEDGER OF BETTER LIMITED
Fixed Assets Account

	Rs.		Rs.
To Balance b/d	15,00,000	By Realisation A/c (transfer)	15,00,000

Current Assets Account

	Rs.		Rs.
To Balance b/d	5,00,000	By Realisation A/c (transfer)	5,00,000

Liabilities Account

	Rs.		Rs.
To Realisation A/c	2,00,000	By Balance b/d	2,00,000

Realisation Account

	Rs.		Rs.
To Fixed Assets A/c	15,00,000	By Liabilities A/c	2,00,000
To Current Assets A/c (Purchase Consideration)	5,00,000	By Best Limited	15,00,000
		By Shareholders' A/c (Loss on Realisation)	3,00,000
	20,00,000		20,00,000

Share Capital Account

	Rs.		Rs.
To Sundry shareholders A/c - (transfer)	15,00,000	By Balance b/d	10,00,000
		By Reserves & Surplus A/c (Bonus issue)	5,00,000
	15,00,000		15,00,000

Reserves & Surplus Account

	Rs.		Rs.
To Share Capital (Bonus issue)	5,00,000	By Balance b/d	8,00,000
To Sundry Shareholders	3,00,000		
	8,00,000		8,00,000

Best Ltd.

	Rs.		Rs.
To Realisation A/c - Purchase Consideration	15,00,000	By Shares in Best Ltd	15,00,000
	15,00,000		15,00,000

Shares in Best Ltd.

	Rs.		Rs.
To Best Ltd.	15,00,000	By Sundry Shareholders A/c	15,00,000

Sundry Shareholders Account

	Rs.		Rs.
To Realisation A/c (Loss)	3,00,000	By Share Capital A/c	15,00,000
To Share in Best Ltd.	15,00,000	By Reserves & Surplus A/c	3,00,000
	18,00,000		18,00,000

(0.5 x 8 = 4 Marks)

Journal of Best Ltd.

2014		Dr.	Cr.
		Rs.	Rs.
Apr. 1	Fixed Assets A/c	Dr. 15,00,000	
	Current Assets A/c	Dr. 5,00,000	
	To Liabilities A/c		2,00,000
	To Liquidator of Better Ltd.		15,00,000
	To Capital Reserve A/c		3,00,000
	(Assets & Liabilities of Better Ltd. taken over for an agreed purchase consideration of Rs. 15,00,000 as per agreement dated....)		
	Liquidator of Better Ltd.	Dr. 15,00,000	
	To Share Capital A/c		10,00,000
	To Securities Premium A/c		5,00,000
	(Discharge of Purchase consideration by the issue of equity shares of Rs. 10,00,000 at a premium of Rs. 50 per share as per agreement)		
	Trade payables A/c	Dr. 1,00,000	
	To Trade receivables A/c		1,00,000
	(Amount due from Better Ltd., and included in its creditors taken over, cancelled against own Trade receivables)		

Capital Reserve A/c	Dr.	10,000	
To Current Asset (Stock) A/c			10,000
(Unrealized profit on stock included in current assets of Better Ltd. written off to Reserve Account)			

(3 Marks)

Working Note :

Calculation of Purchase consideration:

Issued Capital of Better Ltd. (after bonus issue) at Rs. 100 per share Rs. 15,00,000 Purchase consideration has been discharged by Best Ltd. by the issue of shares for Rs. 10,00,000 at a premium of Rs. 5,00,000. This gives the value of Rs. 150 per share.

Balance Sheet of Best Ltd. (After absorption)

Particulars	Notes	Rs.
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	30,00,000
b Reserves and Surplus	2	17,90,000
2 Current liabilities		<u>21,00,000</u>
Total		<u>68,90,000</u>
Assets		
1 Non-current assets		
a Fixed assets		
Tangible assets	3	40,00,000
Non-current investments		5,00,000
2 Current assets (24,00,000 – 10,000)		<u>23,90,000</u>
Total		<u>68,90,000</u>

(4 Marks)

Notes to accounts

	Rs.
1 Share Capital	
Equity share capital	
Issued & Subscribed	
30,000 shares of Rs. 100 (Of the above 10,000 shares have been issued for consideration other than cash)	<u>30,00,000</u>
Total	<u>30,00,000</u>
2 Reserves and Surplus	
Capital Reserve (3,00,000 – 10,000)	2,90,000
Securities Premium	5,00,000
Other reserves and surplus	<u>10,00,000</u>
Total	<u>17,90,000</u>
3 Tangible assets	
Fixed Assets	25,00,000
Acquired during the year	<u>15,00,000</u>
<u>40,00,000</u>	
Total	40,00,000

(3 Marks)