

Suggested Answers of Test 1

TEST 1 – SUGGESTED SOLUTION

Q1 - SOLUTION

Statement determining the maximum number of shares to be bought back

Number of shares **(1 Mark for this below working)**

Particulars	When loan fund is		
	Rs. 2,520 crores	Rs. 1,680 crores	Rs. 2,100 crores
Shares Outstanding Test (W.N.1)	11.55	11.55	11.55
Resources Test (W.N.2)	8.75	8.75	8.75
Debt Equity Ratio Test (W.N.3)	Nil	5.25	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	5.25	Nil

Journal Entries for the Buy-Back

(applicable only when loan fund is Rs. 1,680 crores)

Rs. in crores				
	Particulars	Debit	Credit	Marks
(a)	Equity share buy-back account Dr. To Bank account	157.5	157.5	0.5 Marks
(b)	Equity share capital account (5.25 x Rs. 10) Dr. Securities premium account (5.25 x Rs. 20) Dr. To Equity share buy-back account	52.5 105	157.5	1 Mark
(c)	General reserve account Dr. To Capital redemption reserve account	52.5	52.5	0.5 Marks

Working Notes:

1. Shares Outstanding Test **(1 Mark)**

Particulars	(Shares in crores)
Number of shares outstanding	46.2
25% of the shares outstanding	11.55

2. Resources Test **(1.5 Marks)**

Particulars	
Paid up capital (Rs. in crores)	462
Free reserves (Rs. in crores) (336+126+126)	588
Shareholders' funds (Rs. in crores)	1,050
25% of Shareholders fund (Rs. in crores)	Rs. 262.5 crores
Buy-back price per share	Rs. 30
Number of shares that can be bought back (shares in crores)	8.75 rores shares

Suggested Answers of Test 1

- 3. Debt Equity Ratio Test:** the ratio of debt owed by the company should not be more than twice the capital and its free reserve after such a buy-back.

	Particulars	When loan fund is		
		Rs. 2,520 crores (0.5 Mark)	Rs. 1,680 crores (2 Marks)	Rs. 2,100 crores (0.5 Mark)
(a)	Loan funds (Rs. in crores)	2,520	1,680	2,100
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (Rs. in crores)	1,260	840	1,050
(c)	Present equity Shareholders fund (Rs. in crores)	1,050	1,050	1,050
(d)	Future equity shareholder fund (Rs. in crores) (See Note 2)	N.A.	997.5 (1,050-52.5)	N.A.
(e)	Maximum permitted buy-back of Equity (Rs. in crores) [(d) – (b)] (See Note 2)	Nil	157.5 (By simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ Rs. 30 per share (shares in crores) (See Note 2)	Nil	5.25 (By simultaneous equation)	Nil
	As per the provisions of the Companies Act, 2013, company	Does not Qualify	Qualifies	Does not Qualify

Note:

1. (1 Mark)

Suppose No. of Shares to be bought back is 'x' and if face value of each share is 10/- then:

- Face Value of Buyback shares is $10x$
- CRR to be Created due to buyback equal to face value is $10x$
- Premium on Buyback is $20x$ ($30/-$ buyback price less Face Value $10/-$)
- Therefore, total impact of Buyback on Current Equity would be $40x$

Situation 2: Loan Funds are Rs. 1,680

Present Equity	1,050
(-) Impact of Buyback on Equity	(40X)
Minimum Equity to be Maintained	840
Value of x i.e. No. of Max. Buyback	5.25 Crore

- Statutory reserves, capital redemption reserve and plant revaluation reserves are not free reserves. (0.25 Marks)
- For calculation of debt -equity ratio both secured and unsecured loans have been considered (0.25 Marks)

Suggested Answers of Test 1

Q2 - SOLUTION

Prakash Ltd.

Balance Sheet as on 31.03.2023

(4 Marks for Correct Balance Sheet or Proportionate Step marking for partial correct)

	Particulars	Note no.	Amount
A	Equity and Liabilities		
	1. Shareholders' funds		
	(a) Share Capital	1	20,00,000
	(b) Reserves and surplus	2	36,76,202
	2. Share application money pending allotment		
	3. Non-current liabilities		
	(a) Long term borrowings	3	79,28,000
	4. Current liabilities		
	(a) Short term borrowings	4	17,00,000
	(b) Trade payables	5	46,45,250
	(c) Other current liabilities	6	1,50,000
	(d) Short term provisions	7	5,08,068
	Total		2,06,07,520
B	ASSETS		
	1. Non-current assets		
	(a) PPE:		
	(i) Tangible assets	8	1,07,88,270
	2. Current assets		
	(a) Current Investments		
	(b) Inventories	9	8,94,000
	(c) Trade receivables	10	79,99,000
	(d) Cash and cash equivalents	11	9,26,250
	Total		2,06,07,520

Discloser: The board has declared dividend @ 12% of paid-up share capital on 5th April 2023.

Suggested Answers of Test 1

Statement of Profit and Loss For the year ended 31.03.2023

(4 Marks for Correct P&L or Proportionate Step marking for partial correct)

	Particulars	Note no.	Amount
I	Revenue from operations	12	1,32,55,000
II	Other Income	13	60,500
III	Total Income (I+II)		1,33,15,500
IV	Expenses		
	A. Purchases of Inventory-in-Trade	14	71,49,000
	B. Changes in Inventories	15	3,31,000
	C. Employee benefits expenses	16	8,97,000
	D. Finance costs	11	7,40,000
	E. Depreciation and amortization expenses	Note-2	7,49,030
	F. Other expenses	18	13,15,200
	Total expenses (IV)		1,11,81,230
V	Profit / (loss) before tax (III-IV)		21,34,270
VI	Tax expense		5,33,568
VII	Profit / (loss) after tax (V-VI)		16,00,702

Suggested Answers of Test 1

Notes to Accounts:

1	Share capital :		20,00,000	0.25 Marks
	Equity shares capital			
	Authorized (3,00,000 equity shares of Rs.10 each)	30,00,000		
	Issued and Subscribed share capital (2,00,000 equity shares of Rs.10 each)	20,00,000		
2	Reserves and surplus		36,76,202	0.5 Marks
	i) General reserve	8,00,000		
	Add: current year transfer	80,000		
		8,80,000		
	ii) Profit & Loss balance			
	Op. balance - Surplus P&L a/c	9,25,500		
	Add: Profit for the year	16,00,702		
	Less: Transfer to General reserves	-80,000		
		24,46,202		
	iii) Securities premium	3,50,000		
3	Long term borrowings		79,28,000	0.25 Marks
	Term loan from Public Sector Bank (Secured against hypothecation)	96,28,000		
	Less: Installment of loan falling due within one year	-17,00,000		
4	Short term borrowings		17,00,000	0.25 Marks
	Current Maturity of Long Term Loan	17,00,000		
5	Trade payables		46,45,250	0.25 Marks
	i) Trade payables	45,20,250		
	ii) Bills payables	1,25,000		
6	Other current liabilities		1,50,000	0.25 Marks
	Rent outstanding	25,000		
	Wages and salaries outstanding	1,25,000		
7	Short term provisions		4,81,628	0.25 Marks
	Provision for Corporate tax	5,33,568		
	(-) Advance Tax	25,500		
9	Inventories		12,25,000	0.25 Marks
	Closing Stock as on 31.03.2023	12,25,000		
10	Trade receivables		79,99,000	0.5 Marks
	i) Debtors outstanding for period exceeding 6 months	85,600		
	ii) Other debts	83,34,400		
	Less: Provision for doubtful debt @ 5%	-4,21,000		
11	Cash and cash equivalents		9,26,250	0.25 Marks
	i) Bank balance	7,75,000		
	ii) Cash in hand	1,51,250		

Suggested Answers of Test 1

12	Revenue from operations		1,32,55,000	0.25 Marks
	Sales	1,32,55,000		
13	Other income		60,500	0.25 Marks
	Commission	60,500		
14	Purchase of inventory		71,49,000	0.5 Marks
	Adjusted Purchases	74,80,000		
	(-) Difference in Stock	3,31,000		
15	Changes in inventories		3,31,000	0.25 Marks
16	Employee benefit expense		8,97,000	0.25 Marks
	Wages and salaries	7,72,000		
	Add: wages and salaries outstanding	1,25,000		
17	Finance cost		7,40,000	0.25 Marks
	Interest on term loan	7,40,000		
18	Other expenses		13,15,200	0.5 Marks
	i) Rent (including Outstanding 25000)	3,50,000		
	ii) Rates and Taxes	60,000		
	iii) Selling and distribution expenses	4,42,000		
	iv) Provision for doubtful debts	3,89,000		
	v) Bad Debts	42,200		
	vi) Director's fee	32,000		

Note 8: Calculation of Depreciation & CLOSING PPE (0.5 Marks)

	Book Value	Op. Provision	Op. WDV	Current Dep.	Clog. WDV
Land	25,00,000		25,00,000		25,00,000
Factory Building	32,50,000	1,56,000	30,94,000	1,54,700	29,39,300
Plant & Machinery	58,60,000	8,95,500	49,64,500	4,96,450	44,68,050
Furniture & Fittings	10,75,000	96,200	9,78,800	97,880	8,80,920
Total				7,49,030	1,07,88,270

Note1 - The final dividend will not be recognized as a liability at the balance sheet date. Such dividends will be disclosed in notes only. **(0.25 Mark)**