

CA INTER (G - II)

Accounting for Employee Stock Option Plan and Buy-back of Securities and Equity Shares with differential rights

(Nov 2019) Buy-back of Shares

1. X Ltd. furnishes the following summarized Balance Sheet as at 31-03-2018

Liabilities	(in Rs)	(in Rs)
Share Capital		
Equity Share Capital of Rs. 20 each fully paid up	50,00,000	
10,000, 10% Preference Share of Rs. 100 each fully paid up,	10,00,000	60,00,000
Reserves & Surplus		
Capital Reserve	1,00,000	
Security Premium	12,00,000	
Revenue Reserve	5,00,000	
Profit & Loss	20,00,000	
Dividend Equalization Fund	5,50,000	43,50,000
Non-Current Liabilities		
12% Debenture		12,50,000
Current Liabilities and Provisions		5,50,000
Total :		1,21,50,000
Assets	(in Rs)	(in Rs)
Fixed Assets		
Tangible Assets		1,00,75,000
Current Assets		
Investment	3,00,000	
Inventory	2,00,000	
Cash and Bank	15,75,000	20,75,000
Total :		1,21,50,000

The Shareholders adopted the resolution on the date of the above mentioned Balance Sheet to :

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1. Buy back 25% of the paid up capital and it was decided to offer a price of 20% over market price. The prevailing market value of the company's share is Rs 30 per share
2. To finance the buy back of share company;
 - a. Issue 3000, 14% debenture of Rs 100 each at a premium of 20%
 - b. Issue 2500, 10% preference Shares of Rs 100 each
3. Sell investment worth Rs 1,00,000 for Rs 1,50,000
4. Maintain a balance of Rs 2,00,000 in Revenue Reserve
5. Later the company issue three fully paid up equity share of Rs 20 each by way of bonus share for every 15 equity share held by the equity shareholders

You are required to pass necessary journal entries to record the above transactions and prepare balance sheet after buy back

(Jan 2021) (Employees Stock Options Plans)

2. Raja Ltd. has its Share Capital divided into equity Shares of Rs 10 each. On 01-08-2019, it granted 2,500 employees stock options at Rs 50 per Share, when the market price was Rs 140 per Share. The options were to be exercised between 1-10-2019 to 31-03-2020. The employees exercised their options for 2,400 share only and the remaining options lapsed. Raja Ltd. closes its books of accounts on 31st March, every year.

You are required to pass the necessary Journal Entries (including narration) for the ended 31-03-2020, with regard to employees' stock options and give working notes also.

(Jan 2021) (Buy-back of Shares)

3. The Directors of Umang Ltd. passed a resolution to buyback 5,00,000 numbers of its fully paid equity shares of Rs 10 each at Rs 15 per share. This buyback is in compliance with the provisions of the Companies Act, 2013
For this purpose, the company.
 - (i.) Sold its investments of Rs 30,00,000 for Rs 25,00,000
 - (ii.) Issued 20,000, 12% preference shares of Rs 100 each at par, the entire amount being payable with application
 - (iii.) Used Rs 15,00,000 of its Securities Premium Account apart from its adequate balance in General Reserve to fulfill the legal requirements regarding buy-back
 - (iv.) The company has necessary cash balance for the payment to shareholders

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You are required to pass necessary Journal Entries (including narration) regarding buy-back of shares in the books of Umang Ltd.

(Jul 2021) (Buy-back of Shares)

4. A Company provides the following 2 possible Capital Structure as on 31st March, 2021:

Particulars	Situation 1	Situation 2
Equity Share Capital (Shares of Rs 10 each, fully paid up)	30,00,000	30,00,000
Reserves & Surplus		
General Reserve	12,00,000	12,00,000
Securities Premium	6,00,000	6,00,000
Profit & Loss	2,10,000	2,10,000
Statutory Reserve	4,20,000	4,20,000
Loan Funds	25,00,000	1,20,00,000

The company is planning to offer buy back of Equity Share at a price of Rs 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both the situations as per Companies Act, 2013 and also required to pass necessary Journal Entries in the situation where the buyback is possible.

(Jul 2021) (Employees Stock Options Plans)

5. At the beginning of the year 1, Harmony Limited grants 600 options to each of its 1000 employees. The contractual life of option granted is 6 years.

Other relevant information is as follows :

Vesting Period	3 years
Exercise Period	3 years
Expected life	5 years
Exercise Price	Rs 100

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Market Price	Rs 100
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Expected Forfeitures per year 3%

The option granted vest according to a graded schedule of 25% at the end of the year 1, 25% at the end of the year 2 and the remaining 50% at the end of the year 3

You are required to calculate total compensation expenses for the options expected to vest and cost and cumulative cost to be recognized at the end of all the three years assuming that expected forfeiture rate does not change during the vesting period when the Intrinsic value of the options at the grant date is Rs 7 per options

(Dec 2021) (Employees Stock Options Plans)

6. A Company grants 2,000 Employees Stock Options on 1st April, 2018 at Rs 60 when the market price is Rs 170. The vesting period is 2.5 years and the maximum exercise period is 1 year. 600 unvested options lapse on 01.05.2020. 1200 options are exercise on 30.06.2021. 200 vested options lapse at the end of the exercise period. You are required to pass necessary journal entries with narrations.