Disclaimer Clause : *These solutions are prepared by expert faculty team of Resonance. Views and answers provided may differ from that would be given by ICAI due to difference in assumptions taken in support of the answers. In such case answers as provided by ICAI will be deemed as final.*

Ans. 1(a)

(i) Based on sales , research and Development cost allocation as follows :

Year	Research and Development cost allocation (Rs. in lakhs)
I	$\frac{1200}{3000} \times 450 = 180$
II	$\frac{900}{3000} \times 450 = 135$
III	$\frac{600}{3000} \times 450 = 90$
IV	$\frac{300}{3000} \times 450 = 45$

If at the end of the IIIrd year , circumstances do not justify that further benefit will accrue in IV year, then the company has to change the unamortized amount i.e., remaining Rs. 135 lakhs [450– (180 + 135)] as an expenses immediately.

Note : As per para 41 to AS 26 on Itangible Assets , expenditure on research (or on the research phase of an internal project) should be recognized as ana expense when it is development cost. Therefore , the expenditure has been deferred to the subsequent years on para 44 of AS 26. An itangible asset should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Hence the remaining unamortised amount of Rs. 135,00,000 has been written off as an expense at the end of third year.

Ans 1 (b) **Journal of ABC Ltd.**

Date	Particulars	L.F.	Dr.	Cr.
	Machinery A/c Dr. To Bank (Being the machinery purchase)		25,00,000	25,00,000
	Bank A/c Dr. To Govt grant A/c (Being the Govt. grant received)		5,00,000	5,00,000
	Depreciation A/c Dr. To Machinery (Being the depreciation charged on machinery)		2,00,000	2,00,000
	P& L A/c Dr. To Depreciation A/c (Being the depreciation transferred to P & L a/c)		2,00,000	2,00,000
	Govt. grant A/c Dr. To P & L A/c (Being the govt. grant transferred to P & L a/c in the ratio of depreciation)		50,000	50,000

Ans. 1 (c) Provision for NPA

Standard advances	7000 × 2%	140
Sub- Standard Advances		
Secured Exposures	1000 × 15%	150
Unsecured Exposures	1000 × 25%	250
Secured (Infrastructure Loan)	1500 × 20%	300
Doubtful Advances- unsecured	1500 × 100%	1500
Doubtful- Secured		
- up to 1year	500 × 25%	125
- up to 3 year	600 × 40%	240
- More than 3 year	300 × 100%	300
Loss- Advances	200 × 100%	200
		3205

Ans 1(d) (i) As per para 16 of AS 20 Earnings Per Share the weighted average number of equity shares outstanding during the period reflects the fact that the amount of shareholders capital may have varied during the period as a result of a larger or less number of shares outstanding at any time For the purpose of calculating basic earrings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period.

Weighted average number of equity shares

4,80,000 × 5/12	= 2,00,000 shares
8,40,000 × 5/12	= 3,50,000 shares
6,60,000 × 2/12	= 1,10,000 shares
	= 6,60,000 shares

(ii) Equity per share

Basic EPS 2010-11 = ₹ 22,50,000 /10,00,000 = ₹ 2.25

Adjusted EPS 2009-10 = ₹ 11,40,000/10,00,000 = ₹ 1.14

Ans 2.

Particulars	Cash	Creditors	B's Loan	A	B	C
Balance due	275	16500	4500	15000	7500	15000
Ist realisation	18650					
	18925					
Less : Dissolution Exp.	3000					
	15925					
Less : Paid to Creditors	15900	15900				
	25					
Less: Paid to B's Loan	25		25			
			4475			
II realisation	17320					
Less : Payment to B's Loan	4475		4475			
	12845					
Less: C's commission	360					
	12485					
Less: Capital commission (R/100 + R)	1135					
	11350					
Less: Paid to C	3750					3750
	7600					
Less : Paid to A & C (4 : 3)	7600			4343		3257
				10654		7993
III realisation	10000					
Less : C's commission	100					
	9900					
Less: Capital commission (R 100+R)	900					
	9000					
Paid to A & C (4 : 3)	1150		1150	657		493
	7850			10000	7500	7500
Paid to A,B, & C (4 : 3 : 3)	7850		3140	3140	2355	2355
				6860	5145	5145
Last instament	7000					
Less : C's commission	70					
	6930					
Less Capital commision	630					
	6300					
Less: Paid to A,B& C (4 : 3: 3)	6300			2520	1890	1890
Less on realistion				4340	3255	3255

Ans. 3(a)

Calculation of maximum amounts of Buy-back

(i) 25% of total paid up capital and free reserve
25% (28,75,000) 7,18,750

(ii) 25 of total paid up value of equity
25% X 12,50,000 3,12,500

(iii) The debt equity ratio should not be more then 2 : 1 after buy back
debt = 18,75,000 + 10,00,000 + 16,50,000 28,75,000
Equity after buy back shall not be less than 14,37,500

Journal of M/s Component Ltd.

Date	Particulars	L.F.	Dr.	Cr.
	Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Equity Shareholder (Being the amount due of buy back)		2,50,000 2,50,000	 5,00,000
	Revenue Reserve A/c Dr. To Capital redemption reserve (Being the amount transferred from free reserve to CRR)		2,50,000	 2,50,000
	Equity shareholder A/c Dr. To Bank (Being the amount paid to equity share holder)		5,00,000	 5,00,000

Balance Sheet of M/s Component Ltd. as on 31st March 2012

Liablities	Amount	Assets	Amount
Equity Share of ` 10 Each Fully Paid 10,00,000	10,00,000	Fixed Assets	46,50,000
Revenue Reserve	12,50,000	Current Ass.	25,00,000
Profit & Loss	1,25,000		
CRR	2,50,000		
Secured Loan:			
12 % Debeutures	18,75,000		
Unsecured Loan	10,00.000		
Total	71,50,000		71,50,000

Ans. 3 (b)

12 % Debenture A/c

Particulars	Amount	Particulars	Amount
To, Debenture holder's A/c	7,50,000	By Bal b/d	7,50,000
Total	7,50,000	Total	7,50,000

Sinking Fund A/c

Particulars	Amount	Particulars	Amount
To Sinking Fund Investment A/c.	15,000	By bal b/d	6,00,000
To Premium on redumption	75,000	By Int on Investment	65,000
To General Reserve	7,50,000	By profit & Loss A/c	1,20,000
		By profit & Loss A/c (B/F)	55,000
Total	8,40,000	Total	8,40,000

Sinking Fund Investment A/c							
Particulars	**Face value**	**Interest**	**Amount**	**Particulars**	**Face value**	**Interest**	**Amount**
To, bal b/d	6,50,000		6,00,000	By Bank		65,000	
To, Sinking Fund A/c		65,000		By Bank	6,50,000		5,85,000
				By Sinking Fund A/c			15,000
Total	6,50,000	65,000	6,00,000	Total	6,50,000	65,000	6,00,000

Bank A/c			
Particulars	**Amount**	**Particulars**	**Amount**
To, bal b/d	3,00,000	By Debenture holder's A/c	8,25,000
To, Interest on investment	65,000	By bal c/d	1,25,000
To, Sinking Fund Investment A/c	5,85,000		
Total	9,50,000	Total	9,50,000

Debenture Holder's A/c			
Particulars	**Amount**	**Particulars**	**Amount**
To, Bank	8,25,000	By 12% Debenture's A/c	7,50,000
		By premimum on redemption	75,000
Total	8,25,000	Total	8,25,000

Ans.4

Calculation of P.C. (Net Assets Method)

	Vasu Ltd.	Vishali Ltd.
Factory	1,95,000	1,75,000
Goodwill	75,000	50,000
Debtors	2,86,900	1,72,900
Stock	91,500	75,000
Cash books	98,000	1,09,590
	7,46,400	5,82,490
Less: Sundry Creditors	44,400	58,200
No. of equity shares	54,000 Shares	40,330 Shares
Intrinsic value per share	₹ 13	₹ 13

Since the take over of Vaishali Ltd. is without liquidating the vaishali Ltd. hence 100% Shares in Vaishali Ltd have been acquired by the Vasusha Ltd. Ltd. by issuing share in Vasudha Ltd. on the basis of the intrinsic value of both the companies.

To The Equity Shareholders of vaisahil Ltd.

Equity shares in Vasudha $\left(\frac{40330 \times 13}{13}\right)$

i.e. 40,330 @ ₹ 13 per share 5,24,290

5,24,290

Balance Sheet of Vasudha & Vaishali Ltd. As 31st March 2012					
Liabilities	**Vasudha Ltd.**	**Vaishali Ltd.**	**Assets**	**Vasudha Ltd**	**Vaishali Ltd.**
Issued Share Capital :			Factory Builiding	2,10,000	1,60,000
Equity Shares of Rs. 10 each	9,43,300	4,03,300	Investment (Shares in Vaishali Ltd)	5,24,290	—
Securities Premium	1,20,990	—	Debtors	2,86,900	1,72,900
General Reserves	1,01,000	65,000	Stock	91,500	82,500
Profit & Loss A/c	66,000	43,500	Goodwil	50,000	35,000
Sundry Creditors	44,400	58,200	Cash at Bank	98,000	1,09,590
			Preliminary Expenses	15,000	10,010
Total	**12,75,690**	**5,70,000**		**12,75,690**	**5,70,000**

Ans. 5(a) Tier. 1 Capital

Equity Share Capital	750
Statutory reserve	150
Share Premium	150
Capital Reserve (90 –40)	50
(Arising out of sale of assets)	
	1100
Less : Intangible Assets	15
	= 1085

Tier - II Capital

Capital Reserve (Revaluation)	40
Less :Discount 55%	22
(40 – 55%)	18

Calculation of risk weighted assets

Calculation of risk weighted assets			
Funded Risk Assets	**Amount**	**% of Weight**	**Amount**
Cash balance with RBI	60	0	0
Claims on Bank	170	20	34
Other Investment	2,300	100	2,300
Loan and Advance			
Guarnted by Govt. of India / State Government	400	0	0
Guranted to Staff of Bank by Supperannuation	50	20	10
Other Loan and Advance	6,170	100	6,170
Premises Furniture	3,925	100	3,925
Total	13,075		12,439

Off balance item	Rs.	Credit conversion factor	Amount
Acceptance, Endorsement and Letter of Credit Guarantees and Other obligations	1,550	100	1,550

$$\text{Risk weighted assets ratio} = \frac{\text{Capital Fund}}{\text{Risk adjusted Assets}} \times 100$$

$$= \frac{1{,}103}{13{,}989} \times 100 = 7.88\ \%$$

5(b)

Current Cost of Mains		
40,0,000 × 3/4		30,00,000
Cost of Material & Labour gone up 15 %		4,50,000
		34,50,000
Total cost of Mains		45,00,000
(–) Old Material used		1,50,000
	Cash Cost	44,00,000
Total cost of Auxiliary		15,00,000
(–) Old Material used		1,50,000
	Cash Cost	13,50,000

<u>Journal entries in the books of M/S Platinum Ltd.</u>

Date	Particulars	L.F.	Dr.	Cr.
	Replacement A/c Dr.		34,50,000	
	Mains A/c		23,00,000	
	To Bank			57,50,000
	(Being the replacement of old plant by new plant)			
	Mains Dr.		2,50,000	
	To Replacements			2,50,000
	(Being the old material utilized in new mains)			
	Bank A/c Dr.		1,00,000	
	To Replacement .			1,00,000
	(Being the old material sold)			
	Revenue A/c Dr.		31,00,000	
	To Replacement A/c			31,00,000
	(Being the balance of replacement account transferred to revenue account.)			

Ans 6.

In The Books of Indian Company
Verginia (USA) Trial Balance (in ₹)
as on 31st March 2012

	Dr. US $	Cr. US $	Conservation	Dr. ₹	Cr. ₹
Office Equipments	43200		50	2160000	
Depr on Office Exp	4800		50	240000	
Furnieture of Fixtures	2880		50	144000	
Depr as	320		50	16000	
Stock (April 1, 2011)	22400		47	1052800	
Purchase	96000		45	4320000	
Sales		166400	45		7488000
Goods sent from H.O.	32000			1580000	
Salarires	3600		45	162000	
Carriage inward	400		45	18000	
Rent, Rates & Taxes	800		45	36000	
Insurance	400		45	18000	
Trade Expenses	400		45	18000	
Head Office A/c		45600			2050000
Sundry Debturs	9600		50	480000	
Sundry Creditors		6800	50		340000
Cash at Bank	2000		50	100000	
Cash in Hand	400		50	20000	
Outstading Salaries	400		50		20000
				10364800	9898000
Exchquek Gaiu					466800

USA Branch Trading Profit and Loss Account
for the year ending 31 March 2012

To Opening Stock	10,52,800	By Sales	74,88,000
To Purchases	43,20,000	By closing stock	10,75,000
To Goods from H.O.	15.80.000		
To Carriage inward	18,000		
To Gross Profit	15,92,200		
Total	85,63,000	Total	85,63,000
To Salaries	1,62,000	By Gross Profit	15,92,200
To Rent Rates & Taxes	36,000		
To Insurance	18,000		
To Trade Expenses	18, 000		
To Deprication			
Plant & machinary	2,40,000		
Furniture & Fixtures	16,000		
To Net Profit	1,10,2200		
Total	15,92,000	Total	15,92,000

Balance Sheet of USA Branch
as on 31st March 2012

Liabilties	Amount (₹)	Assets	Amount (₹)
Head Office A/c 20,50,000		Office equipment 24,00,000	
Add: Net Profit 1,10,2200	31,52,200	Less : Depriciation 2,40,000	21,60,000
		Furniture & Fixtures 1,60,000	
Foreign currency Translation reserve	4,66,800	Less : Depriciation 16,000	1,44,000
Trade creditors	34,00,000	Closing stock	10,75,000
Outstanding salaries	20,000	Trade debtors	4,80,000
		Cash in hand	1,00,000
		Cash at bank	20,000
Total	39,79,000	Total	39,79,000

Ans. 7(a) Fair value of an option = ₹ 28 – ₹ 25 = ₹ 3

No of shares issued = 200 employee × 100 Shares/ employee =20,000 Shares

Fair value of ESPP = 20000 Shares × ₹ 3 =60000 ₹

Expenses Recognized = ₹ 60000

	Bank (20000×25) Dr.	5,00,000	
	Employee compensation Expenses Dr.	60,000	
	To share capital		20,000
	To Securcities Premium	,	5,40,000
	(Being Option accepted by 200 employee & Payment made @ ` 28 Share)		

Ans.7(b) As per para 12 of Accounting Standard (AS) 5, "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", issued by the Council of the Institute of Chartered Accountants of India, when items of income and expense within profit or loss from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

In the given question, revision of wages took place on 1/7/2011 with retrospective effect from 1.4.2008. The arrear of wages upto 31.03.2011 amounts to Rs. 40,00,000 and that for the period from 1.4.2011 to 1.7.2011 amounts to Rs. 3,50,000. It may be mentioned that additional wages is an expense arising from the ordinary activities of the company. Although abnormal in amount, such an expense does not qualify as an extraordinary item. However, as per Para 12 of AS 5, the nature and amount of such items should be disclosed separately. Therefore Rs. 40,00,000 should be disclosed separately in the statement of profit and loss.

However, arrear of wages payable for the current year (from 1.4.2011 to 1.7.2011) amounting Rs. 3,50,000 is not a prior period or extraordinary item, hence need not be disclosed separately. This may be shown as current year wages.

Ans.7(c) As per AS-29: Provisions, Contingent Liabilities and Contingent Assets issued by the Institute of Chartered Accountants of India, a provision should be recognized when :

(a) an enterprise has a present obligation as a result of a past event;

(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision should be recognized.

Further financial statements deal with the financial position of an enterprise at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognized for costs that need to be incurred to operate in the future. The only liabilities recognized in an enterprise's balance sheet are those that exist at the balance sheet date.

In the given question the company is required by law to overhaul its aircraft once in every five years. However even a legal requirement to overhaul does not make the costs of overhaul a liability, because no obligation exists to overhaul the aircraft independently of the enterprise's future actions - the enterprise could avoid the future expenditure by its future actions, for example by selling the aircraft.

Therefore it is not necessary to make provision in this regard.

Ans 7(d) As per AS 19 "Accounting for leases" issued by The Institute of Chartered Accountants of India, if a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss should be recognized immediately.

If the sale price is below fair value, any profit or loss should be recognized immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

If the sale price is above fair value, the excess over fair value should be deferred and amortised over the period for which the asset is expected to be used.

For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value should be recognized immediately.

(i) Sale Price = Rs.60 Lacs, Fair value = Rs. 60 Lacs.

Therefore profit on sale of Rs. 10 lacs can be recognized immediately.

(ii) Sale Price = Rs.45 Lacs, Fair value = Rs. 50 Lacs.

Therefore loss on sale of Rs. 5 lacs can be recognized immediately except that, if the loss is compensated by future lease payments at below market price, it should be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

(iii) Sale Price = Rs.62 Lacs, Fair value = Rs. 55 Lacs.

Therefore out of the total profit on sale of Rs. 12 lacs, Rs. 5 lacs can be recognized immediately and Rs. 7 lacs should be deferred and amortised over the period for which the asset is expected to be used.

(iv) Sale Price = Rs.48 Lacs, Fair value = Rs. 45 Lacs, Carrying amount Rs. 50 Lacs.

As the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss of Rs. 5 lacs should be recognized immediately. Now a profit on sale of Rs. 3 lacs should be deferred and amortised over the period for which the asset is expected to be used.

Ans.7 (e) As per AS-4 'Contingencies and Events Occurring after the Balance Sheet Date' issued by the Council of the Institute of Chartered Accountants of India, Events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustments to assets and liabilities as at the balance sheet date or may require disclosure.

Adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date.

In the given case cash of Rs. 6,00,000 of A-One limited was embezzled during March 2012. However it came to the notice of management during April 2012 only. As the financial statements are not yet approved by the Board of directors of the company, embezzlement of cash should be adjusted in the books of accounts for the year ending March 2012.

If embezzlement of cash comes to the notice of the management only after approval of financial statement by the board of directors, then it should not be adjusted or disclosed in the financial statements or books of accounts for the year ending March 2012.