Accounting – IPCC **100 Marks**

GUIDELINE ANSWERS AND VALUATION SCHEME

1. **(a) Solution:** **6 Marks**

Computation of Basic Earnings per Share (4 Marks)

		Year 2012-13	*Year 2013-14*
(i)	EPS for the year 2012-13 as originally reported = Net profit for the year attributable to equity share holder / weighted average number of equity shares outstanding during the year $\frac{\text{Rs } 2,00,000}{10,00,000 \text{ shares}}$	2.20	
(ii)	EPS for the year 2012-13 restated for the right issue	2.12	
	$\frac{\text{Rs } 2,00,000}{10,00,000 \text{ shares} \times 1.04}$		
(iii)	EPS for the year 2013-14 (including effect of right issue) $\frac{\text{Rs}30,00,000}{(10,00,000 \times 1.04 \times 4/12) + (12,00,000 \times 8/12)}$		2.62

Working Notes: (2 Marks)

1. Computation of theoretical ex-rights fair value per share =

$$\frac{\text{Fair value of all outstanding shares immediately prior to exercise of rights + total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + number of shares issued in the exercise}}$$

$$\frac{(\text{Rs } 32 * 10,00,000) + (\text{Rs } 25 * 2,00,000)}{10,00,000 + 2,00,000} = \text{Rs } 30.83$$

2. Computation of adjustment factor

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}}$$

$$\frac{\text{Rs } 32}{\text{Rs } 30.83} = 1.04 \text{ (appro)}$$

1 (b) Solution **6 Marks**

(i) Calculation of Annual Lease Payment (3 Marks)

	Rs
Cost of the equipment	7,46,55,100
Unguaranteed Residual Value	1,00,000
PV of unguaranteed residual value for 3 years @ 10% (Rs 1,00,000 x 0.751)	75,100
Fair value to be recovered from Lease Payment (Rs 7,46,55,100 – Rs 75,100)	7,45,80,000
PV Factor for 3 years @ 10%	2.486
Annual Lease Payment (Rs 7,45,80,000 / PV Factor for 3 years @ 10% i.e. 2.486)	3,00,00,000

(ii) Unearned Finance Income (3 Marks)

Total lease payments [Rs 3,00,00,000 x 3]	9,00,00,000
Add: Residual value	1,00,000
Gross Investments	9,01,00,000
Less: Present value of Investments (Rs 7,45,80,000 + Rs 75,100)	(7,46,55,100)
Unearned Finance Income	1,54,44,900

1. (c) Solution **8 Marks**

According to para 6 of AS 16 “Borrowing Costs”, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation should be determined in accordance with this Standard. Other borrowing costs should be recognised as an expense in the period in which they are incurred.

Also para 10 of AS 16 “Borrowing Costs” states that to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.

Thus, eligible borrowing cost

= Rs 11,00,000 – Rs 2,00,000

= Rs 9,00,000 **(4 Marks)**

Sr. No.	Particulars	Nature of assets	Interest to be Capitalized (Rs)	Interest to be charged to Profit & Loss Account (Rs)
i	Construction of factory building	Qualifying Asset*	9,00,000x40/100 = Rs 3,60,000	NIL
ii	Purchase of Machinery	Not a Qualifying Asset	NIL	9,00,000x35/100 = Rs 3,15,000
iii	Working Capital	Not a Qualifying Asset	NIL	9,00,000x25/100 = Rs 2,25,000
	Total		Rs 3,60,000	Rs 5,40,000

* A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. **(4 Marks)**

2 (a) Solution **8 Marks**

Departmental Trading and Loss Account of M/s Division for the year ended 31st December, 2014 (4 Marks)

	Deptt. A	Deptt. B		Deptt. A	Deptt. B
	Rs	Rs		Rs	Rs
To Opening stock	50,000	40,000	By Sales	10,00,000	15,00,000
To Purchases	6,50,000	9,10,000	By Closing stock	1,00,000	2,00,000
To Gross profit	4,00,000	7,50,000			
	11,00,000	17,00,000		11,00,000	17,00,000
To General Expenses (in ratio of sales)	50,000	75,000	By Gross profit	4,00,000	7,50,000
To Profit ts/f to general profit and loss account	3,50,000	6,75,000			
	4,00,000	7,50,000		4,00,000	7,50,000

General Profit and Loss Account (2 Marks)

	Rs		Rs
To Stock reserve required (additional:		By Profit from:	
Stock in Deptt. A		Deptt. A	3,50,000
50% of (Rs 20,000 - Rs 10,000)	5,000	Deptt. B	6,75,000
(W.N.1) Stock in Deptt. B			
40% of (Rs 30,000 - Rs 15,000)	6,000		
(W.N.2) To Net Profit	10,14,000		
	10,25,000		10,25,000

Working Notes: (2 Marks)

1. Stock of department A will be adjusted according to the rate applicable to department B = [(7,50,000 ÷ 15,00,000) x 100] = 50%

2. Stock of department B will be adjusted according to the rate applicable to department A = [(4,00,000 ÷ 10,00,000) x 100] = 40%

2 (b) Solution **8 Marks**

In the books of ABC Ltd.
New York Branch Trial Balance in (Rs)
as on 31st March, 2015

	Conversion rate per US $ (Rs)	Dr. Rs	Cr. Rs
Stock on 1.4.14	40	6,000	–
Purchases and sales	41	16,400	30,750
Sundry debtors and creditors	42	8,400	6,300
Bills of exchange	42	2,520	5,040
Sundry expenses	41	22,140	–
Bank balance	42	8,820	–
Delhi head office A/c	–	–	22,190
		64,280	64,280

3 (a) Solution **8 Marks**

In the books of XYZ Marine Insurance Ltd

	Amount (Rs)
(i) Net Premium earned Premium from Direct Business received Add: Receivable as on 31.03.2014	 92,00,000 3,94,000
Less: Receivable as on 01.04.2013	(4,59,000)
Sub Total (A)	91,35,000
Premium on reinsurance accepted	7,86,000
Add: Receivable as on 31.03.2014	33,000
Less: Receivable as on 01.04.2013	(37,000)
Sub Total (B)	7,82,000
Premium on reinsurance Ceded	6,36,000
Add: Payable as on 31.03.2014	20,000
Less: Payable as on 01.04.2013	(28,000)

Sub Total (C)	6,28,000
Premium Earned (A+B-C)	92,89,000
(ii) Net Claims Incurred	
Claims paid on direct business	73,00,000
Add: Outstanding as on 31.03.2014	1,01,000
Less: Outstanding as on 01.04.2013	(94,000)
Sub Total (A)	73,07,000
Reinsurance claims	5,80,000
Add: Outstanding as on 31.03.2014	12,000
Less: Outstanding as on 01.04.2013	(16,000)
Sub Total (B)	5,76,000
Claims received from reinsurance	2,10,000
Add: Outstanding as on 31.03.2014	39,000
Less: Outstanding as on 01.04.2013	(42,000)
Sub Total (C)	2,07,000
Net Claim Incurred (A+B-C)	76,76,000

3 (b) Solution **8 Marks**

a) Interest on loan (4 Marks)

	2010-11 Rs	2011-12 Rs	2012-13 Rs
Opening Capital cost (A)	135.39	137.02	138
Gross Opening loan - considered at 70% of (A)=(B)	94.773	95.914	96.6
Cumulative Repayment of Loan upto previous year (C)	14	14.96	15.83
Net Loan Opening (B)-(C)=(D)	80.773	80.954	80.77
Additional capital expenditure (allowed above) (E)	1.63	0.98	0.52
Addition of loan due to approved additional capital expenditure - considered at 70% of (E)=(F)	1.141	0.686	0.364
Repayment of loan during the year (net)(G)	0.96	0.87	0.68
Net Loan Closing [(D)+(F)-(G)=(H)]	80.954	80.77	80.454
Average Loan[(D)+(H)/2]=I	80.864	80.862	80.612
Weighted Average Rate of Interest on Loan (J)	7.35%	7.48%	7.50%
Interest on Loan(I) x (J)	5.944	6.048	6.046

(b) Depreciation (4 Marks)

Name of the Power Station : Wastan Power Generation Project	
Date of commercial operation /Work Completed Date	1/4/95
Beginning of Current year	1/4/10
Useful life	35 Years
Remaining Useful Life	20 Years

S.N.		2010-11	2011-12	2012-13
	Capital cost at beginning of the year	135.39	137.02	138
	Additional capitalisation during the year	1.63	0.98	0.52
	Closing capital cost	137.02	138	138.52
1	Average capital cost	136.205	137.51	138.26
2	*Less*: Value of Land	0.000	0.000	0.000
3	Capital cost for depreciation (1-2)	136.205	137.51	138.26
4	Depreciable value (90% of 3)	122.585	123.759	124.434
5	Depreciation recovered up to 2008-09	49.05		
6	Depreciation recovered in 2009-10	3.26		
7	Depreciation recovered upto previous year	52.31	55.824	59.400
8	Balance depreciation to be recovered (4-7)	70.27	67.936	65.035
9	Balance useful life of 35 years	20	19	18
10	Yearly depreciation from 2010-11 (8/9)	3.514	3.576	3.613
11	Depreciation recovered upto the year (7+10)	55.824	59.400	63.013

4 (a) Solution **8 Marks**

Liquidator's Final Statement of Receipts and Payments A/c (5 Marks)

	Rs	Rs		Rs
To Cash in hand		40,000	By Liquidator's remuneration and expenses	5,000
To Assets realised:				
Fixed assets	1,68,000		By Trade Payables	3,50,000
inventory (1,10,000 – 1,00,000)	10,000		By Preference shareholders	1,00,000
Book debts	2,30,000	4,08,000	By Equity shareholders @ Rs 10 on 2,000 shares	20,000
To Cash - proceeds of call on 1,800 equity shares @ Rs 15		27,000		
		4,75,000		4,75,000

Working Note (3 Marks)

Return per equity share

	Rs
Cash available before paying preference shareholders (Rs 4,48,000 – Rs 3,55,000)	93,000
Add: Notional calls 1,800 shares (2,000-200) × Rs 25	45,000
	1,38,000
Less: Preference share capital	(1,00,000)
Available for equity shareholders	38,000
Return per share = $\frac{38,000}{(3,800\ (4,000 - 200)}$ = Rs 10 and Loss per Equity share Rs(100 – 10) = Rs. 90	

Calls to be made at Rs.15 per share (Rs.90-75) on 1,800 shares

4 (b) Solution **8 Marks**

Computation of Tier I and Tier II Capital Fund (2 Marks)

Particulars			Amount (Rs in crores)
(i)	**Capital Funds – Tier I**		
	Equity Share Capital		400.00
	Statutory Reserve		250.00
	Capital Reserve (arising out of sale of assets i.e. Rs 86 cr – Rs18 cr)		68.00
			718.00
(ii)	**Capital Fund – Tier-II**		
	Capital Reserve (arising out of revaluation of assets)	18.00	
	Less: Discount to the extent of 55%	(9.90)	8.10
			726.10

Risk Adjusted Assets (5 Marks)

Particulars	Amount (Rs in crores)	% of weight	Amount (Rs in crores)
Funded Risk Assets			
Cash Balance with RBI	12.00	0	0.00
Balance with other Banks	20.00	20	4.00
Other Investments	40.00	100	40.00
Loans & Advances :			
(i) Guranteed by Government	14.50	0	0.00
(ii) Others	5,465.00	100	5,465.00
Premises Furniture & Fixture	74.00	100	74.00
Total (i)			5583.00
Off Balance Sheet Items			
Guarantees and other obligations	700.00	100	700.00
Acceptances, endorsements and letter of credit	4,900.00	100	4,900.00
Total (ii)			5,600.00
Total [(i) + (ii)]			11183.00

Risk Weighted Assets Ratio: (1 Mark)

$$\frac{\text{Capital Fund x 100}}{\text{Risk Adjusted Assets}}$$

= (726.10 / 11183) x 100

= 6.49%

5 (a) Solution **8 Marks**

Journal Entries (5 Marks)

2013			Rs	Rs	Marks
Jan. 1	14% Debentures A/c	Dr.	24,00,000		
	Premium on Redemption of Debentures A/c	Dr.	48,000		
	To Debentures holders A/c			24,48,000	1
	(Being amount payable on redemption of Rs 24,00,000 debentures at a premium of 2%)				
	Debenture Redemption Reserve A/c	Dr.	48,000		
	To Premium on Redemption of Debentures A/c			48,000	½
	(Being premium on redemption adjusted against Debenture Redemption Reserve A/c)				
	Debenture holders A/c	Dr.	18,36,000		
	To Equity Share Capital A/c (1,44,000 × Rs10)			14,40,000	
	To Securities Premium A/c (1,44,000 x Rs 2.75)			3,96,000	1
	(Being issue of 1,44,000 shares of Rs 10 each at a premium of Rs 2.75 per share to 75% debenture holders who exercised conversion option)				
	Bank A/c	Dr.	6,12,000		
	Profit & Loss A/c	Dr.	68,000		
	To Debenture Redemption Reserve Investment A/c			6,80,000	1
	(Being investment sold & loss transferred to Profit & Loss A/c)				
	Debenture holders A/c (24,48,000 x 25%)	Dr.	6,12,000		
	To Bank A/c			6,12,000	½
	(Being cash payment to 25% debenture-holders)				
	Debenture Redemption Reserve A/c	Dr.	18,84,000		
	To General Reserve A/c			18,84000	½
	(Being balance of Debenture Redemption Reserve A/c transferred on 100% redemption of debentures)				

	Investment A/c To Debenture Redemption Reserve Investment A/c (Being balance of Debenture Redemption Reserve Investment transferred to Investment (General) A/c)	Dr.	13,20,000	13,20,000	½

Working Notes: (3 Marks)

1	For every Rs.100 debenture, amount payable on redemption including premium is	Rs. 102	**1**
	Less: Face value of 8 shares of Rs.10 each to be issued for redemption of each debenture (8 × Rs. 10)	Rs. 80	
	Premium on issue of 8 shares	Rs. 22	
	Therefore, premium on issue of each share (Rs.22/8)	Rs. 2.75	
2	Shares to be issued for conversion of 75% Debentures into shares @ 8 shares for every Rs.100 Debenture i.e. Rs.24,00,000 x $\frac{75}{100}$ x $\frac{8}{100}$ = 1,44,000 shares		½
3	Cash payment for remaining 25% debenture holders who exercised the option of cash i.e., Rs.24,00,000 x $\frac{25}{100}$ x $\frac{102}{100}$ = Rs. 6,12,000		½
4	Face value of investment to be sold to realize Rs. 6,12,000 will be Rs. 6,80,000 i.e.,(20,00,000 / 18,00,000) x Rs. 6,12,000 Loss on sale of investment = 6,80,000 – 6,12,000 = 68,000		½
5	Debenture Redemption Reserve transferred to General Reserve: 20,00,000 – 48,000 – 68,000 = Rs. 18,84,000		½

5 (b) Solution **8 Marks**

Journal Entries
In the books of Gamma Ltd. (Each 1 Mark)

			Dr.	Cr.
			Rs in lakhs	
1	Bank A/c	Dr.	12,600	
	To Investments A/c			12,000
	To Profit and Loss A/c			600
	(Being Investments sold and profit being credited to Profit and Loss Account)			
2	Bank A/c	Dr.	8,000	
	To Bank Loan A/c			8000
	(Being Loan taken from Bank to finance Buyback)			
3	10% Redeemable Preference Share Capital A/c	Dr.	10,000	
	Premium payable on Redemption of Preference Shares A/c	Dr.	1,000	
	To Preference Shareholders A/c			11,000
	(Being amount payable on redemption of Preference shares at a Premium of 10%)			
4	Securities Premium A/c	Dr.	1,000	
	To Premium payable on Redemption of Preference Shares A/c			1,000
	(Being Securities Premium utilised to provide Premium on Redemption of Preference Shares)			
5	Equity Share Capital A/c	Dr.	8,000	
	Premium payable on Buyback A/c	Dr.	8,000	
	To Equity Share buy back A/c			16,000
	(Being the amount due on buy-back)			
5	Securities Premium A/c (3,200 – 1,000)	Dr.	2,200	
	General Reserve A/c (balancing figure)	Dr.	5,800	
	To Premium payable on Buyback A/c			8,000
	(Being premium on buyback provided first out of Securities Premium and the balance out of General Reserves)			
6	Bank A/c	Dr.	8,000	
	To Bank Loan A/c			8000
	(Being Loan taken from Bank to finance Buyback)			
7	Preference Shareholders A/c	Dr.	11,000	
	Equity Shares buy back A/c	Dr.	16,000	
	To Bank A/c			27,000
	(Being payment made to Preference Shareholders and Equity Shareholders)			

8	General Reserve Account (10,000 + 8,000) To Capital Redemption Reserve Account (Being amount transferred to Capital Redemption Reserve to the extent of face value of preference shares redeemed and equity shares bought back)	Dr.	18,000	18,000

6 (a) Solution **12 Marks**

Journal Entries in the books of Vaibhav Ltd. (7 * ½ = 3 ½ Marks)

			Amount (Rs.)	Amount (Rs.)
(i)	Equity share capital (Rs. 100) A/c	Dr.	2,00,00,000	
	To Equity Share Capital (Rs. 40) A/c			80,00,000
	To Capital Reduction A/c			1,20,00,000
	(Being conversion of equity share capital of Rs. 100 each into Rs.40 each as per reconstruction scheme)			
(ii)	6% Cumulative Preference Share capital (Rs. 100) A/c	Dr.	1,00,00,000	
	To 6% Cumulative Preference Share Capital (Rs. 60) A/c			60,00,000
	To Capital Reduction A/c			40,00,000
	(Being conversion of 6% cumulative preference shares capital of Rs. 100 each into Rs. 60 each as per reconstruction scheme)			
(iii)	5% Debentures (Rs. 100)A/c	Dr.	80,00,000	
	To 6% Debentures (Rs. 70) A/c			56,00,000
	To Capital Reduction A/c			24,00,000
	(Being 6% debentures of Rs. 70 each issued to existing 5% debenture-holders. The balance transferred to capital reduction account as per reconstruction scheme)			
(iv)	Trade Payable A/c	Dr.	40,00,000	
	To Equity Share Capital (Rs. 40) A/c			24,00,000
	To Capital Reduction A/c			16,00,000

	(Being a creditor of Rs. 40,00,000 agreed to surrender his claim by 40% and was allotted 60,000 equity shares of Rs. 40 each in full settlement of his dues as per reconstruction scheme)			
(v)	Provision for Taxation A/c	Dr.	2,00,000	
	Capital Reduction A/c	Dr.	1,00,000	
	To Liability for Taxation A/c			3,00,000
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)			
(vi)	Capital Reduction A/c	Dr.	199,00,000	
	To P & L A/c			12,00,000
	To Fixed Assets A/c			50,00,000
	To Current Assets A/c			110,00,000
	To Investments A/c			1,00,000
	To Capital Reserve A/c (Bal. fig.)			26,00,000
	(Being amount of Capital Reduction utilized in writing off P&L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)			
(vii)	Liability for Taxation A/c	Dr.	3,00,000	
	To Current Assets (Bank A/c)			3,00,000
	(Being the payment of tax liability)			

Balance Sheet of Vaibhav Ltd. (After Reconstruction) as on 31.3.2014 (2 ½ Marks)

Particulars	Notes	Rs
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	164,00,000
b Reserves and Surplus	2	26,00,000
2 Non-current liabilities		
Long-term borrowings	3	56,00,000
3 Current liabilities		
Trade Payables(1,00,00,000 less 40,00,000)		60,00,000
Total		3,06,00,000

Assets		
1 Non-current assets		
a Fixed assets		
Tangible assets	4	200,00,000
b Investments	5	19,00,000
2 Current assets	6	87,00,000
Total		3,06,00,000

Notes to accounts (6 * ½ Mark = 3 Marks)

		Rs
1. Share Capital		
Equity share capital		
Issued, subscribed and paid up		
2,60,000 equity shares of Rs 40 each (60,000 shares have been issued for consideration other than cash)		1,04,00,000
Preference share capital		
Issued, subscribed and paid up		
1,00,000 6% Cumulative Preference shares of Rs60each		60,00,000
Total		1,64,00,000
2. Reserves and Surplus		
Capital Reserve		26,00,000
3. Long-term borrowings		
Secured		
6% Debentures		56,00,000
4. Tangible assets		
Fixed Assets	2,50,00,000	
Adjustment under scheme of reconstruction	(50,00,000)	2,00,00,000
5. Investments	20,00,000	
Adjustment under scheme of reconstruction	(1,00,000)	19,00,000
6. Current assets		
Adjustment under scheme of reconstruction	2,00,00,000	
	110,00,000	
	90,00,000	
Taxation liability paid	(3,00,000)	87,00,000

Working Note:

Capital Reduction Account (3 Marks)

To Liability for taxation A/c	1,00,000	By Equity share capital	1,20,00,000
To P & L A/c	12,00,000	By 6% Cumulative	40,00,000
To Fixed Assets	50,00,000	preferences Share capital	
To Current assets	110,00,000	By 5% Debentures	24,00,000
To Investment	1,00,000	By Sundry creditors	16,00,000
To Capital Reserve (Bal. fig.)	26,00,000		
	2,00,00,000		2,00,00,000

6 (b) Solution **4 Marks**

(i) Calculation of Rebate on bills discounted (2 Marks)

S.No.	Amount (Rs)	Due date 2015	Unexpired portion	Rate of discount	Rebate on bill discounted Rs
(i)	7,50,000	April 8	8 days	12%	1,972
(ii)	3,00,000	May 5	35 days	14%	4,028
(iii)	4,40,000	June 12	73 days	14%	12,320
(iv)	9,60,000	July 15	106 days	15%	41,820
					60,140

(ii) Amount of discount to be credited to the Profit and Loss Account (2 Marks)

	Rs
Transfer from Rebate on bills discount as on 31st March, 2014	91,600
Add: Discount received during the year ended 31st March, 2015	4,05,000
	4,96,600
Less: Rebate on bills discounted as on 31st March, 2015	60,140
Discount credited to the Profit and Loss Account	4,36,460

7 (a) Solution **8 Marks**

The vesting of options is subject to satisfaction of two conditions viz. service condition of continuous employment for 3 years and market condition that the share price at the end of 2013-14 is not less than Rs 70. Since the share price on 31/03/14 was Rs 68, the actual vesting shall be nil. Despite this, the company should recognise value of option over 3- year vesting period from 2011-12 to 2013-14

Year 2011-12 (1 Mark)
Fair value of option per share = Rs 9
Number of shares expected to vest under the scheme = 48 × 1,000 = 48,000
Fair value = 48,000 × Rs 9 = Rs 4,32,000
Expected vesting period = 3 years
Value of option recognised as expense in 2011-12 = Rs 4,32,000 /3 = Rs 1,44,000

Year 2012-13 (1 Mark)
Fair value of option per share = Rs 9
Number of shares expected to vest under the scheme = 47 × 1,000 = 47,000
Fair value = 47,000 × Rs 9 = Rs 4,23,000
Expected vesting period = 3 years
Cumulative value of option to recognise as expense in 2011-12 and 2012-13
= (Rs 4,23,000/ 3) × 2 = Rs 2,82,000
Value of option recognised as expense in 2011-12 = Rs 1,44,000
Value of option recognised as expense in 2012-13
= Rs 2,82,000 – Rs 1,44,000 = Rs 1,38,000

Year 2013-14 (1 Mark)
Fair value of option per share = Rs 9
Number of shares actually vested under the scheme = 45 × 1,000 = 45,000
Fair value = 45,000 × Rs 9 = Rs 4,05,000
Vesting period = 3 years

(1 Mark)

Cumulative value of option to recognise as expense in 2011-12, 2012-13 and 2013-14 = Rs 4,05,000

Value of option recognised as expense in 2011-12 and 2012-13 = Rs 2,82,000

Value of option recognised as expense in 2013-14 = Rs 4,05,000 – Rs 2,82,000 = Rs 1,23,000

Employees' Compensation A/c (2 Mark)

Year		Rs	*Year*		Rs
2011-12	To ESOP Outstanding A/c	1,44,000	2011-12	By Profit & Loss A/c	1,44,000
		1,44,000			1,44,000
2012-13	To ESOP Outstanding A/c	1,38,000	2012-13	By Profit & Loss A/c	1,38,000
		1,38,000			1,38,000
2013-14	To ESOP Outstanding A/c	1,23,000	2013-14	By Profit & Loss A/c	1,23,000
		1,23,000			1,23,000

ESOP Outstanding A/c (2 Marks)

Year		Rs	*Year*		Rs
2011-12	To Balance c/d	1,44,000	2011-12	By Employees' Compensation A/c	1,44,000
		1,44,000			1,44,000
2012-13	To Balance c/d	2,82,000	2012-13	By Balance b/d	1,44,000
				By Employees' Compensation A/c	1,38,000
		2,82,000			2,82,000
2013-14	To General Reserve	4,05,000	2013-14	By Balance b/d	2,82,000
				By Employees' Compensation A/c	1,23,000
		4,05,000			4,05,000

7 (b) Solution **4 Marks**

As per para 44 of AS 26, costs incurred in creating a computer software product should be charged to research and development expense when incurred until technological feasibility/asset recognition criteria has been established for the product. Technological feasibility/asset recognition criteria have been established upon completion of detailed programme design or working model. In this case, Rs 45,000 would be recorded as an expense (Rs 25,000 for completion of detailed program design and Rs 20,000 for coding and testing to establish technological feasibility/asset recognition criteria). Cost incurred from the point of technological feasibility/asset recognition criteria until the time when products costs are incurred are capitalized as software cost (Rs 42,000 + Rs 12,000 + Rs 13,000) Rs 67,000.

7 (c) Solution **4 Marks**

As per para 46 of AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', when some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset.

The amount recognised for the reimbursement should not exceed the amount of the provision. Accordingly, potential loss to an enterprise may be reduced or avoided because a contingent liability is matched by a related counter-claim or claim against a third party. In such cases, the amount of the provision is determined after taking into account the probable recovery under the claim if no significant uncertainty as to its measurability or collectability exists.