

MOCK TEST PAPER 2
INTERMEDIATE (NEW) : GROUP – II
PAPER – 5: ADVANCED ACCOUNTING

1. (a) (i) **Proportion of total contract value recognized as revenue**

Percentage of completion of contract to total estimated cost of construction

$$= [(250 + 80) / (250 + 80 + 220)] \times 100 = 60\%$$

Revenue to be recognized till date = 60% of ₹ 500 crore = ₹ 300 crore.

(ii)	Calculation of profit/ loss for the year ended 31 st March, 2021	(₹ in crore)
	Total estimated cost of construction	
	Work certified 250	
	Work not certified 80	
	Estimated further cost to completion <u>220</u>	550
	Less: Total contract price	<u>(500)</u>
	Total foreseeable loss to be recognized as expense	<u>50</u>

According to AS 7 "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately.

- (iii) **Amount due from / to customers** = Contract costs incurred till date +
 Recognised profits – Recognised losses
 – (Progress payments received + Progress payments to be received)
 = ₹ [(250 + 80) + Nil – 50 – (200 + 70)] crore
 = ₹ [330 – 50 – 270] crore

Amount due from customers (shown as an asset) = ₹ 10 crore.

(iv) **The relevant disclosures under AS 7 (Revised) are given below:**

	₹ in crores
Contract revenue till 31 st March, 2021	300
Contract expenses till 31 st March, 2021	330
Recognized losses for the year 31 st March, 2021	50
Progress billings ₹ (200+ 70)	270
Progress (billed but not received from contractee)	70
Gross amount due from customers	10

- (b) According to AS 19 "Leases", the lessee should recognise the lease as an asset and a liability at an amount equal to the lower of the fair value of the leased asset at the inception of the finance lease and the present value of the minimum lease payments from the standpoint of the lessee.

In calculating the present value of the minimum lease payments the discount rate is the interest rate implicit in the lease. Present value of minimum lease payments will be calculated as follows:

Year	Minimum Lease Payment ₹	Implicit interest rate (Discount rate @15%)	Present value ₹
1	6,25,000	0.8696	5,43,500
2	6,25,000	0.7561	4,72,563
3	6,25,000	0.6575	4,10,937
4	<u>7,50,000*</u>	0.5718	<u>4,28,850</u>
Total	<u>26,25,000</u>		<u>18,55,850</u>

Present value of minimum lease payments ₹ 18,55,850 is less than fair value at the inception of lease i.e. ₹ 20,00,000, therefore, the asset and corresponding lease liability should be recognised at ₹ 18,55,850 as per AS 19.

- (c) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

- the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
- no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 3,00,000 (75% of Rs. 4,00,000) for the year ended on 31.3.21. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of Rs.1,95,000 for the year ended 31st March, 2021.

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting Rs. 2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting Rs. 7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2021 in the books of Fashion Ltd.

- (d) A provision should be recognized only when an enterprise has a present obligation arising from a past event or obligation. In the given case, there is no present obligation but a future one, therefore no provision is recognized as per AS 29.

The cost of overhauling aircraft is not recognized as a provision because it is a future obligation and the incurring of the expenditure depends on the company's decision to continue operating the aircrafts. Even a legal requirement to overhaul does not require the company to make a provision for the cost of overhaul because there is no present obligation

* Minimum Lease Payment of 4th year includes guaranteed residual value amounting ₹ 1,25,000.

to overhaul the aircrafts. Further, the enterprise can avoid the future expenditure by its future action, for example by selling the aircraft. However, an obligation might arise to pay fines or penalties under the legislation after completion of five years. Assessment of probability of incurring fines and penalties depends upon the provisions of the legislation and the stringency of the enforcement regime. A provision should be recognized for the best estimate of any fines and penalties if airline continues to operate aircrafts for more than five years.

2. (a) Realization Account

<i>Particulars</i>	<i>₹</i>	<i>Particulars</i>	<i>₹</i>
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)	<u>56,700</u>
To Partners' Capital A/cs			4,25,700
P 4,183		By R – (Receipt from Debtors unrecorded)	7,000
Q 4,183		By R - Receipt from Investments unrecorded	11,000
R 2,789			
S <u>1,395</u>	<u>12,550</u>		
	<u>5,53,700</u>		<u>5,53,700</u>

Cash Account

<i>Particulars</i>	<i>Amount</i> <i>₹</i>	<i>Particulars</i>	<i>Amount</i> <i>₹</i>
To Balance b/d	30,000	By Realization-creditors paid	63,650
To Realization – assets realized		By Realization-bills payable	29,500
Building 2,09,000		By Realization-expenses	8,000
Stock 1,20,000		By Capital accounts:	
Investments 40,000		P	1,51,132
Debtors <u>56,700</u>	4,25,700	Q	1,51,132
To R's capital A/c	<u>7,000</u>	S	<u>59,286</u>
	<u>4,62,700</u>		<u>4,62,700</u>

Partners' Capital Accounts

Particulars	P	Q	R	S	Particulars	P	Q	R	S
	₹	₹	₹	₹		₹	₹	₹	₹
To Balance b/d			40,000		By Balance b/d	1,50,000	1,50,000	-	60,000
To Realization A/c-Debtors misappropriation			7,000		By General reserve	13,333	13,333	8,889	4,445
To Realization A/c-Investment- misappropriation			11,000		By Realization 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	
	<u>1,67,516</u>	<u>1,67,516</u>	<u>58,000</u>	<u>65,840</u>		<u>1,67,516</u>	<u>1,67,516</u>	<u>58,000</u>	<u>65,840</u>

Working Notes:

1. Amount paid to creditors in cash

	₹
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>

2. Amount received from sale of investments

	₹
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>

3. Amount received from debtors

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

4. Deficiency of R

	₹
Balance of capital as on 31 st March, 2021	40,000
Debtors-misappropriation	7,000
Investment-misappropriation	<u>11,000</u>
	58,000
Less: Realization Profit	(2,789)
General reserve	(8,889)
Contribution from private assets	<u>(7,000)</u>
Net deficiency of capital	<u>39,322</u>

This deficiency of ₹ 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.

Accordingly,

P's share of deficiency = $[39,322 \times (15/36)] = ₹ 16,384$

Q's share of deficiency = $[39,322 \times (15/36)] = ₹ 16,384$

S's share of deficiency = $[39,322 \times (6/36)] = ₹ 6,554$

(b)

Assets	Classification	Amount - (₹ in lakhs)	% of Provision	Provision (₹ in lakhs)
Overdue for more than 3 months but less than 12 months	Sub-standard	150	15	22.50
Overdue for more than 12 months	Doubtful less than 1 year	90	25	22.50
Overdue for more than three years (fully secured-secured by ₹ 20 lakhs)	Doubtful 1 to 3 years	20	40	8
Overdue for more than three years (unsecured)	Doubtful 1 to 3 years	5	100	5
Overdue for more than three years	Loss	25	100	<u>25</u>
Total provision				<u>83</u>

3. (a)

Books of A Limited

Realization Account

	₹		₹
To Building	3,40,000	By Trade payables	3,20,000
To Machinery	6,40,000	By B Ltd.	12,10,000
To Inventory	2,20,000	By Equity Shareholders (Loss)	76,000
To Trade receivables	2,60,000		
To Patent	1,30,000		
To Bank (Exp.)	<u>16,000</u>		
	<u>16,06,000</u>		<u>16,06,000</u>

Bank Account

To Balance b/d	1,36,000	By Realization (Exp.)	16,000
To B Ltd.	6,00,000	By 10% Debentures	4,00,000
		By Loans	1,60,000
		By Equity shareholders	1,60,000
	<u>7,36,000</u>		<u>7,36,000</u>

B Ltd. Account

To Realisation A/c	12,10,000	By Bank	6,00,000
		By Equity share in B Ltd. (4,880 shares at ₹ 125 each)	6,10,000
	<u>12,10,000</u>		<u>12,10,000</u>

Equity Share Holders Account

To Realization Account	76,000	By Equity share capital	8,00,000
To Profit & Loss A/c (Dr.)	34,000	By General reserve	80,000
To Equity shares in B Ltd.	6,10,000		
To Bank	1,60,000		
	<u>8,80,000</u>		<u>8,80,000</u>

B Ltd

Balance Sheet as on 1st April, 2021 (An extract)¹

	Particulars	Notes	₹
1	Equity and Liabilities		
	Shareholders' funds		
a	Share capital	1	4,88,000
b	Reserves and Surplus	2	1,07,000
2	Current liabilities		
a	Trade Payables	3	2,80,000
b	Bank overdraft		6,00,000
	Total		<u>14,75,000</u>
	Assets		
1	Non-current assets		
	Property, Plant and Equipment	4	8,82,000
	Intangible assets	5	2,16,000
2	Current assets		
a	Inventories	6	1,83,000
b	Trade receivables	7	1,94,000
			<u>14,75,000</u>

¹ In the absence of the particulars of assets and liabilities (other than those of A Ltd.), the complete Balance Sheet of B Ltd. after takeover cannot be prepared.

Notes to Accounts

			₹
1 Share Capital			
Equity share capital			
4,880 Equity shares of ₹ 100 each (Shares have been issued for consideration other than cash)			4,88,000
Total			4,88,000
2 Reserves and Surplus (an extract)			
Securities Premium			1,22,000
Profit and loss account		
Less: Unrealized profit	(15,000)		(15,000)
Total			<u>1,07,000</u>
3 Trade payables			
Opening balance	3,20,000		
Less: Inter-company transaction cancelled upon amalgamation	(40,000)		2,80,000
4 Property, Plant and Equipment			
Buildings			3,06,000
Machinery			5,76,000
Total			8,82,000
5 Intangible assets			
Goodwill			2,16,000
6 Inventories			
Opening balance	1,98,000		
Less: Cancellation of profit upon amalgamation	(15,000)		1,83,000
7 Trade receivables			
Opening balance	2,34,000		
Less: Intercompany transaction cancelled upon amalgamation	(40,000)		1,94,000

Working Notes:

1. Valuation of Goodwill	₹
Average profit	1,24,400
Less: 8% of ₹ 8,80,000	(70,400)
Super profit	<u>54,000</u>
Value of Goodwill = 54,000 x 4	<u>2,16,000</u>
2. Net Assets for purchase consideration	
Goodwill as valued in W.N.1	2,16,000
Building	3,06,000
Machinery	5,76,000
Inventory	1,98,000
Trade receivables	<u>2,34,000</u>
Total Assets	15,30,000

Less: Trade payables	<u>(3,20,000)</u>
Net Assets	<u>12,10,000</u>

Out of this ₹ 6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) ₹ 6,10,000 in shares of ₹ 125. Thus, the number of shares to be allotted $6,10,000/125 = 4,880$ shares.

3. Unrealized Profit on Inventory	₹
The Inventory of A Ltd. includes goods worth ₹ 1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this Inventory will be $\frac{40,000}{1,60,000} \times 1,00,000$	25,000
As B Ltd. purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹ 1,00,000.	<u>(10,000)</u>
Amount of unrealized profit	<u>15,000</u>

(b) B List Contributories:

- (a) **Persons:** Shareholders who had transferred Partly Paid Shares (otherwise than by operation of law or by death) within one year, prior to the date of winding up may be called upon to pay an amount to pay off such Creditors as existed on the date of transfer of shares. These Transferors are called as B List Contributories.
 - (b) **Liability:** Their liability is restricted to the amount not called up when the shares were transferred. They cannot be called upon to pay more than the entire face value of the share. For example, if Shares having Face Value ₹ 100 were paid up ₹ 60, the B List Contributory can be called up to pay a maximum of ₹ 40 only.
 - (c) **Conditions:** Liability of B List Contributories will crystallize only (a) when the existing assets available with the liquidator are not sufficient to cover the liabilities; (b) when the existing shareholders fail to pay the amount due on the shares to the Liquidator.
4. (a) The amount of rebate on bills discounted as on 31st March, 2021 the period which has not been expired upto that day will be calculated as follows:

Discount on ₹5,60,000 for 62 days @ 10%	9,512
Discount on ₹17,44,000 for 69 days @ 10%	32,969
Discount on ₹11,28,000 for 82 days @ 10%	25,341
Discount on ₹16,24,000 for 92 days @ 10%	40,934
Discount on ₹12,00,000 for 96 days @ 10%	<u>31,562</u>
Total	<u>1,40,318</u>

Note: The due date of the bills discounted is included in the number of days above.

The amount of discount to be credited to the profit and loss account will be:

	₹
Transfer from rebate on bills discounted as on 1.4. 2020	1,36,518
Add: Discount received during the year	<u>3,40,312</u>
	4,76,830
Less: Rebate on bills discounted as on 31.03. 2021 (as above)	<u>(1,40,318)</u>
	<u>3,36,512</u>

Journal Entries

		₹	₹
Rebate on bills discounted A/c	Dr.	1,36,518	
To Discount on bills A/c			1,36,518
(Transfer of opening unexpired discount on 1.4. 2020)			
Discount on bills A/c	Dr.	1,40,318	
To Rebate on bills discounted A/c			1,40,318
(Unexpired discount on 31.03. 2021 taken into account)			
Discount on Bills A/c	Dr.	3,36,512	
To P & L A/c			3,36,512
(Discount earned in the year, transferred to P&L A/c)			

(b) Calculation of provision required on advances as on 31st March, 2021:

	Amount ₹ in lakhs	Percentage of provision	Provision ₹ in lakhs
Standard assets	13,400	.40	53.60
Sub-standard assets	670	10	670
Secured portions of doubtful debts			
–up to one year	160	20	32
–one year to three years	45	30	13.5
–more than three years	20	50	10
Unsecured portions of doubtful debts	48	100	48
Loss assets	24	100	24
			<u>851.10</u>

(c) In the books of SM Limited

Journal Entries

	Particulars	Dr. ₹	Cr. ₹
1.	Equity share capital A/c (15,000 x ₹10) Dr.	1,50,000	
	Premium on buyback A/c (15,000 x ₹5) Dr.	75,000	
	To Equity shares buy back or Equity shareholders A/c (15,000 x ₹15)		2,25,000
	(Being the amount due to equity shareholders on buy back)		
2.	Equity shares buy back/Equity shareholders A/c Dr.	2,25,000	
	To Bank A/c		2,25,000
	(Being the payment made on account of buy back of 15,000 Equity Shares as per the Companies Act)		
3.	Bank A/c Dr.	66,000	
	To 10 % Debentures A/c		60,000
	To Securities Premium A/c		6,000
	(Being 14 % debentures issued to finance buy back)		

4.	Buyback Expenses A/c To Bank A/c (Buyback expenses paid)	Dr.	2,000	2,000
5.	Bank A/c Profit and Loss A/c (Loss on sale of investment) To Investment A/c (Being investment sold at loss)	Dr. Dr.	80,000 20,000	1,00,000
6.	General reserve Profit and Loss A/c To Capital redemption reserve A/c (Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)	Dr. Dr.	43,000 1,07,000	1,50,000
7.	Securities Premium Profit and Loss A/c To Premium on buyback To Buyback Expenses A/c (Being premium on buyback and buyback expenses charged to securities premium and profit and loss account)	Dr. Dr.	75,000 2,000	75,000 2,000

Bank Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	83,000	By Equity Shareholders A/c	2,25,000
To Investment A/c	80,000	By Expenses on buy back of shares	2,000
To 10% Debentures and Securities premium	66,000	By Balance c/d	2,000
Total	2,29,000	Total	2,29,000

Note: It may be noted that as per the provisions of the Companies Act, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities. Issue of debentures has been excluded for the purpose of "specified securities" and the entire amount of ₹ 1,50,000 has been credited to CRR while solving the question.

5. Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2020

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	13,40,000
(b) Reserves and Surplus	2	8,27,040
(2) Minority Interest		1,15,560
(3) Non- Current Liabilities		
(a) 12% Debentures		1,00,000

(4) Current Liabilities			
(a) Trade Payables	3		3,84,800
(b) Short term Borrowings (Bank overdraft)			1,00,000
Total			28,67,400
II. Assets			
(1) Non-current assets			
(a)			
(i) Property, Plant and Equipment	4		14,34,600
(ii) Intangible assets	5		28,800
(2) Current assets			
(a) Inventory (6,00,000+2,00,000)			8,00,000
(b) Trade Receivables	6		5,08,000
(c) Cash and Cash equivalents			96,000
Total			28,67,400

Notes to Accounts

				₹
1.	Share Capital			
	Equity share capital			13,40,000
	1,34,000 shares of ₹ 10 each fully paid up			
2.	Reserves and Surplus			
	Reserves		4,80,000	
	Add: 4/5th share of S Ltd.'s post-acquisition reserves (W.N.3)		<u>96,000</u>	5,76,000
	Profit and Loss Account		2,40,000	
	Add: 4/5th share of S Ltd.'s post-acquisition profits (W.N.4)		<u>11,040</u>	<u>2,51,040</u>
				<u>8,27,040</u>
3.	Trade Payables			
	Creditors			
	H Ltd.	2,00,000		
	S Ltd.	<u>1,22,000</u>	3,22,000	
	Bills Payables			
	H Ltd.	60,000		
	S Ltd.	<u>14,800</u>	<u>74,800</u>	
			3,96,800	
	Less: Mutual Owings		<u>(12,000)</u>	3,84,800
4.	Property Plant and Equipment			
	Machinery			
	H. Ltd.		7,20,000	

	S Ltd.	2,40,000		
	Add: Appreciation	<u>1,20,000</u>		
		3,60,000		
	Less: Depreciation (3,60,000 X 10%)	<u>(36,000)</u>	3,24,000	
	Furniture			
	H. Ltd.		3,60,000	
	S Ltd.	48,000		
	Less: Decrease in value	<u>(12,000)</u>		
		36,000		
	Less: Depreciation (36,000 X 15%)	<u>5,400</u>	<u>30,600</u>	14,34,600
5.	Intangible assets			
	Goodwill [WN 6]			28,800
6.	Trade receivables			
	H Ltd.	3,00,000		
	S Ltd.	<u>90,000</u>	3,90,000	
	Bills Receivables			
	H Ltd.	1,00,000		
	S Ltd.	<u>30,000</u>	<u>1,30,000</u>	
			5,20,000	
	Less: Mutual Owings		<u>(12,000)</u>	5,08,000

Working Notes:

1.	Pre-acquisition profits and reserves of S Ltd.	₹
	Reserves	60,000
	Profit and Loss Account	<u>36,000</u>
		<u>96,000</u>
	H Ltd.'s = 4/5 (or 80%) × 96,000	76,800
	Minority Interest = 1/5 (or 20%) × 96,000	19,200
2.	Profit on revaluation of assets of S Ltd.	
	Profit on Machinery ₹ (3,60,000 – 2,40,000)	1,20,000
	Less: Loss on Furniture ₹ (48,000 – 36,000)	<u>(12,000)</u>
	Net Profit on revaluation	<u>1,08,000</u>
	H Ltd.'s share 4/5 × 1,08,000	86,400
	Minority Interest 1/5 × 1,08,000	21,600
3.	Post-acquisition reserves of S Ltd.	
	Total reserves	1,80,000
	Less: Pre- acquisition reserves	<u>(60,000)</u>
	Post-acquisition reserves	<u>1,20,000</u>
	H Ltd.'s share 4/5 × 1,20,000	96,000

Minority interest $1/5 \times 1,20,000$	24,000
4. Post -acquisition profits of S Ltd.	
Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = ₹ 60,000 – 36,000)	24,000
Add: Excess depreciation charged on furniture @ 15% on ₹ 12,000 i.e. (48,000 – 36,000)	<u>1,800</u>
	25,800
Less: Under depreciation on machinery @ 10% on ₹ 1,20,000 i.e. (3,60,000 – 2,40,000)	<u>(12,000)</u>
Adjusted post-acquisition profits	<u>13,800</u>
H Ltd.'s share $4/5 \times 13,800$	11,040
Minority Interest $1/5 \times 13,800$	2,760
5. Minority Interest	
Paid-up value of (24,000 – 19,200) = 4,800 shares held by outsiders i.e. 2,40,000 X 20%	48,000
Add: 1/5th share of pre-acquisition profits and reserves	19,200
1/5th share of profit on revaluation	21,600
1/5th share of post-acquisition reserves	24,000
1/5th share of post-acquisition profit	<u>2,760</u>
	<u>1,15,560</u>
6. Cost of Control or Goodwill	
Price paid by H Ltd. for 19,200 shares (A)	3,84,000
Less: Intrinsic value of the shares	
Paid-up value of shares held by H Ltd. i.e. 2,40,000 X 80%	1,92,000
Add: 4/5th share of pre-acquisition profits and reserves	76,800
4/5th share of profit on the revaluation	<u>86,400</u>
Intrinsic value of shares on the date of acquisition (B)	<u>3,55,200</u>
Cost of control or Goodwill (A – B)	28,800

6. (a) **Computation of basic earnings per share**

Net profit for the current year / Weighted average number of equity shares outstanding during the year

$$₹ 37,50,000 / 5,00,000 = ₹ 7.50 \text{ per share}$$

Computation of diluted earnings per share $\frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity shares}}$

Adjusted net profit for the current year

	₹
Net profit for the current year	37,50,000
Add: Interest expense for the current year	4,00,000
Less: Tax relating to interest expense (30% of ₹ 4,00,000)	(1,20,000)
Adjusted net profit for the current year	<u>40,30,000</u>

Number of equity shares resulting from conversion of debentures

= 55,000 Equity shares (given in the question)

Weighted average number of equity shares used to compute diluted earnings per share

$$= 5,55,000 \text{ shares } (5,00,000 + 55,000)$$

Diluted earnings per share

$$= 40,30,000 / 5,55,000 = ₹ 7.26 \text{ per share}$$

Note: Conversion of convertible debentures into Equity Share will be dilutive potential equity shares. Hence, to compute the adjusted profit the interest paid on such debentures will be added back as the same would not be payable in case these are converted into equity shares.

- (b) AS 4 "Contingencies and Events Occurring after the Balance Sheet Date", states that adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. The destruction of warehouse due to earthquake did not exist on the balance sheet date i.e. 31.3.2021. Therefore, loss occurred due to earthquake is not to be recognized in the financial year 2020-2021.

However, according to the standard, unusual changes affecting the existence or substratum of the enterprise after the balance sheet date may indicate a need to consider the use of fundamental accounting assumption of going concern in the preparation of the financial statements. As per the information given in the question, the earthquake has caused major destruction; therefore, fundamental accounting assumption of going concern is called upon.

Hence, the fact of earthquake together with an estimated loss of ₹ 25 lakhs should be disclosed in the Report of the Directors for the financial year 2020-2021.

OR

AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently.

Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if followed consistently.

- (c) W, X, Y and Z hold Equity capital is held by in the proportion of 40:30:10:20 and A, B, C and D hold preference share capital in the proportion of 30:40:20:10. As the paid up equity share capital of the company is Rs. 40 Lakhs and Preference share capital is Rs. 20 Lakh (2:1), then relative weights in the voting right of equity shareholders and preference shareholders will be 2/3 and 1/3. The respective voting right of various shareholders will be

$$W = \frac{2}{3} \times \frac{40}{100} = \frac{4}{15}$$

$$X = \frac{2}{3} \times \frac{30}{100} = \frac{3}{15}$$

$$Y = \frac{2}{3} \times \frac{10}{100} = \frac{1}{15}$$

$$Z = \frac{2}{3} \times \frac{20}{100} = \frac{2}{15}$$

$$A = \frac{1}{3} \times \frac{30}{100} = \frac{1}{10}$$

$$B = \frac{1}{3} \times \frac{40}{100} = \frac{2}{15}$$

$$C = \frac{1}{3} \times \frac{20}{100} = \frac{1}{15}$$

$$D = \frac{1}{3} \times \frac{10}{100} = \frac{1}{30}$$

- (d) **Journal Entries in the books of Raja Ltd.**

			₹	₹
1.10.19	Bank A/c	Dr.	1,20,000	
to 31.3.20	Employee compensation expense A/c	Dr.	2,16,000	
	To Equity share capital A/c			24,000
	To Securities premium A/c			3,12,000
	(Being shares issued to the employees against the options vested to them in pursuance of Employee Stock Option Plan)			
31.3.20	Profit and Loss A/c	Dr.	2,16,000	
	To Employee compensation expense A/c			2,16,000
	(Being transfer of employee compensation expenses to Profit and Loss Account)			

No entry is passed when stock options are granted to employees. Hence, no entry will be passed on 1st August, 2019;

Working Note:

Market Price = ₹ 140 per share and stock option price = 50, Hence, the difference 140 – 50 = ₹ 90 per share is equivalent to employee cost or employee compensation expense and will be charged to P&L Account as such for the number of options exercised i.e. 2,400 shares. Hence, Employee compensation expenses will be 2,400 shares X ₹ 90 = ₹ 2,16,000