

J.K. SHAH[®]

**TEST
SERIES**



SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- ADVANCE ACCOUNT

Test Code – IMP 2411

BRANCH - () (Date :)

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MULTIPLE CHOICE QUESTIONS :

No.	ANSWER		MARK
1.	C	Rs.2 Crore	2
2.	A	Debited to branch account	2
3.	B	15 th March 20X1	2
4.	B	Separate line item with a negative sign under the head 'Reserves and Surplus.'	2
5.	A	The lessor continues to show the leased asset in its books of accounts	2
6.	C	Discourage others to make hostile bid to take over the company as the buy back will increase the promoters holding.	2
7.	C	1,16,667 shares	2
8.	C	Both (a) and (b)	2
9.	A	Rs. 17,000	2
10.	C	Initial downward valuation of Rs. 10,000 debited to P/L. Subsequent upward revaluation of Rs. 10,000 credited to P/L and Rs. 5,000 credited to Revaluation Reserve.	2
11.	C	Apply both Bottom up test and Top down test if corporate assets cannot be allocated to CGU (cash generating unit) under review.	1
12.	C	Both (a) and (b)	1
13.	B	State plans	1
14.	A	10% of more of the total revenue of all segments	1
15.	C	Both (a) and (b)	1
16.	C	Point no. (iii)	1
17.	B	Level I entities	1
18.	D	All the above	1
19.	B	Short term borrowings	1
20.	B	Capital Redemption reserve	1

DESCRIPTIVE ANSWER :**ANSWER : 1(A)**

As per AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', 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.

On 31st March, 2019, since, the directors of the company are of the opinion that the claim can be successfully resisted by the company and there will be no outflow of the resources. Therefore, the company should disclose the same as contingent liability by way of a note. However, on 31st March, 2020, provision is required to be made for the amount of Rs. 10 lakhs as it probable that the company may be required to pay the compensation.

(5 MARKS)**ANSWER : 1(B)**

According to AS 2 Valuation of Inventories, inventories should be valued at the lower of cost and net realizable value.

Production – A

Material Cost	$\text{Rs. } 40 \times 200 = 8,000$	
Wages cost	$\text{Rs. } 30 \times 200 = 6,000$	
Overhead	$\text{Rs. } 20 \times 200 = 4,000$	
Total cost		Rs. 18,000
Realizable value		Rs. 19,800
[$200 \times (110 - 11)$]		
Hence inventory value of Product – A		Rs. 18,000

Product B

Material Cost	$\text{Rs. } 45 \times 800 = 36,000$	
Wages cost	$\text{Rs. } 35 \times 800 = 28,000$	
Total cost		Rs. 64,000
Realizable value (800×70)		Rs. 56,000
Hence inventory value of product – B		Rs. 56,000
Total value of closing inventory i.e. Product A + Product B ($18,000 + 56,000$)		Rs. 74,000

(5 MARKS)**ANSWER : 1(C)**

AS 16 clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building up to the date of completion (January, 2021) i.e. Rs. 18 lakhs alone can be capitalized. It cannot be extended to Rs. 25 lakhs.

(5 MARKS)**ANSWER : 1(D)**

- 1) Research Expenditure – As per AS 26 ‘Intangible Assets’, the expenditure on research of new process design for its product Rs. 200 lakhs should be charged to Profit and Loss Account in the year in which it is incurred. Hence, it should be written off as expense in 2019 - 20 itself.
- 2) Cost of internally generated intangible asset - The question states that the development phase expenditure amounting Rs. 320 lakhs incurred upto 31st March, 2020 meets asset recognition criteria. As per AS 26 for measurement of such internally generated intangible asset, fair value can be estimated by discounting estimated future net cash flows :

Savings (after tax) from implementation of new design for next 5 years	80 lakhs
Company’s cost of capital	10 %
Annuity factor @ 10% for 5 years	3.7908
Present value of net cash flows (Rs. 80 lakhs x 3.7908)	303.26 lakhs

The cost of an internally generated intangible asset would be lower of cost value Rs. 320 lakhs or present value of future net cash flows Rs. 303.26 lakhs.

Hence, cost of an internally generated intangible asset will be Rs. 303.26 lakhs.

The difference of Rs. 16.74 lakhs (i.e. Rs. 320 lakhs – Rs. 303.26 lakhs) will be amortized by the enterprise for the financial year 2019 - 20.

- 3) Amortisation - The company can amortise Rs. 303.26 lakhs over a period of five years by charging Rs. 60.65 lakhs per annum from the financial year 2020 - 21 onwards.

(4 MARKS)

ANSWER : 2(A)

In the books of X Ltd.

Journal Entries

31st March, 20X1		Rs.	Rs.
(i)	Equity Share Capital A/c. (Rs. 100) Dr. To Equity Share Capital A/c. (Rs. 40) To Capital Reduction A/c. (Being 24,000 equity shares of Rs. 100 each reduced to Rs. 40 each fully paid up)	24,00,000	9,60,000 14,40,000
(ii)	10% Preference Share Capital A/c. (Rs. 100) Dr. To 10% Preference Share Capital A/c. (Rs. 75) To Capital Reduction A/c. (Being 12,000 Preference shares of Rs. 100 each reduced to Rs. 75 each fully paid up)	12,00,000	9,00,000 3,00,000
(iii)	10% Debentures A/c. Dr. To Inventories A/c. To Trade receivables A/c. To Capital Reduction A/c. (Being debenture holders given Inventories and Trade receivables in full settlement of their claims)	6,00,000	2,60,000 2,80,000 60,000
(iv)	Land & Building A/c. Dr. To Capital Reduction A/c. (Being Land & Building appreciated by 30%)	3,60,000	3,60,000
(v)	Capital reduction A/c. Dr. To Cash A/c. (Being expenses of reconstruction paid)	5,000	5,000
(vi)	Capital Reduction A/c. Dr. To Goodwill A/c. To profit and Loss A/c. To Plant & Machinery A/c. (Being various losses written off, assets written down through Capital Reserve A/c.)	20,70,000	90,000 14,40,000 5,40,000
(vii)	Capital Reduction Dr. To Capital Reserve A/c. (Bal. Fig.) (Being balance in Capital Reduction A/c. transferred to Capital Reserve A/c.)	85,000	85,000

Balance Sheet (And Reduced) of X Ltd.

As at 31st March, 20X1

	Particulars	Notes No.	Rs.
1	Equity and Liabilities		
	Shareholders' funds		
	a Share Capital	1	18,60,000
	b Reserves and Surplus	2	85,000

2	Current liabilities		
a	Trade Payables		3,00,000
b	Short term borrowings		6,00,000
		Total	28,45,000
	Assets		
1	Non – current assets		
a	Property, plant and equipment	3	28,20,000
2	Current assets		
	Cash and Cash equivalents (30,000 – 5,000)		25,000
		Total	28,45,000

Notes to accounts

1	Share Capital		Rs.
	Equity share capital		
	24,000 equity shares of Rs. 40 each fully paid up		9,60,000
	Preference share capital		
	12,000, 10% Preference shares of Rs. 75 each fully paid up		9,00,000
	Total		18,60,000
2.	Reserve and Surplus		
	Capital Reserve		85,000
3.	Property, plant and Equipment		
	Land and Building	15,60,000	
	Plant and Machinery	12,60,000	
		Total	28,20,000

(8 MARKS)

ANSWER : 2(B)

**In the books of XY Ltd.
Investment in equity shares of ABC Ltd.
For the year ended 31st March, 20X2**

Date	Particulars	No.	Dividend Rs.	Amount Rs.	Date	Particulars	No.	Dividend Rs.	Amount Rs.
20X1 April 1	To Balance B/d	15,000	-	2,25,000	20X1 Oct. 31	By Bank A/c. (W.N. 5)	-	30,000	10,000
June 1	To Bank A/c.	5,000	--	1,00,000	20X2 Jan. 1	By Bank A/c. (W.N. 4)	13,000	-	2,12,355
July 1	To Bonus Issue (W.N. 1)	4,000	-	-	March	By Balance c/d (W.N. 6)	13,000	--	1,69,500
Sep. 1	To Bank A/c. (W.N. 2)	2,000	-	24,000					
20X2	To P & L A/c. (W.N. 4)	-	-	42,855					
20X2									
March 31	To P & L A/c.	-	30,000	-					
		26,000	30,000	3,91,855			26,000	30,000	3,91,855

Working Notes :

1. Calculation of no. of bonus shares issued

$$\text{Bonus Shares} = \frac{15,000 \text{ shares} + 5,000 \text{ shares}}{5} \times 1 = 4,000 \text{ shares}$$

2. Calculation of right shares subscribed

$$\text{Right Shares} = \frac{15,000 \text{ shares} + 5,000 \text{ shares} + 4,000 \text{ shares}}{6} = 4,000 \text{ shares}$$

$$\text{Shares subscribed by XY Ltd.} = \frac{4,000}{2} = 2,000 \text{ shares}$$

$$\begin{aligned} \text{Value of right shares subscribed} &= 2,000 \text{ shares @ Rs. 12 per share} \\ &= \text{Rs. 24,000} \end{aligned}$$

3. Calculation of sale of right entitlement

$$2,000 \text{ shares} \times \text{Rs. 8 per share} = \text{Rs. 16,000}$$

Amount received from sale of rights will be credited to statement of profit and loss.

4. Calculation of profit on sale of shares

Total holding	= 15,000 shares	Original
	5,000 shares	Purchased
	4,000 shares	Bonus
	2,000 shares	Right shares
	26,000 shares	

50% of the holdings were sold

i.e. 13,000 shares ($26,000 \times \frac{1}{2}$) were sold.

Cost of total holdings of 26,000 shares (on average basis)

$$= \text{Rs. 2,25,000} + \text{Rs. 1,00,000} + \text{Rs. 24,000} - \text{Rs. 10,000} = \text{Rs. 3,39,000}$$

Average cost of 13,000 shares would be

$$= \frac{3,39,000}{26,000} \times 13,000 = \text{Rs. 1,69,500}$$

	Rs.
Sale proceeds of 13,000 shares ($13,000 \times \text{Rs. 16.50}$)	2,14,500
Less : 1% Brokerage	(2,145)
	2,12,355
Less : Cost of 13,000 shares	(1,69,500)
Profit on sale	<u>42,855</u>

5. Dividend received on investment held as on 1st April, 20X1

$$= 15,000 \text{ shares} \times \text{Rs. 10} \times 20\%$$

= Rs. 30,000 will be transferred to Profit and Loss A/c.

Dividend received on shares purchased on 1st June, 20X1

= 5,000 shares × Rs. 10 × 20% = Rs. 10,000 will be adjusted to Investment A/c

Note : It is presumed that no dividend is received on bonus shares as bonus shares are declared on 1st July, 20X1 and dividend pertains to the year ended 31.3.20X1.

6. Calculation of closing value of shares (on average basis) as on 31st March, 20X2

$$13,000 \times \frac{3,39,000}{26,000} = \text{Rs. } 1,69,500$$

(9 MARKS)

ANSWER : 3

(a) Consolidated Balance Sheet of H Ltd. and its subsidiary, S Ltd.as at 31st March, 2020

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	13,07,200
(2) Minority Interest (W.N 4)		2,96,400
(3) Current Liabilities		
(a) Trade Payables	3	2,98,400
(b) Short term borrowings		3,00,000
Total		42,02,000
II. Assets		
(1) Non-current assets		
(i) Property, Plant and Equipment	4	29,34,000
(ii) Intangible assets (W.N.5)		1,60,000
(2) Current assets		
(a) Inventories	5	6,24,000
(b) Trade receivables	6	3,95,200
(c) Cash & Cash equivalents (Cash)	7	88,800
Total		42,02,000

Notes to Accounts

		Rs.	Rs.
1.	Share Capital 2,00,000 equity shares of Rs. 10 each		20,00,000
2.	Reserves and Surplus		
	Reserves	9,60,000	
	Profit & loss		
	H Ltd.	2,28,800	
	S Ltd. (As per W.N. 3)	1,18,400	13,07,200

3.	Trade Payables			
	H Ltd.		1,66,400	
	S Ltd. (80,000 + 52,000)		1,32,000	2,98,400
4.	Property, Plant and Equipment			
	Land and building			
	H Ltd.	7,20,000		
	S Ltd.	7,60,000	14,80,000	
	Plant & Machinery			
	H Ltd.	9,60,000		
	S Ltd. (As per W.N. 7)	4,94,000	14,54,000	29,34,000
5.	Inventories			
	H Ltd.		4,56,000	
	S Ltd.		1,68,000	6,24,000
6.	Trade Receivables			
	H Ltd.	1,76,000		
	S Ltd.	1,60,000	3,36,000	
	Bills receivable: H Ltd.		59,200	3,95,200
7.	Cash & Cash equivalents			
	Cash			
	H Ltd.		56,800	
	S Ltd.		32,000	88,800

Working Notes:

1. Share holding pattern

Total Shares of S Ltd 80,000 shares

Shares held by H Ltd 64,000 shares i.e. 80 %; Minority Shareholding 16,000 shares i.e. 20 %

2. Capital profits of S Ltd.

	Rs.	Rs.
Reserve on 1st October, 2019 (Assumed there is no movement in reserves during the year and hence balance as on 1 st October, 2019 is same as of 31 st March 2020)		4,20,000
Profit & Loss Account Balance on 1st April, 2019	1,20,000	
Less: Dividend paid	(80,000)	40,000
Profit for year:		

Total Rs. 3,28,000		
Less: Rs. 40,000 (opening balance)		
Rs. 2,88,000		
Proportionate up to 1st October, 2019 on time basis (Rs. 2,88,000/2)		1,44,000
Reduction in value of Plant & Machinery (WN 6)		(50,000)
		5,54,000
Less: Preliminary expenses written off		(20,000)
Total Capital Profit		5,34,000
Holding company's share (5,34,000 X 80%)		4,27,200
Minority Interest (5,34,000 X 20%)		1,06,800

Note : Preliminary expenses as on 1st April, 2019 amounting Rs. 20,000 have been written off.

3. Revenue profits of S Ltd.

Profit after 1st October, 2019 (3,28,000 – 40,000)/2		1,44,000
Less 10% depreciation on Rs. 5,20,000 for 6 months	(26,000)	
Add: Depreciation already charged for 2 nd half year on 6,00,000	30,000	4,000
		1,48,000
Holding company's share (1,48,000 X 80%)		1,18,400
Minority Interest (1,48,000 X 20%)		29,600

4. Minority interest

Par value of 16,000 shares (8,00,000 X 20%)	1,60,000
Add: 1/5 Capital Profits [WN 2]	1,06,800
1/5 Revenue Profits [WN 3]	<u>29,600</u>
	<u>2,96,400</u>

5. Cost of Control

Amount paid for 64,000 shares		12,27,200
Less:		
Par value of shares (8,00,000 X 80%)	6,40,000	
Capital Profits – share of H Ltd. [WN 2]	4,27,200	(10,67,200)
Cost of Control or Goodwill		1,60,000

6. Calculation of revaluation loss on Plant and Machinery of S Ltd. on 1st October, 2019

	Rs.
Value of plant and machinery as on 1 st April, 2019	6,00,000
Less: Depreciation for the six months	(30,000)
Value of plant and machinery as on 1 st October, 2019	5,70,000
Less: Plant and machinery valued by H Ltd. on 1 st October, 2019	(5,20,000)
Revaluation Loss	50,000

7. Value of plant & Machinery of S Ltd. On 31st March, 2020

Value of machinery on 1 st October, 2019	5,20,000
Less: depreciation for next six month	<u>(26,000)</u>
	<u>4,94,000</u>

(12 MARKS)

ANSWER : 3(B)

In the books of SM Limited Journal Entries

	Particulars		Dr. Rs.	Cr. Rs.
1.	Equity share capital A/c (15,000 x Rs.10) Dr. Premium on buyback A/c(15,000 x Rs.5) Dr. To Equity shares buy back or Equity shareholders A/c (15,000 x Rs.15) (Being the amount due to equity shareholders on buyback)	Dr. Dr.	1,50,000 75,000	2,25,000
2.	Equity shares buy back/Equity shareholders A/c To Bank A/c (Being the payment made on account of buy back of 15,000 Equity Shares as per the Companies Act)	Dr.	2,25,000	2,25,000
3.	Bank A/c To 10 % Debentures A/c To Securities Premium A/c (Being 14 % debentures issued to finance buy back)	Dr.	66,000	60,000 6,000
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) Dr. To Investment A/c (Being investment sold at loss)	Dr.	80,000 20,000	1,00,000
6.	General reserve A/c Profit and Loss A/c To Capital redemption reserve A/c	Dr. Dr.	43,000 1,07,000	1,50,000

	(Being amount equal to nominal value of buy back shares from free reserves transferred to capital redemption reserve account as per the law)			
7.	Securities Premium A/c	Dr.	75,000	
	Profit and Loss A/c	Dr.	2,000	
	To Premium on buyback			75,000
	To Buyback Expenses A/c			2,000
	(Being premium on buyback and buyback expenses charged to securities premium and profit and loss account)			

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 Rs. 1,50,000 has been credited to CRR while solving the question

(5 MARKS)

ANSWER : 4(A)

Delta Limited

Balance Sheet as at 31st March 20X2

		Particulars	Note No.	(Rs. in '000)
A.		Equity and Liabilities		
1.		Shareholders' funds		
	(a)	Share Capital	1	495.00
	(b)	Reserves and Surplus	2	807.20
2.		Non – Current Liabilities		
	(a)	Long Term Borrowings	3	300.00
3.		Current Liabilities		
	(a)	Trade Payables		30.00
	(b)	Short – term Provision	4	163.80
		Total		1,796.00
B.		Assets		
1.		Non – Current Assets		
	(a)	Property, Plant and Equipment	5	1,550.00
2.		Current Assets		
	(a)	Inventories		96.00
	(b)	Trade Receivables	6	120.00
	(c)	Cash and Cash equivalents	7	30.00
		Total		1,796.00

Statement of Profit and Loss for the year ended 31st March 20X2

	Particulars	Note No.	(Rs. in '000)
(I)	Revenue from Operations		1200.00

(II) Other Income	8	6.00
(III) Total Income (I + II)		1,206.00
(IV) Expenses :		
Purchases (adjusted)		400.00
Finance Costs	9	30.00
Depreciation (10% of 800)		80.00
Other expenses	10	150.00
Total Expenses		660.00
(V) Profit / (Loss) for the period before tax (III – IV)		546.00
(VI) Tax expenses @ 30%		163.80
(VII) Profit for the period		382.20

Notes to Accounts

	Particulars		(Rs. in '000)
1	Share Capital		
	Equity Share Capital		
	Authorised		
	80,000 Shares of Rs. 10/- each		800
	Issued, Subscribed and Called – up		
	50,000 shares of Rs. 10/-each	500	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less : Calls in arrears	(5)	495
2	Reserves and Surplus		
	Securities Premium		40.00
	Revaluation Reserve Rs. (960 – 800)		160.00
	General Reserve		150.00
	Surplus i.e. Profit & Loss Account Balance		
	Opening Balance	75.00	
	Add : profit for the period	382.20	457.50
			807.20
3	Long – Term Borrowings		
	10% Debentures		300
4	Short – term provision		
	Provision for tax		163.80
5	Property, plant & equipment		
	Land		
	Opening Balance	800	
	Add : Revaluation adjustment	160	
	Closing Balance		960
	Plant and Machinery		
	Opening Balance	824	
	Less : Disposed off	(24)	
		800	
	Less : Depreciation Rs. (150 – 20 + 80)	(210)	
	Closing Balance		590

	Total		1,550
6	Trade receivables		
	Debits outstanding for a period exceeding six months	50	
	Other debts	70	120
7	Cash and Cash Equivalents		
	Cash at Bank with scheduled banks	23	
	With others (ABC Bank Limited)	5	
	Cash in hand	2	30
8	Other Income		
	Profit on sale of machinery		
	Sale value of machinery	10	
	Less : Book value of machinery (24 – 20)	(4)	6
9	Finance Costs		
	Debenture Interest		30
10	Other Expenses :		
	Factory expenses	80	
	Selling expenses	25	
	Administrative expenses	45	150

(12 MARKS)

ANSWER : 4(B)

Computation of contract cost

	Rs. Lakh	Rs. Lakh
Material cost incurred on the contract (net of closing stock)	21 - 4	17
Add: Labour cost incurred on the contract (including outstanding amount)		16
Specified contract cost	given	5
Sub-contract cost (advances should not be considered)		7
Cost incurred (till date)		45
Add: further cost to be incurred		35
Total contract cost		80

$$\begin{aligned} \text{Percentage of completion} &= \text{Cost incurred till date/Estimated total cost} \\ &= \text{Rs. } 45,00,000/\text{Rs. } 80,00,000 \\ &= 56.25\% \end{aligned}$$

Contract revenue and costs to be recognized

$$\text{Contract revenue (Rs. } 85,00,000 \times 56.25\%) = \text{Rs. } 47,81,250$$

$$\text{Contract costs} = \text{Rs. } 45,00,000$$

(5 MARKS)

ANSWER : 5(A)

Bangalore Branch Stock Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
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To Balance b/d Goods sent to	4,50,000	By Goods sent to branch A/c. (Returns)	90,000
Branch A/c.	45,00,000	By Bank A/c. (Cash sales)	15,00,000
To Branch debtors A/c. (Returns)	60,000	By Branch debtors A/c. (Credit sales)	27,00,000
To Branch adjustment A/c. (Surplus over invoice price)*	1,80,000	By Balance c/d	9,00,000
	51,90,000		51,90,000

* Alternatively, this may directly be transferred to Branch P & L A/c. without routing it through Branch Adjustment Account.

Bangalore Branch Adjustment Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To stock reserve – 20% of Rs. 9,00,000 (closing stock)	1,80,000	By stock reserve – 20% of Rs. 4,50,000 (Opening stock)	90,000
To Branch profit & Loss A/c. (Gross Profit)	9,72,000	By Goods sent to branch A/c. – 20% of Rs. 44,10,000 (45,00,000 – 90,000)	8,82,000
		By Branch stock A/c.	1,80,000
	11,52,000		11,52,000

Branch Profit & Loss Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Branch expenses A/c.	6,30,000	By Branch adjustment A/c. (Gross Profit)	9,72,000
To Branch debtors A/c. (Discount)	45,000		
To Branch Debtors A/c. (Bad debts)	30,000		
To Net profit (transferred to Profit & Loss A/c.)	2,67,000		
	9,72,000		9,72,000

Branch Expenses Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Bank A/c. (Rent, rates & taxes)	1,35,000	By Branch profit and loss A/c. (Transfer)	6,30,000
To Bank A/c. (salaries, wages & bonus)	4,50,000		
To Bank A/c. (Office expense)	45,000		
	6,30,000		6,30,000

Branch Debtors Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	5,40,000	By Bank A/c.	24,00,000
To Branch stock A/c.	27,00,000	By Branch profit and loss A/c. (Bad debts and discount)	75,000

		By Branch stock A/c. (Sales returns)	60,000
		BY Balance c/d (bal. fig.)	7,05,000
	32,40,000		32,40,000

Goods sent to Branch Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Branch stock A/c.	90,000	By Branch stock A/c.	45,00,000
To Branch adjustment A/c.	8,82,000		
To Purchases A/c.	35,28,000		
	45,00,000		45,00,000

(9 MARKS)

ANSWER : 5(B)

- (i) Mr. Happy will not be considered as a related party of Khushi Limited in view of provisions of AS 18 "Related Party Disclosures" which states, "individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual are related parties".

In the given case, in the absence of share ownership, Mr. Happy would not be considered to exercise significant influence on Khushi Limited, even though there is an agreement giving him the power to manage the company. Further, the fact that Mr. Happy does not have the ability to direct or instruct the board of directors does not qualify him as a key management personnel.

- (ii) According to AS 18 on 'Related Party Disclosures', parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Hence, Shri Bhanu, a relative of key management personnel should be identified as related party for disclosure in the financial statements for the year ended 31.3.2021 as he received remuneration for his services in the company for the period from 1st April,2020 to 30th June,2020.

(4 MARKS)

ANSWER : 5(C)

Computation of basic earning per share

Net profit for the current year/ Weighted average number of equity shares outstanding during the year Rs. 1,70,00,000/60,00,000 = Rs. 2.83 per share

$$= \frac{\text{Adjusted net profit for the current year}}{\text{Weighted average number of equity sha}}$$

Adjusted net profit for the current year

	Rs.
Net profit for the current year	1,70,00,000
Add: Interest expense for the current year	13,00,000
Less: Tax relating to interest expense (40% of Rs. 13,00,000)	<u>(5,20,000)</u>

Adjusted net profit for the current year

1,77,80,000

Number of equity shares resulting from conversion of debentures = 10,00,000 Equity Shares

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

= 70,00,000 shares (60,00,000 + 10,00,000)

Diluted earnings per share = Rs. 1,77,80,000/70,00,000 = Rs. 2.54 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.

(4 MARKS)