MOCK TEST PAPER – 2

INTERMEDIATE (IPC): GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

1. (a) 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 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.

(b) According to para 11 of 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	7,50,000*	0.5718	4,28,850
Total	26,25,000		18,55,850

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 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

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

date i.e. 31.3.2019. Therefore, loss occurred due to earthquake is not to be recognized in the financial year 2018-2019.

However, according to para 8.6 of 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 2018-2019.

(d) As per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies", Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived. In the given case the selling of land to tide over liquidation problems as well as fire in the Factory does not constitute ordinary activities of the Company. These items are distinct from the ordinary activities of the business. Both the events are material in nature and expected not to recur frequently or regularly. Thus, these are Extraordinary Items.

Therefore, in the given case, disclosing net profits by setting off fire losses against profit from sale of land is not correct. The profit on sale of land, and loss due to fire should be disclosed separately in the statement of profit and loss.

2. (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.)	16,000		
	16,06,000		16,06,000

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
	7,36,000		7,36,000

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
	12,10,000		12,10,000

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		
	8,80,000		8,80,000

B Ltd

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

		Particulars	*Notes*	₹
		Equity and Liabilities		
1		**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		14,75,000
		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
				14,75,000

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		1,07,000
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

[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.

	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	54,000
	Value of Goodwill = 54,000 x 4	2,16,000
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	2,34,000
	Total Assets	15,30,000
	Less: Trade payables	(3,20,000)
	Net Assets	12,10,000

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.	(10,000)
Amount of unrealized profit	15,000

3. **Realization Account**

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

Cash Account

Particulars		Amount ₹	Particulars	Amount ₹
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	56,700	4,25,700	Q	1,51,132
To R's capital A/c		7,000	S	59,286
		4,62,700		4,62,700

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	
	1,67,516	1,67,516	58,000	65,840		1,67,516	1,67,516	58,000	65,840

Working Notes:

1. Amount paid to creditors in cash

	₹
Book value	80,000
Less: Creditors taking over investments	(13,000)
	67,000
Less: Discount @ 5%	(3,350)
	63,650

2. Amount received from sale of investments

	₹
Book value	50,000
Less: Misappropriated by R	(8,000)
	42,000
Less: Taken over by a creditor	(9,000)
	33,000
Add: Profit on sale of investments	7,000
Cash received from sale of remaining investment	40,000

3. Amount received from debtors

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

4. Deficiency of R

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

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 x (15/36)] = ₹ 16,384

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

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

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%	31,562
Total	1,40,318

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	3,40,312
	4,76,830
Less: Rebate on bills discounted as on 31.03. 2021 (as above)	(1,40,318)
	3,36,512

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 1.04. 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) . **Form B-RA (Prescribed by IRDA)**

Lifeline General Insurance Company

Registration no. and date of registration with IRDA

Revenue Account for the year ended 31st March, 2020

Particulars	*Schedule*	*Amount (₹)*
Premium earned (Net)	1	66,72,065
Total (A)		66,72,065
Claims incurred (Net)	2	62,48,600
Commission	3	2,02,000
Operating expenses related to insurance business	4	2,44,050
Total (B)		66,94,650
Operating Loss from insurance business (A-B)		22,585

Schedules forming part of Revenue Account

Schedule 1: Premium Earned (Net)

Particulars	*Amount (₹)*
Premium from direct business written	95,29,400
Add: Premium on reinsurance accepted	12,25,300
Less: Premium on reinsurance ceded	(6,99,000)
Net Premium	100,55,700
Adjustment for change in Reserve for unexpired risk (W.N.2)	(33,83,635)
Total Premium earned (net)	66,72,065

Schedule 2: Claims Incurred (Net)

Particulars	*Amount (₹)*
Claims paid - Direct (W.N.1)	61,36,700
Add: Re-insurance accepted (W.N.1)	6,92,900
Less: Re-insurance ceded (W.N.1)	(5,81,000)
Net Claims paid	62,48,600

Schedule 3: Commission

Particulars	*Amount (₹)*
Commission paid	2,05,000
Add: Reinsurance accepted	25,000
Less: Commission on reinsurance ceded	(28,000)
Net Commission	2,02,000

Schedule 4: Operating Expenses related to Insurance Business

Particulars	*Amount (₹)*
Expenses of management (3,85,050–56,000 –85,000)	2,44,050
	2,44,050

Working Notes:

1. Claims incurred

Particulars	*Direct Business (₹)*	*Re-insurance accepted (₹)*	*Re-insurance Ceded (₹)*
Paid / received	59,76,000	7,18,000	4,95,000
Add: Outstanding at the end of the year	8,08,900	80,000	1,51,000
Add: Expenses in connection with settlement of claims (56,000 + 85,000)	1,41,000		
Less: Outstanding at the beginning of the year	(7,89,200)	(1,05,100)	(65,000)
	61,36,700	6,92,900	5,81,000

2. Change in Reserve for unexpired risk

Particulars	*Amount (₹)*
Reserve for unexpired risk for the year 2019-20 (₹100,55,700 x 50%)	50,27,850
Add: Additional reserve for unexpired risk for the year 2019-20 (₹100,55,700 x 5%)*	5,02,785
	55,30,635
Less: Reserve for unexpired risk for the year 2018-19 (₹38,00,000 x 50%)	(19,00,000)
Additional reserve for unexpired risk for the year 2018-19 (38,00,000 x 6.5%)	(2,47,000)
	33,83,635

**Additional reserve created at specified percentage of net premium amount.*

5. (a) Trading and Profit and Loss Account

for the year ended on 31st Match, 2021

Particulars	*A (₹)*	*B (₹)*	*C (₹)*	*Particulars*	*A (₹)*	*B (₹)*	*C (₹)*
To Opening Stock	8,500	5,700	1,200	By Sales less Sales returns	50,000	30,000	20,000
To Purchases	22,000	17,000	8,000	By Closing Stock	3,500	2,000	1,500
To Freight & carriage	1,400	800	200				
To Wages	800	700	200				
To Gross profit	20,800	7,800	11,900				
	53,500	32,000	21,500		53,500	32,000	21,500
To Salaries	2,250	1,350	900	By Gross Profit	20,800	7,800	11,900
To Power & Water	600	360	240	By Net Loss	-	465	-

To Telephone Charges	1,050	630	420				
To Bad Debts	375	225	150				
To Rent & Taxes	3,000	1,800	1,200				
To Insurance	750	450	300				
To Printing & Stationery	1,000	600	400				
To Advertising	1,750	1,050	700				
To Depreciation (2,000 +4,000)	3,000	1,800	1,200				
To Net Profit	7,025		6,390				
	20,800	8,265	11,900		20,800	8,265	11,900

Balance Sheet as at 31.03.2021

Liabilities	₹		*Assets*	₹	
Capital A/c	40,000		Furniture & Fixtures		4,600
Add: Net Profit (₹ 7,025 + ₹ 6,390)	13,415		Plant & Machinery	20,000	
	53,415		*Less:* Depreciation	2,000	18,000
Less: Net loss in Dept B	465		Motor Vehicles	40,000	
	52,950		*Less:* Depreciation	4,000	36,000
Less: Drawings	1,500	51,450	Sundry Debtors		12,200
Sundry Creditors		15,000	Cash in hand		850
Bank Overdraft		12,000	Closing Stock		7,000
Wages Outstanding		200			
		78,650			78,650

(b) Journal Entries in Books of Branch

			Amount in ₹	
			Dr.	*Cr.*
(i)	Head Office Account	Dr.	4,000	
	To Cash Account			4,000
	(Being expenditure incurred on account of other branch, now recorded in books)			
(ii)	Goods –in- transit Account	Dr.	8,000	
	To Head Office Account			8,000
	(Being goods sent by Head Office still in-transit)			
(iii)	Provision for Doubtful Debts A/c	Dr.	2,000	
	To Head Office Account			2,000
	(Being the provision for doubtful debts not provided earlier, now provided for)			
(iv)	Head Office Account	Dr.	2,000	
	To Salaries Account			2,000
	(Being rectification of salary paid on behalf of Head Office)			

6. **(a)** **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 Dr.	2,000	
	To Bank A/c		2,000
	(Buyback expenses paid)		
5.	Bank A/c Dr.	80,000	
	Profit and Loss A/c (Loss on sale of investment) Dr.	20,000	
	To Investment A/c		1,00,000
	(Being investment sold at loss)		
6.	General reserve Dr.	43,000	
	Profit and Loss A/c Dr.	1,07,000	
	To Capital redemption reserve A/c		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 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)		

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.

(b) **Sencom Limited**

Debenture Account

20X2		₹	20X2		₹
Mar 1	To Own Debentures	24,725	Jan 1	By Balance b/d	1,50,000
Mar 1	To Profit on cancellation (25,000-24,725)	275			
Sep 1	To Own Debentures (Note 3)	19,708			
Sep 1	To Profit on cancellation (20,000-19,708)	292			
Dec 31	Balance c/d	1,05,000			
		1,50,000			1,50,000

Own Debenture (Investment) Account

		Nominal Cost ₹	Interest ₹	Cost ₹			Nominal Cost ₹	Interest ₹	Cost ₹
20X2					20X2				
Mar 1	To Bank (W.N. 1)	25,000	521	24,725	Mar 1	By Debentures A/c	25,000	-	24,725
Sep 1	To Bank (W.N. 2 & 3)	20,000	417	19,708	Sep 1	By Debentures A/c	20,000	-	19,708
					Dec. 31	By P&L A/c		938	
		45,000	938	44,433			45,000	938	44,433

Working notes:

1. 25,000 x 5% x 5/12 = 521
2. 20,000 x 5% x 5/12 = 417
3. 20,125 – 417 = 19,708

7. (a) Calculation of capitalization rate on borrowings other than specific borrowings

Nature of general borrowings	*Period of outstanding balance*	*Amount of loan (₹)*	*Rate of interest p.a.*	*Weighted average amount of interest (₹)*
	a	*b*	*c*	*d = [(b x c) x (a/12)]*
9% Debentures	12 months	20,00,000	9%	1,80,000
Bank overdraft	9 months	4,00,000	10%	30,000
	2 months	4,00,000	12%	8,000
	1 month	8,00,000	12%	8,000
		36,00,000		2,26,000

Weighted average cost of borrowings

= {20,00,000 x(12/12)} + {4,00,000 x (11/12)} + {8,00,000 x (1/12)} = 24,33,334

Capitalisation rate = [(Weighted average amount of interest / Weighted average of general borrowings) x 100] = [(2,26,000 / 24,33,334) x 100] = 9.29% p.a.

(b) Statement showing underwriters' liability for shares other than shares underwritten firm

	X	*Y*	*Z*	*Total*
Gross liability (Issued shares – purchased by promoters, directors etc.)	5,85,000	2,25,000	90,000	9,00,000
(9,00,000 shares in the ratio of 65 : 25 : 10)				
Less: Marked applications	(1,19,500)	(57,500)	(10,500)	(1,87,500)
	4,65,500	1,67,500	79,500	7,12,500
Less: Allocation of unmarked applications (including firm underwriting i.e. 7,00,000) in the ratio 65 : 25 : 10	(4,55,000)	(1,75,000)	(70,000)	(7,00,000)
	10,500	(7,500)	9,500	12,500
Surplus of Y allocated to X and Z in the ratio 65 : 10	(6,500)	7,500	(1,000)	–
Additional shares to be purchased by X & Z	4,000	–	8,500	12,500

(c) Under section 27 (3) of the LLP Act, 2008 an obligation of an LLP arising out of a contract or otherwise, shall be solely the obligation of the LLP. The limitations of liability of an LLP and its partners are as follows:

- The Liabilities of an LLP shall be met out of the properties of the LLP;

- A partner is not personally liable, directly or indirectly (for an obligation of an LLP arising out of a contract or otherwise), solely by reason of being a partner in the LLP;
- An LLP is not bound by anything done by a partner in dealing with a person, if:
  - The partner does not have the authority to act on behalf of the LLP in doing a particular act; and
  - The other person knows that the partner has no authority or does not know or believe him to be a partner in the LLP
- The liability of the LLP and the partners perpetrating fraudulent dealings shall be unlimited for all or any of the debts or other liabilities of the LLP.

(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

(e) 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 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	40,30,000

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 shares (5,00,000 + 55,000)

Diluted earnings per share

= 40,30,000/ 5,55,000 = ₹ 7.26 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.