MOCK TEST PAPER - 1

FINAL (OLD): GROUP – I

PAPER – 1: FINANCIAL REPORTING

SUGGESTED ANSWERS

1. (a) The present case falls under the category of defined benefit scheme under Para 49 of AS 15 "Employee Benefits". The said para encompasses cases where payment promised to be made to an employee at or near retirement presents significant difficulties in the determination of periodic charge to the statement of profit and loss. The contention of the Company that the settlement allowance will be accounted for on claim basis is not correct even if company's obligation under the scheme is uncertain and requires estimation. In estimating the obligation, assumptions may need to be made regarding future conditions and events, which are largely outside the company's control. Thus,

(1) Settlement allowance payable by the company is a defined retirement benefit, covered by AS 15.

(2) A provision should be made every year in the accounts for the accruing liability on account of settlement allowance. The amount of provision should be calculated according to actuarial valuation.

(3) Where, however, the amount of provision so determined is not material, the company can follow some other method of accounting for settlement allowances.

(b) Notes to Accounts

S. No.	Particulars		Amount in ₹
1.	**Other non-current assets**		
	FDR of Axis Bank Limited		50,00,000
2.	**Current assets**		
	Cash and bank balances (See Note)		
	(a) Cash and cash equivalents		
	FDR of State Bank of India	70,00,000	
	(b) Other bank balances		
	FDR of ICICI Bank	40,00,000	
	FDR of Punjab National Bank	65,00,000	1,75,00,000

Note: The above 'Notes to Accounts' have been prepared on the basis of the Guidance Note on 'Schedule III to the Companies Act, 2013'. It states that in case of bank deposits having maturity of more than 3 months but upto 12 months, the heading "Cash and cash equivalents" should be changed to "Cash and bank balances" which may have two sub-headings viz "Cash and cash equivalents" and "Other bank balances". Since AS will prevail over Schedule and as per AS 3, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Therefore, even if the remaining maturity of FDR from reporting date is 3 months or less but its original maturity is more than 3 months from the date of acquisition it will be shown under the sub-heading "Other Bank Balances". It also states that bank deposits having maturity of more than 12 months should be shown under the heading "Other non-current assets".

Assumption: It is assumed that the FDR having maturity of more than 12 months from the reporting date i.e. 31st March, 2021 are restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

Working Notes:

	Amount in ₹	*Date of FDR*	*Maturity date*	*Maturity months from the reporting date i.e. 31.3.2021*
Axis Bank Limited	50,00,000	1.1.2021	30.4.2022	13
Punjab National Bank	65,00,000	1.1.2021	30.6.2021	3
State Bank of India	70,00,000	28.2.2021	30.5.2021	2
ICICI Bank	40,00,000	31.1.2020	31.1.2022	10
	2,25,00,000			

(c) Paragraph 46A of AS 11, 'The Effects of Changes in Foreign Exchange Rates' states that

(i) The exchange differences arising on reporting of long-term foreign currency monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, in so far as they relate to the acquisition of a depreciable capital asset, can be added to or deducted from the cost of the asset and shall be depreciated over the balance life of the asset.

(ii) To exercise the above option, an asset or liability shall be designated as a long-term foreign currency monetary item, if the asset or liability is expressed in a foreign currency and has a term of twelve months or more at the date of origination of the asset or the liability.

In the given case, the company borrowed on 9th January 2020 for payment of imported second hand machineries by way of buyers' credit payable on 9th July 2020. Thus, the foreign currency monetary item, buyer's credit, has a term of less than twelve months at the date of origination of the buyers' credit. Therefore, the exchange differences on settlement of monetary items, ie payment to the vendor, should be recognised as income or as expenses in the period in which they arise in accordance with paragraph 13 of AS 11.

Accordingly, the treatment given is not in accordance with AS 11.

The company has correctly recognised the exchange difference of ₹ 4,43,250 arising on reporting of buyers' credit at rates different from those at which they were initially recorded during the period as loss in Statement of Profit and Loss. However, the gain capitalised on payment to the vendor is not as per AS 11. Such gain should also be shown in the Statement of Profit and Loss.

The company cannot capitalise the loss of ₹ 4,43,250 proportionately for 8 machines which were put to use as at 31st March, 2020.

In the given case, the company has imported second hand machines. Therefore, except for the shipping and installation of the machine, the machines were already in the condition of ready for use. Further, the evidence that 8 machines were put to use by 31st March 2020 within less than 3 months of their import indicates that the machines do not necessarily take a substantial period of time to get ready for its intended use. Therefore, the company can neither capitalise the interest cost of $ 3056 nor the actual loss on rollover of buyers' credit. The treatment given by the company of capitalising the borrowing costs as per the given facts, is incorrect and should be recognised in interest expense in the Statement of Profit and Loss.

(d) **1.** No. This may not be capitalized as subsequent expenditure, since it merely maintains the originally assessed standard of performance of the asset.

2. Yes. An impairment loss should have been recognized when the damage occurred and any insurance payment received as compensation should have been recognized as income in the Statement of Profit and Loss when received.

When expenditure is incurred to restore the asset, such expenditure is added to the carrying amount of the asset to the extent that it is probable that future economic benefits will flow to the enterprise.

3. Yes. The cost of such modifications may be added to the carrying amount of the asset, since it will increase its output in future.

4. Yes. Such costs may be capitalized, since it will extend the life of the lathe thereby increasing the production capacity.

5. Yes. Such costs may be capitalized, since it will raise the quality of the output.

6. Yes. Such costs may be capitalized if it increases the production capacity.

2. **Consolidated Balance Sheet of Sun Ltd. and its subsidiaries Earth Ltd and Moon Ltd. as at 31.3.2021**

Particulars	Note No.	(₹ in '000s)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		8,000
(b) Reserves and Surplus	1	3,096
(2) Minority Interest (W.N.7)		952
(3) Current Liabilities	2	4,200
Total		16,248
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment		
(b) Intangible assets	3	688
(2) Current assets	4	15,560
Total		16,248

Notes to Accounts

			₹ in '000s
1.	Reserves and Surplus		
	General Reserve	1,600	
	Profit & Loss (W.N.6)	1,496	3,096
2.	Current Liabilities		
	Sun Ltd.	1,280	
	Earth Ltd.	3,000	
	Moon Ltd.	1,120	
		5,400	
	Less: Mutual Owings	(1,200)	4,200

3.	Intangible assets		
	Goodwill (W.N.5)		688
4.	Current Assets		
	Sun Ltd.	7,240	
	Earth Ltd.	7,520	
	Moon Ltd.	2,080	
		16,840	
	Less: Mutual Owings	(1,200)	
		15,640	
	Less: Unrealised Profit	(80)	15,560

Working Notes:

Shareholding Pattern

	Earth Ltd.	Moon Ltd.
Total Shares	40,000 shares	16,000 shares
Held by Sun Ltd.	32,000 shares (80%)	4,000 shares (25%)
Held by Earth Ltd.	NA	12,000 shares (75%)
Minority Interest	8,000 shares (20%)	NIL

1. General Reserve and Profit and Loss Account of Earth Ltd.

General Reserve Account of Earth Ltd.

		₹'000			₹'000
31.3.2021	To Balance c/d	280	1.4.2020	By Balance b/d	280

Draft Profit and Loss Account of Earth Ltd.

		₹ '000			₹ '000
31.3.2021	To Balance c/d	960	1.4.2020	By Balance b/d	520
				By Profit earned during the year (Bal. Fig.)	440
		960			960

2. Draft Profit and Loss Account of Moon Ltd.

		₹ *'000*			₹ *'000*
1.4.2018	To Balance b/d	160	31.3.2019	By Balance c/d	160
		160			160
1.4.2019	To Balance b/d	160	31.3.2020	By Balance c/d	480
	To Loss incurred during the year (Bal. Fig.)	320			
		480			480
1.4.2020	To Balance b/d	480	31.3.2021	By Balance c/d	640
	To Loss incurred during the year (Bal. Fig.)	160			
		640			640

3. Analysis of Profits of Moon Ltd.

		Capital Profits ₹ '000	Revenue Profits ₹ '000
(i)	From the viewpoint of Earth Ltd.		
	Debit Balance in Profit and Loss Account as on 1.4.2018	(160)	
	Loss incurred between 1.4.2018 to 31.3.2021 [(320 + 160)– Refer W.N. 2]	____	(480)
		(160)	(480)
	Share of Earth Ltd.-75% [carried forward to W.N.4]	(120)	(360)
(ii)	From the viewpoint of Sun Ltd.		
	Debit Balance of Profit and Loss Account as on 1.4.2018	(480)	
	Loss during the year 2020-2021 [WN 2]	____	(160)
		(480)	(160)
	Share of Sun Ltd. (25%)	(120)	(40)

4. Analysis of Profits of Earth Ltd. (From the viewpoint of Sun Ltd.)

	Capital Profits ₹ '000	Revenue Profits ₹ '000
General Reserve as on 1.4.2018	280	
Profit and Loss Account Balance as on 1.4.2018	520	
Profit earned during 2020-2021 (W.N.1)		440
Brought forward Earth Ltd.'s share of loss in Moon Ltd. [W.N.3(i)]	(120)	(360)
Share of Earth Ltd. in revenue loss of Moon Ltd. for the period 1.4.2018 to 31.3.2020 [75% of (360- 40)] being treated as capital loss from view point of Sun Ltd.	(240)	240
	440	320
Less: Share of Minority Interest (20%)	(88)	(64)
Balance taken to Sun Ltd. (80%)	352	256

5. Cost of Control

		₹ '000
Investment by Sun Ltd. in		.
Earth Ltd.	4,800	
Moon Ltd.	200	
Investment by Earth Ltd. in Moon Ltd.	720	5,720
Less: Paid up value of shares of:		
Earth Ltd.	3,200	
Moon Ltd. (400 + 1,200)	1,600	
	4,800	
Capital loss of Sun Ltd. in Moon Ltd. [W.N.3(ii)]	(120)	
Capital Profit of Sun Ltd. in Earth Ltd. (W.N.4)	352	(5,032)
Goodwill		688

6. Consolidated Profit and Loss A/c of Sun Ltd.

		₹ '000
Profit and Loss A/c Balance		1,360
Post-acquisition share of loss from Moon Ltd.		(40)
Post-acquisition share of profit from Earth Ltd.		256
		1,576
Less: Unrealised Profit on Inventory (1/6th of 480)		(80)
		1,496

7. Minority Interest

	₹'000
Paid up value of shares in Earth Ltd. (20% of 4,000)	800
Share of Capital Profit (W.N.4)	88
Share of Revenue Profit (W.N.4)	64
	952

3. Calculation of value per share on yield basis (Earnings Capitalisation Method)

Particulars	
Earnings available to equity shareholders (W.N.1)	₹ 1,01,040
Normal Rate of Return (W.N.3)	14.25%
Value of business	₹ 7,09,053
Number of equity shares outstanding	50,000
Value per share	**14.18**

Working Notes:

1. Computation of FMP available for distribution

a. Weighted average profits

Year	*Profit before tax*	*Weight*	*Product*
2016-2017	1,80,000	1	1,80,000
2017-2018	2,50,000	2	5,00,000
2019-2020	3,00,000	3	9,00,000
2020-2021	3,50,000	4	14,00,000
		10	**29,80,000**

Note: Profit of the year 2018-2019 has not been considered, because it is a year of strike (Abnormal operation).

	₹
Weighted average profit = $\frac{29,80,000}{10}$	2,98,000
Less: Increase in managerial remuneration	(25,000)
PBT	2,73,000
Tax @ 40%	(1,09,200)

PAT	1,63,800
Less: Provision for replacement of fixed assets (₹ 1,63,800 x 20%)	(32,760)
	1,31,040
Less: Dividend for preference shares (₹ 2,50,000 x 12%)	(30,000)
Earnings available for distribution	1,01,040

2. **Ascertainment of NRR criteria as applicable to Sipan Ltd.**

(A) Asset backing:

Particulars		₹
Total assets as per balance sheet		14,20,000
Add: Increase in the value of building	1,50,000	
Increase in the value of plant & machinery	2,00,000	3,50,000
Total		17,70,000
Less: Outside liabilities and preference share capital		
i. Trade Payables	1,50,000	
ii. 15% Debentures	1,20,000	
iii. 12% Preference share capital	2,50,000	(5,20,000)
Assets backing for equity share capital (a-b)		12,50,000
Equity share capital		5,00,000
Asset backing		2.5 times

(B) Dividend Rates:

Dividend rates have been fluctuating in the industry while Sipan Ltd. has constant dividend rates.

3. **Computation of adjusted Normal Rate of Return as applicable to Sipan Ltd.**

Particulars	*Asset backing*	*Dividend rates*
Industry standard	2 times	fluctuating
Sipan Ltd.	2.5 times	constant
Degree of variance from standard	+25%	N.A.
Impact on risk & consequent adjustment to NRR	↓	↓
Quantum of adjustment to NRR (assuming 100% variance = 1% change)	-0.25%	-0.50% (say)

Adjusted NRR = 15%-0.25% - 0.50% = 14.25%.

4. **(a)** (i) The stock options granted to employees are not included in the shares outstanding till the employees have exercised their right to obtain shares or stock options, after fulfilling the requisite vesting conditions. Till such time, the stock options so granted are considered as dilutive potential equity shares for the purpose of calculating Diluted EPS. At the end of each year, computations of diluted EPS are based on the actual number of options granted and not yet forfeited.

(ii) For calculating diluted EPS, no adjustment is made to the net profit attributable to equity shareholders as there are no expense or income that would result from conversion of ESOPs to the equity shares.

(iii) For calculating diluted EPS, the enterprise assumes the exercise of dilutive options. The assumed proceeds from these issues are considered to have been received from the issue of shares at fair value. The difference between the number of shares issuable and the number of shares that would have been issued at fair value are treated as an issue of equity shares for no consideration

(iv) As per paragraph 47 of this Guidance Note, the assumed proceeds to be included for computation, mentioned at (iii) above, include (a) the exercise price; and (b) the unamortized compensation cost related to these ESOPs, attributable to future services.

(v) **Calculation of the basic and diluted EPS**

Particulars	Year 1	Year 2
Net profit before amortisation of		
ESOP cost	₹ 25,00,000	₹ 28,00,000
Less: Amortisation of ESOP cost	(₹ 13,50,000)	(₹ 13,50,000)
[(900 employees x 300 options x ₹ 10)/2]		
Net profit attributable to equity shareholders	₹ 11,50,000	₹ 14,50,000
Number of shares outstanding	5,00,000	5,00,000
Basic EPS	₹ 2.30	₹ 2.90
Number of options outstanding		
(Options granted less actual forfeitures)	2,85,000	2,70,000
	[1,000 employees × 300 options— (50 employees × 300 options)]	[2,85,000 options - (50 employees× 300 options)]
Unamortised compensation cost per option	₹ 5	₹ 0
	[₹ 10 – ₹ 10/2]	
Number of dilutive potential equity shares	10,000	45,000
	[2,85,000 – ({(2,85,000 x 50) + (2,85,000 x 5)}/57)]	[2,70,000 – (2,70,000 x 50)/60)]
No. of equity shares used to compute		
diluted earnings per share	5,10,000	5,45,000
Diluted EPS	₹ 2.255	₹ 2.66

(b) The option to acquire shares in KS Ltd. would be regarded as a derivative financial instrument. This is because the value of the option depends on the value of an underlying variable (KS Ltd.'s share price). As per Ind AS 109 'Financial Instruments', all derivatives are measured at fair value. On 1st April, 2020, when QA Ltd. purchased 10 lakh options to acquire shares in KS Ltd. at ₹ 0.25 per option, QA Ltd. will recognise Option Asset for ₹ 2.5 lac by passing the following journal entry:

Option on KS Ltd. shares Dr.	₹ 2.5 lac	
To Bank		₹ 2.5 lac

QA Ltd. shall measure the option at fair value at the end of every reporting period and also before exercise. The increase in share price on exercise date represents fair value of the option as the time value is zero on exercise date. Therefore, QA Ltd. will measure the option at ₹ 6 lac (10 lac option x (2.6 – 2)) and recognise fair value gain of ₹ 3.5 lac in profit or loss.

The following journal entry will be passed:

Option on KS Ltd. shares Dr.	₹ 3.5 lac	
To Fair value gain		₹ 3.5 lac

On exercise of the option on 31st December, 2020, QA Ltd. will pay ₹ 20 lac for 10 lac shares of KS Ltd and the option derivative will be converted to shares of KS Ltd. Therefore, QA Ltd. will pass the following entry:

Investment in KS Ltd. equity shares Dr.	₹ 26 lac	
To Bank		₹ 20 lac
To Option on KS Ltd. shares		₹ 6 lac

Ind AS 109 'Financial Instruments' requires that the transaction costs shall be added to fair value if the financial asset is measured at other than fair value through profit or loss.

In the given case, ₹ 1 lac incurred by QA Ltd. for acquiring equity shares of KS Ltd. will not be added to the fair value of the equity shares of KS Ltd. This is because equity shares of KS Ltd. are classified at fair value through profit or loss in accordance with Ind AS 109 'Financial Instruments'. Therefore, QA Ltd. shall recognise ₹ 1 lac incurred on acquisition of equity shares of KS Ltd. in profit or loss as on 31st March, 2021.

The investment is included in the statement of financial position at 31st March, 2021 as a current asset at its fair value of ₹ 29 lac. The increase in fair value of ₹ 3 lac is taken to the profit and loss.

5. (a) Calculation of Closing per unit of NAV of the fund

	₹ in lakhs
Net Assets of BSP Rock	
Closing cash balance (W.N.2)	79.99
Closing Market Value of Investments	1,120.23
Accrued Dividends (collectable)	0.25
	1,200.47
Less: Current Liabilities	
Outstanding Management Fee (payable)	(0.47)
Closing Net Assets (A)	1,200.00
Units outstanding (in lakhs) (B)	100.00
NAV per unit (A/B)	12.00

Working Notes:

		₹ in lakhs
1. Computation of opening cash balance		
Proceeds of NFO in full including underwriters commitment		1000.00
Less: Initial Purchase of Securities		(892.50)
		107.50

	Less: Underwriting Commission	15.00	
	Marketing Expenses	11.25	(26.25)
	Opening Cash Balance		81.25
2.	**Computation of Closing cash balance**		
	Opening bank balance (W.N.1)		81.25
	Add: Proceeds from sale of securities	141.25	
	Dividends received on investment	2.26	143.51
			224.76
	Less: Cost of Securities purchased	130.00	
	Management Expenses (W.N.3)	1.76	
	Capital Gains Distributed ₹ (141.25 - 127.25 x 80%)	11.20	
	Dividends Distributed ₹ (2.26 x 80%)	1.81	(144.77)
	Closing cash balance		79.99
3.	**Computation of Management Expenses Chargeable**		
	Actual Expense Incurred [A]		2.47
	Opening Investment Made	892.50	
	Closing Funds Invested (892.50 - 127.25 + 130)	895.25	
	Total	1,787.75	
	Average Funds Invested (1,787.75/2)	893.875	
	0.25% of Average Funds Invested [B]		2.23
	Lower of A or B		2.23
	Less: Amount unpaid		(0.47)
	Management expenses paid		1.76

(b) (i) Value Added Statement of Parv Ltd.

for the period ended on 31.3.2021

		(₹ in lakhs)
Sales (net) (2,500 – 35)		2,465
Less: Cost of Bought in Materials and Services:		
Raw material consumed (180 + 714 – 240)	654	
Printing and stationary	24	
Auditors' remuneration	15	
Rent paid	172	
Other expenses	88	(953)
Value added by manufacturing and trading activities		1,512

Application of Value Added

	(₹ in lakh)	*(₹ in lakh)*	%
To Pay Employees:			
Wages and salaries	352		
Employees state insurance	32		
Provident fund contribution	26	410	27.12

To Pay Government:			
Income-tax		280	18.52
To Pay Providers of Capital:			
Interest on borrowings	40		
Dividend	85	125	8.27
To Provide for maintenance and expansion of the company:			
Depreciation	132		
Transfer to reserve	120		
Retained profit	445	697	46.09
		1,512	100

(ii) Value Added Per Employee = Value Added / No. of Employees

= 1,512 / 87 = 17.38

(iii) Average Earnings Per Employee = Average Earnings of Employee / No. of Employees

= 410 / 87 = 4.71

(iv) Sales Per Employee = Sales / No. of Employees

= 2,465 / 87 = 28.33

6. Balance Sheet of C Ltd. as at 1st April, 2021

Particulars	*Note No.*	*(₹ in lakhs)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	1,200
(b) Reserves and Surplus	2	1,650
(2) **Non-Current Liabilities**		
Long-term borrowings	3	60
(3) **Current Liabilities**		
Trade payables	8	610
Total		3,520
II. **Assets**		
(1) **Non-current assets**		
i. Property, plant and equipment	4	1,550
ii. Intangible assets	5	20
iii. Investments	6	200
(2) **Current assets**		
(a) Inventories		600
(b) Trade receivables	7	650
(c) Cash and cash equivalents		500
Total		3,520

Notes to Accounts

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	Equity share capital (W.N.2)		
	70,00,000 Equity shares of ₹ 10 each	700	
	5,00,000 Preference shares of ₹ 100 each	500	
	(all the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash)	____	1,200
2.	Reserves and surplus		
	Securities Premium Account	1,650	
	Investment Allowance Reserve	100	
	Amalgamation Adjustment Reserve	(100)	1,650
3.	Long-term borrowings		
	15% Debentures		60
4.	Property, plant and equipment		
	Land and Building	950	
	Plant and Machinery	600	1,550
5.	Intangible assets		
	Goodwill [W.N.2]		20
6.	Non-current Investments		
	Investments		200
7.	Trade receivables		
	A Ltd.	300	
	B Ltd.	350	650
8.	Trade payables		
	A Ltd.	420	
	B Ltd.	190	610

Working Notes:

			(₹ in lakhs)	
			A Ltd.	B Ltd.
(1)	Computation of Purchase consideration			
	(a)	Preference shareholders:		
		$\left(\frac{3,00,00,000}{100}\right)$ i.e. 3,00,000 shares $\times$ ₹ 150 each	450	
		$\left(\frac{2,00,00,000}{100}\right)$ i.e. 2,00,000 shares $\times$ ₹ 150 each		300

	(b)	Equity shareholders:				
		$\left(\frac{8,00,00,000 \times 5}{100}\right)$ i.e. 40,00,000 shares $\times$ ₹ 30 each		1,200		
		$\left(\frac{7,50,00,000 \times 4}{100}\right)$ i.e. 30,00,000 shares $\times$ ₹ 30 each		_____		900
		Amount of Purchase Consideration		1,650		1,200
(2)		Net Assets taken over				
		Assets taken over:				
		Land and Building		550		400
		Plant and Machinery		350		250
		Investments		150		50
		Inventory		350		250
		Trade receivables		300		350
		Cash and bank		300		200
				2,000		1,500
		Less: Liabilities taken over:				
		Debentures	40		20	
		Trade payables	420		190	
				(460)		(210)
		Net assets taken over		1,540		1,290
		Purchase consideration		1,650		1,200
		Goodwill		110		-
		Capital reserve				90

7. (a) Calculation of Possible Value of Brand

	₹ in lakhs
Profit after Tax (PAT)	2,500
Less: Profit allocated to property, plant and equipment [18% of ₹ 10,000)	(1,800)
Profit allocated to intangible assets including brand	700
Capitalization factor 25%	
Capitalised value of intangibles including brand (700 / 25 x 100)	2,800
Less: Identifiable intangibles other than brand	(1,500)
Brand value	1,300

(b) Calculation of provision required on advances as on 31st March, 2021 as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016

	Amount *₹ in lakhs*	*Percentage of provision*	*Provision* *₹ in lakhs*
Standard assets	16,800	0.25	42.00
Sub-standard assets	1,340	10	134.00
Secured portions of doubtful debts			
– upto one year	320	20	64.00
– one year to three years	90	30	27.00
– more than three years	30	50	15.00
Unsecured portions of doubtful debts	97	100	97.00
Loss assets	48	100	48.00
			427.00

(c)

Capital Base	=	₹ 1,00,00,000
Actual Profit	=	₹ 11,00,000
Target Profit @ 12.5%	=	₹ 12,50,000

Expected Profit on employing the particular executive

= ₹ 12,50,000 + ₹ 2,50,000 = ₹ 15,00,000

Additional Profit = Expected Profit – Actual Profit

= ₹ 15,00,000 – ₹ 11,00,000 = ₹ 4,00,000

Maximum bid price = $\frac{\text{Additional Profit}}{\text{Rate of Return on Investment}} = \frac{4,00,000}{12.5} \times 100 = ₹\ 32,00,000$

Maximum salary that can be offered = 12.5% of ₹ 32,00,000 i.e., ₹ 4,00,000

Maximum salary can be offered to that particular executive upto the amount of additional profit i.e., ₹ 4,00,000.

(d) The property has been vacated, and the continuing rentals are not expected to be recoverable from subleasing the property. Therefore, a provision should be recognised. The provision should represent the best estimate of the expenditure required to settle the obligation at the end of the reporting period. If Company X subleases the property, it expects to pay ₹ 30,000 in lease rentals and receive ₹ 24,000 (8,000 x 3 years) in sublease rentals, which would leave a deficit of ₹ 6,000 to be provided. However, in this case, the amount the landlord would accept to terminate the lease is ₹ 5,500, which is lower. Accordingly, Entity X should recognise an onerous lease provision of ₹ 5,500, irrespective of whether it intends to terminate the lease or enter into a sublease.

(e) Interim reports shall include interim financial statements (condensed or complete) for periods as follows:

(a) Balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding financial year.

(b) Statements of profit and loss for the current interim period and cumulatively for the current financial year to date, with comparative statements of profit and loss for the comparable interim periods (current and year-to-date) of the immediately preceding financial year.

(c) Statement of changes in equity cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

(d) Statement of cash flows cumulatively for the current financial year to date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year.

(e) For an entity whose business is highly seasonal, financial information for the twelve months up to the end of the interim period and comparative information for the prior twelve-month period may be useful.