MOCK TEST PAPER – 2

IPCC : GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) According to AS 29 'Provisions, Contingent Liabilities and Contingent Assets', contingent liability should be disclosed in the financial statements if following conditions are satisfied:

   (i) There is a present obligation arising out of past events but not recognized as provision.

   (ii) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

   (iii) The possibility of an outflow of resources embodying economic benefits is also remote.

   (iv) The amount of the obligation cannot be measured with sufficient reliability to be recognized as provision.

   In this case, the probability of winning of first five cases is 100% and hence, question of providing for contingent loss does not arise. The probability of winning of next ten cases is 60% and for remaining five cases is 50%. As per AS 29, we make a provision if the loss is probable. As the loss does not appear to be probable and the possibility of an outflow of resources embodying economic benefits is not remote rather there is reasonable possibility of loss, therefore disclosure by way of note should be made. For the purpose of the disclosure of contingent liability by way of note, amount may be calculated as under:

   Expected loss in next ten cases = 30% of ₹ 1,20,000 + 10% of ₹ 2,00,000

   = ₹ 36,000 + ₹ 20,000

   = ₹ 56,000

   Expected loss in remaining five cases = 30% of ₹ 1,00,000 + 20% of ₹ 2,10,000

   = ₹ 30,000 + ₹ 42,000

   = ₹ 72,000

   To disclose contingent liability on the basis of maximum loss will be highly unrealistic. Therefore, the better approach will be to disclose the overall expected loss of ₹ 9,20,000 (₹ 56,000 ´ 10 + ₹ 72,000 ´ 5) as contingent liability.

(b) 1. Computation of Actual Borrowing Costs incurred during the year

Source	Loan Amount	Interest Rate	Interest Amount
	₹ in lakhs		₹ in lakhs
Bank Loan	65.00	10%	6.50
9% Debentures	125.00	9%	11.25
Term Loan from Corporation Bank	100.00	10%	10.00
Term Loan from State Bank of India	110.00	11.5%	12.65
Total	400.00		40.40
Specific Borrowings included above	190.00		17.75

2. Weighted Average Capitalisation Rate for General Borrowings =

$$\frac{\text{Total Interest} - \text{Interest on Specific Borrowings}}{\text{Total Borrowings} - \text{Specific Borrowings}}$$

$$= \frac{(40.40 - 17.75)}{(400 - 190)} \times 100 = 10.79\%$$

3. Capitalisation of Borrowing Costs under AS – 16 will be as under:

Plant	*Borrowing*	*Loan Amount*	*Interest Rate*	*Interest Amount*	*Cost of Asset*	
		₹ in lakhs		*₹ in lakhs*	*₹ in lakhs*	*₹ in lakhs*
P	General	100	10.79%	10.79		110.79
Q	Specific	65	10.00%	6.50	71.50	
	General	60	10.79%	6.47	66.47	137.97
R	Specific	125	9.00%	11.25	136.25	
	General	50	10.79%	5.39	55.39	191.64
	Total	400		40.40		440.40

Note: The amount of borrowing costs capitalized should not exceed the actual interest cost.

(c) Journal Entries in the Books of Bharat Ltd.

Date	Particulars		Dr. (₹)	Cr.(₹)
31.3.2009	Employees compensation expenses account	Dr.	48,000	
	To Employees stock option outstanding account			48,000
	(Being compensation expenses recognized in respect of the employees stock option i.e. 1,000 options granted to employees at a discount of ₹ 120 each, amortised on straight line basis over $2\frac{1}{2}$ years)			
	Profit and loss account	Dr.	48,000	
	To Employees compensation expenses account			48,000
	(Being expenses transferred to profit and loss account at the end of the year)			
31.3.2010	Employees compensation expenses account	Dr.	48,000	
	To Employees stock option outstanding account			48,000
	(Being compensation expenses recognized in respect of the employee stock option i.e. 1,000 options granted to employees at a discount of ₹ 120 each, amortised on straight line basis over $2\frac{1}{2}$ years)			
	Profit and loss account	Dr.	48,000	
	To Employees compensation expenses account			48,000
	(Being expenses transferred to profit and loss account at the end of the year)			

31.3.2011	Employees stock option outstanding account (W.N.1)	Dr.	12,000	
	To General Reserve account (W.N.1)			12,000
	(Being excess of employees compensation expenses transferred to general reserve account)			
30.6.2011	Bank A/c (600 x ₹ 40)	Dr.	24,000	
	Employee stock option outstanding account (600 x ₹ 120)	Dr.	72,000	
	To Equity share capital account (600 x ₹ 10)			6,000
	To Securities premium account (600 x ₹ 150)			90,000
	(Being 600 employees stock option exercised at an exercise price of ₹ 40 each)			
01.10.2011	Employee stock option outstanding account	Dr.	12,000	
	To General reserve account			12,000
	(Being Employees stock option outstanding A/c transferred to General Reserve A/c, on lapse of 100 options at the end of exercise of option period)			

Working Note:

On 31.3.2011, Bharat Ltd. will examine its actual forfeitures and make necessary adjustments, if any to reflect expenses for the number of options, that have actually vested. 700 employees stock options have completed 2.5 years vesting period, the expense to be recognized during the year is in negative i.e.

	₹
No. of options actually vested (700 x ₹ 120)	84,000
Less: Expenses recognized ₹ (48,000 + 48,000)	(96,000)
Excess expenses transferred to general reserve	12,000

(d) The preparation of financial statements involve making estimates which are based on the circumstances existing at the time when the financial statements are prepared. It may be necessary to revise an estimate in a subsequent period if there is a change in the circumstances on which the estimate was based. Revision of an estimate, by its nature, does not bring the adjustment within the definitions of a prior period item or an extraordinary item [para 21 of AS 5 (Revised) on Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies].

In the given case, a limited company created 2.5% provision for doubtful debts for the year 2011-12. Subsequently in 2012 they revised the estimates based on the changed circumstances and wants to create 8% provision. As per AS-5 (Revised), this change in estimate is neither a prior period item nor an extraordinary item.

However, as per para 27 of AS 5 (Revised), a change in accounting estimate which has material effect in the current period, should be disclosed and quantified. Any change in the accounting estimate which is expected to have a material effect in later periods should also be disclosed.

2. Realisation Account

Particulars		₹	*Particulars*	₹
To Sundry assets:			By Creditors	2,77,500
Stock		3,17,000	By Bills payables	51,000
Debtors		3,25,000	By Bank overdraft	75,000
Plant		1,63,875	By Shares in ST Ltd. (W.N. 3)	18,80,000
Building		8,64,500		
Furniture		73,125		
To Profit:				
S	2,70,000			
T	2,70,000	5,40,000		
		22,83,500		22,83,500

Partners' Capital Accounts

Date	*Particulars*		*S*	*T*	*Date*	*Particulars*		*S*	*T*
2011			₹	₹	2011			₹	₹
April 1	To	Cash – Drawings (W.N. 2)	20,000	20,000	April 1	By	Balance b/d	6,40,000	6,60,000

Sept. 30	To	Shares in ST Ltd.	9,30,000	9,50,000	Sept. 30	By	Profit (W.N.2)	40,000	40,000
						By	Realisation A/c (Profit)	2,70,000	2,70,000
			9,50,000	9,70,000				9,50,000	9,70,000

Working Notes:

1. Ascertainment of capital as on 30th September, 2011

Balance Sheet as at 30th September, 2011

Liabilities	₹	*Assets*		₹
Sundry creditors	2,77,500	Building	9,10,000	
Bills payable	51,000	*Less:* Depreciation	(45,500)	8,64,500
Bank overdraft	75,000	Plant	1,72,500	
Total capital (bal. fig.)	13,40,000	*Less:* Depreciation	(8,625)	1,63,875
		Furniture	75,000	
		Less: Depreciation	(1,875)	73,125
		Stock		3,17,000
		Debtors		3,25,000
	17,43,500			17,43,500

2. Profit earned during six months ended 30th September, 2011

		₹
Total capital (of S and T) on 30th September, 2011 (W.N.1)		13,40,000
Capital on 1st April, 2011		
S	6,40,000	
T	6,60,000	(13,00,000)
Net increase (after drawings)		40,000

Since drawings are half of profits therefore, actual profit earned is ₹ 40,000 x 2 = ₹ 80,000 (shared equally by partners S and T).

Half of the profits, has been withdrawn by both the partners equally i.e. drawings ₹ 40,000 (₹ 80,000 x ½) withdrawn by S and T in 1:1 (i.e. ₹ 20,000 each).

3. Purchase consideration

	₹
Total assets (W.N.1)	17,43,500
Add: Goodwill	5,40,000
	22,83,500
Less: Liabilities (2,77,500 + 51,000 + 75,000)	(4,03,500)
Purchase consideration	18,80,000

Note: The above solution is given on the basis that reduction in bank overdraft is after surrender of Joint life policy.

3. In the Books of Success Ltd.

Debenture Stock Account

2009		₹	*2009*		₹
Sept. 30	To Debenture Redemption A/c	1,20,000	Jan. 1	By Balance b/d	10,00,000
Dec. 31	To Balance c/d	8,80,000			
		10,00,000			10,00,000
2010		₹	*2010*		₹
May 31	To Debenture Redemption A/c	75,000	Jan. 1	By Balance b/d	8,80,000
Dec.31	To Debenture Redemption A/c	25,000			
	To Balance c/d	7,80,000			
		8,80,000			8,80,000
2011		₹	*2011*		₹
July 31	To Debenture Redemption A/c	1,15,000	Jan. 1	By Balance b/d	7,80,000
Dec.31	To Balance c/d	6,65,000			
		7,80,000			7,80,000

Debenture Redemption Account

2009		₹	*2009*		₹
Sept. 30	To Bank A/c (₹ 1,20,000×0.98 – ₹ 1,800)	1,15,800	Sept.30	By Debenture Stock A/c	1,20,000

	To Capital Reserve A/c	4,200			
		1,20,000			1,20,000
2010		₹	*2010*		₹
May 30	To Bank A/c (₹ 75,000 × 0.95)	71,250	May 31	By Debenture Stock A/c	75,000
			Dec. 31	By Debenture Stock A/c	25,000
	To Capital Reserve A/c (Profit on cancellation)	3,750			
Dec.31	To Bank A/c (Shortfall= ₹1,00,000 – ₹ 75,000)	25,000			
		1,00,000			1,00,000
2011		₹	*2011*		₹
July 31	To Bank A/c (₹ 1,15,000 ×.92 – ₹ 575)	1,05,225	July 31	By Debenture Stock A/c	1,15,000
	To Capital Reserve A/c (Profit on cancellation)	9,775			
		1,15,000			1,15,000

Debenture Interest Account

2009		₹	*2009*		₹
June 30	To Bank A/c	30,000	Dec. 31	By Profit and Loss A/c	58,200
Sept. 30	To Bank A/c	1,800			
Dec. 31	To Bank A/c	26,400			
		58,200			58,200
2010		₹	*2010*		₹
May 31	To Bank A/c	1,875	Dec. 31	By Profit and Loss A/c	50,175
June 31	To Bank A/c	24,150			
Dec. 31	To Bank A/c	24,150			
		50,175			50,175
2011		₹	*2011*		₹
June 30	To Bank A/c	23,400	Dec. 31	By Profit and Loss A/c	43,925

July 31	To	Bank A/c	575			
Dec. 31	To	Bank A/c	19,950			
			43,925			43,925

Working Notes :

Interest paid on Debentures @ 6% per annum:

Date	*Amount of Debentures* ₹	*Period*	*Interest* ₹
2009			
June 30	10,00,000	6 months	30,000
Sept. 30	1,20,000	3 months	1,800
Dec. 31	8,80,000	6 months	26,400
2010			
May 31	75,000	5 months	1,875
June 30	8,05,000	6 months	24,150
Dec. 31	8,05,000	6 months	24,150
2011			
June 30	7,80,000	6 months	23,400
July 31	1,15,000	1 month	575
Dec. 31	6,65,000	6 months	19,950

Notes :

(1) It has been assumed that debentures are purchased for immediate cancellation.

(2) The purchases of 30th September, 2009 and 31st July, 2011 have been taken on cum-interest basis

4. FORM B – RA

Name of the Insurer : Saviour General Insurance Company

Registration no. and date of registration with IRDA : ………………..

Revenue Account for the year ended 31.3.2012

	Particulars	*Schedule*	*Amount (₹)*
1.	Premium earned (Net)	1	27,03,000
2.	Profit/Loss on sales/Redemption of investment	-	-

3.	Other	-	-
4.	Interest, dividend & rent (Gross)	-	30,000
	Total (A)		27,33,000
1.	Claims incurred (Net)	2	19,44,000
2.	Commission	3	68,400
3.	Operating expenses related to insurance business	4	1,20,000
	Total (B)		21,32,400
	Operating profit/Loss from insurance business (C) = (A-B)		6,00,600
	Appropriation:		
	Transfer to Shareholders account		-
	Transfer to Catastrophe Reserve		-
	Transfer to other reserves		-
	Total (D)		-

Schedule – 1 Premium Earned (Net)

Particulars	₹
Premium received from direct business (W.N.1)	30,60,000
Add: Premium on reinsurance accepted (2,40,000 + 36,000 – 24,000)	2,52,000
	33,12,000
Less: Premium on reinsurance ceded (3,60,000 + 42,000 – 30,000)	(3,72,000)
Net Premium	29,40,000
Adjustment for change in reserve for unexpired risk (W.N.2)	(2,37,000)
Total premium earned (Net)	27,03,000

Schedule – 2 Claims Incurred (Net)

Particulars	₹
Claims paid (Direct)	18,00,000
Add: Legal expenses regarding claims	12,000
	18,12,000
Add: Reinsurance Accepted	1,80,000
	19,92,000
Less: Reinsurance ceded (1,20,000 + 12,000 –18,000)	(1,14,000)

	18,78,000
Add: Claims outstanding at the end (1,20,000 + 18,000)	1,38,000
	20,16,000
*Less:*Claims outstanding at the beginning (60,000 + 12,000)	(72,000)
Total claim incurred	19,44,000

Schedule –3 Commission

Particulars	₹
Commission paid Direct	72,000
Add: Re-insurance accepted	10,800
	82,800
*Less:*Re-insurance ceded	(14,400)
Net commission	68,400

Schedule – 4 Operating Expenses related to Insurance Business

Particulars	₹
Expenses of management (1,32,000 – 12,000)	1,20,000
	1,20,000

Working Notes:

1. Calculation of premium received from direct business

	₹
Premium on direct business	30,00,000
Add: Premium outstanding at the end	2,40,000
	32,40,000
*Less:*Premium outstanding at the beginning	(1,80,000)
	30,60,000

2. Computation of change in reserve for unexpired risk

	₹
Reserve for unexpired risk for the year 2011-12 (29,40,000 x 50%)	14,70,000
Add: Additional reserve for unexpired risk for the year 2011-12 (29,40,000 x 5%)	1,47,000
	16,17,000
*Less:*Reserve for unexpired risk for the year 2010-11	

(24,00,000 x 50%)	(12,00,000)
Additional reserve for unexpired risk for the year (24,00,000 x 7.5%)	(1,80,000)
	2,37,000

5. (a)

Branch Debtors A/c

		₹			₹
To	Branch Stock A/c	1,16,000	To	Branch Cash A/c	74,000
			To	Bad Debts written off	400
			To	Balance c/d	41,600
		1,16,000			1,16,000

Goods Sent to Branch A/c

		₹			₹
To	Branch Adjustment A/c $1,00,000x \frac{20}{100}$	20,000	By	Branch Stock A/c	1,20,000
To	Purchases/ Trading A/c	1,00,000			
		1,20,000			1,20,000

Branch Cash A/c

		₹			₹
To	Branch Debtors A/c	74,000	By	Branch Expenses A/c	24,000
To	Branch remittance from H.O.	6,000	By	Cash to H.O.	86,000
To	Branch Stock A/c - Cash Sales (balancing figure)	34,000	By	Balance c/d	4,000
		1,14,000			1,14,000

Branch Stock A/c

		₹			₹
To	Goods sent to Branch A/c	1,20,000	By	Branch Debtors A/c (balancing figure)	1,16,000
To	Branch Adjustment A/c (Excess profit over normal loading)	54,000*	By	Cash Sales	34,000
			By	Goods in Transit (1,20,000-1,08,000)	12,000

* ₹ [1,16,000 + 34,000 – (1,20,000-12,000-12,000)]

			By	Balance c/d	12,000
		1,74,000			1,74,000
		Branch Expenses A/c			
To	Branch Cash A/c	24,000	By	Branch P&L A/c	24,000
		Branch Adjustment A/c			
To	Stock Reserve	2,000	By	Goods sent to Branch A/c	20,000
To	Goods in Transit Reserve	2,000	By	Branch Stock A/c	54,000
To	Branch P&L A/c	70,000			
		74,000			74,000
		Branch P & L A/c			
To	Branch Expenses A/c	24,000	By	Branch Adjustment A/c	70,000
To	Bad Debts	400			
To	Profit	45,600			
		70,000			70,000

(b)

Total number of shares issued	10,00,000 shares
Less: Shares taken by the directors and others	(1,00,000 shares)
Shares offered to general public	9,00,000 shares

Statement Showing the Liability of Underwriters

	(Number of shares)		
	X	Y	Z
Gross liability (65%: 25%: 10%)	5,85,000	2,25,000	90,000
Less: Marked applications	(1,19,500)	(57,500)	(10,500)
	4,65,500	1,67,500	79,500
Less: Unmarked applications in the ratio of gross liability	(4,55,000)	(1,75,000)	(70,000)
Resultant Liability (or Surplus)	10,500	(7,500)	9,500
Less: Surplus of Y allocated to X and Z in the ratio of 65:10	(6,500)	(7,500)	(1,000)
Net Liability as per agreement	4,000	Nil	8,500

In the books of a Joint Stock Company

Journal Entries

Date	*Particulars*		*Dr. (₹)*	*Cr. (₹)*
	Bank A/c	Dr.	11,00,000	
	To Equity Share Capital A/c			10,00,000
	To Securities Premium A/c			1,00,000
	(Being the issue of 1,00,000 equity shares of ₹ 10 each at a premium of ₹ 1 per share to the directors, their relatives and friends as per Board's Resolution No…..dated……)			
	Bank A/c	Dr.	97,62,500	
	To Share Application A/c			97,62,500
	(Being application money received on 8,87,500 shares @ ₹ 11 each)			
	X (4,000 shares x ₹ 11)	Dr.	44,000	
	Z (8,500 shares x ₹ 11)	Dr.	93,500	
	Share Application A/c	Dr.	97,62,500	
	To Equity Share Capital A/c			90,00,000
	To Securities Premium A/c			9,00,000
	(Being allotment of shares to X – 4,000 and Z- 8,500, application money credited to Equity Share Capital Account and Securities Premium Account as per Board's Resolution No….dated….)			
	Underwriting Commission A/c	Dr.	1,98,000	
	To X (Note 1)			1,28,700
	To Y (Note 1)			49,500
	To Z (Note 2)			19,800
	(Being the amount payable to X, Y and Z as underwriting commission @ 2% of the issue price)			

	X	Dr.	84,700	
	Y	Dr.	49,500	
	To Bank A/c			1,34,200
	(Being the amount paid to X and Y in respect of underwriting commission after adjusting amount payable on shares allotted)			
	Bank A/c	Dr.	73,700	
	To Z			73,700
	(Being the balance money received from Z on shares allotted after adjusting underwriting commission)			

Working Note:

Statement showing the Amount Due from (Due to) Underwriters

Underwriters		*X*	*Y*	*Z*
Number of shares to be subscribed as per agreement		4,000	Nil	8,500
Amount payable @ ₹ 11 per share	(₹)	44,000	-	93,500
Less: Underwriting commission @ 2%				
X – on ₹ 64,35,000		(1,28,700)	-	-
Y – on ₹ 24,75,000		-	(49,500)	-
Z – on ₹ 9,90,000	-	-	-	(19,800)
Amount paid/ (received)		(84,700)	(49,500)	73,700

6. (a) Calculation of Reasonable Return

	₹
10% (Bank rate 8% +2%) of capital base	87,40,000
8% on Reserve fund investments	9,60,000
½% on Loan from State Electricity Board	50,000
½% on 11% Debentures	4,000
½ on Development reserve	16,000
	97,70,000

Surplus:	
Clear Profit – Reasonable return (₹ 1,20,00,000-97,70,000)	₹ 22,30,000
20% of Reasonable Return	₹ 19,54,000
whichever is less is for disposal as surplus i.e.	₹ 19,54,000

Statement showing Disposal of surplus

		₹
(i)	1/3rd of surplus limited to 5% of reasonable return is at the disposal of the company	4,88,500
	1/3rd of surplus = ₹ 6,51,333	
	Or, 5% of reasonable return = ₹ 4,88,500	
(ii)	Credit to Tariffs and Dividend Control Reserve (1/2 of remaining balance of 20% of reasonable return) ₹ 19,54,000 – 4,88,500 = ₹ 14,65,500 x 1/2	7,32,750
(iii)	Remaining balance credited to customers account	7,32,750
		19,54,000

(b) Departmental Trading and Loss Account of M/s Part and Parcel

For the year ended 31st December, 2011

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

General Profit and Loss Account

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

Working Notes:

1. Stock of department A will be adjusted according to the rate applicable to department B = [(7,50,000 ÷ 15,00,000) x 100] = 50%
2. Stock of department B will be adjusted according to the rate applicable to department A = [(4,00,000 ÷ 10,00,000) x 100] = 40%

7. (a) Calculation of amount of provision to be made in the Profit and Loss Account

Classification of Assets	*Amount of advances*	*% age of provision*	*Amount of provision*
	(₹ in lakhs)		*(₹ in lakhs)*
Standard assets	20,000	0.40	80
Sub-standard assets	16,000	15*	2,400
Doubtful assets:			
For one year (secured)	6,000	25	1,500
For two to three years (secured)	4,000	40	1,600
For more than three years			
(unsecured)	1,400	100	1,400
(secured)	600	100	600
Non-recoverable assets (Loss assets)	1,500	100	1,500
Total provision required			9,080

(b) Para 3.2 of AS 4 (Revised) on Contingencies and Events Occurring after the Balance Sheet Date defines events occurring after the balance sheet date as significant events, both favourable and unfavourable, that occur between the balance sheet date and the date on which financial statements are approved by the Board of Directors in the case of a company. The given case is discussed in the

* Sub-standards assets have been assumed as fully secured.

light of the above mentioned definition and requirements given in paras 13-15 of the said AS 4 (Revised).

In this case the incidence, which was expected to push up cost by ₹ 80 lakhs became evident after the date of approval of the accounts. So that was not an 'event occurring after the balance sheet date'. However, this may be mentioned in the Directors' Report

(c) As per para 13 of AS 11 (Revised 2003) 'The Effects of Changes in Foreign Exchange Rates', exchange differences arising on the settlement of monetary items or on reporting an enterprise's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, should be recognized as income or expenses in the period in which they arise. Thus exchange differences arising on repayment of liabilities incurred for the purpose of acquiring fixed assets are recognized as income or expense.

Calculation of Exchange Difference:

$$\text{Foreign currency loan} = \frac{₹\ 3{,}000 \text{ lakhs}}{₹\ 40} = 75 \text{ lakhs US Dollars}$$

Exchange difference = 75 lakhs US Dollars ´ (42.50 – 40.00)

= ₹ 187.50 lakhs

(including exchange loss on payment of first instalment)

Therefore, entire loss due to exchange differences amounting ₹ 187.50 lakhs should be charged to profit and loss account for the year.

(d) Para 11 of AS 20 states that "for the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to Equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period".

With an emphasis on the phrase "attributable to equity shareholders", it may be construed that amount appropriated to Mandatory Reserves as described in this case, though not available for distribution as dividend, are still attributable to equity shareholders.

Therefore, the appropriation made to mandatory reserve created for the redemption of debentures would be included in the net profit attributable to equity shareholders for the computation of Basic EPS. The treatment made by the company is not correct.

(e) As per para 10 of AS 12 'Accounting for Government Grants', where the government grants are of the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay (for example, central investment subsidy scheme) and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income.

In the given case, the subsidy received is neither in relation to specific fixed asset nor in relation to revenue. Thus it is inappropriate to recognise government grants in the profit and loss statement, since they are not earned but represent an incentive provided by government without related costs. The correct treatment is to credit the subsidy to capital reserve. Therefore, the accounting treatment followed by the company is not proper.