MODEL TEST PAPER 11 (Solution)

SECTION A

PART I

1. (*i*) In this case outgoing Partner's share in the profit/loss is adjusted through the Capital Accounts of Gaining Partners in their **gaining ratio**. Following Journal entry is passed to record this adjustment:

Case	*Accounting Entry to be Passed*		
(*a*) In Case of Profit	Gaining Partners' Capital A/cs To Outgoing Partner's Capital A/c	...Dr.	[Gaining Ratio] [Share of Profit]
(*b*) In Case of Loss	Outgoing Partner's Capital A/c To Gaining Partners' Capital A/cs	...Dr.	

(*ii*) **Difference between Drawings Against Profit and Drawings Against Capital (Any two)**

Basis	*Drawings Against Profit*	*Drawings Against Capital*
1. **Where Debited**	It is debited to Drawings Account.	It is debited to Capital Account.
2. **Part**	It is a part of expected profit.	It is part of capital.
3. **Effect**	It does not reduce capital.	It reduces capital.
4. **Interest on Capital**	It is not considered while calculating interest on capital.	It is considered while calculating interest on capital.

(*iii*) Securities Premium received cannot be used for purposes other than those under Section 52(2) of the Companies Act, 2013.

(*iv*) Utilise ₹ 10,00,000 to write off underwriting commission.

(*v*) Under redemption of debentures by lump sum payment, all debentures are redeemed in one lot on the redemption date specified in the terms of issue (*i.e.*, *on maturity*).

(*vi*) If purchase consideration is more than the net assets acquired, then the difference is debited to Goodwill Account.

PART II

2. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Mohan's Current A/c	...Dr.		38,000	
	To Ravi's Current A/c				38,000
	(Being the adjustment entry recorded due to omission of interest on capital and salary to partners)				

Working Note: ` TABLE SHOWING THE ADJUSTMENT TO BE MADE

Particulars		Ravi ₹	Mohan ₹	Firm ₹
Division of Correct Profit:				
(*i*) Interest on Capital @ 12% p.a.	...Cr.	1,20,000	84,000	2,04,000
(*ii*) Salary to Partners	...Cr.	72,000	60,000	1,32,000
(*iii*) Division of Correct Profit ₹ 1,68,000 (*i.e.*, ₹ 5,04,000 – ₹ 2,04,000 – ₹ 1,32,000)	...Cr.	98,000	70,000	1,68,000
Total amount to be received by partners	...Cr.	2,90,000	2,14,000	5,04,000
Wrong distribution of profit, *i.e.*, profit shared equally, which has been credited now debited	...Dr.	2,52,000	2,52,000	5,04,000
Net effect to be debited or credited		38,000 (Cr.)	(38,000) (Dr.)	...

(*b*) PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2018* *Cr.*

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Net Profit	4,64,000	
X (₹ 6,00,000 × 5/100)	30,000		*Less:* Rent to *Z* (WN 1)	24,000	4,40,000
Y (₹ 4,00,000 × 5/100)	20,000	50,000	By Interest on Drawings A/cs:		
To Partners' Salary A/cs:			*X* (₹ 12,000 × 6/100 × 6/12)	360	
X	51,440		*Y* (₹ 12,000 × 6/100 × 6/12)	360	
Y (₹ 5,000 × 12)	60,000	1,11,440	*Z* (₹ 12,000 × 6/100 × 6/12) +		
To *X*'s Commission A/c [10/110 (₹ 4,64,000 – ₹ 24,000)]		40,000	(₹ 8,000 × 6/100 × 9/12)	720	1,440
To Profit transferred to:					
X's Capital A/c	1,20,000				
Y's Capital A/c	80,000				
Z's Capital A/c	40,000	2,40,000			
		4,41,440			4,41,440

Working Notes:

1. Rent of ₹ 24,000 payable to *Z* for the use of his premises is a *charge* against profit so it must be deducted before transferring the profit to Profit and Loss Appropriation Account.
2. *Z* cannot claim for interest on capital since his Capital Account shows debit balance.

(*c*) **Interest on Drawings:**

$$X = ₹\ 60{,}000 \times \frac{3.5}{12} \times \frac{5}{100} = ₹\ 875.$$

$$Y = ₹\ 60{,}000 \times \frac{2.5}{12} \times \frac{5}{100} = ₹\ 625.$$

Note: For the calculation of Interest on Drawings, the concept of Average Period is followed.

3. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Arjun's Capital A/c	...Dr.		42,000	
	Bhim's Capital A/c	...Dr.		15,000	
	Nakul's Capital A/c	...Dr.		18,000	
	To Goodwill A/c				75,000
	(Being the existing goodwill written off)				

	Arjun's Capital A/c ...Dr. To Bhim's Capital A/c (WN 3) (Being the amount of Bhim's Share of Goodwill adjusted by debiting Arjun's (gaining partner) Capital Account and crediting Bhim's (retiring partner) Capital Account)		10,000	 10,000
	Profit and Loss Appropriation A/c ...Dr. To Arjun's Capital A/c To Nakul's Capital A/c (Being the profit distributed between Arjun and Nakul in their new profit-sharing ratio, *i.e.*, 19 : 6 (WN 1 and 2))		1,00,000	 76,000 24,000

Working Notes:

1. *Calculation of New Profit-sharing Ratio of Arjun and Nakul:*

   Arjun's New Share = $\frac{14}{25}+\frac{5}{25}$ (Bhim's Share) = $\frac{19}{25}$; Nakul's Share = $\frac{6}{25}$

   Thus, New Profit-sharing Ratio of Arjun and Nakul = 19 : 6.

2. *Distribution of Profit:*

   Arjun's Share = ₹ 1,00,000 × $\frac{19}{25}$ = ₹ 76,000; Nakul's Share = ₹ 1,00,000 × $\frac{6}{25}$ = ₹ 24,000.

3. *Valuation and Adjustment of Goodwill:*

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit}$$
$$= ₹\left[\frac{50,000+55,000+60,000}{3}\right] - ₹\ 30,000$$
$$= ₹\ 55,000 - ₹\ 30,000 = ₹\ 25,000$$
$$\text{Goodwill} = \text{Super Profit} \times \text{Number of Years' Purchase}$$
$$= ₹\ 25,000 \times 2 = ₹\ 50,000$$

   Bhim's Share in Goodwill = ₹ 50,000 × $\frac{5}{25}$ = ₹ 10,000

   Bhim retires and surrenders his $\frac{5}{25}$th share in favour of Arjun, who is the gaining partner.

(*b*)

Dr. Y'S CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To *Y*'s Executors' A/c (Balancing Figure)	1,38,225	By Balance *b/d*	60,000
		By Profit and Loss Suspense A/c (WN 2)	1,125
		By *X*'s Capital A/c (WN 3)	20,571
		By *Z*'s Capital A/c (WN 3)	51,429
		By *X*'s Capital A/c (WN 4)	1,029
		By *Z*'s Capital A/c (WN 4)	2,571
		By Interest on Capital A/c (₹ 60,000 × 10/100 × 3/12)	1,500
	1,38,225		1,38,225

Dr. Y'S EXECUTORS' ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *c/d*	1,38,225	By *Y's* Capital A/c	1,38,225
	1,38,225		1,38,225

Working Notes:

1. *Profit-sharing Ratio of X, Y and Z* = Capital Ratio = 2 : 3 : 5.

2. *Y*'s Share of Profit = ₹ 15,000 × $\frac{3}{12} \times \frac{3}{10}$ = ₹ 1,125.

3. *Y*'s Share of Goodwill = ₹ 2,40,000 × $\frac{3}{10}$ = ₹ 72,000, which is contributed by *X* and *Z* in their gaining ratio, *i.e.*, 2 : 5. Thus,

   X's Contribution = ₹ 72,000 × $\frac{2}{7}$ = ₹ 20,571; *Z*'s Contribution = ₹ 72,000 × $\frac{5}{7}$ = ₹ 51,429.

4. *For Adjustment of Y's share in Workmen Compensation Reserve:*

X's Capital A/c (₹ 3,600 × 2/7)	...Dr.	₹ 1,029	
Z's Capital A/c (₹ 3,600 × 5/7)	...Dr.	₹ 2,571	
To *Y*'s Capital A/c (₹ 12,000 × 3/10)			₹ 3,600

4. **HMSC Ltd.**

BALANCE SHEET *as at 31st March, 2018*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital	1	13,00,000
(*b*) Reserves and Surplus	2	31,67,000
2. Share Application Money Pending Allotment		2,00,000
3. Non-Current Liabilities		
Long-term Borrowings	3	20,00,000
4. Current Liabilities		
(*a*) Trade Payables		18,45,000
(*b*) Other Current Liabilities	4	3,70,000
Total		88,82,000
II. ASSETS		
1. Non-Current Assets		
(*a*) *Fixed Assets:*		
(*i*) Tangible Assets (WDV)		51,50,000
(*ii*) Capital Work-in-Progress		2,00,000
(*b*) Non-current Investments	5	3,00,200
(*c*) Long-term Loans and Advances (Advances)		3,72,000
2. Current Assets		
(*a*) Current Investments	6	25,000
(*b*) Inventories	7	12,00,000
(*c*) Trade Receivables	8	12,04,800
(*d*) Cash and Cash Equivalents	9	3,75,000
(*e*) Other Current Assets	10	55,000
Total		88,82,000

Notes to Accounts

Particulars		₹
1. Share Capital		
Authorised Capital		
... Equity Shares of ₹ 100 each	...	
... 10% Preference Shares of ₹ 100 each	...	...
Issued Capital		
... Equity Shares of ₹ 100 each	...	
... 10% Preference Shares of ₹ 100 each	...	...
Subscribed Capital		
Subscribed and Fully paid-up		
3,000 Equity Shares of ₹ 100 each		3,00,000
10,000; 10% Preference Shares of ₹ 100 each		10,00,000
		13,00,000
2. Reserves and Surplus		
Securities Premium Reserve		4,75,000
General Reserve		30,50,000
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Loss)		(3,58,000)
		31,67,000
3. Long-term Borrowings		
Term Loan (Secured)		20,00,000
4. Other Current Liabilities		
Loans from Debtors		2,00,000
Tax Payables		1,70,000
		3,70,000
5. Non-Current Investments		
Investment in Land and Building		2,25,200
10% Debentures of Tata Steel (₹ 1,00,000 $\times$ 75/100)		75,000
		3,00,200
6. Current Investments		
10% Debentures of Tata Steel (₹ 1,00,000 $\times$ 25/100)		25,000
7. Inventories		
Loose Tools		50,000
Stores		4,00,000
Finished Goods		7,50,000
		12,00,000
8. Trade Receivables		
Sundry Debtors	12,25,000	
Less: Provision for Doubtful Debts	20,200	12,04,800
9. Cash and Cash Equivalents		
Cash and Bank Balances		3,75,000
10. Other Current Assets		
Staff Advances		55,000

5. (*a*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 April 1	General Reserve A/c ...Dr.		1,20,000	
	To Krishna's Capital A/c			90,000
	To Suresh's Capital A/c			30,000
	(Being the General Reserve distributed between old partners in their old profit-sharing ratio)			

	Krishna's Capital A/c ...Dr. Suresh's Capital A/c ...Dr. To Profit and Loss A/c (Being the loss distributed between old partners in their old profit-sharing ratio)		45,000 15,000	 60,000
	Workmen Compensation Fund A/c ...Dr. Revaluation A/c ...Dr. To Workmen Compensation Claim A/c (Being the claim against Workmen Compensation Fund adjusted)		1,50,000 20,000	 1,70,000
	Krishna's Capital A/c ...Dr. Suresh's Capital A/c ...Dr. To Revaluation A/c (Being the loss on revaluation transferred to old partners in their old profit-sharing ratio of 3 : 1)		15,000 5,000	 20,000
	Cash A/c ...Dr. To Rahul's Capital A/c To Premium for Goodwill A/c (₹ 2,40,000 × 1/5) (Being the capital and premium for goodwill brought in cash by Rahul)		1,98,000	 1,50,000 48,000
	Premium for Goodwill A/c ...Dr. To Krishna's Capital A/c To Suresh's Capital A/c (Being the premium for goodwill credited to the old partners on the basis of their sacrificing ratio of 3 : 1)		48,000	 36,000 12,000

(*b*)

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Abha ₹	Bimal ₹	Chintu ₹	Particulars	Abha ₹	Bimal ₹	Chintu ₹
To Bank A/c (Balancing Figure)	...	5,800	...	By Balance *b/d*	1,20,000	1,00,000	...
To Balance *c/d* (WN)	2,00,000	1,20,000	80,000	By General Reserve A/c	12,000	8,000	...
				By Revaluation A/c (Profit)	4,200	2,800	...
				By Bank A/c	...	...	80,000
				By Premium for Goodwill A/c	15,000	15,000	...
				By Bank A/c (Balancing Figure)	48,800	...	...
	2,00,000	1,25,800	80,000		2,00,000	1,25,800	80,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	35,000	By Bimal's Capital A/c	5,800
To Chintu's Capital A/c	80,000	By Balance *c/d*	1,88,000
To Premium for Goodwill A/c	30,000		
To Abha's Capital A/c	48,800		
	1,93,800		1,93,800

Working Note:

Calculation of new capitals of partners on the basis of Chintu's capital:

Chintu's capital = ₹ 80,000
Chintu's share of profit = 1/5
Total capital of new firm = ₹ 80,000 × 5/1 = ₹ 4,00,000
Abha's capital in new firm = ₹ 4,00,000 × 5/10 = ₹ 2,00,000
Bimal's capital in new firm = ₹ 4,00,000 × 3/10 = ₹ 1,20,000.

6. JOURNAL OF TEESTA IRON PRODUCTS LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Equity Shares Application A/c (Being the application money received on 2,50,000 equity shares @ ₹ 4 each)		10,00,000	 10,00,000
	Equity Shares Application A/c ...Dr. To Equity Share Capital A/c To Equity Shares Allotment A/c To Bank A/c (Being the application money adjusted and refund made to applicants for 50,000 equity shares)		10,00,000	 4,00,000 4,00,000 2,00,000
	Equity Shares Allotment A/c ...Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being the allotment money due on 1,00,000 shares @ ₹ 5 each including premium of ₹ 3 each)		5,00,000	 2,00,000 3,00,000
	Bank A/c ...Dr. Calls-in-Arrears A/c ...Dr. To Equity Shares Allotment A/c (WN) (Being the balance of the allotment money received except on 1,000 shares)		99,000 1,000	 1,00,000
	Equity Shares First Call A/c ...Dr. To Equity Share Capital A/c (Being the first call due on 1,00,000 shares @ ₹ 2 each)		2,00,000	 2,00,000
	Bank A/c ...Dr. Calls-in-Arrears A/c (1,500 × ₹ 2) ...Dr. To Equity Shares First Call A/c (Being the first call money received on 98,500 shares)		1,97,000 3,000	 2,00,000
	Equity Share Capital A/c (1,000 × ₹ 8) ...Dr. Securities Premium Reserve A/c ...Dr. To Calls-in-Arrears A/c (₹ 1,000 + ₹ 2,000) To Forfeited Shares A/c (₹ 8,000 – ₹ 2,000) (Being the forfeiture of 1,000 shares for non-payment of allotment and first call money)		8,000 1,000	 3,000 6,000
	Equity Shares Second and Final Call A/c ...Dr. To Equity Share Capital A/c (Being the second and final call money due on 99,000 shares)		1,98,000	 1,98,000
	Bank A/c ...Dr. Calls-in-Arrears A/c (500 × ₹ 2) ...Dr. To Equity Shares Second and Final Call A/c (Being the second and final call money received from 98,500 shares)		1,97,000 1,000	 1,98,000
	Equity Share Capital A/c ...Dr. To Forfeited Shares A/c To Calls-in-Arrears A/c (Being the forfeiture of 500 shares for non-payment of two calls)		5,000	 3,000 2,000
	Bank A/c (1,200 × ₹ 11) ...Dr. To Equity Share Capital A/c (1,200 × ₹ 10) To Securities Premium Reserve A/c (1,200 × ₹ 1) (Being the issue of 1,200 forfeited shares @ ₹ 11 each as fully paid-up)		13,200	 12,000 1,200
	Forfeited Shares A/c ...Dr. To Capital Reserve A/c (Being the transfer of gain on reissue to Capital Reserve)		7,200	 7,200

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Equity Shares Application A/c	10,00,000	By Equity Shares Application A/c	2,00,000
To Equity Shares Allotment A/c	99,000	By Balance *c/d*	13,06,200
To Equity Shares First Call A/c	1,97,000		
To Equity Shares Second and Final Call A/c	1,97,000		
To Equity Share Capital A/c	12,000		
To Securities Premium Reserve A/c	1,200		
	15,06,200		15,06,200

Dr. FORFEITED SHARES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Capital Reserve A/c	7,200	By Equity Share Capital A/c	6,000
To Balance *c/d*	1,800	By Equity Share Capital A/c	3,000
	9,000		9,000

BALANCE SHEET OF TEESTA IRON PRODUCTS LTD. *as at ...*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
(*a*) Share Capital	1	9,98,800
(*b*) Reserves and Surplus	2	3,07,400
Total		13,06,200
II. ASSETS		
Current Assets		
Cash and Cash Equivalents	3	13,06,200
Total		13,06,200

Notes to Accounts

Particulars	₹
1. Share Capital	
Authorised Capital	
1,50,000 Equity Shares of ₹ 10 each	15,00,000
Issued Capital	
1,00,000 Equity Shares of ₹ 10 each	10,00,000
Subscribed Capital	
Subscribed and Fully Paid-up	
99,700 Equity Shares of ₹ 10 each	9,97,000
Add: Forfeited Shares A/c	1,800
	9,98,800
2. Reserves and Surplus	
Securities Premium Reserve (₹ 3,00,000 – ₹ 1,000 + ₹ 1,200)	3,00,200
Capital Reserve	7,200
	3,07,400
3. Cash and Cash Equivalents	
Cash at Bank	13,06,200

Working Notes:

1. *Calculation of Amount not Received from Amar on Allotment:*

Number of Shares Applied by Amar $= 1{,}000 \times \dfrac{2{,}00{,}000}{1{,}00{,}000} = 2{,}000$.

			₹
Application money received from Amar (2,000 × ₹ 4)			8,000
Application money adjusted (1,000 × ₹ 4)			4,000
Excess application money to be adjusted on allotment			4,000
Allotment money due from Amar:	*Towards Share Capital*	*Towards Securities Premium*	
Amount Due	1,000 × ₹ 2 = ₹ 2,000	1,000 × ₹ 3 = ₹ 3,000	
Excess Application Money Adjusted	(First : ₹ 2,000)	(Remaining : ₹ 2,000)	
Amount not Paid	...	₹ 1,000	

2. *Calculation of Amount Received on Allotment Later:*

Total Allotment money due (1,00,000 × ₹ 5)	5,00,000
Less: Excess application money adjusted	4,00,000
Balance of the allotment money due	1,00,000
Less: Allotment money due but not paid by Amar	1,000
Amount of Allotment money received	99,000

7. **In the Books of Ruchi Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2012	**On Issue of Debentures**			
April 1	Bank A/c ...Dr.		63,00,000	
	To Debentures Application and Allotment A/c			63,00,000
	(Being the receipt of application money)			
	Debentures Application and Allotment A/c ...Dr.		63,00,000	
	Loss on Issue of Debentures A/c (₹ 42,00,000 × 8/100) ...Dr.		3,36,000	
	To 10% Debentures A/c			42,00,000
	To Premium on Redemption of Debentures A/c			3,36,000
	To Bank A/c (21,000 × ₹ 100)			21,00,000
	(Being the allotment of 42,000; 10% Debentures of ₹ 100 each redeemable at a premium of 10% excess application money refunded)			
2013				
March 31	Statement of Profit and Loss ...Dr.		3,36,000	
	To Loss on Issue of Debentures A/c			3,36,000
	(Being the Loss on Issue of Debentures written off)			
2017	**On Redemption of Debentures**			
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		10,50,000	
	To Debentures Redemption Reserve A/c			10,50,000
	(Being the creation of DRR to the extent of 25% of ₹ 42,00,000 as per the requirement of Act)			
April 1	Debentures Redemption Investment A/c ...Dr.		6,30,000	
	To Bank A/c			6,30,000
	(Being the investment made to the extent of 15% of ₹ 42,00,000 to comply with provisions of the Companies Act, 2013)			

2018 March 31	Bank A/c ...Dr. TDS Collected (Receivable) A/c ...Dr. To Debentures Redemption Investment A/c To Interest Earned A/c (Being the encashment of investment for the purpose of redemption of debentures)		6,86,700 6,300	 6,30,000 63,000
March 31	10% Debentures A/c ...Dr. Premium on Redemption of Debentures A/c ...Dr. To Debentureholders' A/c (Being the amount payable on redemption transferred to Debentureholders' A/c)		42,00,000 3,36,000	 45,36,000
March 31	Debentureholders' A/c ...Dr. To Bank A/c (Being the amount paid to debentureholders on redemption)		45,36,000	 45,36,000
March 31	Debentures Redemption Reserve A/c ...Dr. To General Reserve A/c (Being the transfer of DRR to General Reserve)		10,50,000	 10,50,000

Note: As per the Guidelines of ISC Council, Loss on Issue of Debentures should be written off in the year it is incurred from Securities Premium Reserve, if it has balance or from Statement of Profit and Loss.

8. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 March 31	Realisation A/c ...Dr. To Debtors A/c To Stock A/c To Furniture A/c To Leasehold Premises A/c (Being the assets transferred to Realisation Account)		3,96,000	 76,000 2,00,000 20,000 1,00,000
	Creditors A/c ...Dr. Garima's Husband's Loan A/c ...Dr. To Realisation A/c (Being the third party liabilities transferred to Realisation Account)		36,000 60,000	 96,000
	Bank A/c ...Dr. To Realisation A/c* (Being the assets realised)		4,08,000	 4,08,000
	Realisation A/c ...Dr. To Bank A/c (Being the creditors paid)		17,100	 17,100
	Realisation A/c ...Dr. To Garima's Capital A/c (Being the realisation expenses paid and her husband's loan taken over by Garima)		70,000	 70,000
	Realisation A/c ...Dr. To Hema's Capital A/c To Garima's Capital A/c (Being the gain (profit) on realisation distributed among partners)		20,900	 12,540 8,360
	Hema's Loan A/c ...Dr. To Bank A/c (Being the Hema's loan paid)		40,000	 40,000
	Hema's Capital A/c ...Dr. Garima's Capital A/c ...Dr. To Bank A/c (Being the amount paid to partners as final settlement of accounts)		2,12,540 1,78,360	 3,90,900

*₹ 1,50,000 + ₹ 74,000 + ₹ 90,000 + ₹ 94,000 = ₹ 4,08,000.

Ledger

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets A/c (Transfer):			By Creditors A/c		36,000
Debtors A/c	76,000		By Garima's Husband's Loan A/c		60,000
Stock A/c	2,00,000		By Bank A/c (Assets Realised):		
Furniture A/c	20,000		Leasehold Premises	1,50,000	
Leasehold Premises A/c	1,00,000	3,96,000	Debtors	74,000	
To Bank A/c (Creditors)		17,100	Stock: Sold to Hema	90,000	
To Garima's Capital A/c (Realisation Expenses and her Husband's Loan)		70,000	Sold to Others	94,000	4,08,000
To Gain (Profit) transferred to:					
Hema's Capital A/c	12,540				
Garima's Capital A/c	8,360	20,900			
		5,04,000			5,04,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Hema ₹	Garima ₹	Particulars	Hema ₹	Garima ₹
To Bank A/c (Balancing Figure) (Final Payment)	2,12,540	1,78,360	By Balance *b/d*	2,00,000	1,00,000
			By Realisation A/c	...	70,000
			By Realisation A/c (Profit)	12,540	8,360
	2,12,540	1,78,360		2,12,540	1,78,360

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	40,000	By Realisation A/c (Creditors)	17,100
To Realisation A/c (Sundry Assets)	4,08,000	By Hema's Loan A/c (Repayment)	40,000
		By Hema's Capital A/c (Final Payment)	2,12,540
		By Garima's Capital A/c (Final Payment)	1,78,360
	4,48,000		4,48,000

Note: When an asset (recorded or unrecorded) is given in payment of a liability (recorded or unrecorded), no entry is passed for such payment. Therefore, entry is not passed for adjustment (v).

SECTION B

9.

New India Ltd.

CASH FLOW STATEMENT

for the year ended 31st March, 2018 as per AS–3 (Revised)

Particulars	₹	₹
A. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)	1,56,000	
Add: Depreciation on Machinery (WN 2)	60,000	
Loss on Sale of Machinery (WN 2)	5,000	
Interest on Public Deposits [(10/100 × ₹ 1,00,000 × 6/12) + (10/100 × ₹ 1,50,000 × 6/12)]	12,500	
Goodwill amortised (₹ 20,000 – ₹ 15,000)	5,000	
	2,38,500	
Less: Profit on Sale of Non-Current Investments (WN 3)	(5,000)	
Operating Profit before Working Capital Changes	2,33,500	

Add: Increase in Current Liabilities:		
Trade Payables	20,000	
	2,53,500	
Less: Increase in Current Assets:		
Inventories	(20,000)	
Trade Receivables	(16,000)	
Accrued Income	(2,000)	
Cash Flow from Operating Activities before Tax	2,15,500	
Less: Tax Paid	15,000	
Cash Flow from Operating Activities		2,00,500
B. Cash Flow from Investing Activities		
Purchase of Machinery (WN 2)	(3,20,000)	
Purchase of Non-Current Investments (WN 3)	(90,000)	
Sale of Machinery (WN 2)	15,000	
Sale of Non-Current Investments (WN 3)	25,000	
Cash Used in Investing Activities		(3,70,000)
C. Cash Flow from Financing Activities		
Cash Proceeds from Issue of Equity Shares (₹ 10,00,000 – ₹ 8,00,000)	2,00,000	
Proceeds from Public Deposits (₹ 1,50,000 – ₹ 1,00,000)	50,000	
Payment of Interim Dividend	(15,000)	
Final Dividend Paid	(35,000)	
Interest on Public Deposits	(12,500)	
Cash Flow from Financing Activities		1,87,500
D. Net Increase in Cash and Cash Equivalents (A + B + C)		18,000
Add: Opening Cash and Cash Equivalents		35,000
E. Closing Cash and Cash Equivalents		53,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

Particulars	₹
Surplus, *i.e.,* Balance in Statement of Profit and Loss (Closing)	1,20,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)	1,04,000
Profit for the Year	16,000
Add: Transfer to General Reserve (₹ 5,20,000 – ₹ 4,55,000)	65,000
Payment of Interim Dividend	15,000
Provision for Tax (Current Year)	25,000
Dividend Paid (Proposed Dividend for 2016–17)	35,000
Net Profit before Tax	1,56,000

2. *Dr.* MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	5,10,000	By Bank A/c (Sale)*	15,000
To Bank A/c (Purchase)	3,20,000	By Loss on Sale of Machinery A/c* (Statement of Profit and Loss)	5,000
		By Depreciation A/c (Balancing Figure)	60,000
		By Balance *c/d*	7,50,000
	8,30,000		8,30,000

**Calculation of Loss on Sale of Machinery:*

Particulars	₹
Book Value of Sold Machinery on the date of Sale (₹ 70,000 – ₹ 50,000)	20,000
Less: Sale Proceeds (Book Value *less* 25% = ₹ 20,000 – ₹ 5,000)	15,000
Loss on Sale of Machinery	5,000

3. *Dr.* NON-CURRENT INVESTMENTS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	30,000	By Bank A/c (Sale)*	25,000
To Bank A/c (Purchase)	90,000	By Balance *c/d*	1,00,000
To Statement of Profit and Loss A/c (Profit)*	5,000		
	1,25,000		1,25,000

**Calculation of 'Sale Value' and 'Profit on Sale of Non-Current Investments (NCI)':*

Book Value = Opening + Purchases – Closing = ₹ 30,000 + ₹ 90,000 – ₹ 1,00,000 = ₹ 20,000

Profit on Sale = 25% × ₹ 20,000 = ₹ 5,000.

Sale Proceeds of Non-Current Investments = Book Value + Profit = ₹ 20,000 + ₹ 5,000 = ₹ 25,000.

10. (*a*) (*i*) $\text{Current Ratio} = \dfrac{\text{Current Assets}}{\text{Current Liabilities}} = \dfrac{₹\ 2,00,000}{₹\ 2,00,000} = 1:1.$

Notes: 1. Current Assets = Inventories + Trade Receivables + Cash and Cash Equivalents
= ₹ 20,000 + ₹ 1,00,000 + ₹ 80,000 = ₹ 2,00,000.

2. Current Liabilities = Trade Payables + Outstanding Salary
= ₹ 1,50,000 + ₹ 50,000 = ₹ 2,00,000.

(*ii*) $\text{Inventory Turnover Ratio} = \dfrac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$

$$= \frac{₹\ 3,00,000}{₹\ 30,000} = 10 \text{ Times.}$$

Notes: 1. Cost of Revenue from Operations = Purchases of Stock-in-Trade +
+ Change in Inventories of Stock-in-Trade
+ Direct Expenses
= ₹ 2,50,000 + ₹ 20,000 + ₹ 30,000 = ₹ 3,00,000.

2. $\text{Average Inventory} = \dfrac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$

$$= \frac{₹\ 40,000 + ₹\ 20,000}{2} = ₹\ 30,000.$$

(*iii*) $\text{Proprietary Ratio} = \dfrac{\text{Shareholders' Funds}}{\text{Total Assets}} = \dfrac{₹\ 4,00,000}{₹\ 6,00,000} = 0.67:1.$

Shareholders' Funds = Equity Share Capital + Reserves and Surplus
= ₹ 3,00,000 + ₹ 1,00,000 = ₹ 4,00,000

Total Assets = Non-Current Assets + Current Assets
= ₹ 4,00,000 + ₹ 2,00,000 = ₹ 6,00,000.

(*b*) $\text{Return on Capital Employed} = \dfrac{\text{Net Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$

$$= \frac{₹\ 84,000}{₹\ 2,75,000} \times 100 = 30.55\%.$$

Net Profit before Interest and Tax = Net Profit before Tax + Interest on 12% Long-term Borrowings
= ₹ 60,000 + ₹ 24,000 = ₹ 84,000

Capital Employed = Share Capital + Reserves and Surplus + 12% Long-term Borrowings
= ₹ 50,000 + ₹ 25,000 + ₹ 2,00,000 = ₹ 2,75,000.

(*c*) Earning Per Share $= \dfrac{\text{Net Profit after Tax and Preference Dividend}}{\text{Number of Equity Shares}}$

$= \dfrac{₹\ 4,00,000 - ₹\ 2,00,000\ (\text{Tax}) - ₹\ 40,000\ (\text{Pref. Dividend})}{₹\ 40,000}$

$= \dfrac{₹\ 1,60,000}{₹\ 40,000} = ₹\ 4$ Per Share.

11. (*a*) CASH FLOW FROM INVESTING ACTIVITIES

Particulars	₹	₹
Proceeds from Sale of Building	6,00,000	
Proceeds from Sale of Investment	1,60,000	
Proceeds from Sale of Machinery	2,10,000	
Received Interest on Debentures held as Investments	1,10,000	
Dividend Received on Shares as Investments	30,000	
Purchase of Land	(5,00,000)	
Purchase of Non-Current Investments	(2,70,000)	
Purchase of Machinery	(4,50,000)	
Cash Used in Investing Activities		(1,10,000)

(*b*)

Effect on Current Ratio	Reason
(*i*) No Change	One Current Asset (Debtors) is replaced by another Current Asset (Cash or Bank).
(*ii*) No Change	Neither Current Assets nor Current Liabilities are changing.

(*c*) *Objectives of Comparative Balance Sheet:*

(*i*) To analyse the effect of business operations on its assets, liabilities and equity in absolute amount and percentage terms.

(*ii*) To analyse increase or decrease in absolute amounts as well as percentage terms by taking the data of previous year as base.

(*d*) COMPARATIVE STATEMENT OF PROFIT AND LOSS

for the years ended 31st March, 2018 and 2017

Particulars	31st March, 2018 ₹	31st March, 2017 ₹	Increase/Decrease Absolute Change (₹)	Percentage Change (%)
I. **Revenue from Operations**	36,00,000	24,00,000	12,00,000	50
II. Other Income	4,32,000	4,80,000	(48,000)	(10)
III. **Total Revenue (I + II)**	40,32,000	28,80,000	11,52,000	40
IV. **Total Expenses**	25,20,000	14,40,000	10,80,000	75
V. **Profit before Tax**	15,12,000	14,40,000	72,000	5
VI. **Tax Paid**	6,04,800	5,76,000	28,800	5
VII. **Net Profit after Tax (V – VI)**	9,07,200	8,64,000	43,200	5

Working Note:

Particulars	31st March, 2018 (₹)	31st March, 2017 (₹)
Revenue from Operations	36,00,000	24,00,000
Other Income (% of Revenue from Operations)	4,32,000 (*i.e.*, 12% of ₹ 36,00,000)	4,80,000 (*i.e.*, 20% of ₹ 24,00,000)
Expenses (% of Revenue from Operations)	25,20,000 (*i.e.*, 70% of ₹ 36,00,000)	14,40,000 (*i.e.*, 60% of ₹ 24,00,000)

MODEL TEST PAPER 12 (Solution)

SECTION A

PART I

1. (*i*) (*a*) Share of Existing Goodwill written off.
(*b*) Share of Loss up to the date of retirement.
(*c*) Share of Accumulated Losses up to the date of retirement.
(*d*) Share of Loss on Revaluation of assets and Reassessment of liabilities up to the date of retirement.

(*ii*) Partner's Executor's Account is prepared at the time of death of a partner so as to make the payment of deceased partner's share to his/her executors.

(*iii*) According to Section 71(4) of the Companies Act, 2013 and Rule 18(7)(*b*) of the Companies (Share Capital and Debentures) Rules, 2014, a Bank (or Banking Company) is not required to create Debentures Redemption Reserve (DRR). So, in the given question, DRR will not be created.

Journal: At the time of Redemption of Debentures

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018				
June 1	10% Debentures A/c ...Dr.		6,00,000	
	Premium on Redemption of Debentures A/c ...Dr.		60,000	
	To Debentureholders' A/c			6,60,000
	(Being the amount due to debentureholders' on redemption)			
June 1	Debentureholders' A/c ...Dr.		6,60,000	
	To Bank A/c			6,60,000
	(Being the amount paid to debentureholders)			

(*iv*) *Adjustment Entry:*

Interest on Debentures A/c ...Dr.
To Debentureholders' A/c
(Being the interest on debentures due)

Closing Entry:

Statement of Profit and Loss (Finance Cost) ...Dr.
To Interest on Debentures A/c
(Being the transfer of interest on debentures to Statement of Profit and Loss)

(*v*) Premium on the issue of debentures is considered a capital profit, since it is not received during the normal course of business activities. If the amount is received in excess of the face value of debentures, *i.e.*, raising a loan, it is a *capital receipt*.

(*vi*) Incorporation Cost A/c ...Dr.
To Share Capital A/c
To Securities Premium Reserve A/c
(Being the shares issued to promoters for their services to incorporate the company)

PART II

2. (*a*) PROFIT AND LOSS ACCOUNT*

Dr. *for the year ended 31st March, 2018* *Cr.*

Particulars	₹	Particulars		₹
To Loss for the Year	10,000	By Loss transferred to:		
(before charging Interest on *Y*'s Loan)		*X*'s Capital A/c	5,750	
To Interest on *Y*'s Loan A/c	1,500	*Y*'s Capital A/c	5,750	11,500
(₹ 50,000 × 6/100 × 6/12)				
	11,500			11,500

*Profit and Loss Appropriation Account is not prepared becuase there is no surplus that can be appropriated.

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Y's Current A/c	...Dr.		4,000	
	To *X*'s Current A/c				3,000
	To *Z*'s Current A/c				1,000
	(Being the adjustment entry giving effect to omission)				

Working Note:

STATEMENT SHOWING THE ADJUSTMENT TO BE MADE

Particulars	*X*'s Current A/c		*Y*'s Current A/c		*Z*'s Current A/c		Firm	
	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹
Profit for the year wrongly distributed, now withdrawn (Dr.)	11,000	...	11,000	...	11,000	...	...	33,000
Profit should be distributed as:								
—Interest on Capital	...	2,500	...	1,250	...	1,250	5,000	...
—Salary	...	...	...	...	...	5,000	5,000	...
—Profit ₹ 23,000 (*i.e.*, ₹ 33,000 – ₹ 5,000 – ₹ 5,000) in 2 : 1 : 1	...	11,500	...	5,750	...	5,750	23,000	...
	11,000	14,000	11,000	7,000	11,000	12,000	33,000	33,000
Net Effect	3,000 (Cr.)		4,000 (Dr.)		1,000 (Cr.)		Nil	

(*c*) CALCULATION OF NORMAL PROFIT

Year Ended	Profit (₹)	Adjustment (₹)	Normal Profit
31st March, 2016	3,00,000	(1,20,000)	1,80,000
31st March, 2017	(2,50,000)	(1,20,000)	(3,70,000)
31st March, 2018	8,50,000	(1,20,000)	7,30,000
			5,40,000

$$\text{Average Profit} = \frac{\text{Total Normal Profit}}{\text{Number of Years}} = \frac{₹\ 5,40,000}{3} = ₹\ 1,80,000$$

$$\text{Normal Rate of Return} = 15\%$$

$$\text{Average Capital Employed} = ₹\ 10,00,000$$

$$\text{Normal Profit} = 15\% \text{ of } ₹\ 10,00,000 = ₹\ 1,50,000$$

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit}$$

$$= ₹\ 1,80,000 - ₹\ 1,50,000 = ₹\ 30,000$$

(*i*) *Capitalisation of Super Profit Method:*

$$\text{Goodwill} = \text{Super Profit} \times \frac{100}{\text{Normal Rate of Return}}$$

$$= ₹\ 30,000 \times \frac{100}{15} = ₹\ 2,00,000.$$

(*ii*) *Capitalisation of Average Profit Method:*

$$\text{Capitalised Value of the Firm} = \text{Average Profit} \times \frac{100}{\text{Normal Rate of Return}}$$

$$= ₹\ 1,80,000 \times \frac{100}{15} = ₹\ 12,00,000$$

$$\text{Net Assets} = \text{Total Assets (excluding goodwill)} - \text{Outside Liabilities}$$

$$= ₹\ 12,00,000 - ₹\ 1,00,000 = ₹\ 11,00,000$$

$$\text{Goodwill} = \text{Capitalised Value of the Firm} - \text{Net Assets}$$

$$= ₹\ 12,00,000 - ₹\ 11,00,000 = ₹\ 1,00,000.$$

3. (*a*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Stock A/c	3,000	By Provision for Doubtful Debts A/c		2,400
To Patents A/c	7,400	By Loss on Revaluation transferred to:		
To Claim for Damages A/c	2,000	*X*'s Capital A/c	6,000	
		Y's Capital A/c	4,000	10,000
	12,400			12,400

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	*Z* ₹	Particulars	*X* ₹	*Y* ₹	*Z* ₹
To Revaluation A/c (Loss)	6,000	4,000	...	By Balance *b/d*	40,000	35,000	...
To *X*'s Capital A/c	...	...	2,160	By *Z*'s Capital A/c	2,160	1,440	...
To *Y*'s Capital A/c	...	...	1,440	By Cash A/c	...	...	30,000
To Balance *c/d*	42,160	36,440	26,400	By Premium for Goodwill A/c	6,000	4,000	...
	48,160	40,440	30,000		48,160	40,440	30,000

BALANCE SHEET OF NEW FIRM
as at 31st March, 2018

Liabilities		₹	Assets		₹
Creditors		27,000	Cash (₹ 24,000 + ₹ 40,000)		64,000
Claim for Damages		2,000	Debtors	48,000	
Bills Payable		5,000	*Less:* Provision for Doubtful Debts	2,400	45,600
General Reserve		18,000	Stock (₹ 30,000 – ₹ 3,000)		27,000
Capital A/cs:			Building		20,400
X	42,160				
Y	36,440				
Z	26,400	1,05,000			
		1,57,000			1,57,000

Working Notes:

1. *Valuation of Goodwill:*

$$\text{Average Profit} = \frac{₹\,30{,}000 - ₹\,40{,}000 + ₹\,50{,}000 + ₹\,40{,}000 + ₹\,45{,}000}{5} = ₹\,25{,}000$$

$$\text{Goodwill} = \text{Average Profit} \times \text{Number of Years' Purchase}$$
$$= ₹\,25{,}000 \times 2 = ₹\,50{,}000.$$

2. *Adjustment of Goodwill:*

   Z's Share of Goodwill = ₹ 50,000 × 1/5 = ₹ 10,000, which will be credited to *X* and *Y* in their sacrificing ratio, *i.e.*, 3 : 2.

3. *For Adjustment of General Reserve:*

   Dr. *Z*'s Capital A/c: ₹ 3,600 (*i.e.*, ₹ 18,000 × 1/5);

   Cr. *X*'s Capital A/c: ₹ 2,160 (*i.e.*, ₹ 3,600 × 3/5) and *Y*'s Capital A/c: ₹ 1,440 (*i.e.*, ₹ 3,600 × 2/5).

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	General Reserve A/c	...Dr.		35,000	
	Profit and Loss A/c	...Dr.		15,000	
	To *X*'s Capital A/c				25,000
	To *Y*'s Capital A/c				15,000
	To *Z*'s Capital A/c				10,000
	(Being the undistributed profits appropriated among partners)				
	X's Capital A/c	...Dr.		10,000	
	Y's Capital A/c	...Dr.		6,000	
	Z's Capital A/c	...Dr.		4,000	
	To Advertisement Suspense A/c				20,000
	(Being the undistributed loss adjusted among partners)				

4. (*a*) (*i*) *Calculation of Amount credited to R in respect of his share of Goodwill:*

Total Profit for last 4 years = ₹[1,20,000 + 60,000 + (–20,000) + 80,000]
= ₹ 2,40,000

$$\text{Profit credited to } R \text{ during last 4 years} = ₹\,2{,}40{,}000 \times \frac{3}{8} = ₹\,90{,}000$$

$$R\text{'s Share of Goodwill} = \frac{1}{2} \text{ of Profit credited to his Account during last 4 years}$$

$$= \frac{1}{2} \text{ of ₹ } 90{,}000 = \text{₹ } 45{,}000.$$

(*ii*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
April 1	*P*'s Capital A/c	...Dr.		12,000	
	S's Capital A/c	...Dr.		33,000	
	To *R*'s Capital A/c				45,000
	(Being *R*'s Share of goodwill adjusted in the Capital A/cs of *P* and *S* in their gaining ratio, *i.e.*, 4 : 11)				

Working Note: *Calculation of Gaining Ratio:*

	P	*R*	*S*
I. New Share	3/5	—	2/5
II. Old Share	4/8	3/8	1/8
III. Gain/(Sacrifice) (I – II)	4/40 (Gain)	(3/8) (Sacrifice)	11/40 (Gain)

Thus, Gaining Ratio of *P* and $S = \frac{4}{40} : \frac{11}{40} = 4 : 11.$

(*b*) Average of Profits

$$= \frac{\text{₹ } (1{,}80{,}000 + \text{₹ } 1{,}90{,}000 + \text{₹ } 1{,}70{,}000)}{3} = \frac{\text{₹ } 5{,}40{,}000}{3} = \text{₹ } 1{,}80{,}000$$

Estimated Profit till the date of *Z*'s death (1st April, 2018 to 31st May, 2018)

$$= \text{₹ } 1{,}80{,}000 \times \frac{2}{12} = \text{₹ } 30{,}000$$

$$Z\text{'s Share of Estimated Profit} = \text{₹ } 30{,}000 \times \frac{1}{3} = \text{₹ } 10{,}000.$$

(*i*) *When there is no change in Profit-sharing Ratio:*

		₹	₹
Profit and Loss Suspense A/c	...Dr.	10,000	
To *Z*'s Capital A/c			10,000
(Being *Z*'s share of profit till the date of death adjusted)			

(*ii*) *When there is change in Profit-sharing Ratio:*

		₹	₹
X's Capital A/c	...Dr.	8,000	
Y's Capital A/c	...Dr.	2,000	
To *Z*'s Capital A/c			10,000
(Being *Z*'s share of profit till the date of death adjusted in the capital A/cs of *X* and *Y* in their gaining ratio)			

Working Note: As Profit-sharing Ratio between *X* and *Y* changes to 3 : 2, *Z*'s share of profit will be adjusted between *X* and *Y* in their gaining ratio, which is calculated as under:

X gains $= \frac{3}{5} - \frac{1}{3} = \frac{4}{15}$; *Y* gains $\frac{2}{5} - \frac{1}{3} = \frac{1}{15}$; Thus, Gaining Ratio of *X* and *Y* = 4 : 1.

(*c*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bad Debts A/c	...Dr.		6,000	
	To Sundry Debtors A/c				6,000
	(Being the bad debts written off)				
	Provision for Doubtful Debts A/c	...Dr.		6,000	
	To Bad Debts A/c				6,000
	(Being the bad debts adjusted against provision for doubtful debts)				
	Revaluation A/c	...Dr.		1,500*	
	To Provision for Doubtful Debts A/c				1,500
	(Being the shortage of provision for doubtful debts adjusted)				
	X's Capital A/c	...Dr.		750	
	Y's Capital A/c	...Dr.		450	
	Z's Capital A/c	...Dr.		300	
	To Revaluation A/c				1,500
	(Being the loss on revaluation transferred to all partners)				

*[5% of ₹ (76,000 – 6,000) – (₹ 8,000 – ₹ 6,000)] = ₹ 3,500 – ₹ 2,000 = ₹ 1,500.

5. JOURNAL OF FASTRACK LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		41,25,000	
	To Shares Application A/c				41,25,000
	(Being the application money received for 82,500 shares)				
	Shares Application A/c	...Dr.		41,25,000	
	To Share Capital A/c (50,000 × ₹ 50)				25,00,000
	To Bank A/c (20,000 × ₹ 50)				10,00,000
	To Shares Allotment A/c (12,500 × ₹ 50)				6,25,000
	(Being the application money adjusted)				
	Shares Allotment A/c (50,000 × ₹ 35)	...Dr.		17,50,000	
	To Share Capital A/c (50,000 × ₹ 25)				12,50,000
	To Securities Premium Reserve A/c (50,000 × ₹ 10)				5,00,000
	(Being the allotment money due)				
	Bank A/c	...Dr.		11,02,500	
	Calls-in-Arrears A/c	...Dr.		22,500	
	To Shares Allotment A/c				11,25,000
	(Being the balance allotment money received except on 1,000 shares (WN 1 and 2))				
	Shares First and Final Call A/c (50,000 × ₹ 25)	...Dr.		12,50,000	
	To Share Capital A/c				12,50,000
	(Being the first and final call money due)				
	Bank A/c	...Dr.		12,25,000	
	Calls-in-Arrears A/c	...Dr.		25,000	
	To Shares First and Final Call A/c				12,50,000
	(Being the first and final call money received except on 1,000 shares)				

	Share Capital A/c (1,000 × ₹ 100) ...Dr.		1,00,000	
	Securities Premium Reserve A/c (1,000 × ₹ 10) ...Dr.		10,000	
	To Forfeited Shares A/c			62,500
	To Shares Allotment A/c			22,500
	To Shares First and Final Call A/c			25,000
	(Being 1,000 shares forfeited for non-payment of allotment and call money)			
	Bank A/c (500 × ₹ 105) ...Dr.		52,500	
	To Share Capital A/c (500 × ₹ 100)			50,000
	To Securities Premium Reserve A/c			2,500
	(Being 500 shares reissued at ₹ 105 per share fully paid-up)			
	Forfeited Shares A/c ...Dr.		31,250	
	To Capital Reserve A/c			31,250
	(Being the gain on reissue of 500 shares transferred to Capital Reserve)			

BALANCE SHEET OF FASTRACK LTD.
as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
(*a*) Share Capital	1	49,81,250
(*b*) Reserves and Surplus	2	5,23,750
Total		55,05,000
II. ASSETS		
Current Assets		
Cash and Cash Equivalents	3	55,05,000

Notes to Accounts

	₹
1. Share Capital	
Authorised Capital	
... Equity Shares of ₹ 100 each	...
Issued Capital	
50,000 Equity Shares of ₹ 100 each	50,00,000
Subscribed Capital	
Subscribed and fully paid-up	
49,500 Equity Shares of ₹ 100 each	49,50,000
Add: Forfeited Shares A/c	31,250
	49,81,250
2. Reserves and Surplus	
Capital Reserve	31,250
Securities Premium Reserve	4,92,500
	5,23,750
3. Cash and Cash Equivalents	
Cash at Bank	55,05,000

Working Notes:

1. *Calculation of Amount due but not paid on Allotment by Sahil:*

		₹
(*a*)	Number of shares allotted to Sahil = $\frac{50,000}{62,500} \times 1,250 = 1,000$ shares.	
(*b*)	Amount paid on application (1,250 × ₹ 50)	62,500
	Less: Amount adjusted with application (1,000 × ₹ 50)	50,000
	Excess application money to be adjusted on allotment	12,500
(*c*)	Amount due on allotment (1,000 × ₹ 35)	35,000
	Less: Excess application money to be adjusted on allotment [WN 1(*b*)]	12,500
	Amount due but not paid on allotment	22,500

2. *Money Received on Allotment:*

Total amount due on allotment	17,50,000
Less: Excess application money adjusted	6,25,000
	11,25,000
Less: Amount due but not received on allotment [WN 1(*c*)]	22,500
	11,02,500

6. (*a*) (*i*) JOURNAL OF *P* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		4,75,000	
	To Debentures Application and Allotment A/c				4,75,000
	(Being the application and allotment money received)				
	Debentures Application and Allotment A/c	...Dr.		4,75,000	
	Discount on Issue of Debentures A/c	...Dr.		25,000	
	To 10% Debentures A/c				5,00,000
	(Being 5,000; 10% Debentures of ₹ 100 each issued at ₹ 95 each)				

(*ii*) JOURNAL OF *Q* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		5,00,000	
	To Debentures Application and Allotment A/c				5,00,000
	(Being the application and allotment money received)				
	Debentures Application and Allotment A/c	...Dr.		5,00,000	
	Loss on Issue of Debentures A/c	...Dr.		25,000	
	To 10% Debentures A/c				5,00,000
	To Premium on Redemption of Debentures A/c				25,000
	(Being 5,000; 10% Debentures of ₹ 100 each issued at par, redeemable at 5% premium)				

(*iii*) JOURNAL OF *R* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		4,75,000	
	To Debentures Application and Allotment A/c				4,75,000
	(Being the application and allotment money received)				
	Debentures Application and Allotment A/c	...Dr.		4,75,000	
	Loss on Issue of Debentures A/c	...Dr.		50,000	
	To 10% Debentures A/c				5,00,000
	To Premium on Redemption of Debentures A/c				25,000
	(Being 5,000; 10% Debentures of ₹ 100 each issued at ₹ 95 each and redeemable at ₹ 105 each)				

(*iv*) JOURNAL OF *S* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		5,25,000	
	To Debentures Application and Allotment A/c				5,25,000
	(Being the application and allotment money received)				
	Debentures Application and Allotment A/c	...Dr.		5,25,000	
	Loss on Issue of Debentures A/c	...Dr.		35,000	
	To 10% Debentures A/c				5,00,000
	To Securities Premium Reserve A/c				25,000
	To Premium on Redemption of Debentures A/c				35,000
	(Being 5,000; 10% Debentures of ₹ 100 each issued at 5% premium and redeemable at 7% premium)				

(*b*) JOURNAL OF MOON LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2017	**On Creation of DRR**				
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		50,00,000	
	To Debentures Redemption Reserve A/c				50,00,000
	(Being the transfer of Profit to Debentures Redemption Reserve) (Note)				
April 1	**On Making the Investment**				
	Debentures Redemption Investment A/c (₹ 50,00,000 × 15%)	...Dr.		7,50,000	
	To Bank A/c				7,50,000
	(Being the Debentures Redemption Investment made)				
2018	**On Encashment of Investment**				
March 31	Bank A/c	...Dr.		7,50,000	
	To Debentures Redemption Investment A/c				7,50,000
	(Being the Debentures Redemption Investment realised)				
	On Redemption of Debentures				
	9% Debentures A/c	...Dr.		50,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		5,00,000	
	To Debentureholders' A/c				55,00,000
	(Being the amount due on redemption)				
	Debentureholders' A/c	...Dr.		55,00,000	
	To Bank A/c				55,00,000
	(Being the payment made to debentureholders)				
	On transfer of DRR to General Reserve				
	Debentures Redemption Reserve A/c	...Dr.		50,00,000	
	To General Reserve A/c				50,00,000
	(Being the transfer of Debentures Redemption Reserve to General Reserve)				

Note: It is mentioned that instead of declaring a dividend, the company decided to redeem the debentures, it means that the debentures are redeemed out of profits. So, an amount equal to total amount of debentures to be redeemed, *i.e.*, ₹ 50,00,000 has been transferred to DRR.

7.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars			₹
To Sundry Assets (Transfer):			By Bills Payable A/c			50,000
Bills Receivable A/c	30,000		By Creditors A/c			45,000
Stock A/c	62,500		By Mrs. Vishnu's Loan A/c			50,000
Sundry Debtors A/c	1,00,000		By Outstanding Salary A/c			12,500
Land and Building A/c	1,25,000		By Provision for Doubtful Debts A/c			10,000
Furniture A/c	25,000		By Bank A/c (Assets Realised):			
Computers A/c	12,500		Sundry Debtors		1,00,000	
Investments A/c	75,000	4,30,000	Stock		55,000	
To Bank A/c (Liabilities Paid):			Land and Building		1,75,000	
Bills Payable	50,000		Furniture	20,000		
Creditors	40,500		*Less:* Commission	1,250	18,750	
Mrs. Vishnu's Loan	50,000		Investments	1,12,500		
Outstanding Salary	12,500		*Less:* Commission	1,500	1,11,000	
Employees Compensation	50,000	2,03,000	Bills Receivable		28,500	4,88,250
To Gain (Profit) transferred to Capital A/cs:			By Vishnu's Capital A/c (Computers)			7,500
Vishnu	15,125					
Sanjiv	9,075					
Sudhir	6,050	30,250				
		6,63,250				6,63,250

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Vishnu ₹	Sanjiv ₹	Sudhir ₹	Particulars	Vishnu ₹	Sanjiv ₹	Sudhir ₹
To Realisation A/c (Assets taken over)	7,500	...	...	By Balance *b/d*	1,00,000	75,000	45,000
To Bank A/c (Bal. Fig.) (Final Payment)	1,38,875	1,02,825	63,550	By Workmen Compensation Reserve A/c	18,750	11,250	7,500
				By Profit and Loss A/c	12,500	7,500	5,000
				By Realisation A/c (Gain)	15,125	9,075	6,050
	1,46,375	1,02,825	63,550		1,46,375	1,02,825	63,550

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	20,000	By Realisation A/c (Liabilities Paid)	2,03,000
To Realisation A/c (Assets Realised)	4,88,250	By Vishnu's Capital A/c (Final Payment)	1,38,875
		By Sanjiv's Capital A/c (Final Payment)	1,02,825
		By Sudhir's Capital A/c (Final Payment)	63,550
	5,08,250		5,08,250

Note: There is no claim against Workmen Compensation Reserve. Hence, it is appropriated among partners in their profit-sharing ratio.

8. (*a*)

Super India Ltd.

BALANCE SHEET *as at 31st March, 2018*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital	1	2,00,000
(*b*) Reserves and Surplus	2	45,000
2. Non-Current Liabilities		
(*a*) Long-term Borrowings		1,50,000
(*b*) Long-term Provisions		50,000
3. Current Liabilities		
(*a*) Short-term Borrowings		45,000
(*b*) Trade Payables		10,000
(*c*) Other Current Liabilities	3	5,000
(*d*) Short-term Provisions	4	5,000
Total		5,10,000
II. ASSETS		
1. Non-Current Assets		
(*a*) *Fixed Assets*—Tangible Assets		3,00,000
(*b*) Non-Current Investments		1,25,000
2. Current Assets		
(*a*) Inventories		10,000
(*b*) Trade Receivables		40,000
(*c*) Cash and Cash Equivalents	5	30,000
(*d*) Other Current Assets	6	5,000
Total		5,10,000

Notes to Accounts

Particulars	₹
1. Share Capital	
Authorised Capital	
... Equity Shares of ₹ 100 each	...
Issued Capital	
2,000 Equity Shares of ₹ 100 each	2,00,000
Subscribed Capital	
Subscribed and Fully paid-up	
2,000 Equity Shares of ₹ 100 each	2,00,000
2. Reserves and Surplus	
Securities Premium Reserve	20,000
Surplus, *i.e.*, Balance in Statement of Profit and Loss	25,000
	45,000
3. Other Current Liabilities	
Outstanding Expenses	5,000
4. Short-term Provisions	
Provision for Tax	5,000
5. Cash and Cash Equivalents	
Cash at Bank	30,000
6. Other Current Assets	
Prepaid Expenses	5,000

Contingent Liability

The directors propose final dividend of ₹ 20,000 (*i.e.*, 10% on Paid-up Capital).

(*b*)

Items	Head	Sub-head
(*i*) Computer Software	Non-current Assets	Fixed Assets—Intangible Assets
(*ii*) Loose Tools	Current Assets	Inventories
(*iii*) Interest Accrued and Due on Long-term Borrowings	Current Liabilities	Other Current Liabilities

SECTION B

9. (*a*) (*i*) $\text{Operating Ratio} = \dfrac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100 = \dfrac{₹\ 4,20,000}{₹\ 6,00,000} \times 100 = 70\%.$

Operating Cost = Cost of Revenue from Operations + Operating Expenses*
= ₹ 3,90,000 + ₹ 30,000 = ₹ 4,20,000

Revenue from Operations = ₹ 4,00,000 + ₹ 2,00,000 = ₹ 6,00,000.

*Operating Expenses = Depreciation + Employees Benefit Expenses
= ₹ 3,000 + ₹ 27,000 = ₹ 30,000.

(*ii*) $\text{Liquid Ratio} = \dfrac{\text{Liquid Assets}}{\text{Current Liabilities}} = \dfrac{₹\ 3,90,000}{₹\ 1,95,000} = 2:1.$

Liquid Assets = Current Assets – Closing Inventory = ₹ 4,12,000 – ₹ 22,000 = ₹ 3,90,000

Current Liabilities = ₹ 1,95,000.

(*iii*) $\text{Proprietary Ratio} = \dfrac{\text{Shareholders' Funds}}{\text{Total Assets}} = \dfrac{₹\ 6,40,000}{₹\ 8,00,000} = 0.80:1.$

Shareholders' Funds = Equity Share Capital + Preference Share Capital
+ Debentures Redemption Reserve
= ₹ 4,37,000 + ₹ 1,74,000 + ₹ 29,000 = ₹ 6,40,000.

Total Assets = Non-Current Assets + Current Assets
= ₹ 3,88,000 + ₹ 4,12,000 = ₹ 8,00,000.

(*b*) $\text{Return on Investment} = \dfrac{\text{Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$

$= \dfrac{₹\ 5,50,000}{₹\ 40,00,000} \times 100 = 13.75\%.$

$\text{Net Profit before Interest and Tax} = \dfrac{₹\ 3,00,000 \times 100}{60} + (10\% \text{ of } ₹\ 5,00,000)$

= ₹ 5,00,000 + ₹ 50,000 = ₹ 5,50,000

Capital Employed = ₹ 40,00,000.

$\text{Debt to Equity Ratio} = \dfrac{\text{Debt/Long-term Debts}}{\text{Equity/Shareholders' Funds}}$

$= \dfrac{₹\ 5,00,000}{₹\ 35,00,000} = 1:7 \text{ or } 0.14:1.$

Debt = 10% Debentures = ₹ 5,00,000

Equity/Shareholders' Funds = Capital Employed – Debt
= ₹ 40,00,000 – ₹ 5,00,000 = ₹ 35,00,000.

10. (*a*) Common-size Balance Sheet is a statement in which each asset is expressed as percentage of Total Assets and each liability is expressed as percentage to Total of Equity and Liabilities. Total Assets or Total of Equity and Liabilities are taken as 100 and all the figures are expressed as percentage of the total.

(*b*)

Change	Reason
(*i*) Reduce	Equity will increase by the profit amount whereas Debt remains unchanged.
(*ii*) Reduce	Debt reduces because of the redemption of debentures whereas Equity remains unchanged.

(*c*) CALCULATION OF CASH FLOW FROM FINANCING ACTIVITIES

Particulars	₹
Proceeds from Issue of Equity Shares at Premium (₹ 10,00,000 + ₹ 1,00,000)	11,00,000
Redemption of 10% Debentures	(5,00,000)
Interest paid on Debentures	(1,00,000)
Cash Flow from Financing Activities	5,00,000

(*d*) COMPARATIVE STATEMENT OF PROFIT AND LOSS

for the years ended 31st March, 2018 and 2017

Particulars	Note No.	31st March, 2018 ₹	31st March, 2017 ₹	Absolute Change (Increase/ Decrease) (₹)	Percentage Change (Increase/ Decrease) (%)
I. Revenue from Operations		9,00,000	6,00,000	3,00,000	50.00
II. Expenses					
Cost of Materials Consumed		4,50,000	3,60,000	90,000	25.00
Other Expenses		2,25,000	1,20,000	1,05,000	87.50
Total Expenses		6,75,000	4,80,000	1,95,000	40.63
III. Profit before Tax (I – II)		2,25,000	1,20,000	1,05,000	87.50
IV. Tax @ 30%		67,500	36,000	31,500	87.50
V. Profit after Tax (III – IV)		1,57,500	84,000	73,500	87.50

Working Note:

Particulars	31st March, 2018	31st March, 2017
Revenue from Operations	₹ 9,00,000	₹ 6,00,000
Cost of Materials Consumed (% of Revenue from Operations)	₹ 4,50,000 (*i.e.,* 50% of ₹ 9,00,000)	₹ 3,60,000 (*i.e.,* 60% of ₹ 6,00,000)
Other Expenses [% of (Revenue from Operations – Cost of Materials Consumed)]	₹ 2,25,000 (*i.e.,* 50% of ₹ 4,50,000)	₹ 1,20,000 (*i.e.,* 50% of ₹ 2,40,000)

11. **Monica Ltd.**

CASH FLOW STATEMENT *for the year ended 31st March, 2018*

Particulars		₹
A. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		6,00,000
Add: Non-cash and Non-operating Items:		
Goodwill amortised	60,000	
Debentures Interest	32,000	
Depreciation on Machinery	60,000	1,52,000
Operating Profit before Working Capital Changes		7,52,000
Add: Increase in Current Liabilities:		
Trade Payables		40,000
		7,92,000
Less: Increase in Current Assets:		
Inventories	50,000	
Trade Receivables	2,00,000	2,50,000
Cash Generated from Operations		5,42,000
Less: Tax Paid		1,40,000
Cash Flow from Operating Activities		4,02,000
B. Cash Flow from Investing Activities		
Purchase of Machinery	(7,60,000)	
Cash Used in Investing Activities		(7,60,000)
C. Cash Flow from Financing Activities		
Proceeds from Issue of Shares	4,00,000	
Proceeds from Issue of 10% Debentures	3,60,000	
Payment of Debentures Interest	(32,000)	
Dividend Paid	(1,00,000)	
Payment of Interim Dividend	(2,40,000)	
Cash Flow from Financing Activities		3,88,000
D. Net Increase in Cash and Cash Equivalents (A + B + C)		30,000
Add: Cash and Cash Equivalents in the beginning of the Year		5,60,000
E. Cash and Cash Equivalents at the end of the Year		5,90,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

		₹
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)		9,00,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)		8,00,000
		1,00,000
Add: Interim Dividend	2,40,000	
Dividend Paid (Proposed Dividend for 2016–17)	1,00,000	
Provision for Tax (Provision made)	1,60,000	5,00,000
Net Profit before Tax		6,00,000

2. *Dr.* PROVISION FOR TAX ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Paid)	1,40,000	By Balance *b/d*	60,000
To Balance *c/d*	80,000	By Statement of Profit and Loss (Bal. Fig.) (Provision made for Tax)	1,60,000
	2,20,000		2,20,000

3. *Dr.* MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	10,00,000	By Balance *c/d*	17,60,000
To Bank A/c (Purchase—Bal. Fig.)	7,60,000		
	17,60,000		17,60,000

4. *Dr.* ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *c/d*	1,60,000	By Balance *b/d*	1,00,000
		By Depreciation A/c (Bal. Fig.) (Statement of Profit and Loss)	60,000
	1,60,000		1,60,000

MODEL TEST PAPER 13 (Solution)

SECTION A

PART I

1. (*i*) Goodwill is regarded as an intangible asset.

In addition to the stated circumstances, the need for the valuation of goodwill in partnership may arise in the following circumstances:

(*a*) Change in profit-sharing Ratio among the existing partners.

(*b*) Amalgamation of Partnership firms.

(*ii*) Number of Years' purchase means the number of Years during which the purchaser of Goodwill expects that the profits due to goodwill are likely to be available in future.

(*iii*) **Difference between Authorised Capital and Issued Capital**

Basis of Difference	*Authorised Capital*	*Issued Capital*
1. **Disclosure in Memorandum of Association**	It is the amount stated in the company's Memorandum of Association. It is the maximum amount that a company can issue under each class of share capital.	It is not stated in the Memorandum of Association of the company.
2. **Limits**	It is higher than or equal to the issued and subscribed capital.	It cannot exceed authorised capital.

(*iv*) Revaluation Account in a **nominal account**. Assets are revalued because the profit or loss due to their revaluation belongs to old partners only, not to a new partner.

(*v*) **Difference between Share and Debenture**

Basis	*Share*	*Debenture*
1. **Capital or Loan**	Share is a part of share capital.	Debenture is an acknowledgement of debt.
2. **Holder**	The holders of shares are owners of the company.	The holders of debentures are lenders of the company.

(*vi*) When company purchases its own debentures through stock exchange for the purpose of cancellation such an act of purchasing and cancelling the debentures constitutes redemption of debentures by purchase in the open market.

PART II

2. (*a*)

PROFIT AND LOSS APPROPRIATION ACCOUNT
for the year ended 31st March, 2018

Dr. | *Cr.*

Particulars		₹	Particulars	₹
To Partners' Salaries:			By Profit and Loss A/c (Net Profit) (WN 1)	2,18,700
Y	1,20,000			
Z	96,000	2,16,000		
To Profit transferred to Capital A/cs:				
X	1,200			
Y	900			
Z	600	2,700		
		2,18,700		2,18,700

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To Drawings A/c	80,000	1,70,000	1,26,000	By Balance *b/d*	7,20,000	4,50,000	2,70,000
To Balance *c/d*	7,70,800	4,81,900	2,89,200	By Interest on Capital A/c	1,29,600	81,000	48,600
				By Partners' Salaries A/c	...	1,20,000	96,000
				By Profit and Loss App. A/c	1,200	900	600
	8,50,800	6,51,900	4,15,200		8,50,800	6,51,900	4,15,200

Working Notes:

1. PROFIT AND LOSS ACCOUNT

Dr. *for the year ended 31st March, 2018* Cr.

Particulars		₹	Particulars	₹
To Interest on *Z*'s Loan A/c		4,500	By Net Profit (Given)	4,82,400
(₹ 1,50,000 × 6/100 × 6/12)				
To Interest on Capital A/cs:				
X	1,29,600			
Y	81,000			
Z	48,600	2,59,200		
To Net Profit transferred to				
Profit and Loss Appropriation A/c		2,18,700		
		4,82,400		4,82,400

2. Interest on capital is taken as charge on profit because it is allowed in all cases as given. Hence, it is debited to Profit and Loss Account instead of debiting to Profit and Loss Appropriation Account.

(*b*) ADJUSTMENT ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Karim's Current A/c	...Dr.		150	
	To Krishna's Current A/c				150
	(Being the adjustment made for crediting interest on capitals to partners in excess)				

Working Note:

TABLE SHOWING ADJUSTMENT

Particulars	Krishna's Current A/c		Sandeep's Current A/c		Karim's Current A/c	
	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹
Interest on Capital, wrongly credited 1% in excess, now written back	1,200	...	900	...	600	...
Share of Profit ₹ 2,700 (*i.e.*, ₹ 1,200 + ₹ 900 + ₹ 600) in ratio of 3 : 2 : 1	...	1,350	...	900	...	450
	1,200	1,350	900	900	600	450
Net Effect	150 (Cr.)		...		150 (Dr.)	

(*c*) (*i*) PROFIT AND LOSS APPROPRIATION ACCOUNT

for the year ended 31st March, 2018

Dr. Particulars		₹	Particulars	Cr. ₹
To Profit transferred to Current A/cs:			By Profit and Loss A/c (Net Profit)	1,26,000
Priya	78,750			
Kajal	47,250	1,26,000		
		1,26,000		1,26,000

(*ii*) PROFIT AND LOSS APPROPRIATION ACCOUNT

for the year ended 31st March, 2018

Dr. Particulars		₹	Particulars	Cr. ₹
To Interest on Capital A/cs (Note):			By Profit and Loss A/c (Net Profit)	1,26,000
Priya's Current A/c	54,000			
Kajal's Current A/c	72,000	1,26,000		
		1,26,000		1,26,000

Note: Interest on Priya's Capital = ₹ 6,00,000 $\times \frac{12}{100}$ = ₹ 72,000;

Interest on Kajal's Capital = ₹ 8,00,000 $\times \frac{12}{100}$ = ₹ 96,000;

Total Appropriation = ₹ 72,000 + ₹ 96,000 = ₹ 1,68,000, which is more than the available profit. Hence, the available profit is distributed in the ratio of appropriations to be made, *i.e.*, ₹ 72,000 : ₹ 96,000 or 3 : 4.

3. (*a*) ADJUSTMENT ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
April 1	*Y*'s Capital A/c (3/42 × ₹ 84,000)	...Dr.		6,000	
	Z's Capital A/c (7/42 × ₹ 84,000)	...Dr.		14,000	
	To *X*'s Capital A/c (10/42 × ₹ 84,000)				20,000
	(Being the adjustment made for accumulated profits, losses and reserves)				

Working Notes:

1. *Calculation of Net Effect of Accumulated Profits, Losses and Reserves:*

	₹
General Reserve	53,000
Investment Fluctuation Reserve	10,000
Workmen Compensation Reserve	15,000
Contingency Reserve	25,000
Profit and Loss A/c (Dr.)	(14,500)
Advertisement Suspense A/c	(4,500)
Net Effect	84,000

2. *Calculation of Sacrifice/(Gain) of each Partner:*

	X	*Y*	*Z*
I. Old Share	4/7	3/7	...
II. New Share	2/6	3/6	1/6
III. Sacrifice/(Gain) [I – II]	10/42 (Sacrifice)	–3/42 (Gain)	–1/6 (Gain)

(*b*)

Dr. REVALUATION ACCOUNT Cr.

Particulars		₹	Particulars	₹
To Machinery A/c		4,000	By Building A/c	10,000
To Gain (Profit) on Revaluation transferred to:				
P's Capital A/c	3,600			
Q's Capital A/c	2,400	6,000		
		10,000		10,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	*P* ₹	*Q* ₹	*R* ₹	Particulars	*P* ₹	*Q* ₹	*R* ₹
To Cash A/c (Bal. Fig.)	19,200	16,800	...	By Balance *b/d*	96,000	68,000	...
To Balance *c/d* (WN 3)	1,08,000	72,000	60,000	By General Reserve A/c	9,600	6,400	...
				By Revaluation A/c	3,600	2,400	...
				By Cash A/c	...	...	60,000
				By Premium for Goodwill A/c	18,000	12,000	...
	1,27,200	88,800	60,000		1,27,200	88,800	60,000

BALANCE SHEET OF *P*, *Q* AND *R*
as at 1st April, 2018

Liabilities		₹	Assets	₹
Creditors		20,000	Cash	74,000
Capital A/cs:			Debtors	18,000
P	1,08,000		Stock	20,000
Q	72,000		Furniture	12,000
R	60,000	2,40,000	Machinery	36,000
			Building	1,00,000
		2,60,000		2,60,000

Working Notes:

1. Unless agreed otherwise, sacrificing ratio of old partners will be same as their old profit-sharing ratio.
2. *Calculation of New Profit-sharing Ratio of P, Q and R:*

Let total share of profit be 1; *R*'s Share = $\frac{1}{4}$ or $\frac{5}{20}$;

Remaining Share = $1-\frac{1}{4}=\frac{3}{4}$, which will be distributed among *P* and *Q* in their old profit-sharing ratio, *i.e.*, 3 : 2. Thus,

P's New Share = $\frac{3}{5}\times\frac{3}{4}=\frac{9}{20}$; *Q*'s New Share = $\frac{2}{5}\times\frac{3}{4}=\frac{6}{20}$

Hence, New Profit-sharing Ratio of *P*, *Q* and *R* = $\frac{9}{20}:\frac{6}{20}:\frac{5}{20}$ = 9 : 6 : 5.

3. *Adjustment of Capitals:*

R's Capital for 1/4th Share = ₹ 60,000

Total Capital of the New Firm = 4 × ₹ 60,000 = ₹ 2,40,000, which will be contributed by *P*, *Q* and *R* in their new profit-sharing ratio. Thus,

$$P\text{'s Capital in the New Firm} = ₹\ 2{,}40{,}000 \times \frac{9}{20} = ₹\ 1{,}08{,}000;$$

$$Q\text{'s Capital in the New Firm} = ₹\ 2{,}40{,}000 \times \frac{6}{20} = ₹\ 72{,}000.$$

4. (*a*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Fixed Assets A/c	2,500	By Creditors A/c	2,000
To Provision for Doubtful Debts A/c	5,000	By Loss transferred to:	
		X's Capital A/c (₹ 5,500 × 5/10)	2,750
		Y's Capital A/c (₹ 5,500 × 3/10)	1,650
		Z's Capital A/c (₹ 5,500 × 2/10)	1,100
	7,500		7,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	*Z* ₹	Particulars	*X* ₹	*Y* ₹	*Z* ₹
To Goodwill A/c	25,000	15,000	10,000	By Balance *b/d*	40,000	62,000	33,000
To Revaluation A/c (Loss)	2,750	1,650	1,100	By Workmen Compensation			
To *X*'s Capital A/c	...	8,000	32,000	Reserve A/c	25,000	15,000	10,000
(Adjustment of Goodwill)				By *Y*'s Capital A/c (Goodwill)	8,000	...	...
To Bank A/c (Bal. Fig.)	1,19,750	...	...	By *Z*'s Capital A/c (Goodwill)	32,000	...	...
To Balance *c/d* (WN 4)	...	79,000	1,18,500	By Profit and Loss A/c	42,500	25,500	17,000
				By Bank A/c (Bal. Fig.)	...	1,150	1,01,600
	1,47,500	1,03,650	1,61,600		1,47,500	1,03,650	1,61,600

BALANCE SHEET OF NEW FIRM

as at 1st April, 2018

Liabilities	₹	Assets		₹
Creditors	40,000	Bank ₹ (40,000 – 8,000 + 1,150		
Employees' Provident Fund	10,000	+ 1,01,600 – 1,19,750)		15,000
Y's Capital A/c	79,000	Sundry Debtors	1,00,000	
Z's Capital A/c	1,18,500	*Less:* Provision for Doubtful Debts	5,000	95,000
		Stock		80,000
		Fixed Assets		57,500
	2,47,500			2,47,500

Working Notes:

1. Gain/(Sacrifice) = *New Share – Old Share*

   Y's Gain = $\frac{2}{5} - \frac{3}{10} = \frac{1}{10}$

   Z's Gain = $\frac{3}{5} - \frac{2}{10} = \frac{4}{10}$, Gaining Ratio = 1 : 4.

2. X's Share of Goodwill = ₹ 80,000 × $\frac{5}{10}$ = ₹ 40,000 to be contributed by Gaining Partners in their Gaining Ratio.

   Y's contribution = ₹ 40,000 × $\frac{1}{5}$ = ₹ 8,000;

   Z's contribution = ₹ 40,000 × $\frac{4}{5}$ = ₹ 32,000.

3. Total Capital of New Firm = Adjusted Capitals of All Partners – Cash Available for Payment

   = (₹ 1,19,750 + ₹ 77,850 + ₹ 16,900) – (₹ 40,000 – ₹ 8,000 – ₹ 15,000) = ₹ 1,97,500.

   Alternatively:

   Total Capital of New Firm = Adjusted Capital of Remaining Partners + Cash Payable to Outgoing Partner – Cash Available + Cash Required to Maintain

   = ₹ 77,850 + ₹ 16,900 + ₹ 1,19,750 – (₹ 40,000 – ₹ 8,000) + ₹ 15,000 = ₹ 1,97,500.

4. Y's New Capital = ₹ 1,97,500 × $\frac{2}{5}$ = ₹ 79,000, Z's New Capital = ₹ 1,97,500 × $\frac{3}{5}$ = ₹ 1,18,500.

(*b*)

Dr. Y'S CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To *Y*'s Executors' A/c (Balancing Figure)	12,800	By Balance *b/d*	6,000
		By Reserve A/c (2/5 of ₹ 3,000)	1,200
		By Profit and Loss Suspense A/c (WN 1)	560
		By *X*'s Capital A/c (Goodwill) (WN 2)	5,040
	12,800		12,800

Working Notes:

1. *Calculation of Y's Share of Profit (from 1st April, 2018 to 1st August, 2018):*

$$\text{Average Profit} = \frac{₹\,4,500 + ₹\,3,900 + ₹\,4,200}{3} = ₹\,4,200$$

$$Y\text{'s Share of Profit} = \frac{2}{5} \times ₹\,4,200 \times \frac{4}{12} = ₹\,560.$$

2. *Adjustment of Goodwill:*

$$Y\text{'s Share of Profit for Last 3 Years} = \frac{2}{5} \text{ of } (₹\,4,200 + ₹\,3,900 + ₹\,4,500)$$

$$= \frac{2}{5} \text{ of } ₹\,12,600 = ₹\,5,040.$$

Thus, *Y*'s share of goodwill is ₹ 5,040, which will be contributed by *X*.

5. **In the Books of Shakti Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		6,60,000	
	To Equity Shares Application A/c				6,60,000
	(Being the application money received on 2,20,000 shares)				
	Equity Shares Application A/c	...Dr.		6,60,000	
	To Equity Share Capital A/c (1,00,000 × ₹ 3)				3,00,000
	To Equity Shares Allotment A/c				1,60,000
	To Calls-in-Advance A/c				1,40,000
	To Bank A/c (20,000 × ₹ 3)				60,000
	(Being the application money adjusted)				
	Equity Shares Allotment A/c	...Dr.		2,00,000	
	To Equity Share Capital A/c				2,00,000
	(Being the allotment money due)				
	Bank A/c	...Dr.		40,000	
	To Equity Shares Allotment A/c				40,000
	(Being the allotment money received)				
	Equity Shares First and Final Call A/c	...Dr.		5,00,000	
	To Equity Share Capital A/c				5,00,000
	(Being the call money due on 1,00,000 shares)				
	Bank A/c	...Dr.		3,58,200	
	Calls-in-Arrears A/c	...Dr.		1,800	
	Calls-in-Advance A/c	...Dr.		1,40,000	
	To Equity Shares First and Final Call A/c (WN 4)				5,00,000
	(Being the receipt of first and final call money except on 600 shares and Calls-in-Advance adjusted)				
	Equity Share Capital A/c	...Dr.		6,000	
	To Calls-in-Arrears A/c				1,800
	To Forfeited Shares A/c				4,200
	(Being 600 shares forfeited due to non-payment of call money)				
	Bank A/c (600 × ₹ 9)	...Dr.		5,400	
	Forfeited Shares A/c (600 × ₹ 1)	...Dr.		600	
	To Equity Share Capital A/c				6,000
	(Being 600 forfeited shares reissued for ₹ 9 per share fully paid-up)				
	Forfeited Shares A/c	...Dr.		3,600	
	To Capital Reserve A/c				3,600
	(Being the gain (profit) on reissue transferred to Capital Reserve)				

BALANCE SHEET OF SHAKTI LTD.. *as at ...*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
(*a*) Share Capital	1	10,00,000
(*b*) Reserves and Surplus	2	3,600
Total		10,03,600
II. ASSETS		
Current Assets		
Cash and Cash Equivalents	3	10,03,600

Notes to Accounts

	₹
1. Share Capital	
Authorised Capital	
... Equity Shares of ₹ 10 each	...
Issued Capital	
1,00,000 Equity Shares of ₹ 10 each	10,00,000
Subscribed Capital	
Subscribed and fully paid-up	
1,00,000 Equity Shares of ₹ 10 each	10,00,000
2. Reserves and Surplus	
Capital Reserve	3,600
3. Cash and Cash Equivalents	
Cash at Bank	10,03,600

Working Notes:

1. *Total No. of Shares applied by an applicant who has not paid call money (Defaulter shareholder):*

$$= \frac{1,40,000^*}{60,000^*} \times 600 = 1,400 \text{ Shares}$$

**Category*	*Shares Applied*	*Shares Allotted*
Rejected	20,000	...
(i) Raman	40,000	20,000
(ii) Akbar	20,000	20,000
(iii) *Pro rata* basis	1,40,000	60,000
	2,20,000	1,00,000

	₹
2. Application money received from defaulter shareholder (1,400 × ₹ 3)	4,200
Less: Application money adjusted (600 × ₹ 3)	1,800
Surplus application money	2,400
Less: Surplus application money adjusted on allotment (600 × ₹ 2)	1,200
Surplus application money to be adjusted on first and final call	1,200
3. *Calculation of call money not paid by defaulter shareholder:*	
First and final call money due (600 × ₹ 5)	3,000
Less: Surplus application money adjusted (WN 2)	1,200
Amount due but not paid on first and final call (Calls-in-Arrears)	1,800
4. *Calculation of call money received later:*	
Total call money due	5,00,000
Less: Surplus application money adjusted	1,40,000
	3,60,000
Less: Not received [as per WN 3]	1,800
	3,58,200

6. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Bank A/c	...Dr.		4,32,000	
	To Debentures Application and Allotment A/c				4,32,000
	(Being the application money for 4,000; 9% Debentures received)				
	Debentures Application and Allotment A/c	...Dr.		4,32,000	
	Loss on Issue of Debentures A/c	...Dr.		40,000	
	To 9% Debentures A/c				4,00,000
	To Securities Premium Reserve A/c				32,000
	To Premium on Redemption of Debentures A/c				40,000
	(Being 4,000; 9% Debentures of ₹ 100 each issued at 8% premium and redeemable at 10% premium)				
(*ii*)	Bank A/c	...Dr.		6,00,000	
	To Debentures Application and Allotment A/c				6,00,000
	(Being the application money received for 6,000; 9% Debentures)				
	Debentures Application and Allotment A/c	...Dr.		6,00,000	
	Loss on Issue of Debentures A/c	...Dr.		60,000	
	To 9% Debentures A/c				6,00,000
	To Premium on Redemption of Debentures A/c				60,000
	(Being 6,000; 9% Debentures of ₹ 100 each issued at par and redeemable at 10% premium)				
(*iii*)	Bank A/c	...Dr.		10,50,000	
	To Debentures Application and Allotment A/c				10,50,000
	(Being the application money received for 10,000; 9% Debentures)				
	Debentures Application and Allotment A/c	...Dr.		10,50,000	
	To 9% Debentures A/c				10,00,000
	To Securities Premium Reserve A/c				50,000
	(Being 10,000; 9% Debentures of ₹ 100 each issued at 5% premium)				

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		6,25,000	
	To Debentures Redemption Reserve A/c				6,25,000
	(Being the DRR created for 25% of nominal value of outstanding debentures)				
April 1	Debentures Redemption Investment A/c	...Dr.		3,75,000	
	To Bank A/c				3,75,000
	(Being the investment made in Securities equal to 15% of nominal (face) value of debentures redeemable by 31st March, 2019)				
Dec. 31	Bank A/c	...Dr.		3,75,000	
	To Debentures Redemption Investment A/c				3,75,000
	(Being the debentures redemption Investment realised)				
	10% Debentures A/c	...Dr.		25,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		2,50,000	
	To Debentureholders' A/c				27,50,000
	(Being the amount due on redemption of 25,000; 10% Debentures at 10% premium)				

	Debentureholders' A/c ...Dr.		27,50,000	
	To Bank A/c			27,50,000
	(Being the due amount paid)			
	Debentures Redemption Reserve A/c ...Dr.		6,25,000	
	To General Reserve A/c			6,25,000
	(Being the amount of DRR transferred to General Reserve)			

7.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Sundry Liabilities (Transfer):		
Stock A/c	5,000		Sundry Creditors A/c	30,000	
Investments A/c	10,000		Bills Payable A/c	8,000	
Debtors A/c	20,000		Loan from Mrs. *X* A/c	5,000	
Fixed Assets A/c	38,000	73,000	Loan from Mrs. *Y* A/c	10,000	
To *X*'s Capital A/c:			Provision for Doubtful Debts	2,000	55,000
Mrs. *X*'s Loan	5,000		By *X*'s Capital A/c (Stock)		4,000
Remuneration for Dissolution Process	1,000	6,000	By *Y*'s Capital A/c (Assets Taken Over):		
To Bank A/c (Liabilities Paid):			Investments	4,500	
Sundry Creditors ₹ (30,000 – 150)	29,850		Furniture	300	4,800
Bills Payable ₹ (8,000 – 40)	7,960		By Bank A/c (Assets Realised):		
Mrs. *Y*'s Loan	10,000	47,810	Debtors ₹ (20,000 – 1,000)	19,000	
To Gain (Profit) transferred to Capital A/cs:			Fixed Assets	71,000	
X	15,745		Remaining Investments	4,500	94,500
Y	15,745	31,490			
		1,58,300			1,58,300

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	Particulars	*X* ₹	*Y* ₹
To Advertisement Suspense A/c	1,750	1,750	By Balance *b/d*	10,000	10,000
To Realisation A/c (Stock taken over)	4,000	...	By Workmen Compensation		
To Realisation A/c (Assets taken over)	...	4,800	Reserve A/c	5,000	5,000
To Bank A/c (Bal. Fig.)	30,995	24,195	By Realisation A/c	6,000	...
(Final Payment)			(Liabilities taken over)		
			By Realisation A/c (Gain)	15,745	15,745
	36,745	30,745		36,745	30,745

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	8,500	By Realisation A/c (Liabilities Paid)	47,810
To Realisation A/c (Assets Realised)	94,500	By *X*'s Capital A/c (Final Payment)	30,995
		By *Y*'s Capital A/c (Final Payment)	24,195
	1,03,000		1,03,000

Working Note: *Calculation of Discount on:*

(*i*) Debtors = ₹ 20,000 × $\frac{6}{100} \times \frac{10}{12}$ = ₹ 1,000;

(*ii*) Sundry Creditors = ₹ 30,000 × $\frac{6}{100} \times \frac{1}{12}$ = ₹ 150;

(*iii*) Bills Payable = ₹ 8,000 × $\frac{6}{100} \times \frac{1}{12}$ = ₹ 40.

8. (*a*) (*i*) Current Liabilities—Other Current Liabilities;
(*ii*) As Contingent Liability in the Notes to Accounts;
(*iii*) Current Assets—Cash and Cash Equivalents;
(*iv*) Non-Current Assets—Non-Current Investments;
(*v*) Current Assets—Current Investments;
(*vi*) Current Liabilities—Short-term Provisions.

(*b*)

Jiyaji Ltd.
BALANCE SHEET
as at 31st March, 2018

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		3,90,000
(*b*) Reserves and Surplus		90,000
2. Share Application Money Pending Allotment		10,000
3. Non-Current Liabilities		
Long-term Borrowings		5,00,000
4. Current Liabilities		
(*a*) Trade Payables		20,000
(*b*) Short-term Provisions	1	10,000
Total		10,20,000
II. ASSETS		
1. Non-Current Assets		
(*a*) *Fixed Assets*—Tangible Assets		6,00,000
(*b*) Non-Current Investments		2,00,000
2. Current Assets		
(*a*) Inventories		20,000
(*b*) Trade Receivables		80,000
(*c*) Cash and Cash Equivalents		1,20,000
Total		10,20,000

Note to Accounts

Particulars	₹
1. Short-term Provisions	
Provision for Tax	10,000

SECTION B

9. **Shuchi Diamonds Ltd.**

CASH FLOW STATEMENT *for the year ended 31st March, 2018*

Particulars		₹
A. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		(2,00,000)
Add: Non-cash and Non-operating Items:		
Depreciation on Tangible Assets	2,00,000	
Interest on 9% Debentures	36,000	
Loss on Sale of Machinery	10,000	2,46,000
Operating Profit before Working Capital Changes		46,000
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Trade Payables	1,00,000	
Inventories	2,00,000	
Trade Receivables	1,00,000	4,00,000
		(3,54,000)
Add: Increase in Current Liabilities:		
Outstanding Expenses		20,000
Cash Used in Operating Activities		(3,34,000)
B. Cash Flow from Investing Activities		
Purchase of Tangible Assets	(20,000)	
Proceeds for Sale of Machinery	10,000	
Proceeds for Sale of Non-current Investments	1,20,000	
Purchase of Goodwill	(2,00,000)	
Cash Used in Investing Activities		(90,000)
C. Cash Flow from Financing Activities		
Proceeds from Issue of Shares	4,00,000	
Proceeds from Issue of 9% Debentures	2,00,000	
Payment of Interest on 9% Debentures	(36,000)	
Cash Flow from Financing Activities		5,64,000
D. Net Increase in Cash and Cash Equivalents (A + B + C)		1,40,000
E. *Add:* Cash and Cash Equivalents in the beginning of the Period		8,80,000
F. Cash and Cash Equivalents at the end of the Period		10,20,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)	6,00,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)	8,00,000
	(2,00,000)

2. *Dr.* NON-CURRENT INVESTMENTS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	5,00,000	By Bank A/c (Sale Proceeds) (Bal. Fig.)	1,20,000
To Capital Reserve A/c (Profit on Sale)	20,000	By Balance *c/d*	4,00,000
	5,20,000		5,20,000

3. *Dr.* TANGIBLE ASSETS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	18,00,000	By Bank A/c	10,000
To Bank A/c (Bal. Fig.) (Purchase)	20,000	By Loss on Sale of Machinery A/c (Statement of Profit and Loss)	10,000
		By Depreciation A/c	2,00,000
		By Balance *c/d*	16,00,000
	18,20,000		18,20,000

10. (*a*) *Advantages of Comparative Balance Sheet:*

(*i*) In a Balance Sheet the emphasis is on status, whereas in Comparative Balance Sheet the emphasis is on change. Hence, it may be used in studying trends in enterprise.

(*ii*) It shows the effects of business operations on its assets, equity and liabilities.

(*b*) $$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$= \frac{₹\ 2,00,000}{₹\ 40,000} = 5 \text{ Times.}$$

Cost of Revenue from Operations = Revenue from Operations – Gross Profit

= ₹ 2,50,000 – ₹ 50,000 = ₹ 2,00,000.

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

$$= \frac{₹\ 70,000 + ₹\ 10,000}{2} = ₹\ 40,000.$$

(*c*) (*i*) *No Flow.* **Reason:** Charging of Depreciation on Furniture would result in No flow of cash because it is a non-cash expense.

(*ii*) Investing Activities are acquisition and disposal of long-term assets and other investments not included in Cash and Cash Equivalents.

(*d*) COMMON-SIZE BALANCE SHEET OF RADHA LTD. *as at 31st March, 2018 and 2017*

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31st March, 2018 (₹)	31st March, 2017 (₹)	31st March, 2018 (%)	31st March, 2017 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(*a*) Share Capital		15,00,000	10,00,000	39.47	40.00
(*b*) Reserves and Surplus		10,00,000	10,00,000	26.32	40.00
2. Non-Current Liabilities					
Long-term Borrowings (Secured Loans)		8,00,000	2,00,000	21.05	8.00
3. Current Liabilities					
Trade Payables		5,00,000	3,00,000	13.16	12.00
Total		38,00,000	25,00,000	100.00	100.00
II. ASSETS					
1. Non-Current Assets					
Fixed Assets: Tangible		30,00,000	20,00,000	78.95	80.00
2. Current Assets					
Cash and Cash Equivalents		8,00,000	5,00,000	21.05	20.00
Total		38,00,000	25,00,000	100.00	100.00

11. (*a*) (*i*) Operating Ratio $= \dfrac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100$

$$= \frac{₹\ 30,80,000}{₹\ 44,00,000} \times 100 = 70\%.$$

Revenue from Operations = Cash Revenue from Operations + Credit Revenue from Operations
= ₹ 20,00,000 + 120% of ₹ 20,00,000
= ₹ 20,00,000 + ₹ 24,00,000 = ₹ 44,00,000

Operating Cost = Cost of Revenue from Operations* + Operating Expenses**
= ₹ 26,40,000 + ₹ 4,40,000 = ₹ 30,80,000.

*Cost of Revenue from Operations = Revenue from Operations – Gross Profit
= ₹ 44,00,000 – (40% of ₹ 44,00,000)
= ₹ 44,00,000 – ₹ 17,60,000 = ₹ 26,40,000

**Operating Expenses = 10% of Total Revenue from Operations
= 10% of ₹ 44,00,000 = ₹ 4,40,000.

(*ii*) Inventory Turnover Ratio $= \dfrac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$

$$= \frac{₹\ 26,40,000}{₹\ 3,20,000} = 8.25 \text{ Times.}$$

Average Inventory $= \dfrac{\text{Opening Inventory + Closing Inventory}}{2}$

$$= \frac{₹\ 3,00,000 + ₹\ 3,40,000}{2} = ₹\ 3,20,000.$$

(*iii*) Proprietary Ratio $= \dfrac{\text{Shareholders' Funds/Equity}}{\text{Total Assets}}$

$$= \frac{₹\ 12,00,000}{₹\ 16,00,000} = 0.75 : 1 \text{ or } 75\%.$$

Shareholders' Funds/Equity = Share Capital = ₹ 12,00,000

Total Assets = Fixed Assets + Current Assets
= ₹ 10,00,000 + ₹ 6,00,000 = ₹ 16,00,000.

(*b*) (*i*) Trade Receivables Turnover Ratio $= \dfrac{\text{Credit Revenue from Operations}}{\text{Average Trade Receivables}}$

$$= \frac{₹\ 3,25,000}{₹\ 70,000} = 4.64 \text{ Times.}$$

Credit Revenue from Operations = $\frac{₹\,100}{₹\,160} \times ₹\,5,20,000$ = ₹ 3,25,000

(Let Credit Revenue from Operations be ₹ 100; Cash Revenue from Operations ₹ 60; Total Revenue from Operations ₹ 160).

Average Trade Receivables

$$= \frac{\text{Opening Trade Receivables + Closing Trade Receivables}}{2}$$

$$= \frac{3/4 \textit{ of } ₹\,80,000 + ₹\,80,000}{2} = \frac{₹\,60,000 + ₹\,80,000}{2} = ₹\,70,000.$$

(*ii*) Yes, if Non-Operating Incomes exceed Non-Operating Expenses.

MODEL TEST PAPER 14 (Solution)

SECTION A

PART I

1. (*i*) In the absence of an agreement to the contrary, the following shall apply:

- Salary is not allowed (paid) to partners.
- Interest on capital is not allowed (paid).
- Profits and losses are shared equally by partners.
- Interest @ 6% p.a. is allowed (paid) on loans advanced by partners to the firm.

(*ii*) Profit and Loss Appropriation Account differs from Profit and Loss Account as follows:

Profit and Loss Appropriation Account	*Profit and Loss Account*
1. It shows appropriation of net profit.	It shows profit earned or loss incurred.
2. It deals with personal entitlements of the partners from the business.	It deals with general trading activities, *i.e.*, revenue and expenses of the business.
3. It starts with the net profit as disclosed by the Profit and Loss Account.	It starts with the gross profit as disclosed by the Trading Account.

(*iii*) **Difference between Calls-in-Arrears and Calls-in-Advance**

Basis	*Calls-in-Arrears*	*Calls-in-Advance*
1. **Meaning**	Calls-in-Arrears is the amount called-up by the company, but not paid by the shareholders.	Calls-in-Advance is the amount not called-up by the company but paid by the shareholders.
2. **Interest**	Interest is *charged* on Calls-in-Arrears.	Interest is *allowed* on Calls-in-Advance.
3. **Rate of Interest**	10% p.a.—as per *Table F*.	12% p.a.—as per *Table F*.

(*iv*) **Distinction between Debentureholders and Shareholders**

Debentureholders	*Shareholders*
1. Debentureholders are the lenders of the company.	Shareholders are the owners of the company.
2. A debentureholder gets interest on his investment at the stated rate whether the company earns profit or not.	A shareholder gets dividend on his investment.

(*v*) Debentures issued as a collateral security can be dealt with in the books in two ways:

- ***First Method:*** Journal entry is not passed in the books of account at the time of issue of debentures as collateral security. However, it is disclosed by way of information below debentures, which are shown as Long-term Borrowings under Non-Current Liabilities (When Debentures issued as Collateral Security for Long-term Loan) or as Short-term Borrowings under Current Liabilities (When Debentures issued as Collateral Security for Short-term Loan).
- ***Second Method:*** Debentures issued as collateral security may be recorded in the books of account. The Journal entry passed is:

  Debentures Suspense A/c ...Dr.
  To ...% Debentures A/c

  When the loan is paid to the lender, the above entry is cancelled by passing a reverse entry.

(*vi*) Loss on Issue of Debentures arises when debentures are issued at par or at premium or at a discount but are redeemable at premium.

Accounting Treatment:

Loss on issue of debentures is written off in the year it occurs from:

(*i*) Securities Premium Reserve, if it has a balance; and/or

(*ii*) Statement of Profit and Loss.

PART II

2. (*a*)

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2018* *Cr.*

Particulars		₹	Particulars	₹
To Partners' Commission A/cs (WN):			By Profit and Loss A/c (Net Profit)	1,80,000
A	6,000			
B	9,000			
C	6,000			
D	9,000	30,000		
To Profit transferred to Capital A/cs:				
A	60,000			
B	45,000			
C	30,000			
D	15,000	1,50,000		
		1,80,000		1,80,000

Working Note: *Calculation of Partners' Commission:*

Partners' Commission = $\frac{20}{120} \times ₹\,1,80,000 = ₹\,30,000$, which will be shared by *A*, *B*, *C* and *D* in ratio of 2 : 3 : 2 : 3. Thus, *A* gets ₹ 6,000, *B* gets ₹ 9,000, *C* gets ₹ 6,000 and *D* gets ₹ 9,000.

(*b*)

ADJUSTMENT JOURNAL ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Jain's Current A/c ...Dr.		5,000	
	To Gupta's Current A/c			5,000
	(Being the adjustment entry for the omission of interest on partners' capitals)			

Working Note:

TABLE SHOWING ADJUSTMENT TO BE MADE

Particulars	Jain (₹)	Gupta (₹)
I. Amount of Interest on Capital which should have been credited	10,000 (Cr.)	15,000 (Cr.)
II. Amount of Loss ₹ 25,000 (*i.e.*, ₹ 10,000 + ₹ 15,000) in 3 : 2	15,000 (Dr.)	10,000 (Cr.)
	5,000 (Dr.)	5,000 (Cr.)

(*c*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2016					
March 31	Profit and Loss Appropriation A/c	...Dr.		2,00,000	
	To *X*'s Capital A/c				96,000
	To *Y*'s Capital A/c				64,000
	To *Z*'s Capital A/c				40,000
	(Being the profit for the year appropriated among partners in their profit-sharing ratio)				
	X's Capital A/c	...Dr.		6,000	
	Y's Capital A/c	...Dr.		4,000	
	To *Z*'s Capital A/c				10,000
	(Being the deficiency of *Z*'s share borne by *X* and *Y* in their profit-sharing ratio, *i.e.*, 12 : 8 or 3 : 2)				
2017					
March 31	Profit and Loss Appropriation A/c	...Dr.		3,00,000	
	To *X*'s Capital A/c				1,44,000
	To *Y*'s Capital A/c				96,000
	To *Z*'s Capital A/c				60,000
	(Being the profit for the year appropriated among partners in their profit-sharing ratio)				
2018					
March 31	*X*'s Capital A/c	...Dr.		96,000	
	Y's Capital A/c	...Dr.		64,000	
	Z's Capital A/c	...Dr.		40,000	
	To Profit and Loss A/c				2,00,000
	(Being the loss for the year debited to partners)				
	X's Capital A/c	...Dr.		54,000	
	Y's Capital A/c	...Dr.		36,000	
	To *Z*'s Capital A/c				90,000
	(Being *Z*'s share of deficiency borne by *X* and *Y* in their profit-sharing ratio, *i.e.*, 12 : 8 or 3 : 2) (Note)				

Note: For 2017–18, there is a loss of ₹ 2,00,000, out of which ₹ 40,000 will be debited to *Z*'s Capital Account, whereas, his share of profit guaranteed is ₹ 50,000. Thus, his share of deficiency will be ₹ 90,000.

3.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Provision for Doubtful Debts A/c	600	By Accrued Income A/c		4,500
To Outstanding Rent A/c	15,000	By Loss on Revaluation transferred to:		
To Investments A/c	6,000	*X*'s Current A/c	10,260	
		Y's Current A/c	6,840	17,100
	21,600			21,600

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To Balance *c/d*	1,80,000	90,000	60,000	By Balance *b/d*	1,80,000	90,000	...
				By Bank A/c	...	...	60,000
	1,80,000	90,000	60,000		1,80,000	90,000	60,000

Dr. PARTNERS' CURRENT ACCOUNTS *Cr.*

Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To Revaluation A/c (Loss)	10,260	6,840	...	By Balance *b/d*	30,000	6,000	...
To Goodwill A/c	18,000	12,000	...	By Premium for Goodwill A/c	25,200	10,800	...
To Bank A/c (Withdrawn)	12,600	5,400	...	By General Reserve A/c	21,600	14,400	...
To Investments A/c	18,000	...	...				
To Balance *c/d*	17,940	6,960	...				
	76,800	31,200	...		76,800	31,200	...

BALANCE SHEET OF NEW FIRM

as at 1st April, 2018

Liabilities		₹	Assets		₹
Creditors		45,000	Cash at Bank (WN 3)		93,000
Outstanding Rent		15,000	Debtors	60,000	
Current A/cs:			*Less:* Provision for Doubtful Debts	3,000	57,000
X	17,940		Accrued Income		4,500
Y	6,960	24,900	Patents		44,400
Capital A/cs:			Fixed Assets		2,16,000
X	1,80,000				
Y	90,000				
Z	60,000	3,30,000			
		4,14,900			4,14,900

Working Notes:

1. *Calculation of Firm's Goodwill and Z's Share of Goodwill:*

$$\text{Average Profit} = \frac{₹\,90,000 + ₹\,78,000 + ₹\,75,000}{3} = ₹\,81,000$$

Firm's Goodwill = 2 × Average Profit = 2 × ₹ 81,000 = ₹ 1,62,000

Z's Share of Goodwill = $\frac{2}{9}$ of ₹ 1,62,000 = ₹ 36,000, which will be distributed among sacrificing partners *X* and *Y* in their Sacrificing Ratio, *i.e.*, 7 : 3.

2. *Calculation of Sacrificing Ratio:*

		X	*Y*	*Z*
I.	Old Share	3/5	2/5	—
II.	New Share	4/9	3/9	2/9
III.	Sacrifice/(Gain) [I – II]	7/45	3/45	(2/9)
		Sacrifice	Sacrifice	Gain

3. Cash at Bank = ₹ 15,000 + ₹ 60,000 + ₹ 36,000 – ₹ 12,600 – ₹ 5,400 = ₹ 93,000.

(*b*) (*i*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Workmen Compensation Reserve A/c ...Dr.		72,000	
	To Workmen Compensation Claim A/c			48,000
	To *X*'s Capital A/c			12,000
	To *Y*'s Capital A/c			12,000
	(Being the excess balance of Workmen Compensation Reserve distributed among partners after adjusting claim)			

(*ii*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Investment Fluctuation Reserve A/c ...Dr.		24,000	
	To Investment A/c			10,000
	To *X*'s Capital A/c			7,000
	To *Y*'s Capital A/c			7,000
	(Being the fall in value of investment adjusted and excess balance of Investment Fluctuation Reserve transferred to partners)			

4. (*a*) (*A*) *Calculation of Goodwill of the firm and N's Share of Goodwill:*

$$\text{Average Profit} = \frac{₹\ 50{,}000 + ₹\ 80{,}000 + ₹\ 1{,}10{,}000 + ₹\ 2{,}20{,}000 - ₹\ 1{,}60{,}000}{5}$$

$$= ₹\ 60{,}000.$$

$$\text{Firm's Goodwill} = \text{Average Profit} \times \text{Number of Years' Purchase}$$

$$= ₹\ 60{,}000 \times 2 = ₹\ 1{,}20{,}000$$

$$N\text{'s Share of Goodwill} = \frac{2}{5} \text{ of } ₹\ 1{,}20{,}000 = ₹\ 48{,}000.$$

(*B*) *N's Share in Profit or Loss of the firm till the date of his death:*

Loss for the year ended 31st March, 2018 = ₹ 1,60,000

$$N\text{'s Share of Loss till his date of death} = ₹\ 1{,}60{,}000 \times \frac{2}{5} \times \frac{3}{12} = ₹\ 16{,}000.$$

(*C*)

Dr. *N*'S CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Profit and Loss A/c (Loss)	64,000	By Balance *b/d*	3,00,000
To Profit and Loss Suspense A/c (Loss)	16,000	By General Reserve A/c	12,000
To *N*'s Executors' A/c (Bal. Fig.)	2,80,000	By *M*'s Capital A/c (₹ 48,000 × 2/3)	32,000
		By *O*'s Capital A/c (₹ 48,000 × 1/3)	16,000
	3,60,000		3,60,000

Note: Unless agreed otherwise, gaining ratio of the continuing partners will be same as their existing ratio. Thus, *N*'s share of Goodwill will be contributed by *M* and *O* in their existing ratio, *i.e.*, 2 : 1.

(*b*) *Calculation of X's Share in Profit:*

Profit for the year 2016–17 = ₹ 90,000;

Sales for the year 2016–17 = ₹ 6,00,000

$$\therefore \text{ Rate of Profit (\%)} = \frac{₹\ 90,000}{₹\ 6,00,000} \times 100 = 15\%$$

$$X\text{'s Share in Profit till 31st July, 2017} = \frac{15}{100} \times ₹\ 1,00,000 \times \frac{3}{6} = ₹\ 7,500.$$

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017				
July 31	Profit and Loss Suspense A/c ...Dr.		7,500	
	To *X*'s Capital A/c			7,500
	(Being *X*'s Share in profit on basis of sales credited to his Capital Account)			

5. JOURNAL OF *X* LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		2,10,000	
	To Equity Shares Application A/c			2,10,000
	(Being the application money received on 70,000 shares @ ₹ 3 each)			
	Equity Shares Application A/c ...Dr.		2,10,000	
	To Equity Share Capital A/c			1,50,000
	To Equity Shares Allotment A/c			30,000
	To Bank A/c (10,000 × ₹ 3)			30,000
	(Being the shares allotted and amount transferred to Equity Share Capital A/c)			
	Equity Shares Allotment A/c ...Dr.		2,50,000	
	To Equity Share Capital A/c			1,50,000
	To Securities Premium Reserve A/c			1,00,000
	(Being the allotment money due on 50,000 shares @ ₹ 5 each including premium of ₹ 2 per share)			

	Bank A/c ...Dr.		2,17,800	
	Calls-in-Arrears A/c ...Dr.		2,200	
	To Equity Shares Allotment A/c			2,20,000
	(Being the allotment money received except on 500 shares)			
	Equity Shares First Call A/c ...Dr.		1,00,000	
	To Equity Share Capital A/c			1,00,000
	(Being the first call money due on 50,000 shares @ ₹ 2 each)			
	Bank A/c ...Dr.		97,400	
	Calls-in-Arrears A/c ...Dr.		2,600	
	To Equity Shares First Call A/c			1,00,000
	(Being the first call money received except on 1,300 shares)			
	Equity Share Capital A/c ...Dr.		4,000	
	Securities Premium Reserve A/c ...Dr.		1,000	
	To Forfeited Shares A/c			1,800
	To Calls-in-Arrears A/c			3,200
	(Being 500 shares forfeited due to non-payment of allotment and first call money)			
	Equity Shares Second and Final Call A/c ...Dr.		99,000	
	To Equity Share Capital A/c			99,000
	(Being the second and final call money due on 49,500 shares @ ₹ 2 each)			
	Bank A/c ...Dr.		97,400	
	Calls-in-Arrears A/c ...Dr.		1,600	
	To Equity Shares Second and Final Call A/c			99,000
	(Being second and final call received except on 800 shares)			
	Equity Share Capital A/c ...Dr.		8,000	
	To Forfeited Shares A/c			4,800
	To Calls-in-Arrears A/c			3,200
	(Being 800 shares forfeited for non-payment of both the calls)			
	Bank A/c ...Dr.		9,000	
	Forfeited Shares A/c ...Dr.		1,000	
	To Equity Share Capital A/c			10,000
	(Being 1,000 forfeited shares reissued @ ₹ 9 each as fully paid)			
	Forfeited Shares A/c ...Dr.		4,520	
	To Capital Reserve A/c			4,520
	(Being the gain on reissue of 1,000 shares transferred to Capital Reserve)			

Dr. FORFEITED SHARES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Equity Share Capital A/c	1,000	By Equity Share Capital A/c	1,800
To Capital Reserve A/c	4,520	By Equity Share Capital A/c	4,800
To Balance *c/d*	1,080		
	6,600		6,600

Dr. CAPITAL RESERVE ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *c/d*	4,520	By Forfeited Shares A/c	4,520

Dr. CALLS-IN-ARREARS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Equity Shares Allotment A/c	2,200	By Equity Share Capital A/c	2,200
To Equity Shares First Call A/c	2,600	By Securities Premium Reserve A/c	1,000
To Equity Shares Second and Final Call A/c	1,600	By Equity Share Capital A/c	3,200
	6,400		6,400

6. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2012	**On Issue of Debentures**			
March 31	Bank A/c ...Dr.		12,00,000	
	To Debentures Application and Allotment A/c			12,00,000
	(Being the application money received for 12,000 debentures)			
	Debentures Application and Allotment A/c ...Dr.		12,00,000	
	To 10% Debentures A/c			12,00,000
	(Being 12,000; 10% Debentures of ₹ 100 each allotted)			
2015	**On Creation of DRR**			
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		1,00,000	
	To Debentures Redemption Reserve A/c			1,00,000
	(Being 1/3rd of 25% of ₹ 12,00,000 transferred to DRR)			
2016				
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		1,00,000	
	To Debentures Redemption Reserve A/c			1,00,000
	(Being 1/3rd of 25% of ₹ 12,00,000 transferred to DRR)			
2017				
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		1,00,000	
	To Debentures Redemption Reserve A/c			1,00,000
	(Being 1/3rd of 25% of ₹ 12,00,000 transferred to DRR)			
	On Making DRI			
April 1	Debentures Redemption Investment A/c ...Dr.		1,80,000	
	To Bank A/c			1,80,000
	(Being 15% of nominal (face) value of debentures to be redeemed by 31st March, 2018 invested)			
	On Encashment of DRI			
Sept. 30	Bank A/c ...Dr.		1,80,000	
	To Debentures Redemption Investment A/c			1,80,000
	(Being the debentures redemption Investment realised)			

	Particulars		L.F.	Dr. ₹	Cr. ₹
	On Redemption of Debentures				
	10% Debentures A/c	...Dr.		12,00,000	
	To Debentureholders' A/c				12,00,000
	(Being the amount due on redemption of 12,000; 10% Debentures)				
	Debentureholders' A/c	...Dr.		12,00,000	
	To Bank A/c				12,00,000
	(Being the payment made to debentureholders)				
	Debentures Redemption Reserve A/c	...Dr.		3,00,000	
	To General Reserve A/c				3,00,000
	(Being the balance of DRR transferred to General Reserve after redemption of debentures)				

7.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets A/c		2,36,000	By Creditors A/c		40,000
To Bank A/c (Liabilities Paid):			By Bank A/c (Assets Realised)		2,00,000
Creditors	40,000		By Loss on Realisation transferred to:		
Realisation Expenses	6,000	46,000	*X*'s Capital A/c	25,200	
			Y's Capital A/c	16,800	42,000
		2,82,000			2,82,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Date	Particulars	*X* ₹	*Y* ₹	Date	Particulars	*X* ₹	*Y* ₹
2018				2018			
March 31	To Realisation A/c (Loss)	25,200	16,800	March 31	By Balance *b/d* (WN 1)	1,24,000	72,000
	To Bank A/c (Final Payment) (Balancing Figure)	98,800	55,200				
		1,24,000	72,000			1,24,000	72,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Realisation A/c (Assets Realised)	2,00,000	By Realisation A/c (Liabilities Paid)	46,000
		By *X*'s Capital A/c (Final Payment)	98,800
		By *Y*'s Capital A/c (Final Payment)	55,200
	2,00,000		2,00,000

Working Notes: 1. *Calculation of partners' capitals as on 31st March, 2018:*

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Date	Particulars	*X* ₹	*Y* ₹	Date	Particulars	*X* ₹	*Y* ₹
2017				2016			
March 31	To Drawings A/c	16,000	16,000	April 1	By Bank A/c	1,20,000	80,000
March 31	To Balance *c/d*	1,64,000	1,04,000	2017			
				March 31	By Profit and Loss Appr. A/c	60,000	40,000
		1,80,000	1,20,000			1,80,000	1,20,000
2018				2017			
March 31	To Drawings A/c	16,000	16,000	April 1	By Balance *b/d*	1,64,000	1,04,000
	To Profit and Loss A/c	24,000	16,000				
	To Balance *c/d*	1,24,000	72,000				
		1,64,000	1,04,000			1,64,000	1,04,000

2. MEMORANDUM BALANCE SHEET

as at 31st March, 2018

Liabilities		₹	Assets	₹
Capital A/cs: (WN 1)			Sundry Assets (Balancing Figure)	2,36,000
X	1,24,000			
Y	72,000	1,96,000		
Creditors		40,000		
		2,36,000		2,36,000

8. (*a*)

***XYZ* Ltd.**

BALANCE SHEET

as at 31st March, 2018 (₹ in '000)

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		195
(*b*) Reserves and Surplus		45
2. Share Application Money Pending Allotment		15
3. Non-Current Liabilities		
(*a*) Long-term Borrowings		150
(*b*) Long-term Provisions		45
4. Current Liabilities		
(*a*) Short-term Borrowings		45
(*b*) Trade Payables		20
(*c*) Other Current Liabilities	1	5
Total		520

II. ASSETS		
1. Non-Current Assets		
(*a*) *Fixed Assets*—Tangible Assets		300
(*b*) Non-Current Investments		115
2. Current Assets		
(*a*) Inventories		10
(*b*) Trade Receivables		40
(*c*) Cash and Cash Equivalents		40
(*d*) Other Current Assets	2	15
Total		520

Notes to Accounts (₹ in '000)

Particulars	₹
1. Other Current Liabilities	
Outstanding Expenses	5
2. Other Current Assets	
Prepaid Expenses	15

(*b*) **Sunflower Ltd.**

BALANCE SHEET *as at ...*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	2,79,600

Note to Accounts

1. Share Capital		₹
Authorised Capital		
50,000 Equity Shares of ₹ 10 each		5,00,000
Issued Capital		
30,000 Equity Shares of ₹ 10 each		3,00,000
Subscribed Capital		
Subscribed and fully paid-up		
27,800 Equity Shares of ₹ 10 each		2,78,000
Subscribed but not fully paid-up		
200 Equity Shares of ₹ 10 each	2,000	
Less: Calls-in-Arrears (200 × ₹ 2)	400	1,600
		2,79,600

SECTION B

9. (*a*) (*i*) Debt to Equity Ratio $= \dfrac{\text{Debt}}{\text{Shareholders' Funds/Equity}} = \dfrac{₹\ 20{,}000}{₹\ 65{,}000} = 0.31 : 1.$

Debt = 9% Debentures = ₹ 20,000

Equity = Equity Share Capital + Balance in Statement of Profit and Loss
= ₹ 50,000 + ₹ 15,000 = ₹ 65,000.

(*ii*) Working Capital Turnover Ratio $= \dfrac{\text{Revenue from Operations}}{\text{Working Capital}}$

$$= \frac{₹\ 1{,}50{,}000}{₹\ 5{,}000} = 30 \text{ Times.}$$

Revenue from Operations = ₹ 1,50,000

Working Capital = Current Assets – Current Liabilities
= (Trade Receivables + Cash and Cash Equivalents) – (Trade Payables)
= (₹ 14,500 + ₹ 5,500) – ₹ 15,000 = ₹ 5,000.

(*iii*) Return on Investment $= \dfrac{\text{Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$

$$= \frac{₹\ 31{,}800}{₹\ 85{,}000} \times 100 = 37.41\%.$$

Profit before Interest and Tax $= ₹\ 15{,}000 \times \dfrac{100}{50} + 9\%$ of ₹ 20,000
= ₹ 30,000 + ₹ 1,800 = ₹ 31,800

Capital Employed = Debt + Equity = ₹ 20,000 + ₹ 65,000 = ₹ 85,000.

(*b*) Trade Receivables Turnover Ratio $= \dfrac{\text{Credit Revenue from Operations}}{\text{Average Trade Receivables}}$

$$4 = \frac{₹\ 1{,}80{,}000}{\text{Average Trade Receivables}}$$

Average Trade Receivables $= \dfrac{₹\ 1{,}80{,}000}{4} = ₹\ 45{,}000$

$$\frac{\text{Opening Trade Receivables} + \text{Closing Trade Receivables}}{2} = ₹\ 45{,}000$$

Opening Trade Receivables + Closing Trade Receivables = ₹ 90,000

Let the Opening Trade Receivables = x

Closing Trade Receivable will be = $2x$

$x + 2x = ₹\ 90{,}000$

$3x = ₹\ 90{,}000$

$x = \dfrac{₹\ 90{,}000}{3} = ₹\ 30{,}000$

(Opening Trade Receivable)

Closing Trade Receivables = ₹ 30,000 × 2 = ₹ 60,000.

(c) $\text{Liquid Ratio} = \dfrac{\text{Quick Assets or Liquid Assets}}{\text{Current Liabilities}}$

$$\Rightarrow \quad \frac{1.5}{1} = \frac{\text{Quick Assets}}{₹\,3,20,000}$$

$$\therefore \quad \text{Quick Assets} = ₹\,4,80,000$$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\Rightarrow \quad \frac{2.5}{1} = \frac{\text{Current Assets}}{₹\,3,20,000}$$

$$\text{Current Assets} = ₹\,8,00,000.$$

10. **Varun Ltd.**

CASH FLOW STATEMENT *for the year ended 31st March, 2018*

Particulars		₹
A. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		47,000
Add: Non-cash and Non-operating Items:		
Depreciation on Fixed Assets		5,000
		52,000
Less: Gain on Sale of Non-current Investments		10,000
Operating Profit before Working Capital Changes		42,000
Add: Increase in Current Liabilities and Decrease in Current Assets:		
Trade Payables	5,000	
Trade Receivables	8,000	13,000
		55,000
Less: Increase in Current Assets:		
Inventories		33,000
Cash Generated from Operating Activities		22,000
Less: Tax Paid (WN 2)		10,000
Cash Flow from Operating Activities		12,000
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets (WN 3)	(15,000)	
Proceeds from Sale of Non-current Investments (WN 4)	15,000	
Cash Flow from Investing Activities		Nil
C. Cash Flow from Financing Activities		
Bank Overdraft Raised	5,000	
Raised Bank Loan	20,000	
Proceeds from Issue of Shares	25,000	
Payment of Interim Dividend	(12,000)	
Cash Flow from Financing Activities		38,000
D. Net Increase in Cash and Cash Equivalents (A + B + C)		50,000
Add: Cash and Cash Equivalents in the beginning of the Period		50,000
E. Cash and Cash Equivalents at the end of the Period		1,00,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)	60,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)	50,000
	10,000
Add: Transferred to General Reserve	5,000
Provision for Tax	20,000
Interim Dividend	12,000
Net Profit before Tax	47,000

2. *Dr.* PROVISION FOR TAX ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Tax Paid—Bal. Fig.)	10,000	By Balance *b/d*	15,000
To Balance *c/d*	25,000	By Statement of Profit and Loss	20,000
	35,000		35,000

3. *Dr.* FIXED ASSETS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	20,000	By Depreciation A/c	5,000
To Bank A/c (Purchase—Bal. Fig.)	15,000	By Balance *c/d*	30,000
	35,000		35,000

4. *Dr.* NON-CURRENT INVESTMENTS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	15,000	By Bank A/c (Sale—Bal. Fig.)	15,000
To Gain on Sale of Non-current Investments A/c	10,000	By Balance *c/d*	10,000
	25,000		25,000

11. (*a*) Common-size Financial Statement is the *vertical analysis* of Financial Statement expressed as percentage of some common base (such as Revenue from Operations for Income Statement and Total Assets or Total of Equity and Liabilities for Balance Sheet) which is taken as 100.

(*b*)

Dr. COMMON-SIZE INCOME STATEMENT *for the year ended 31st March, 2018* *Cr.*

Particulars	Note No.	Amount (₹)	Percentage of Revenue from Operations (%)
I. Revenue from Operations		2,00,000	100.00
II. Other Income		15,000	7.50
III. Total Revenue (I + II)		2,15,000	107.50
IV. *Expenses:*			
Cost of Materials Consumed		1,10,000	55.00
Other Expenses		5,000	2.50
Total Expenses		1,15,000	57.50
V. Profit before Tax (III – IV)		1,00,000	50.00
VI. Tax		40,000	20.00
VII. Profit after Tax (V – VI)		60,000	30.00

(*c*) Operating Ratio = $\dfrac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100$

$$= \frac{₹\ 1,29,000}{₹\ 3,00,000} \times 100 = 43\%.$$

Operating Cost = Cost of Revenue from Operations* + Operating Expenses**

= ₹ 1,15,000 + ₹ 14,000 = ₹ 1,29,000

Revenue from Operations = ₹ 3,00,000.

*Cost of Revenue from Operations = Revenue from Operations – Gross Profit

= ₹ 3,00,000 – ₹ 1,85,000 = ₹ 1,15,000.

**Operating Expenses = Employees Benefit Expenses + Depreciation

= ₹ 6,000 + ₹ 8,000 = ₹ 14,000.

(*d*) (*i*) *No Flow*. **Reason:** It is a non-cash transaction.

(*ii*) Financing Activity.

MODEL TEST PAPER 15 (Solution)

SECTION A

PART I

1. (*i*) When the partners decide to record the net effect of accumulated profits, losses and reserves without affecting the old figures of accumulated profits, losses and reserves, single adjustment entry involving Capital/Current Accounts of gaining partners and sacrificing partners is passed. The Journal entry will be:

In Case of Profits:

Gaining Partners' Capital/Current A/cs ...Dr.
  To Sacrificing Partners' Capital/Current A/cs

In Case of Losses:

Sacrificing Partners' Capital/Current A/cs ...Dr.
  To Gaining Partners' Capital/Current A/cs

(*ii*) The outgoing (deceased) partner's share in the profit may be adjusted in the books in either of the following ways:

(*a*) *Through Profit and Loss Suspense Account:* The outgoing partner's share of profit or loss from the date of last Balance Sheet till the date of his death, should be credited or debited to outgoing Partner's Capital Account through Profit and Loss Suspense Account, by passing the following accounting entry:

In Case of Profit:

Profit and Loss Suspense A/c ...Dr.
  To Outgoing Partner's Capital A/c

In Case of Loss:

Outgoing Partner's Capital A/c ...Dr.
  To Profit and Loss Suspense A/c

This treatment is appropriate only when there is no change in the profit-sharing ratio of remaining (continuing) partners.

(*b*) *Through Gaining Partners' Capital/Current Accounts:* The outgoing partner's share of profit or loss may be adjusted through the Capital/Current Accounts of the Gaining Partners in their gaining ratio by passing the following Journal entry:

In Case of Profit:

Gaining Partners' Capital/Current A/cs ...Dr.
  To Outgoing Partner's Capital A/c

In Case of Loss:

Reverse of the above entry is passed.

In case of change in profit-sharing ratio of remaining (continuing) partners, outgoing partner's share of profit must be adjusted through Gaining Partners' Capital/Current Accounts.

(*iii*) Calls-in-Advance is shown under Current Liabilities and Sub-head 'Other Current Liabilities' in the Equity and Liabilities part of the company's Balance Sheet.

The amount of Calls-in-Arrears is shown by way of deduction from the amount of Subscribed but not fully paid-up capital under Subscribed Capital in the Note to Accounts on Share Capital.

(*iv*) These shares can be reissued up to a discount of ₹ 7 per share or ₹ 700 (*i.e.*, amount credited to the Forfeited Shares Account).

Balance left in Forfeited Shares Account after the reissue of forfeited shares represents a capital profit, which is transferred to Capital Reserve.

(*v*) **Difference between Tangible Fixed Assets and Intangible Fixed Assets**

Basis of Distinction	*Tangible Fixed Assets*	*Intangible Fixed Assets*
1. **Physical Existence**	These assets have physical existence.	These assets do not have physical existence.
2. **Depreciation or Amortisation**	Tangible Fixed Assets are depreciated.	Intangible Fixed Assets are amortised.

(*vi*) *Contingent Liabilities:* These are liabilities which may or may not arise as they depend on happening of a future incident.

Contingent Liabilities are shown in the Notes to Accounts and not in the Balance Sheet of the company.

PART II

2. (*a*) (*i*) PROFIT AND LOSS APPROPRIATION ACCOUNT

for the year ended 31st March, 2018

Dr. *Cr.*

Particulars		₹	Particulars		₹
To Interest on Capital:			By Profit and Loss A/c (Net Profit) (WN 2)		9,95,500
Sanjay's Current A/c	50,000		By Interest on Drawings:		
Manoj's Current A/c	80,000	1,30,000	Sanjay's Current A/c	3,600	
To Interest on Current A/cs:			Manoj's Current A/c	3,600	7,200
Sanjay's Current A/c	10,000				
Manoj's Current A/c	20,000	30,000			
To General Reserve A/c (10% of ₹ 9,95,500)		99,550			
To Profit transferred to Current A/cs:					
Sanjay	4,45,890				
Manoj	2,97,260	7,43,150			
		10,02,700			10,02,700

(*ii*)

PARTNERS' CAPITAL ACCOUNTS

Dr. *Cr.*

Date	Particulars	Sanjay ₹	Manoj ₹	Date	Particulars	Sanjay ₹	Manoj ₹
2018				2017			
March 31	To Balance *c/d*	8,00,000	8,00,000	April 1	By Balance *b/d*	4,00,000	8,00,000
				2018			
				Jan. 1	By Bank A/c	4,00,000	...
		8,00,000	8,00,000			8,00,000	8,00,000

(iii)

Dr. PARTNERS' CURRENT ACCOUNTS *Cr.*

Date	Particulars	Sanjay ₹	Manoj ₹	Date	Particulars	Sanjay ₹	Manoj ₹
2018				2017			
March 31	To Drawings A/c	48,000	48,000	April 1	By Balance *b/d*	1,00,000	2,00,000
	To Interest on Drawings A/c	3,600	3,600	2018			
	To Balance *c/d*	5,54,290	5,45,660	March 31	By Interest on Capital A/c	50,000	80,000
					By Interest on Current A/c	10,000	20,000
					By Profit and Loss Appropriation A/c (Profit)	4,45,890	2,97,260
		6,05,890	5,97,260			6,05,890	5,97,260

(iv)

Dr. MANOJ'S LOAN ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2018			2018		
March 31	To Balance *c/d*	3,04,500	Jan. 1	By Bank A/c	3,00,000
			March 31	By Interest on Manoj's Loan A/c (₹ 3,00,000 × 6/100 × 3/12)	4,500
		3,04,500			3,04,500

Working Notes:

1. When the Partnership Deed is silent, interest on Partner's Loan is to be allowed @ 6% p.a. as per Indian Partnership Act, 1932.
2. Interest on Manoj's Loan = ₹ 3,00,000 $\times \frac{6}{100} \times \frac{3}{12}$ = ₹ 4,500 will be debited to Profit and Loss Account as it is charge against the Profit. Thus, Amount of Profit transferred to Profit and Loss Appropriation Account will be ₹ 9,95,500 (*i.e.*, ₹ 10,00,000 – ₹ 4,500).
3. Interest on Sanjay's Capital = ₹ 4,00,000 $\times \frac{10}{100}$ + ₹ 4,00,000 $\times \frac{10}{100} \times \frac{3}{12}$ = ₹ 40,000 + ₹ 10,000 = ₹ 50,000;

   Interest on Manoj's Capital = $\left(₹\,8,00,000 \times \frac{10}{100}\right)$ = ₹ 80,000.

(b)

CALCULATION OF AVERAGE PROFIT

Based on Past 3 Years' Profits		₹	Based on Past 4 Years' Profits		₹
Profit for the Year 2017–18		32,600	Profit for the Year 2017–18		32,600
Profit for the Year 2016–17		42,000	Profit for the Year 2016–17		42,000
Profit for the Year 2015–16		3,70,000	Profit the Year 2015–16		3,70,000
			Profit for the year 2014–15		2,90,000
Total	(*A*)	4,44,600	Total	(*A*)	7,34,600
Number of Years	(*B*)	3	Number of Years	(*B*)	4
Average Profit	(*A* ÷ *B*)	1,48,200	Average Profit	(*A* ÷ *B*)	1,83,650

Value of Goodwill = 60% of Average Profit

= 60% of ₹ 1,83,650 = ₹ 1,10,190.

3.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Provision for Doubtful Debts A/c		10,000
Investments A/c	60,000		By Mrs. *A*'s Loan A/c		50,000
Furniture A/c	50,000		By Sundry Creditors A/c		70,000
Machinery A/c	1,50,000		By Bank A/c (Assets Realised):		
Debtors A/c	1,00,000	3,60,000	Debtors	95,000	
To *A*'s Capital A/c (Liabilities taken over):			Machinery	1,30,000	
Mrs. *A*'s Loan	50,000		Investments (B.V. ₹ 24,000)	29,000	2,54,000
Outstanding Salaries	24,000	74,000	By *A*'s Capital A/c (Assets Taken over):		
To Bank A/c (Liabilities Paid):			Investments	28,800	
Sundry Creditors (₹ 10,000 + ₹ 31,500)	41,500		Car	24,000	52,800
Workmen Compensation Claim	10,000	51,500	By Loss on Realisation transferred to:		
To *B*'s Capital A/c (Dissolution Expenses)		5,000	*A*'s Capital A/c	32,220	
			B's Capital A/c	21,480	53,700
		4,90,500			4,90,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* ₹	*B* ₹	Particulars	*A* ₹	*B* ₹
To Profit and Loss A/c	12,000	8,000	By Balance *b/d*	2,00,000	1,00,000
To Advertisement Suspense A/c	6,000	4,000	By General Reserve A/c	18,000	12,000
To Realisation A/c (Assets taken over)	52,800	...	By Realisation A/c (Liabilities taken over)	74,000	...
To Realisation A/c (Loss)	32,220	21,480	By Realisation A/c (Diss. Expenses)	...	5,000
To Bank A/c (Final Payment) (Bal. Fig.)	1,88,980	83,520			
	2,92,000	1,17,000		2,92,000	1,17,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	70,000	By Realisation A/c (Liabilities Paid)	51,500
To Realisation A/c (Assets Realised)	2,54,000	By *A*'s Capital A/c (Final Payment)	1,88,980
		By *B*'s Capital A/c (Final Payment)	83,520
	3,24,000		3,24,000

4. (a)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Stock A/c (40% of ₹ 50,000)	20,000	By Loss on Revaluation transferred to:		
To Furniture A/c (60% of ₹ 30,000)	18,000	*X*'s Capital A/c	26,600	
		Y's Capital A/c	11,400	38,000
	38,000			38,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	*Z* ₹	Particulars	*X* ₹	*Y* ₹	*Z* ₹
To Revaluation A/c (Loss)	26,600	11,400	...	By Balance *b/d*	1,00,000	80,000	...
To Cash A/c (Bal. Fig.)	...	20,600	...	By Reserve A/c	7,000	3,000	...
To Balance *c/d* (WN 3)	1,26,000	54,000	60,000	By Cash A/c	...	...	60,000
				By Premium for Goodwil A/c	7,000	3,000	...
				By Cash A/c (Bal. Fig.)	38,600	...	...
	1,52,600	86,000	60,000		1,52,600	86,000	60,000

Dr. CASH ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	36,000	By *Y*'s Capital A/c (Excess Capital withdrawn)	20,600
To *Z*'s Capital A/c	60,000	By Balance *c/d*	1,24,000
To Premium for Goodwill A/c	10,000		
To *X*'s Capital A/c (Shortage in Capital brought in)	38,600		
	1,44,600		1,44,600

Working Notes:

1. Unless agreed otherwise, sacrificing ratio of old partners will be same as their old profit-sharing ratio.
2. *Calculation of New Profit-sharing Ratio:*

   Let the total share of Profit be 1

   Z's Share = $\frac{1}{4}$; Remaining Share = $1-\frac{1}{4}=\frac{3}{4}$, which will be shared by *X* and *Y* in their old profit-sharing ratio, *i.e.*, 7 : 3. Thus,

   $$X\text{'s New Share} = \frac{7}{10}\times\frac{3}{4}=\frac{21}{40}$$

   $$Y\text{'s New Share} = \frac{3}{10}\times\frac{3}{4}=\frac{9}{40}$$

   $$Z\text{'s Share} = \frac{1}{4} \text{ or } \frac{10}{40}$$

   Hence, New Profit-sharing Ratio of *X*, *Y* and *Z* = $\frac{21}{40}:\frac{9}{40}:\frac{10}{40}=21:9:10.$

3. *Adjustment of Capital:*

   Z's Capital for $\frac{1}{4}$th share = ₹ 60,000

   Total Capital of the New Firm = ₹ 60,000 × $\frac{4}{1}$ = ₹ 2,40,000, which will be contributed by *X*, *Y* and *Z* in their New Profit-sharing Ratio, *i.e.*, 21 : 9 : 10. Thus,

   $$X\text{'s Capital in New Firm} = \frac{21}{40} \text{ of ₹ 2,40,000 = ₹ 1,26,000;}$$

   $$Y\text{'s Capital in New Firm} = \frac{9}{40} \text{ of ₹ 2,40,000 = ₹ 54,000;}$$

   $$Z\text{'s Capital in New Firm} = \frac{10}{40} \text{ of ₹ 2,40,000 = ₹ 60,000.}$$

(*b*) (*i*) *Calculation of New Profit-sharing Ratio of X, Y and Z:*

	X	*Y*	*Z*
I. Old Share	3/5	2/5	—
II. Sacrifice/(Gain)	1/10	1/10	(2/10)
III. New Share (I – II)	5/10	3/10	2/10

Hence, New Profit-sharing Ratio of *X*, *Y* and *Z* = $\frac{5}{10}:\frac{3}{10}:\frac{2}{10}$ = 5 : 3 : 2.

(*ii*) *Calculation of amount of capital to be brought in by Z:*

	X (₹)	*Y* (₹)
Capital before Adjustments	69,000	51,000
Loss on Revalution (₹ 5,000 in 3 : 2)	(3,000)	(2,000)
Share of Goodwill (₹ 10,000 in 1 : 1)	5,000	5,000
General Reserve (₹ 15,000 in 3 : 2)	9,000	6,000
Capital after Adjustments	80,000	60,000

Combined Capital of *X* and *Y* for $\frac{4}{5}$th Share = ₹ 80,000 + ₹ 60,000 = ₹ 1,40,000

∴ *Z*'s Share of Capital = $\frac{1}{5}\times\frac{5}{4}\times$ ₹ 1,40,000 = ₹ 35,000.

5. (*a*)

JOURNAL OF *A* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Plant A/c	...Dr.		40,000	
	Building A/c	...Dr.		40,000	
	Debtors A/c	...Dr.		30,000	
	Stock A/c	...Dr.		50,000	
	Furniture A/c	...Dr.		20,000	
	To Creditors A/c				20,000
	To *B* Ltd.				1,50,000
	To Capital Reserve A/c (Balancing Figure)				10,000
	(Being the business purchased of *B* Ltd.)				
	B Ltd.	...Dr.		1,50,000	
	To Equity Share Capital A/c (10,000 × ₹ 10)				1,00,000
	To Securities Premium Reserve A/c (10,000 × ₹ 2)				20,000
	To Cash/Bank A/c				30,000
	(Being the issue of 10,000 equity shares of ₹ 10 each at a premium of ₹ 2 to *B* Ltd. along with cash of ₹ 30,000 against purchase price)				

(*b*) JOURNAL OF KING LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Incorporation Cost or Goodwill A/c	...Dr.		30,000	
	To Share Capital A/c				30,000
	(Being the issue of 3,000 shares of ₹ 10 each as fully paid to promoters)				
	Underwriting Commission A/c	...Dr.		40,000	
	To Underwriters' A/c				40,000
	(Being the underwriting commission payable)				
	Underwriters' A/c	...Dr.		40,000	
	To Share Capital A/c				40,000
	(Being 4,000 shares issued to underwriters for their commission)				

(*c*) JOURNAL OF *XYZ* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Building A/c	...Dr.		3,00,000	
	Machinery A/c	...Dr.		2,00,000	
	Sundry Debtors A/c	...Dr.		1,00,000	
	Goodwill A/c (Balancing Figure)	...Dr.		50,000	
	To Sundry Creditors A/c				1,50,000
	To *Y* Ltd.				5,00,000
	(Being the business purchased of *Y* Ltd.)				
	Y Ltd.	...Dr.		5,00,000	
	To Equity Share Capital A/c				4,00,000
	To Securities Premium Reserve A/c				1,00,000
	(Being the issue of 4,000 Equity Shares of ₹ 100 each at 25% premium against purchase price)				

Working Note:

$$\text{Number of Equity Shares to be Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price of a Share}} = \frac{₹\,5{,}00{,}000}{₹\,125} = 4{,}000 \text{ Shares.}$$

(*d*) JOURNAL OF *Z* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Share Capital A/c (50 × ₹ 80)	...Dr.		4,000	
	Securities Premium Reserve A/c (50 × ₹ 10)	...Dr.		500	
	To Forfeited Shares A/c (50 × ₹ 30)				1,500
	To Calls-in-Arrears A/c (50 × ₹ 60)				3,000
	(Being 50 shares forfeited for non-payment of allotment and first call)				
	Bank A/c (₹ 70 × 20)	...Dr.		1,400	
	Forfeited Shares A/c (₹ 10 × 20)	...Dr.		200	
	To Share Capital A/c (20 × ₹ 80)				1,600
	(Being 20 forfeited shares reissued at ₹ 70 per share as ₹ 80 paid-up)				
	Forfeited Shares A/c (20 × ₹ 20)	...Dr.		400	
	To Capital Reserve A/c				400
	(Being the gain on reissue transferred to Capital Reserve)				

Dr. FORFEITED SHARES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Share Capital A/c (20 × ₹ 10)	200	By Share Capital A/c	1,500
To Capital Reserve A/c (20 × ₹ 20)	400		
To Balance *c/d*	900		
	1,500		1,500

6. (*a*) **Jaypee Construction Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2017					
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		75,000	
	To Debentures Redemption Reserve A/c				75,000
	(Being the amount transferred to DRR)				
April 1	Debentures Redemption Investment A/c	...Dr.		1,50,000	
	To Bank A/c				1,50,000
	(Being 15% of the value of debentures invested in DRI)				
2018					
March 31	Bank A/c	...Dr.		1,65,000	
	To Debentures Redemption Investment A/c				1,50,000
	To Interest Earned A/c				15,000
	(Being the Debentures Redemption Investment encashed with interest)				
	8% Debentures A/c	...Dr.		10,00,000	
	To Debentureholders' A/c				10,00,000
	(Being the amount due on redemption of 10,000; 8% Debentures)				
	Debentureholders' A/c	...Dr.		10,00,000	
	To Bank A/c				10,00,000
	(Being the payment made to debentureholders)				
	Debentures Redemption Reserve A/c	...Dr.		2,50,000	
	To General Reserve A/c				2,50,000
	(Being the DRR transferred to General Reserve after redemption)				

Working Note:

Amount transferred to DRR = ₹ 2,50,000 (*i.e.*, 25% of ₹ 10,00,000) – ₹ 1,75,000 = ₹ 75,000.

(*b*) JOURNAL OF *Z* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Building A/c	...Dr.		3,00,000	
	Plant and Machinery A/c	...Dr.		1,00,000	
	Stock A/c	...Dr.		2,00,000	
	Sundry Debtors A/c	...Dr.		1,00,000	
	To Sundry Creditors A/c				80,000
	To *Y* Ltd.				6,00,000
	To Capital Reserve A/c (Balancing Figure)				20,000
	(Being the business purchased of *Y* Ltd.)				

	Y Ltd. ...Dr.		6,00,000	
	To Bank A/c (10% of ₹ 6,00,000)			60,000
	To 10% Debentures A/c			4,50,000
	To Securities Premium Reserve A/c			90,000
	(Being 4,500; 10% Debentures of ₹ 100 each issued at 20% premium along with cheque of ₹ 60,000 against purchase consideration)			

Working Note:

$$\text{Number of Debentures to be Issued} = \frac{\text{Purchase Consideration} - \text{Part Payment}}{\text{Issue Price of a Debenture}}$$

$$= \frac{₹\,6{,}00{,}000 - ₹\,60{,}000}{₹\,120} = 4{,}500 \text{ Debentures.}$$

(*c*) JOURNAL OF ALOK LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017 Oct. 1	Own Debentures A/c (300 × ₹ 93) ...Dr.		27,900	
	To Bank A/c			27,900
	(Being 300 own Debentures purchased @ ₹ 93 each)			
	12% Debentures A/c ...Dr.		30,000	
	To Own Debentures A/c			27,900
	To Gain on Cancellation of Own Debentures A/c			2,100
	(Being 300 Own Debentures cancelled)			
	Gain on Cancellation of Own Debentures A/c ...Dr.		2,100	
	To Capital Reserve A/c			2,100
	(Being the gain on cancellation of Own Debentures transferred)			
2018 March 31	Interest on Debentures A/c ...Dr.		4,200	
	To Debentureholders' A/c			4,200
	(Being the interest due on 700; 12% Debentures for 6 months)			
	Debentureholders' A/c ...Dr.		4,200	
	To Bank A/c			4,200
	(Being the payment made to debentureholders)			
	Statement of Profit and Loss (Finance Cost) ...Dr.		10,200	
	To Interest on Debentures A/c			10,200
	(Being the interest on Debentures for the year transferred to Statement of Profit and Loss)			

Note: Debentures (300) purchased on 1st October, 2017 were cancelled. Hence, interest is payable on 700 Debentures: ₹ 70,000 @ 12% p.a. for 6 months.

7. (*a*)

S. No.	Main Head	Sub-head
(*i*)	Current Liabilities	Other Current Liabilities
(*ii*)	Shareholders' Funds	Reserves and Surplus
(*iii*)	Current Liabilities	Short-term Borrowings
(*iv*)	Current Liabilities	Other Current Liabilities
(*v*)	Non-Current Liabilities	Deferred Tax Liability (Net)
(*vi*)	Non-Current Liabilities	Long-term Provisions

(*b*) **Satya Ltd.**

BALANCE SHEET

as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	31,50,000

Note to Accounts

	₹
1. Share Capital	
Authorised Capital	
1,00,000 Equity Shares of ₹ 50 each	50,00,000
Issued Capital	
90,000 Equity Shares of ₹ 50 each	45,00,000
Subscribed Capital	
Subscribed but not fully paid-up	
90,000 Equity Shares of ₹ 50 each; ₹ 35 paid-up	31,50,000

(*c*) **Star Ltd.**

BALANCE SHEET (AN EXTRACT)

as at 31st March, 2018

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Non-Current Liabilities		
Long-term Borrowings	1	27,50,000
2. Current Liabilities		
Other Current Liabilities	2	5,70,000

Notes to Accounts

Particulars	₹
1. Long-term Borrowings	
7,500; 10% Debentures of ₹ 100 (Redeemable after 31st March, 2019)	7,50,000
11% Bank Loan from SBI (Repayable after 5 Years)	20,00,000
	27,50,000
2. Other Current Liabilities	
(*a*) Current Maturities of Long-term Debts	
2,500; 10% Debentures of ₹ 100 each (Redeemable up to 31st March, 2019)	2,50,000
(*b*) *Interest Accrued and Due on Borrowings:*	
Interest on 10% Debentures of ₹ 100 each	1,00,000
Interest on 11% Bank Loan from SBI	2,20,000
	5,70,000

8. (*a*)

Dr. *B*'S CAPITAL ACCOUNT Cr.

Particulars	₹	Particulars	₹
To *B*'s Executors' A/c (Bal. Fig.)	3,47,000	By Balance *b/d*	1,20,000
		By Workmen Compensation Reserve A/c	40,000
		By Interest on Capital A/c (₹ 1,20,000 × 10/100 × 3/12)	3,000
		By Profit and Loss Suspense A/c (WN 1)	40,000
		By *A*'s Capital A/c (Goodwill) (WN 2)	1,08,000
		By *C*'s Capital A/c (Goodwill) (WN 2)	36,000
	3,47,000		3,47,000

Dr. *B*'S EXECUTORS' ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Bank A/c	3,47,000	By *B*'s Capital A/c	3,47,000

Working Notes:

1. *Calculation of B's Share of Profit:*

Sales for the Period = ₹ 12,00,000

Rate of Net Profit on Sales = 10%

Net Profit for the Period = 10% of ₹ 12,00,000 = ₹ 1,20,000

B's Share of Net Profit = $\frac{2}{6}$ of ₹ 1,20,000 = ₹ 40,000.

2. *Adjustment of Goodwill:*

Value of Goodwill = 2 (₹ 82,000 + ₹ 90,000 + ₹ 98,000) *Less* 20%

= ₹ 5,40,000 – 20% of ₹ 5,40,000 = ₹ 4,32,000

∴ *B*'s Share of Goodwill = $\frac{2}{6}$ of ₹ 4,32,000 = ₹ 1,44,000, which will be contributed by *A* and *C* in their gaining ratio, *i.e.*, 3 : 1. Thus, *A*'s contribution will be ₹ 1,08,000 and *C*'s contribution will be ₹ 36,000.

(*b*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Profit and Loss Adjustment A/c ...Dr.		73,000	
	To *X*'s Capital A/c			41,000
	To *Y*'s Capital A/c			32,000
	(Being the adjustment made for omitted interest on capital)			
	X's Capital A/c ...Dr.		2,250	
	Y's Capital A/c ...Dr.		1,125	
	To Profit and Loss Adjustment A/c			3,375
	(Being the adjustment made for omitted interest on drawings)			
	X's Capital A/c ...Dr.		41,775	
	Y's Capital A/c ...Dr.		27,850	
	To Profit and Loss Adjustment A/c			69,625
	(Being the loss on adjustment transferred to Partners' Capital Accounts)			

SECTION B

9. (*a*) (*i*) Debt to Equity Ratio $= \dfrac{\text{Debt}}{\text{Shareholders' Funds/Equity}}$

$$= \frac{₹\ 4,00,000}{₹\ 14,00,000} = 0.29 : 1.$$

Debt = 12% Debentures = ₹ 4,00,000

Shareholders' Funds/Equity = Equity Share Capital + General Reserve + Statement of Profit and Loss after Interest and Tax

= ₹ 10,00,000 + ₹ 1,00,000 + ₹ 3,00,000

= ₹ 14,00,000.

(*ii*) Working Capital Turnover Ratio $= \dfrac{\text{Revenue from Operations}}{\text{Working Capital}}$

$$= \frac{₹\ 30,00,000}{₹\ 1,00,000} = 30 \text{ Times.}$$

Revenue from Operations = ₹ 30,00,000

Working Capital = Current Assets – Current Liabilities

= Trade Receivables + Cash and Cash Equivalents – Trade Payables

= ₹ 2,90,000 + ₹ 1,10,000 – ₹ 3,00,000

= ₹ 1,00,000.

(*iii*) Return on Investment $= \dfrac{\text{Net Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$

$$= \frac{₹\ 6,48,000}{₹\ 18,00,000} \times 100 = 36\%.$$

Working Notes:

1. *Calculation of Net Profit before Interest and Tax:*

	₹
Statement of Profit and Loss after Interest and Tax	3,00,000
Add: Tax	3,00,000
Interest on Debentures (12% of ₹ 4,00,000)	48,000
Net Profit before Interest and Tax	6,48,000

2. Capital Employed = Debt + Equity/Shareholders' Funds

= ₹ 4,00,000 + ₹ 14,00,000 = ₹ 18,00,000.

(*b*) Interest Coverage Ratio = $\dfrac{\text{Net Profit before Interest and Tax}}{\text{Interest}}$

$$= \frac{₹\ 6,50,000}{₹\ 50,000} = 13 \text{ Times.}$$

Working Notes:

1. Interest = Fixed Interest Charges = ₹ 50,000.
2. *Calculation of Profit before Interest and Tax:*

	₹
Net Profit before Tax (after Interest)*	6,00,000
Add: Interest	50,000
Net Profit before Interest and Tax	6,50,000

Calculation of Net Profit before Tax (after Interest):

Rate of Tax = 50%

Let Net Profit before Tax (after Interest) be ₹ 100; Tax = ₹ 50

Net Profit after Interest and Tax = ₹ 100 – ₹ 50 = ₹ 50

Profit after Interest and Tax = ₹ 3,00,000 (Given)

∴ Net Profit before Tax (after Interest) = $\dfrac{₹\,100}{₹\,50} \times ₹\,3,00,000 = ₹\,6,00,000.$

(*c*) Debt to Total Assets Ratio = $\dfrac{\text{Debt}}{\text{Total Assets}}$

$$= \frac{₹\ 6,00,000}{₹\ 14,40,000} = 0.42 : 1.$$

Working Notes:

1. Debt = Total Debt – Current Liabilities
   = ₹ 10,80,000 – ₹ 4,80,000 = ₹ 6,00,000.
2. Total Assets = Total Debt + Shareholders' Funds/Equity
   = ₹ 10,80,000 + ₹ 3,60,000* = ₹ 14,40,000.

*Shareholders' Funds/Equity = Preference Share Capital + Equity Shareholders' Funds
= ₹ 1,20,000 + ₹ 2,40,000 = ₹ 3,60,000.

10.

H.P. LTD.
CASH FLOW STATEMENT
for the year ended 31st March, 2018

Particulars		₹	₹
I. Cash Flow from Operating Activities			
Net Profit before Tax (WN 1)		6,40,000	
Add: Non-cash and Non-operating Items:			
Provision for Doubtful Debts	50,000		
Depreciation on Machinery	2,00,000		
Goodwill Amortised	50,000		
Interest on Bank Loan (₹ 6,00,000 × 10/100 + ₹ 3,00,000 × 10/100 × 3/12)	67,500	3,67,500	
		10,07,500	
Less: Non-operating Income:			
Gain (Profit) on Sale of Machinery (WN 3)		30,000	
Operating Profit before Working Capital Changes		9,77,500	
Add: Increase in Current Liabilities and Decrease in Current Assets:			
Trade Payables	30,000		
Inventories	20,000		
Trade Receivables (Debtors)	3,50,000	4,00,000	
Cash Generated from Operations		13,77,500	
Less: Tax Paid		1,50,000	
Cash Flow from Operating Activities			12,27,500
II. Cash Flow from Investing Activities			
Proceeds from Sale of Machinery		1,50,000	
Payment for Purchase of Machinery (WN 3)		(17,20,000)	
Payment for Purchase of Non-current Investments		(2,00,000)	
Cash Used in Investing Activities			(17,70,000)
III. Cash Flow from Financing Activities			
Receipts from Issue of Shares		10,00,000	
Proceeds from 10% Bank Loan		3,00,000	
Payment of Dividend (Proposed Dividend for 2016–17)		(2,50,000)	
Payment of Interest on Bank Loan (₹ 67,500 – ₹ 50,000)		(17,500)	
Raised Short-term Borrowings		20,000	
Cash Flow from Financing Activities			10,52,500
IV. Net Increase in Cash and Cash Equivalents (I + II + III)			5,10,000
Add: Cash and Cash Equivalents in the beginning of the Period			1,50,000
V. Cash and Cash Equivalents at the end of the Period			6,60,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

		₹
Closing Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss		7,00,000
Less:	Opening Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	5,00,000
		2,00,000
Add:	Dividend Paid (Proposed Dividend for 2016–17)	2,50,000
	Provision for Tax (WN 2)	1,90,000
Net Profit before Tax		6,40,000

2. *Dr.* PROVISION FOR TAX ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c	1,50,000	By Balance *b/d*	1,10,000
To Balance *c/d*	1,50,000	By Statement of Profit and Loss (Bal. Fig.)	1,90,000
	3,00,000		3,00,000

3. *Dr.* MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	16,00,000	By Bank A/c	1,50,000
To Gain (Profit) on Sale of Machinery A/c* (Statement of Profit and Loss)	30,000	By Depreciation A/c	2,00,000
		By Balance *c/d*	30,00,000
To Bank A/c (Bal. Fig.) (Purchase)	17,20,000		
	33,50,000		33,50,000

*Gain (Profit) on Sale of Machinery = 25% of Book Value of Machinery on Date of Sale

$$= \frac{25}{100} [₹ 3,00,000 - ₹ 1,80,000] = ₹ 30,000.$$

11. (*a*)

Sun Ltd.
COMPARATIVE STATEMENT OF PROFIT AND LOSS
for the years ended 31st March, 2018 and 2017

Particulars	Note No.	31st March, 2018 ₹	31st March, 2017 ₹	Absolute Change (Increase/ Decrease (₹)	Percentage Change (Increase/ Decrease) (%)
		(*A*)	(*B*)	($C = A - B$)	$\left(D = \frac{C}{B} \times 100\right)$
I. Revenue from Operations		25,00,000	20,00,000	5,00,000	25.00
II. *Add:* Other Income		1,00,000	5,00,000	(4,00,000)	(80.00)
III. Total Revenue (I + II)		26,00,000	25,00,000	1,00,000	4.00
IV. Expenses					
(*a*) Employee Benefit Expenses		15,60,000	12,50,000	3,10,000	24.80
(*b*) Other Expenses		1,56,000	2,50,000	(94,000)	(37.60)
Total Expenses		17,16,000	15,00,000	2,16,000	14.40
V. Profit before Tax (III – IV)		8,84,000	10,00,000	(1,16,000)	(11.60)
VI. *Less:* Tax		4,42,000	4,00,000	42,000	10.50
VII. Profit after Tax (V – VI)		4,42,000	6,00,000	(1,58,000)	(26.33)

Working Note:

Particulars	31st March, 2018 (₹)	31st March, 2017 (₹)
Total Revenue	26,00,000	25,00,000
Employee Benefit Expenses (% of Total Revenue)	$₹ 26,00,000 \times \frac{60}{100} = ₹ 15,60,000$	$₹ 25,00,000 \times \frac{50}{100} = ₹ 12,50,000$
Other Expenses (% of Employee Benefit Expenses)	$₹ 15,60,000 \times \frac{10}{100} = ₹ 1,56,000$	$₹ 12,50,000 \times \frac{20}{100} = ₹ 2,50,000$

(*b*) Inventory Turnover Ratio = $\dfrac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$

$$8 = \frac{\text{Cost of Revenue from Operations}}{₹\ 80{,}000^*}$$

Cost of Revenue from Operations = ₹ 6,40,000

$$\left[\begin{aligned} {}^*\text{Average Inventory} &= \frac{\text{Opening Stock+ Closing Stock}}{2} \\ &= \frac{₹\ 60{,}000 + ₹\ 1{,}00{,}000}{2} = ₹\ 80{,}000 \end{aligned}\right]$$

As, Selling Price = 25% above Cost

It means, Revenue from Operations = 125% of ₹ 6,40,000

$$= \frac{125}{100} \times ₹\ 6{,}40{,}000 = ₹\ 8{,}00{,}000$$

Gross Profit = Revenue from Operations – Cost of Revenue from Operations

= ₹ 8,00,000 – ₹ 6,40,000 = ₹ 1,60,000

Gross Profit Ratio = $\dfrac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$

$$= \frac{₹\ 1{,}60{,}000}{₹\ 8{,}00{,}000} \times 100 = 20\%.$$

(*c*) (*i*) Investing Activity;

(*ii*) ₹ 10,000 (Source of Cash).

MODEL TEST PAPER 16 (Solution)

SECTION A

PART I

1. (*i*) Hidden Goodwill means that the value of goodwill is not given but is inferred on the basis of the net worth of the business. *Hidden Goodwill is the excess of desired total capital of the firm over the actual combined capital of all partners.*

For example, *A* and *B* are partners with a capital of ₹ 5,000 each. They admit *C* as a partner with 1/4th share in the profits of the firm. *C* brings ₹ 8,000 as his capital. The Profit and Loss Account showed a credit balance of ₹ 4,000 as on the date of admission of *C*. On the basis of *C*'s capital, total capital of the firm should be ₹ 32,000 (*i.e.*, ₹ 8,000 × 4/1). But the actual capital of the firm is ₹ 22,000 [*i.e.*, ₹ 5,000 (*A*'s Capital) + ₹ 5,000 (*B*'s Capital) + ₹ 4,000 (Profit and Loss Account) + ₹ 8,000 (*C*'s Capital)].

Hence, the Hidden Goodwill will be ₹ 10,000 (*i.e.*, ₹ 32,000 – ₹ 22,000).

(*ii*) **Distinction between Sacrificing Ratio and Gaining Ratio**

Basis	*Sacrificing Ratio*	*Gaining Ratio*
1. **Meaning**	Sacrificing ratio is the ratio in which the old partners make sacrifice of their shares in favour of incoming partner.	Gaining ratio is the ratio in which the partners gain share at the time of reconstitution of the firm.
2. **How to Calculate**	Sacrificing Ratio = Old Ratio – New Ratio	Gaining Ratio = New Ratio – Old Ratio.

(*iii*) (*a*) To write off Discount/Loss on Issue of Debentures.

(*b*) To provide for the premium payable on the redemption of Preference Shares or of debentures of the company.

(*iv*) **Amount of Profit required to be transferred to DRR**

= (₹ 20,00,000 × 25/100) – ₹ 1,00,000 = ₹ 4,00,000.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		4,00,000	
	To Debentures Redemption Reserve A/c			4,00,000
	(Being the amount transferred to DRR)			

(*v*) (*a*) When an amount equal to 100% of nominal (face) value of total redeemable debentures is transferred to Debentures Redemption Reserve out of surplus available for payment of dividend for the purpose of redemption of debentures, it is termed as redemption of debentures out of profits.

(*b*) If purchase consideration given is more than the net assets acquired, then the difference is debited to **Goodwill Account**.

(*vi*) *'Subscribed Capital' means such part of the capital which is for the time being subscribed by the members of a company.*

Shares subscribed but not fully paid up are that part of the issued capital on which the company has not received total nominal (face) value.

Shares are shown as Subscribed but not fully paid up:

(*a*) When the company has called-up entire nominal value of the share but few shareholders have not paid the called-up amount.

(*b*) When the company has not called-up the entire nominal value of the share.

PART II

2. (*a*)

PROFIT AND LOSS APPROPRIATION ACCOUNT
for the year ended 31st March, 2018

Dr. *Cr.*

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Profit and Loss A/c (Net Profit)		3,60,000
Ajay	20,000		By Interest on Drawings A/cs:		
Vijay	10,000	30,000	Ajay (₹ 12,000 × 6/100 × 6.5/12)	390	
To Ajay's Salary A/c		30,000	Vijay (₹ 24,000 × 6/100 × 5.5/12)	660	1,050
To Vijay's Commission A/c [10/110 × (₹ 3,60,000 – ₹ 30,000)]		30,000			
To General Reserve A/c*		54,210			
To Profit transferred to:					
Ajay's Capital A/c	1,44,560				
Vijay's Capital A/c	72,280	2,16,840			
		3,61,050			3,61,050

*Amount transferred to General Reserve

= 20% of Distributable Profit

= 20% [₹ 3,60,000 + ₹ 1,050 – ₹ 30,000 – ₹ 30,000 – ₹ 30,000]

= 20% of ₹ 2,71,050 = ₹ 54,210.

PARTNERS' CAPITAL ACCOUNTS

Dr. *Cr.*

Date	Particulars	Ajay ₹	Vijay ₹	Date	Particulars	Ajay ₹	Vijay ₹
2018				2017			
March 31	To Drawings A/c	12,000	24,000	April 1	By Bank A/c	2,00,000	1,00,000
March 31	To Interest on Drawings A/c	390	660	2018			
March 31	To Balance *c/d*	3,82,170	1,87,620	March 31	By Interest on Capital A/c	20,000	10,000
				March 31	By Ajay's Salary A/c	30,000	...
				March 31	By Vijay's Commission A/c	...	30,000
				March 31	By Profit and Loss Appropriation A/c (Profit)	1,44,560	72,280
		3,94,560	2,12,280			3,94,560	2,12,280

(*b*)

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
March 31	*X*'s Capital A/c	...Dr.		60,000	
	Y's Capital A/c	...Dr.		40,000	
	Z's Capital A/c	...Dr.		20,000	
	To Profit and Loss A/c				1,20,000
	(Being the distribution of loss as there is no guarantee)				
	X's Capital A/c	...Dr.		48,000	
	Y's Capital A/c	...Dr.		32,000	
	To *Z*'s Capital A/c				80,000
	(Being the deficiency borne by guaranteeing partners)				

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Profit and Loss A/c (Loss)	60,000	40,000	20,000	By Balance *b/d*	6,00,000	4,00,000	2,00,000
To *Z*'s Capital A/c	48,000	32,000	...	By *X*'s Capital A/c	...	...	48,000
To Balance *c/d*	4,92,000	3,28,000	2,60,000	By *Y*'s Capital A/c	...	...	32,000
	6,00,000	4,00,000	2,80,000		6,00,000	4,00,000	2,80,000

Note: *Z* is guaranteed minimum profit of ₹ 60,000 p.a. However, the firm has incurred loss. Out of the total loss, *Z*'s Capital A/c is debited by ₹ 20,000. It means *Z* is entitled for ₹ 80,000 (*i.e.*, ₹ 20,000 + ₹ 60,000). This amount will be credited to *Z*'s Capital A/c. *X* and *Y* will share this deficiency in the ratio of 3 : 2. Thus, *X*'s Capital A/c will be debited by ₹ 48,000 (*i.e.*, ₹ 80,000 × 3/5) and *Y*'s Capital A/c will be debited by ₹ 32,000 (*i.e.*, ₹ 80,000 × 2/5).

3. (*a*) (*i*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	General Reserve A/c	...Dr.		36,000	
	To Naresh's Capital A/c				12,000
	To Raj's Capital A/c				12,000
	To Bishwajeet's Capital A/c				12,000
	(Being the General Reserve distributed among Partners on Raj's retirement)				
	Naresh's Capital A/c	...Dr.		5,000	
	Raj's Capital A/c	...Dr.		5,000	
	Bishwajeet's Capital A/c	...Dr.		5,000	
	To Profit and Loss A/c				15,000
	(Being the accumulated Loss transferred to Partners on Raj's retirement)				

(*ii*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Naresh's Capital A/c	...Dr.		3,500	
	Bishwajeet's Capital A/c	...Dr.		3,500	
	To Raj's Capital A/c (₹ 21,000 × 1/3)				7,000
	(Being the Raj's Share in accumulated profits and losses adjusted between gaining partners in their gaining ratio, *i.e.*, 1 : 1)				

Note: As profit-sharing ratio of continuing partners does not change, their gaining ratio will be same as their profit-sharing ratio.

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
March 31	Building A/c	...Dr.		20,000	
	Investments A/c	...Dr.		5,000	
	To Revaluation A/c				25,000
	(Being the increase in the values of Building and Investments recorded)				
	Revaluation A/c	...Dr.		7,000	
	To Plant and Machinery A/c				4,000
	To Stock A/c				2,000
	To Provision for Doubtful Debts A/c				1,000
	(Being the decrease in the values of Plant and Machinery and stock recorded and provision for doubtful debts created)				
	Revaluation A/c	...Dr.		18,000	
	To Himanshu's Capital A/c				9,000
	To Gagan's Capital A/c				6,000
	To Naman's Capital A/c				3,000
	(Being the gain (profit) on revaluation credited to all Partners' Capital Accounts in their profit-sharing ratio)				

Dr. REVALUATION ACCOUNT Cr.

Particulars		₹	Particulars	₹
To Plant and Machinery A/c		4,000	By Building A/c	20,000
To Stock A/c		2,000	By Investments A/c	5,000
To Provision for Doubtful Debts A/c		1,000		
To Gain (Profit) transferred to:				
Himanshu's Capital Ac	9,000			
Gagan's Capital A/c	6,000			
Naman's Capital A/c	3,000	18,000		
		25,000		25,000

(*c*)

Dr. *Z*'S LOAN ACCOUNT Cr.

Date	Particulars	₹	Date	Particulars	₹
2015			2015		
Jan. 1	To Cash A/c	23,300	Jan. 1	By *Z*'s Capital A/c	1,13,300
March 31	To Balance *c/d*	92,250	March 31	By Interest A/c	2,250
		1,15,550			1,15,550
2016			2015		
March 31	To Cash A/c (₹ 30,000 + ₹ 11,250)	41,250	April 1	By Balance *b/d*	92,250
March 31	To Balance *c/d*	60,000	2016		
			March 31	By Interest A/c	9,000
		1,01,250			1,01,250
2017			2016		
March 31	To Cash A/c (₹ 30,000 + ₹ 6,000)	36,000	April 1	By Balance *b/d*	60,000
March 31	To Balance *c/d*	30,000	2017		
			March 31	By Interest A/c	6,000
		66,000			66,000
2018			2017		
March 31	To Cash A/c (₹ 30,000 + ₹ 3,000)	33,000	April 1	By Balance *b/d*	30,000
			2018		
			March 31	By Interest A/c	3,000
		33,000			33,000

4.

Dr. REALISATION ACCOUNT Cr.

Particulars		₹	Particulars		₹
To Sundry Assets—Transfer:			By Trade Creditors		1,20,000
Machinery	80,000		By Bills Payable		10,000
Furniture	45,000		By *X*'s Capital A/c (Machinery)		45,000
Motor Car	25,000		By Bank A/c (Assets Realised):		
Stock	30,000		Remaining Machinery	50,000	
Debtors	71,000	2,51,000	Furniture	40,000	
To Bank A/c (Liabilities Paid):			Debtors (WN 1)	62,820	
Bills Payable	10,000		Remaining Stock (WN 2)	30,000	
Trade Creditors (WN 3)	1,00,300		Unrecorded Assets	2,500	1,85,320
Unrecorded Liability	2,500	1,12,800	By *Y*'s Capital A/c (Motor Car)		30,000

To Bank A/c (Realisation Expenses)		5,000	By *Z*'s Capital A/c (Stock)	5,200
To Gain (Profit) transferred to:				
X's Capital A/c	13,360			
Y's Capital A/c	8,016			
Z's Capital A/c	5,344	26,720		
		3,95,520		3,95,520

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	*Z* ₹	Particulars	*X* ₹	*Y* ₹	*Z* ₹
To *Z*'s Current A/c	...	...	3,000	By Balance *b/d*	60,000	40,000	30,000
To Realisation A/c (Assets taken over)	45,000	30,000	5,200	By Partners' Current A/cs	8,000	10,000	...
				By Realisation A/c (Gain)	13,360	8,016	5,344
To Bank A/c (Bal. Fig.) (Final Payment)	36,360	28,016	27,144				
	81,360	58,016	35,344		81,360	58,016	35,344

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	24,000	By Realisation A/c (Liabilities Paid)	1,12,800
To Realisation A/c (Assets Realised)	1,85,320	By Realisation A/c (Realisation Expenses)	5,000
		By *X*'s Capital A/c (Final Payment)	36,360
		By *Y*'s Capital A/c (Final Payment)	28,016
		By *Z*'s Capital A/c (Final Payment)	27,144
	2,09,320		2,09,320

Working Notes:

1. Amount Realised from Debtors = 90% of (₹ 71,000 – ₹ 1,200) = ₹ 62,820.
2. Amount Realised from Remaining $\left(\frac{5}{6}\text{th}\right)$ Stock = ₹ 30,000 $\times \frac{5}{6} \times \frac{120}{100}$ = ₹ 30,000.
3. Amount Paid to Trade Creditors = 85% of (₹ 1,20,000 – ₹ 2,000) = ₹ 1,00,300.
4. As per ISC Guidelines, Balances of Partners' Current Accounts are transferred to their Capital Accounts.

5. (*a*) JOURNAL OF *X* LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c ...Dr.		2,00,000	
	Goodwill A/c (Note) ...Dr.		10,000	
	To Sundry Liabilities A/c			50,000
	To *Y* Ltd.			1,60,000
	(Being the purchase of business of *Y* Ltd.)			
	Y Ltd. ...Dr.		1,60,000	
	To 12% Debentures A/c			1,60,000
	(Being 1,600 (*i.e.*, ₹ 1,60,000 ÷ ₹ 100); 12% Debentures of ₹ 100 each issued at par against purchase consideration)			

Note: The excess of purchase price (₹ 1,60,000) over net assets [₹ 1,50,000 (*i.e.*, ₹ 2,00,000 – ₹ 50,000)] has been debited to Goodwill Account.

(*b*) JOURNAL OF SKY LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c	...Dr.		4,00,000	
	To Sundry Liabilities A/c				70,000
	To Mars Ltd.				3,24,000
	To Capital Reserve A/c (Note)				6,000
	(Being the purchase of business of Mars Ltd.)				
	Mars Ltd.	...Dr.		3,24,000	
	Discount on Issue of Debentures A/c	...Dr.		36,000	
	To 11% Debentures A/c				3,60,000
	(Being 3,600 (*i.e.*, ₹ 3,24,000 ÷ ₹ 90); 11% Debentures of ₹ 100 each issued at 10% discount against purchase consideration)				

Note: The excess of Net Assets [₹ 3,30,000 (*i.e.*, ₹ 4,00,000 – ₹ 70,000)] over purchase price (₹ 3,24,000) has been credited to Capital Reserve Account.

(*c*) **In the Books of AB Ltd.**
JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2017					
April 1	Bank A/c	...Dr.		4,00,000	
	To Debentures Application A/c				4,00,000
	(Being the application money received for 10,000; 10% Debentures @ ₹ 40 each)				
	Debentures Application A/c	...Dr.		4,00,000	
	To 10% Debentures A/c				4,00,000
	(Being 10,000; 10% Debentures of ₹ 100 each allotted)				
	Debentures Allotment A/c	...Dr.		5,20,000	
	Loss on Issue of Debentures A/c	...Dr.		1,30,000	
	To 10% Debentures A/c				6,00,000
	To Premium on Redemption of Debentures A/c				50,000
	(Being the allotment money due on 10,000; 10% Debentures issued at 8% discount and redeemable at 5% premium)				
	Bank A/c	...Dr.		5,20,000	
	To Debentures Allotment A/c				5,20,000
	(Being the allotment money received)				
2018					
March 31	Debentures' Interest A/c	...Dr.		1,00,000	
	To Debentureholders' A/c				1,00,000
	(Being the interest payable on 10% Debentures for the year)				
	Debentureholders' A/c	...Dr.		1,00,000	
	To Bank A/c				1,00,000
	(Being the interest paid to debentureholders)				
	Statement of Profit and Loss (Finance Cost)	...Dr.		1,00,000	
	To Debentures' Interest A/c				1,00,000
	(Being the transfer of Debentures' Interest to Statement of Profit and Loss)				
	Statement of Profit and Loss (Finance Cost)	...Dr.		1,30,000	
	To Loss on Issue of Debentures A/c				1,30,000
	(Being the Loss on Issue of Debentures written off)				

Dr. 10% DEBENTURES ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2018			2017		
March 31	To Balance *c/d*	10,00,000	April 1	By Debentures Application A/c	4,00,000
				By Debentures Allotment A/c	5,20,000
				By Loss on Issue of Debentures A/c	80,000
		10,00,000			10,00,000
			2018		
			April 1	By Balance *b/d*	10,00,000

6. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
April 1	Building A/c	...Dr.		3,00,000	
	Machinery A/c	...Dr.		1,40,000	
	To *Z*'s Capital A/c				3,20,000
	To Premium for Goodwill A/c (₹ 4,80,000 × 2/8)				1,20,000
	(Being the building and machinery brought in by *Z* for his share of capital and goodwill)				
	Premium for Goodwill A/c	...Dr.		1,20,000	
	To *X*'s Capital A/c				12,000
	To *Y*'s Capital A/c				1,08,000
	(Being the premium for goodwill distributed between old partners in their sacrificing ratio, *i.e.*, 1 : 9)				

Working Note: *Calculation of Sacrificing Ratio:*

	X	*Y*
(*a*) Old Share	2/5	3/5
(*b*) New Share	3/8	3/8
(*c*) Sacrifice/(Gain) [(*a*) – (*b*)]	1/40	9/40

Thus, Sacrificing Ratio of *X* and *Y* = $\frac{1}{40} : \frac{9}{40} = 1 : 9.$

(*b*) *Calculation of New Profit-sharing Ratio:*

	Ashok	Ram	Vijay
(*i*) Old Share	3/5	2/5	...
(*ii*) Sacrifice/(Gain)	1/10	1/10	(2/10)
(*iii*) New Share [(*i*) – (*ii*)]	5/10	3/10	2/10

Thus, New Profit-sharing Ratio of Ashok, Ram and Vijay = 5 : 3 : 2.

Valuation of Goodwill:	₹
A. Net worth of the new firm on the basis of capital brought by Vijay (₹ 60,000 × 5/1)	3,00,000
B. Net worth (Excluding Goodwill) of the New Firm (Adjusted Capitals of Old Partners + Capital of New Partner) (₹ 80,000 + ₹ 60,000 + ₹ 60,000)	2,00,000
C. Value of Firm's Goodwill **(A – B)**	1,00,000

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
Jan. 1	Cash/Bank A/c	...Dr.		60,000	
	To Vijay's Capital A/c				60,000
	(Being the amount of capital brought by new partner)				
	Vijay's Current A/c (₹ 1,00,000 × 2/10)	...Dr.		20,000	
	To Ashok's Capital A/c				10,000
	To Ram's Capital A/c				10,000
	(Being Vijay's share of goodwill adjusted between old partners in their sacrificing ratio, *i.e.*, 1 : 1)				

(*c*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	X's Capital A/c	...Dr.		1,20,000	
	Y's Capital A/c	...Dr.		80,000	
	To Goodwill A/c				2,00,000
	(Being the existing goodwill written off)				
	Bank A/c	...Dr.		5,37,500	
	To *Z*'s Capital A/c				5,00,000
	To Premium for Goodwill A/c				37,500
	(Being the amount brought in by *Z* for his capital and a part of his share of goodwill)				
	Z's Current A/c	...Dr.		12,500	
	Premium for Goodwill A/c	...Dr.		37,500	
	To *X*'s Capital A/c				20,000
	To *Y*'s Capital A/c				30,000
	(Being *Z*'s share of goodwill credited to *X* and *Y* in their sacrificing ratio, *i.e.*, 2 : 3)				
	X's Capital A/c	...Dr.		10,000	
	Y's Capital A/c	...Dr.		15,000	
	To Bank A/c				25,000
	(Being 50% amount credited for goodwill withdrawn by partners)				
	Profit and Loss Appropriation A/c	...Dr.		2,50,000	
	To *X*'s Capital A/c				1,30,000
	To *Y*'s Capital A/c				70,000
	To *Z*'s Capital A/c				50,000
	(Being the profit for the year distributed among partners)				

Working Note:

Calculation of New Profit-sharing Ratio and Sacrificing Ratio:

Let total share of profit be 1

Z's share = 1/5; Remaining share = 4/5 (*i.e.*, 1 – 1/5)

This remaining share will be taken by *X* and *Y* in their agreed ratio, *i.e.*, 13 : 7.

Thus, *X*'s new share = 13/20 × 4/5 = 13/25; *Y*'s new share = 7/20 × 4/5 = 7/25; *Z*'s share = 1/5 or 5/25

Hence, New Profit-sharing Ratio of *X*, *Y* and *Z* = 13 : 7 : 5.

X sacrifices = Old share – New share = 3/5 – 13/25 = 2/25;

Y sacrifices = Old share – New share = 2/5 – 7/25 = 3/25; Thus, sacrificing ratio of *X* and *Y* = 2 : 3.

7. **In the Books of Sargam Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		24,00,000	
	To Equity Shares Application A/c				24,00,000
	(Being the application money received on 1,20,000 shares @ ₹ 20 per share)				
	Equity Shares Application A/c	...Dr.		24,00,000	
	To Equity Share Capital A/c				16,00,000
	To Equity Shares Allotment A/c				8,00,000
	(Being the application money on 80,000 allotted shares transferred to Equity Share Capital Account and excess money to allotment for adjustment)				
	Equity Shares Allotment A/c (80,000 × ₹ 60)	...Dr.		48,00,000	
	To Equity Share Capital A/c (80,000 × ₹ 40)				32,00,000
	To Securities Premium Reserve A/c (80,000 × ₹ 20)				16,00,000
	(Being the allotment money due on 80,000 shares @ ₹ 60 per share)				
	Bank A/c	...Dr.		38,00,000	
	Calls-in-Arrears A/c	...Dr.		2,00,000	
	To Equity Shares Allotment A/c				40,00,000
	(Being the allotment money received except on 4,000 shares) (WN 1 and 2)				
	Equity Shares First and Final Call A/c	...Dr.		32,00,000	
	To Equity Share Capital A/c				32,00,000
	(Being the call money due on 80,000 shares @ ₹ 40 per share)				
	Bank A/c	...Dr.		30,08,000	
	Calls-in-Arrears A/c	...Dr.		1,92,000	
	To Equity Shares First and Final Call A/c				32,00,000
	(Being the first and final call money received except on 4,800 shares)				
	Equity Share Capital A/c (4,800 × ₹ 100)	...Dr.		4,80,000	
	Securities Premium Reserve A/c (4,000 × ₹ 20)	...Dr.		80,000	
	To Forfeited Shares A/c [(6,000 × ₹ 20) + (800 × ₹ 60)]				1,68,000
	To Calls-in-Arrears A/c				3,92,000
	(Being 4,800 shares forfeited for non-payment of allotment and call money)				
	Bank A/c	...Dr.		4,20,000	
	To Equity Share Capital A/c				4,20,000
	(Being 4,200 forfeited shares reissued @ ₹ 100 per share)				
	Forfeited Shares A/c	...Dr.		1,50,000	
	To Capital Reserve A/c				1,50,000
	(Being the gain on reissue of shares transferred to Capital Reserve) (WN 3)				

Dr. CALLS-IN-ARREARS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Equity Shares Allotment A/c	2,00,000	By Equity Share Capital A/c (₹ 1,20,000 + ₹ 1,92,000)	3,12,000
To Equity Shares First and Final A/c	1,92,000	By Securities Premium Reserve A/c	80,000
	3,92,000		3,92,000

Dr. FORFEITED SHARES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Capital Reserve A/c	1,50,000	By Equity Share Capital A/c	1,68,000
To Balance *c/d*	18,000		
	1,68,000		1,68,000

Working Notes:

1. *Calculation of allotment money not paid by Aditya:*

   (*a*) Calculation of number of shares allotted to Aditya = $\frac{80,000}{1,20,000} \times 6,000$ = 4,000 shares.

   (*b*) *Calculation of allotment money not paid by Aditya:*

	₹
Amount due on allotment (4,000 shares × ₹ 60 per share)	2,40,000
Less: Excess Application Money adjusted on allotment [(6,000 – 4,000) × ₹ 20]	40,000
Amount not paid on allotment	2,00,000

2. *Calculation of total amount received on allotment:*

	₹
Total allotment money due	48,00,000
Less: Excess application money adjusted on allotment	8,00,000
	40,00,000
Less: Allotment money not paid by Aditya (WN 1)	2,00,000
Amount received on allotment	38,00,000

3. In the given case 4,200 shares (including all the forfeited shares of Harnam) are reissued at par. So, the entire amount forfeited on such shares, *i.e.*, ₹ 1,02,000 (*i.e.*, ₹ 1,20,000 × 3,400/4,000) of Aditya shares + ₹ 48,000 Harnam's shares = ₹ 1,50,000 will be transferred to Capital Reserve.

8. **Goyal Ltd.**

BALANCE SHEET *as at 31st March, 2018*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital	1	10,00,000
(*b*) Reserves and Surplus		4,88,500
2. Non-Current Liabilities		
Long-term Borrowings	2	2,00,000
3. Current Liabilities		
(*a*) Trade Payables		3,40,000
(*b*) Other Current Liabilities	3	12,000
(*c*) Short-term Provisions	4	2,40,000
Total		22,80,500
II. ASSETS		
1. Non-Current Assets		
Fixed Assets—Tangible	5	15,00,000
2. Current Assets		
(*a*) Inventories		2,00,000
(*b*) Trade Receivables		4,90,000
(*c*) Cash and Cash Equivalents	6	55,500
(*d*) Short-term Loans and Advances		35,000
Total		22,80,500

Notes to Accounts

Particulars		₹
1. Share Capital		
Authorised Capital		
1,20,000 Equity Shares of ₹ 10 each		12,00,000
Issued Capital		
1,00,000 Equity Shares of ₹ 10 each		10,00,000
Subscribed Capital		
Subscribed and Fully Paid-up		
1,00,000 Equity Shares of ₹ 10 each		10,00,000
2. Long-term Borrowings		
12% Bank Loan		2,00,000
3. Other Current Liabilities		
Interest Accrued on Bank Loan		12,000
4. Short-term Provisions		
Provision for Tax		2,40,000
5. Fixed Assets—Tangible		
Building (Cost)	5,00,000	
Less: Accumulated Depreciation (₹ 80,000 + ₹ 25,000)	1,05,000	3,95,000
Plant and Machinery (Cost) (₹ 15,00,000 + ₹ 50,000: Purchase)	15,50,000	
Less: Accumulated Depreciation (₹ 2,90,000 + ₹ 1,55,000)	4,45,000	11,05,000
		15,00,000
6. Cash and Cash Equivalents		
Cash and Bank Balances		55,500

SECTION B

9. (*a*) (*i*) $$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{₹\,30,000}{₹\,1,50,000} \times 100 = 20\%.$$

$$\text{Gross Profit} = \text{Revenue from Operations} - \text{Cost of Revenue from Operations}$$
$$= ₹\,1,50,000 - ₹\,1,20,000 = ₹\,30,000.$$

(*ii*) $$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$= \frac{₹\,1,20,000}{₹\,30,000} = 4 \text{ Times.}$$

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

$$= \frac{₹\,29,000 + ₹\,31,000}{2} = ₹\,30,000.$$

(*iii*) $$\text{Operating Ratio} = \frac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{₹\,1,36,000}{₹\,1,50,000} \times 100 = 90.67\%.$$

$$\text{Operating Cost} = \text{Cost of Revenue from Operations} + \text{Operating Expenses}$$
$$= ₹\,1,20,000 + ₹\,16,000 = ₹\,1,36,000.$$

(*b*) Current Ratio = $\dfrac{\text{Current Assets}^*}{\text{Current Liabilities}} = \dfrac{₹\,1,15,500}{₹\,48,000}$ = 2.41 : 1.

**Calculation of Current Assets:*

Revenue from Operations = ₹ 3,60,000

Gross Profit Ratio = 25%

Gross Profit = 25/100 × ₹ 3,60,000 = ₹ 90,000

∴ Cost of Revenue from Operations = Revenue from Operations – Gross Profit

= ₹ 3,60,000 – ₹ 90,000 = ₹ 2,70,000

Inventory Turnover Ratio = $\dfrac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$

[Let opening inventory = x; closing inventory = x + ₹ 24,000]

$$4 = \frac{₹\,2,70,000}{\dfrac{x + x + ₹\,24,000}{2}}$$

$$\begin{aligned}
4x + 4x + ₹\,96,000 &= ₹\,5,40,000 \\
8x &= ₹\,4,44,000 \\
x &= ₹\,55,500 \text{ (Opening Inventory)} \\
\therefore \text{ Closing Inventory} &= x + ₹\,24,000 = ₹\,55,500 + ₹\,24,000 = ₹\,79,500 \\
\text{Quick Assets} &= 0.75 \times \text{Current Liabilities} \\
&= 0.75 \times ₹\,48,000 \\
&= ₹\,36,000 \\
\text{Current Assets} &= \text{Quick Assets} + \text{Inventory (Closing)} \\
&= ₹\,36,000 + ₹\,79,500 \\
&= ₹\,1,15,500.
\end{aligned}$$

10 (*a*) Let Current Liabilities be x

Current Ratio = $\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

$\dfrac{4.5}{1} = \dfrac{\text{Current Assets}}{x}$ ⇒ Current Assets = $4.5x$

Quick Ratio = $\dfrac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$

$$\begin{aligned}
\frac{3}{1} &= \frac{4.5x - ₹\,72,000}{x} \\
3x &= 4.5x - ₹\,72,000 \\
1.5x &= ₹\,72,000 \\
x &= ₹\,48,000 \text{ (Current Liabilities)}
\end{aligned}$$

Thus, Current Assets = 4.5 × ₹ 48,000 = ₹ 2,16,000.

(*b*) COMMON-SIZE STATEMENT OF PROFIT AND LOSS

for the years ended 31st March, 2018 and 2017

Particulars	Note No.	Absolute Amounts 31st March, 2018 (₹)	Absolute Amounts 31st March, 2017 (₹)	Percentage of Revenue from Operations 31st March, 2018 (%)	Percentage of Revenue from Operations 31st March, 2017 (%)
I. Revenue from Operations		15,00,000	10,00,000	100.00	100.00
II. Other Income		1,80,000	2,00,000	12.00	20.00
III. Total Revenue (I + II)		16,80,000	12,00,000	112.00	120.00
IV. Expenses					
(*a*) Cost of Materials Consumed		9,00,000	5,00,000	60.00	50.00
(*b*) Other Expenses		1,50,000	1,00,000	10.00	10.00
Total Expenses		10,50,000	6,00,000	70.00	60.00
V. Profit before Tax (III – IV)		6,30,000	6,00,000	42.00	60.00
VI. *Less:* Tax		1,89,000	1,80,000	12.60	18.00
VII. Profit after Tax (V – VI)		4,41,000	4,20,000	29.40	42.00

(*c*) (*i*) Operating Activity; (*ii*) Financing Activity.

11. **Grow More Ltd.**

CASH FLOW STATEMENT

for the year ended 31st March, 2018

Particulars		₹	₹
I. Cash Flow from Operating Activities			
Net Profit before Tax (WN 1)		2,63,000	
Add: Non-cash and Non-operating Expenses:			
Depreciation	90,000		
Loss on Sale of Machinery	8,000		
Debentures' Interest (₹ 2,00,000 × 8/100 × 6/12 + ₹ 1,25,000 × 8/100 × 6/12)	13,000	1,11,000	
Operating Profit before Working Capital Changes		3,74,000	
Add: Decrease in Current Assets:			
Inventories		22,000	
		3,96,000	
Less: Increase in Current Assets and Decrease in Current Liabilities:			
Trade Payables	68,000		
Current Investments	3,000		
Trade Receivables	3,000	74,000	
Cash Generated from Operations		3,22,000	
Less: Tax paid		16,000	
Cash Flow from Operating Activities			3,06,000
II. Cash Flow from Investing Activities			
Purchase of Machinery		(3,50,000)	
Proceeds from Sale of Machinery		2,000	
Payment for purchase of Patents		(20,000)	
Cash Used in Investing Activities			(3,68,000)

III. Cash Flow from Financing Activities		
Receipts from Issue of Shares	1,00,000	
Proceeds from Issue of Debentures	75,000	
Payment of Debentures' Interest	(13,000)	
Bank Overdraft raised	2,000	
Payment of Dividend	(1,00,000)	
Cash Flow from Financing Activities		64,000
IV. Net Increase in Cash and Cash Equivalents (I + II + III)		2,000
V. *Add:* Cash and Cash Equivalents in the beginning of the year		12,000
VI. Cash and Cash Equivalents at the end of the year		14,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Closing Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	2,50,000
Less: Opening Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,10,000
	1,40,000
Add: Provision for Tax (Provision made) (WN 2)	23,000
Dividend paid (Proposed Dividend for 2016–17)	1,00,000
Net Profit before Tax	2,63,000

2. *Dr.* PROVISION FOR TAX ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Tax paid)	16,000	By Balance *b/d*	11,000
To Balance *c/d*	18,000	By Statement of Profit and Loss (Bal. Fig.) (Provision made)	23,000
	34,000		34,000

3. *Dr.* MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	17,00,000	By Bank A/c	2,000
To Bank A/c (Balancing Figure)—Purchase	3,50,000	By Accumulated Depreciation A/c	40,000
		By Loss on Sale of Machinery A/c (Statement of Profit and Loss)	8,000
		By Balance *c/d*	20,00,000
	20,50,000		20,50,000

4. *Dr.* ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Machinery A/c (on sold machinery)	40,000	By Balance *b/d*	90,000
To Balance *c/d*	1,40,000	By Statement of Profit and Loss (Bal. Fig.—Depreciation Provided)	90,000
	1,80,000		1,80,000

MODEL TEST PAPER 17 (Solution)

SECTION A

PART I

1. (*i*) (*a*) Right to share the assets of the firm.

(*b*) Right to share future profits of the firm.

(*ii*) New Share of Old Partner = Old Share – Share Surrendered by Old Partner.

$$\text{Share Surrendered by Ram} = \frac{1}{5} \times \frac{3}{5} = \frac{3}{25}$$

$$\text{Share Surrendered by Mohan} = \frac{1}{5} \times \frac{2}{5} = \frac{2}{25}$$

$$\text{Ram's New Share} = \frac{5}{10} - \frac{3}{25} = \frac{19}{50}$$

$$\text{Mohan's New Share} = \frac{3}{10} - \frac{2}{25} = \frac{11}{50}$$

$$\text{Sohan's Share} = \frac{2}{10} \text{ or } \frac{10}{50}$$

$$\text{Hari's Share} = \frac{1}{5} \text{ or } \frac{10}{50}$$

Thus, New Profit-sharing Ratio of Ram, Mohan, Sohan and Hari = 19 : 11 : 10 : 10.

(*iii*) Interest on Debentures is a *charge against profits* of a company and is payable irrespective of whether the company earns profit or not. Payment of dividend is an *appropriation* of profit.

(*iv*) *Z is correct* because Investment Fluctuation Reserve is a reserve created against investment. When a provision or reserve exists against any asset at the time of dissolution, then the asset is transferred at its gross figure to the debit side of Realisation Account and provision/reserve to the credit side of Realisation Account. So, Investment Fluctuation Reserve will be transferred to the credit side of Realisation Account.

(*v*) *Contingent Liabilities:* These are liabilities which may or may not arise as they depend on happening of a future incident.

Contingent Liabilities are shown in the Notes to Accounts and are not accounted. Therefore, they are not shown in the Balance Sheet. Examples of Contingent Liabilities are:

(*a*) Claim against the company not acknowledged as debt.

(*b*) Uncalled liability on partly paid shares.

(*vi*) *Calls-in-Arrears* is shown in the Notes to Accounts on **'Share Capital'** under the head Subscribed Capital as a deduction from the Subscribed Capital but not fully paid-up capital.

Calls-in-Advance is shown as **'Other Current Liabilities'** under **'Current Liabilities'** in the Equity and Liabilities part of the Company's Balance Sheet.

2. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Esha's Capital A/c	...Dr.		30,000	
	Manav's Capital A/c	...Dr.		20,000	
	To Profit and Loss Adjustment A/c				50,000
	(Being the share of profit wrongly credited to partners, now reversed)				
	Profit and Loss Adjustment A/c	...Dr.		14,300	
	To Esha's Capital A/c				5,100
	To Manav's Capital A/c				9,200
	(Being the interest on capital @ 10% p.a. allowed to each partner)				
	Esha's Capital A/c	...Dr.		75	
	Manav's Capital A/c	...Dr.		225	
	To Profit and Loss Adjustment A/c				300
	(Being the interest on drawings @ 5% p.a. charged from each partner)				
	Profit and Loss Adjustment A/c	...Dr.		36,000	
	To Esha's Capital A/c				21,600
	To Manav's Capital A/c				14,400
	(Being the divisible profit distributed between partners in their profit-sharing ratio, *i.e.*, 3 : 2)				

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Esha ₹	Manav ₹	Particulars	Esha ₹	Manav ₹
To Profit and Loss Adjustment A/c	30,000	20,000	By Balance *b/d*	75,000	1,00,000
To Profit and Loss Adjustment A/c	75	225	By Profit and Loss Adjustment A/c	5,100	9,200
To Balance *c/d*	71,625	1,03,375	By Profit and Loss Adjustment A/c	21,600	14,400
	1,01,700	1,23,600		1,01,700	1,23,600

Working Note: CALCULATION OF OPENING CAPITAL AND INTEREST THEREON

Particulars	Esha (₹)	Manav (₹)
Capital as on 31st March, 2018	75,000	1,00,000
Add: Drawings	6,000	12,000
	81,000	1,12,000
Less: Profit	30,000	20,000
Opening Capital	51,000	92,000
Interest on Capital @ 10% p.a.	5,100	9,200

(*b*) Average Profit = ₹ 80,000

Undervaluation of Stock = ₹ 8,000

Adjusted Average Profit = ₹ 80,000 + ₹ 8,000 (Note) = ₹ 88,000

$$\text{Normal Profit} = \text{Capital Employed (Investment)} \times \frac{\text{Normal Rate of Return}}{100}$$

$$= ₹\ 8{,}00{,}000 \times \frac{8}{100} = ₹\ 64{,}000$$

Super Profit = Adjusted Average Profit – Normal Profit

= ₹ 88,000 – ₹ 64,000 = ₹ 24,000

Goodwill = Super Profit × 7

= ₹ 24,000 × 7 = ₹ 1,68,000.

Note: Undervaluation of stock reduces the net profit. Hence, it is added to determine adjusted profit.

3.

Dr. REVALUATION ACCOUNT Cr.

Particulars		₹	Particulars	₹
To Investments A/c		5,000	By Accrued Income A/c	500
To Gain (Profit) transferred to:			By Bad Debts Recovered A/c	800
A's Capital A/c	780		By Patents A/c	5,000
B's Capital A/c	520	1,300		
		6,300		6,300

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	*A* ₹	*B* ₹	*C* ₹	Particulars	*A* ₹	*B* ₹	*C* ₹
To Balance *c/d*	93,780	62,520	52,100	By Balance *b/d*	60,000	40,000	...
				By General Reserve A/c	12,000	8,000	...
				By Workmen Compensation Reserve A/c	6,000	4,000	...
				By Revaluation A/c	780	520	...
				By Premium for Goodwill A/c	15,000	10,000	...
				By Bank A/c (WN 2)	...	...	52,100
	93,780	62,520	52,100		93,780	62,520	52,100

BALANCE SHEET OF THE NEW FIRM

as at 1st April, 2018

Liabilities		₹	Assets		₹
Creditors		28,000	Cash at Bank (WN 3)		82,900
Workmen Compensation Claim		2,000	Debtors	70,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	5,000	65,000
A	93,780		Stock		30,000
B	62,520		Investments		45,000
C	52,100	2,08,400	Patents		15,000
			Accrued Income		500
		2,38,400			2,38,400

Working Notes:

1. Premium for Goodwill = ₹ 25,000, which will be shared by *A* and *B* in their sacrificing ratio, *i.e.*, 3 : 2.
2. *Calculation of C's Capital:*

   Adjusted Capitals of *A* and *B* for 3/4th share = ₹ 93,780 + ₹ 62,520 = ₹ 1,56,300

   Total Capital of the New Firm = ₹ 1,56,300 × 4/3 = ₹ 2,08,400

   C's Capital = 1/4 × ₹ 2,08,400 = ₹ 52,100.
3. Cash at Bank = ₹ 10,000 + ₹ 800 (Bad Debts Recovered) + ₹ 25,000 (Premium for Goodwill) + 52,100 (*C*'s Capital) – ₹ 5,000 (Payment for Dishonoured Discounted Bill)

   = ₹ 82,900.

4.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Machinery A/c		50,000	By Land and Building A/c	2,40,000
To Closing Stock A/c		1,00,000		
To Provision for Doubtful Debts A/c		20,000		
To Gain (Profit) on Revaluation transferred to:				
Leena's Capital A/c	20,000			
Madan's Capital A/c	20,000			
Naresh's Capital A/c	30,000	70,000		
		2,40,000		2,40,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Leena ₹	Madan ₹	Naresh ₹	Particulars	Leena ₹	Madan ₹	Naresh ₹
To Deferred Advertisement Expenditure A/c	28,571	28,571	42,858	By Balance *b/d*	12,50,000	8,00,000	10,50,000
To Madan's Capital A/c	1,60,000	...	...	By Revaluation A/c (Gain)	20,000	20,000	30,000
To Naresh's Capital A/c	16,000	...	...	By Leena's Capital A/c (WN 1, 2 and 3)	...	1,60,000	16,000
To Madan's Capital A/c	20,000	...	...	By Leena's Capital A/c (WN 4)	...	20,000	2,000
To Naresh's Capital A/c	2,000	...	...	By Bank A/c (Balancing Figure)	8,76,571	...	2,24,858
To Investments A/c	...	1,00,000	...				
To Bills Payable A/c	...	8,71,429	...				
To Balance *c/d* (WN 5)	19,20,000	...	12,80,000				
	21,46,571	10,00,000	13,22,858		21,46,571	10,00,000	13,22,858

BALANCE SHEET *as at 1st April, 2018*

Liabilities		₹	Assets		₹
Trade Creditors		1,60,000	Land and Building		12,40,000
Bank Overdraft		44,000	Machinery		4,50,000
Bills Payable		8,71,429	Furniture		7,00,000
Long-term Debts		4,00,000	Closing Stock		7,00,000
Employees' Provident Fund		76,000	Investments		1,00,000
General Reserve		70,000	Sundry Debtors	4,00,000	
Capital A/cs: Leena	19,20,000		*Less:* Provision for Doubtful Debts	20,000	3,80,000
Naresh	12,80,000	32,00,000	Bank (WN 6)		12,51,429
		48,21,429			48,21,429

Working Notes:

1. *Calculation of Gain/(Sacrifice) of each Partner:*

Gain of a Partner = New Share – Old Share

$$\text{Leena's Gain} = \frac{3}{5} - \frac{2}{7} = \frac{21-10}{35} = \frac{11}{35};$$

$$\text{Naresh's Gain} = \frac{2}{5} - \frac{3}{7} = \frac{14-15}{35} = -\frac{1}{35}\,*$$

*Negative result indicates that Naresh has sacrificed. As Leena is the only gaining partner, she will compensate not only the retiring partner (Madan) but also the sacrificing partner (Naresh).

2. Naresh's Share of Goodwill = ₹ 5,60,000 × 1/35 = ₹ 16,000.
3. Madan's Share of Goodwill = ₹ 5,60,000 × 2/7 = ₹ 1,60,000.
4. *For Adjustment of General Reserve:*

		₹	₹
Leena's Capital A/c	...Dr.	22,000	
To Madan's Capital A/c			20,000
To Naresh's Capital A/c			2,000

5. *Capitals of the Partners in the New Firm:*

Total capital of the new firm = ₹ 32,00,000, which will be contributed by Leena and Naresh in their new profit-sharing ratio, *i.e.*, 3 : 2. Thus,

Leena's capital in new firm = ₹ 32,00,000 × 3/5 = ₹ 19,20,000; Naresh's capital in New Firm = ₹ 32,00,000 × 2/5 = ₹ 12,80,000.

6. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,50,000	By Balance *c/d*	12,51,429
To Leena's Capital A/c	8,76,571		
To Naresh's Capital A/c	2,24,858		
	12,51,429		12,51,429

5. (*a*) JOURNAL OF RUCHI LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Issue of Debentures				
2014 April 1	Bank A/c	...Dr.		50,00,000	
	To Debentures Application and Allotment A/c				50,00,000
	(Being the application and allotment money received on issue of debentures)				
April 1	Debentures Application and Allotment A/c	...Dr.		50,00,000	
	Loss on Issue of Debentures A/c	...Dr.		4,00,000	
	To 7% Debentures A/c				50,00,000
	To Premium on Redemption of Debentures A/c				4,00,000
	(Being the allotment of 50,000; 7% Debentures of ₹ 100 each redeemable at 8% premium)				
	Redemption of Debentures				
2017 Mar. 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		12,50,000	
	To Debentures Redemption Reserve A/c				12,50,0000
	(Being the profits transferred to Debentures Redemption Reserve)				
April 1	Debentures Redemption Investment A/c	...Dr.		7,50,000	
	To Bank A/c				7,50,000
	(Being the investment made as fixed deposit as per Companies Act, 2013 earning Interest @10% p.a.)				
2018 Mar. 31	Bank A/c	...Dr.		8,17,500	
	TDS Collected A/c	...Dr.		7,500	
	To Debentures Redemption Investment A/c				7,50,000
	To Interest Earned A/c				75,000
	(Being the fixed deposit encashed on redemption and interest received @10% per annum)				

Mar. 31	7% Debentures A/c ...Dr.		50,00,000	
	Premium on Redemption of Debentures A/c ...Dr.		4,00,000	
	To Debentureholders' A/c			54,00,000
	(Being the amount due to debentureholders)			
	Debentureholders' A/c ...Dr.		54,00,000	
	To Bank A/c			54,00,000
	(Being the amount due paid on redemption)			
	Debentures Redemption Reserve A/c ...Dr.		12,50,000	
	To General Reserve A/c			12,50,000
	(Being the Debentures Redemption Reserve transferred to General Reserve)			

(*b*) BALANCE SHEET OF MOON LTD. *as at 31st March, 2018*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital	1	7,50,000
(*b*) Reserves and Surplus	2	3,10,000
2. Non-Current Liabilities		
Long-term Borrowings	3	2,60,000
3. Current Liabilities		
(*a*) Short-term Borrowings	4	40,000
(*b*) Trade Payables		3,20,000
(*c*) Short-term Provisions	5	50,000
Total		17,30,000
II. ASSETS		
1. Non-Current Assets		
(*a*) *Fixed Assets:*		
(*i*) Tangible Assets	6	8,60,000
(*ii*) Intangible Assets	7	15,000
(*b*) Non-current Investments	8	3,25,000
2. Current Assets		
(*a*) Current Investments		45,000
(*b*) Inventories		1,55,000
(*c*) Trade Receivables		2,00,000
(*d*) Cash and Cash Equivalents		1,30,000
Total		17,30,000

Notes to Accounts

Particulars	₹
1. Share Capital	
Authorised Capital	
... Equity Shares of ₹ 100 each	...
Issued Capital	
7,500 Equity Shares of ₹ 100 each	7,50,000
Subscribed Capital	
Subscribed and Fully Paid-up	
7,500 Equity Shares of ₹ 100 each	7,50,000

2. Reserves and Surplus	
Securities Premium Reserve	10,000
General Reserve	1,50,000
Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,50,000
	3,10,000
3. Long-term Borrowings	
8% Debentures	2,60,000
4. Short-term Borrowings	
8% Bank Loan (Short-term)	40,000
5. Short-term Provisions	
Provision for Tax	50,000
6. Tangible Assets	
Plant and Machinery (Net)	8,60,000
7. Intangible Assets	
Goodwill	15,000
8. Non-Current Investments	
Investment in Land and Building	3,25,000

6. (*a*) JOURNAL OF *X* LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c ...Dr.		5,50,000	
	To *Y* Ltd.			5,50,000
	(Being the machinery purchased from *Y* Ltd.)			
	Y Ltd. ...Dr.		55,000	
	To Bank A/c			55,000
	(Being the part payment made to *Y* Ltd.)			
	Y Ltd. ...Dr.		4,95,000	
	To 9% Debentures A/c			4,50,000
	To Securities Premium Reserve A/c			45,000
	(Being the issue of 450 (*i.e.*, ₹ 4,95,000 ÷ ₹ 1,100); 9% Debentures of ₹ 1,000 each at 10% premium)			

(*b*) JOURNAL OF STAR LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018				
Mar. 31	Debentures' Interest A/c ...Dr.		25,000	
	To Debentureholders' A/c			22,500
	To TDS Payable A/c			2,500
	(Being the interest on debentures due for 6 months and TDS deducted @ 10%)			
	Debentureholders' A/c ...Dr.		22,500	
	TDS Payable A/c ...Dr.		2,500	
	To Bank A/c			25,000
	(Being the interest paid to debentureholders and TDS deposited in Government Account)			
	Statement of Profit and Loss (Finance Cost) ...Dr.		50,000	
	To Debentures' Interest A/c			50,000
	(Being the interest on debentures transferred to Statement of Profit and Loss as finance cost)			

7. (*a*)

Arvind Ltd.

BALANCE SHEET (Extract) *as at...*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
(*a*) Share Capital	1	42,00,000
(*b*) Reserves and Surplus	2	2,80,000

Notes to Accounts

Particulars	₹
1. Share Capital	
Authorised Capital	
60,000 Equity Shares of ₹ 150 each	90,00,000
Issued Capital	
30,000 Equity Shares of ₹ 150 each	45,00,000
Subscribed Capital	
Subscribed and Fully paid-up	
28,000 Equity Shares of ₹ 150 each	42,00,000
2. Reserves and Surplus	
Securities Premium Reserve	2,80,000

(*b*)

***XL* Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		9,00,000	
	To Equity Shares Application A/c			9,00,000
	(Being the application money received for 3,00,000 shares)			
	Equity Shares Application A/c ...Dr.		9,00,000	
	To Equity Share Capital A/c (1,00,000 × ₹ 3)			3,00,000
	To Equity Shares Allotment A/c			3,20,000
	To Calls-in-Advance A/c			60,000
	To Bank A/c			2,20,000
	(Being the application money adjusted and surplus refunded) (WN 1 and 2)			
	Equity Shares Allotment A/c ...Dr.		4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being the allotment money due on 1,00,000 shares)			
	Bank A/c (₹ 4,00,000 – ₹ 3,20,000) ...Dr.		80,000	
	To Equity Shares Allotment A/c			80,000
	(Being the remaining allotment money received)			
	Equity Shares First and Final Call A/c ...Dr.		3,00,000	
	To Equity Share Capital A/c			3,00,000
	(Being the first and final call money due on 1,00,000 shares)			

	Bank A/c ...Dr. Calls-in-Arrears A/c (160 × ₹ 3) ...Dr. Calls-in-Advance A/c ...Dr. To Equity Shares First and Final Call A/c (Being first and final call money received except on 160 shares @ ₹ 3 per share and advance received earlier (₹ 60,000) adjusted) *₹ 3,00,000 – ₹ 480 – ₹ 60,000 = ₹ 2,39,520.		2,39,520* 480 60,000	 3,00,000
	Equity Share Capital A/c (160 × ₹ 10) ...Dr. To Calls-in-Arrears A/c (160 × ₹ 3) To Forfeited Shares A/c (160 × ₹ 7) (Being 160 shares forfeited for non-payment of call money)		1,600	 480 1,120
	Bank A/c (160 × ₹ 15) ...Dr. To Equity Share Capital A/c (160 × ₹ 10) To Securities Premium Reserve A/c (160 × ₹ 5) (Being 160 forfeited shares reissued @ ₹ 15 per share as fully paid)		2,400	 1,600 800
	Forfeited Shares A/c ...Dr. To Capital Reserve A/c (Being the gain on reissue of forfeited shares transferred to Capital Reserve)		1,120	 1,120

Working Notes:

1. *Adjustment of Application Money:*

		₹
Application money received on shares applied (3,00,000 × ₹ 3)		9,00,000
Less: 20% applications rejected (20% of 3,00,000, *i.e.*, 60,000 × ₹ 3)—Refunded **(A)**		1,80,000
		7,20,000
Less: Application money adjusted on allotted shares (1,00,000 × ₹ 3) (Category I and II)		3,00,000
Excess Application money (Category I and II)		4,20,000

2. *Adjustment of Excess Application Money:*

			₹
Category I:	Application money received (1,60,000 × ₹ 3)		4,80,000
	Less: Application money adjusted on allotted shares (80,000 × ₹ 3) **(C)**		2,40,000
	Excess application money		2,40,000
	Less: Excess application money to be adjusted on allotment		2,40,000
	Surplus		Nil
Category II:	Application money received on shares applied (80,000 × ₹ 3)		2,40,000
	Less: Application money due on shares allotted (20,000 × ₹ 3)		60,000
	Excess Application money		1,80,000
	Less: Money to be adjusted on Allotment (20,000 × ₹ 4) **(D)**	80,000	
	Money to be adjusted on first and final call (20,000 × ₹ 3) **(E)**	60,000	1,40,000
	Excess money to be refunded **(B)**		40,000

- Total Application Money Refunded = **A + B** = ₹ 1,80,000 + ₹ 40,000 = ₹ 2,20,000.
- Excess Application Money to be adjusted on Allotment: **C + D** = ₹ 2,40,000 + ₹ 80,000 = ₹ 3,20,000.
- Excess Application Money to be adjusted on First and Final Call (Calls-in-Advance) = ₹ 60,000 **(E)**.

8.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets—Transfer:			By Provision for Doubtful Debts		4,000
Building	1,20,000		By Mrs. *X*'s Loan		40,000
Investments	30,600		By Sundry Creditors		80,000
Goodwill	4,000		By Investments Fluctuation Reserve		8,000
Debtors	34,000		By Bank A/c (Assets Realised):		
Bills Receivable	37,400	2,26,000	Debtors	24,000	
To *X*'s Capital A/c (Mrs. *X*'s Loan)		40,000	Building	1,52,000	
To Bank A/c (Liabilities Paid):			Bills Receivable	36,000	
Sundry Creditors	72,000		Computer (Fully written off)	7,000	2,19,000
Liability for Damages (Unrecorded)	7,000	79,000	By *Y*'s Capital A/c (Investments)		27,000
To Bank A/c (Realisation Expenses)		2,500			
To *X*'s Capital A/c		1,000			
(Commission for dissolution work)					
To Gain (Profit) transferred to:					
X's Capital A/c	17,700				
Y's Capital A/c	11,800	29,500			
		3,78,000			3,78,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	Particulars	*X* ₹	*Y* ₹
To Realisation A/c (Assets taken)	...	27,000	By Balance *b/d*	42,000	42,000
To Profit and Loss A/c (Loss)	4,800	3,200	By Realisation A/c (Mrs. *X*'s Loan)	40,000	...
To Bank A/c (Final payment)	95,900	23,600	By Realisation A/c (Commission)	1,000	...
(Balancing Figure)			By Realisation A/c (Gain)	17,700	11,800
	1,00,700	53,800		1,00,700	53,800

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	6,000	By Realisation A/c (Liabilities paid)	79,000
To Realisation A/c (Assets Realised)	2,19,000	By Realisation A/c (Realisation Expenses)	2,500
		By *Y*'s Loan A/c	24,000
		By *X*'s Capital A/c (Final payment)	95,900
		By *Y*'s Capital A/c (Final payment)	23,600
	2,25,000		2,25,000

Note: If question is silent about the realisation of particular asset, then its realised value should be taken as **Nil**. Accordingly, the realised value of goodwill is taken as **Nil**.

SECTION B

9. CASH FLOW STATEMENT *for the year ended 31st March, 2018*

Particulars		₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		1,35,000
Add: Non-cash and Non-operating Expenses:		
Depreciation on Equipment	6,000	
Loss on Sale of Equipment	6,000	
Interest on Bank Loan (10% of ₹ 50,000)	5,000	
Patents amortised	2,500	19,500
Operating Profit before Working Capital Changes		1,54,500
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Trade Payables	1,500	
Inventories	40,000	
Trade Receivables	20,000	61,500
Cash Generated from Operations		93,000
Less: Tax Paid		15,000
Cash Flow from Operating Activities		78,000
II. Cash Flow from Investing Activities		
Proceeds from Sale of Equipment (WN 2)	38,000	
Purchase of Equipment	(50,000)	
Purchase of Non-current Investments	(47,500)	
Cash Used in Investing Activities		(59,500)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Equity Shares	1,00,000	
Repayment of Bank Loan	(25,000)	
Payment of Interest on Bank Loan	(5,000)	
Payment of Interim Dividend	(35,000)	
Cash Flow from Financing Activities		35,000
IV. Net Increase in Cash and Cash Equivalents (I + II + III)		53,500
Add: Cash and Cash Equivalents in the beginning of the year		75,000
V. Cash and Cash Equivalents at the end of the year		1,28,500

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Closing balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,75,000
Less: Opening balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,00,000
Profit for the year	75,000
Add: Provision for Tax	25,000
Interim Dividend	35,000
Net Profit before Tax	1,35,000

2. *Dr.* EQUIPMENT ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	2,50,000	By Depreciation A/c	6,000
To Bank A/c	50,000	By Loss on Sale of Equipment A/c (Statement of Profit and Loss)	6,000
		By Bank A/c (Balancing Figure) (Sale)	38,000
		By Balance *c/d*	2,50,000
	3,00,000		3,00,000

10. (*a*) Common-size Balance Sheet is a statement in which each asset is expressed as percentage of Total Assets and each liability is expressed as percentage to Total of Equity and Liabilities. Total Assets or Total of Equity and Liabilities are taken as 100 and all the figures are expressed as percentage of the total.

(*b*) (*i*) Financing Activities.

(*ii*) Investing Activities.

(*c*) COMMON-SIZE STATEMENT OF PROFIT AND LOSS

for the years ended 31st March, 2018 and 2017

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		31st March, 2018 (₹)	31st March, 2017 (₹)	31st March, 2018 (%)	31st March, 2017 (%)
I. Revenue from Operations		10,00,000	8,00,000	100.00	100.00
II. *Expenses:*					
(*a*) Cost of Materials Consumed		5,00,000	4,00,000	50.00	50.00
(*b*) Employees Benefit Expenses		1,00,000	80,000	10.00	10.00
(*c*) Finance Costs		10,000	8,000	1.00	1.00
Total Expenses		6,10,000	4,88,000	61.00	61.00
III. Profit before Tax (I – II)		3,90,000	3,12,000	39.00	39.00
IV. *Less:* Tax		1,56,000	1,24,800	15.60	15.60
V. Profit after Tax (III – IV)		2,34,000	1,87,200	23.40	23.40

11. (*a*) Let Current Liabilities be x

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\frac{3}{1} = \frac{\text{Current Assets}}{x} \qquad \Rightarrow \text{Current Assets} = 3x$$

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

$$₹\,4,00,000 = 3x - x \qquad \Rightarrow 2x = ₹\,4,00,000$$

$$\therefore \qquad x = ₹\,2,00,000 \text{ (Current Liabilities)}$$

$$\text{Current Assets} = ₹\,6,00,000$$

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

$$= \frac{₹\,6,00,000 - ₹\,2,50,000}{₹\,2,00,000} = 1.75 : 1.$$

(*b*) Return on Capital Employed = $\dfrac{\text{Net Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$

$= \dfrac{₹\,2,00,000}{₹\,6,40,000} \times 100 = 31.25\%.$

Net Profit before Interest and Tax = Net Profit after Interest but before Tax + Interest on Long-term Debts
= ₹ 1,40,000 + (15% of ₹ 4,00,000)
= ₹ 2,00,000

Capital Employed = Shareholders' Funds + Long-term Debts
= ₹ 2,40,000 + ₹ 4,00,000
= ₹ 6,40,000.

(*c*) (*i*) Operating Ratio = $\dfrac{\text{Operating Cost} \times 100}{\text{Revenue from Operations}}$

$= \dfrac{₹\,4,20,000}{₹\,6,00,000} \times 100 = 70\%.$

Operating Cost = Cost of Revenue from Operations + Depreciation + Employees' Benefit Expenses
= ₹ 3,90,000 + ₹ 3,000 + ₹ 27,000
= ₹ 4,20,000

Revenue from Operations = Cash Revenue from Operations + Credit Revenue from Operations
= ₹ 4,00,000 + ₹ 2,00,000
= ₹ 6,00,000.

(*ii*) Liquid Ratio = $\dfrac{\text{Liquid Assets}}{\text{Current Liabilities}} = \dfrac{₹\,3,90,000}{₹\,1,95,000} = 2:1.$

Liquid Assets = Current Assets – Closing Inventory
= ₹ 4,13,000 – ₹ 23,000
= ₹ 3,90,000.

(*iii*) Proprietary Ratio = $\dfrac{\text{Shareholders' Funds}}{\text{Total Assets}} = \dfrac{₹\,6,40,000}{₹\,8,00,000} = 0.80:1.$

Shareholders' Fund = Equity Share Capital + Preference Share Capital + Debentures Redemption Reserve
= ₹ 4,37,000 + ₹ 1,74,000 + ₹ 29,000
= ₹ 6,40,000

Total Assets = Current Assets + Non-current Assets
= ₹ 4,13,000 + ₹ 3,87,000
= ₹ 8,00,000.

MODEL TEST PAPER 18 (Solution)

SECTION A

PART I

1. (*i*) Two instances in which the fixed capital of a partner may change are:

(*a*) When additional capital is introduced by the partner.

(*b*) When a part of the capital is permanently withdrawn by the partner.

(*ii*) The provisions that shall apply in case of firm's debts and partners' private debts are:

(*a*) Firm's property is applied first towards the payment of firm's debts, then the surplus, if any, is applied towards the payment of partner's private debts to the extent the concerned partner is entitled to share in the surplus, and

(*b*) Partner's private property is applied first in payment of his private debts and the surplus, if any, in payment of firm's debts if the firm's liabilities exceed the firm's assets.

(*iii*) Maximum amount of discount which can be allowed on reissue is the forfeited amount of those shares credited to Forfeited Shares Account at the time of forfeiture.

(*iv*) Long-term Borrowings are those borrowings of a company which on the date of borrowing are payable after 12 months or after Operating Cycle period from the date of Balance Sheet.

They are shown under the head Non-current Liabilities as Long-term Borrowings.

(*v*) If the debentures are redeemed without utilising any amount of the divisible profits of the company, it is termed as redemption out of capital.

The Companies Act, 2013 has indirectly placed restriction on this method of redemption by requiring every company to create a Debentures Redemption Reserve equivalent to at least 25% of the amount of debentures outstanding before the commencement of redemption.

(*vi*) According to Section 2(30) of the Companies Act 2013, debenture includes debenture stock, bonds and any other instrument of the company *evidencing a debt* whether constituting a charge on the assets of the company or not.

Characteristics of Debentures are:

(*a*) They are issued by the company;

(*b*) A loan (borrowing) has been received by it against the issued document.

PART II

2. (*a*)

Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT *for the year ended 31st March, 2018* *Cr.*

Particulars		₹	Particulars	₹
To Interest on Capital A/cs:			By Profit and Loss A/c (Net Profit)	11,30,000
Ram (₹ 3,00,000 × 10/100)		30,000		
Shyam (₹ 2,00,000 × 10/100)		20,000		
Hari (₹ 1,50,000 × 10/100)		15,000		
Krishna (₹ 50,000 × 10/100)		5,000		
To Hari's Capital A/c (Salary)		60,000		
To Profit transferred to Capital A/cs (WN):				
Ram	3,45,000			
Shyam	3,70,000			
Hari	1,80,000			
Krishna	1,05,000	10,00,000		
		11,30,000		11,30,000

Working Note:

Calculation of Share of Profit:

Distributable Profit = ₹ 11,30,000 – ₹ 70,000 (Interest on Capital) – ₹ 60,000 (Salary)
= ₹ 10,00,000, which will be shared by them in their agreed ratio, *i.e.*, 4 : 3 : 2 : 1. Thus,

Ram's share of profit = ₹ 4,00,000
Shyam's share of profit = ₹ 3,00,000
Hari's share of profit = ₹ 2,00,000
Krishna's share of profit = ₹ 1,00,000

There is deficiency of ₹ 70,000 in Shyam's share of profit. This deficiency will be borne by Ram, Hari and Krishna in 4 : 2 : 1 ratio. Therefore, Ram will bear ₹ 40,000, Hari will bear ₹ 20,000 and Krishna will bear ₹ 10,000.

Now Krishna's share of profit = ₹ 1,00,000 – ₹ 10,000 + ₹ 5,000 (Interest on Capital)
= ₹ 95,000

As per guarantee by Ram, there is deficiency of ₹ 15,000 in Krishna's share of profit. It will be borne by Ram only. Thus, final shares of profit:

Ram = ₹ 4,00,000 – ₹ 40,000 – ₹ 15,000 = ₹ 3,45,000
Shyam = ₹ 3,00,000 + ₹ 70,000 = ₹ 3,70,000
Hari = ₹ 2,00,000 – ₹ 20,000 = ₹ 1,80,000
Krishna = ₹ 1,00,000 – ₹ 10,000 + ₹ 15,000 = ₹ 1,05,000.

(*b*) (*i*) *Calculation of Interest on Drawings:*

Nusrat = ₹ 20,000 × 10/100 × 6/12 = ₹ 1,000
Sonu = ₹ 15,000 × 10/100 × 6/12 = ₹ 750
Himesh= ₹ 10,000 × 10/100 × 6/12 = ₹ 500.

(*ii*) TABLE SHOWING ADJUSTMENT

Particulars	Nusrat's Capital A/c		Sonu's Capital A/c		Himesh's Capital A/c		Firm	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
I. Interest on Drawings (Dr.)	1,000	...	750	...	500	...	...	2,250
II. Gain of ₹ 2,250 to be credited in 5 : 3 : 2 (Cr.)	...	1,125	...	675	...	450	2,250	...
	1,000	1,125	750	675	500	450	2,250	2,250
III. Net Effect	125 (Cr.)		75 (Dr.)		50 (Dr.)		...	

(*iii*) ADJUSTING ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sonu's Capital A/c	...Dr.		75	
	Himesh's Capital A/c	...Dr.		50	
	To Nusrat's Capital A/c				125
	(Being the adjustment for interest on drawings)				

(*c*) (*i*) *Calculation of Adjusted Profit:*

Year	Actual Profit ₹	Adjustment ₹	Adjusted Profit ₹
2013–14	1,00,000	...	1,00,000
2014–15	1,50,000	–10,000 (Abnormal Gain)	1,40,000
2015–16	40,000	+10,000 (Abnormal Loss)	50,000
2016–17	50,000 (Loss)	...	50,000 (Loss)
2017–18	60,000	...	60,000

$$\text{Average Profit} = \frac{₹\,1{,}00{,}000 + ₹\,1{,}40{,}000 + ₹\,50{,}000 - ₹\,50{,}000 + ₹\,60{,}000}{5}$$

$$= \frac{₹\,3{,}00{,}000}{5} = ₹\,60{,}000$$

Goodwill = Average Profit × No. of Years' Purchase

= ₹ 60,000 × 3 = ₹ 1,80,000.

(*ii*) Capital Employed = ₹ 1,00,000

Normal Rate of Return = 8%

Normal Profit = Capital Employed × Normal Rate of Return/100

= ₹ 1,00,000 × 8/100 = ₹ 8,000

Average Profit = ₹ 12,000

Super Profit = Average Profit – Normal Profit

= ₹ 12,000 – ₹ 8,000 = ₹ 4,000

Goodwill = Super Profit × No. of Years' Purchase

= ₹ 4,000 × 3 = ₹ 12,000.

(*iii*) Average Profit = ₹ 30,000 (Given)

Normal Profit = ₹ 2,00,000 × 10/100

= ₹ 20,000

Super Profit = ₹ 30,000 – ₹ 20,000

= ₹ 10,000

$$\text{Goodwill} = \text{Super Profit} \times \frac{100}{\text{Normal Rate of Return}}$$

= ₹ 10,000 × 100/10 = ₹ 1,00,000.

3.

Dr. REVALUATION ACCOUNT Cr.

Particulars		₹	Particulars	₹
To Machinery A/c		70,000	By Building A/c	1,90,000
To Provision for Doubtful Debts A/c		4,000	By Investments A/c	90,000
To Outstanding Rent A/c		8,000	By Accrued Income A/c	2,000
To Gain (Profit) transferred to:			By Bad Debts Recovered A/c	6,000
Usha's Capital A/c	82,400			
Asha's Capital A/c	1,23,600	2,06,000		
		2,88,000		2,88,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	Usha ₹	Asha ₹	Neelam ₹	Particulars	Usha ₹	Asha ₹	Neelam ₹
To Advt. Suspense A/c	4,000	6,000	...	By Balance *b/d*	3,75,000	1,25,000	...
To Usha's Current A/c	3,59,400	...	...	By Bank A/c	...	...	5,00,000
To Asha's Current A/c	...	1,01,600	...	By General Reserve A/c	24,000	36,000	...
To Balance *c/d* (WN 3)	2,00,000	3,00,000	5,00,000	By Workmen Comp. Reserve A/c	12,000	18,000	...
				By Premium for Goodwill A/c	70,000	1,05,000	...
				By Revaluation A/c	82,400	1,23,600	...
	5,63,400	4,07,600	5,00,000		5,63,400	4,07,600	5,00,000

Dr. PARTNERS' CURRENT ACCOUNTS Cr.

Particulars	Usha (₹)	Asha (₹)	Particulars	Usha (₹)	Asha (₹)
To Balance *c/d*	3,59,400	1,01,600	By Usha's Capital A/c	3,59,400	...
			By Asha's Capital A/c	...	1,01,600
	3,59,400	1,01,600		3,59,400	1,01,600

BALANCE SHEET OF THE NEW FIRM

as at 31st March, 2018

Liabilities		₹	Assets		₹
Creditors		1,20,000	Cash at Bank		7,21,000
Bills Payable		1,00,000	(₹ 40,000 + ₹ 5,00,000 + ₹ 1,75,000 + ₹ 6,000)		
Employees' Provident Fund		60,000	Sundry Debtors	2,00,000	
Outstanding Rent		8,000	*Less:* Provision for Doubtful Debts	4,000	1,96,000
Capital A/cs:			Investments		1,90,000
Usha	2,00,000		Furniture		1,00,000
Asha	3,00,000		Machinery		2,40,000
Neelam	5,00,000	10,00,000	Building		3,00,000
Current A/cs:			Accrued Income		2,000
Usha	3,59,400				
Asha	1,01,600	4,61,000			
		17,49,000			17,49,000

Working Notes:

1. Unless agreed otherwise, sacrificing ratio of the old partners will be same as their old profit-sharing ratio.

2. *Calculation of New Profit-sharing Ratio:*

   Neelam's share = 1/2; Remaining share = 1 – 1/2 = 1/2

   It will be shared by Usha and Asha in 2 : 3.

   Usha's new share = 1/2 × 2/5 = 2/10

   Asha's new share = 1/2 × 3/5 = 3/10

   Neelam's share = 1/2 or 5/10

   Thus, New Profit-sharing Ratio of Usha, Asha and Neelam = 2 : 3 : 5.

3. *Adjustment of Capital:*

   Neelam's capital for 1/2 share = ₹ 5,00,000

   Total capital of new firm = ₹ 5,00,000 × 2/1 = ₹ 10,00,000

   It is to be contributed by partners in new ratio, *i.e.*, 2 : 3 : 5. Therefore,

   Usha's capital in new firm = ₹ 10,00,000 × 2/10 = ₹ 2,00,000

   Asha's capital in new firm = ₹ 10,00,000 × 3/10 = ₹ 3,00,000

   Neelam's capital = ₹ 5,00,000.

   Usha's capital after all adjustments = ₹ 5,59,400

   Asha's capital after all adjustments = ₹ 4,01,600

   Excess capital to be transferred to Current Accounts:

   Usha's Current Account = ₹ 5,59,400 – ₹ 2,00,000 = ₹ 3,59,400 (Cr.)

   Asha's Current Account = ₹ 4,01,600 – ₹ 3,00,000 = ₹ 1,01,600 (Cr.).

4.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts A/c		4,000	By Building A/c	40,000
To Machinery A/c		20,000		
To Gain (Profit) transferred to Capital A/cs:				
Keshav	8,000			
Nirmal	4,000			
Pankaj	4,000	16,000		
		40,000		40,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Keshav ₹	Nirmal ₹	Pankaj ₹	Particulars	Keshav ₹	Nirmal ₹	Pankaj ₹
To Nirmal's Capital A/c	24,000	...	12,000	By Balance *b/d*	1,60,000	80,000	80,000
To Bank A/c (Bal. Fig.)	4,000	1,30,000	2,000	By General Reserve A/c	20,000	10,000	10,000
To Balance *c/d* (WN 2)	1,60,000	...	80,000	By Revaluation A/c	8,000	4,000	4,000
				By Keshav's Capital A/c	...	24,000	...
				By Pankaj's Capital A/c	...	12,000	...
	1,88,000	1,30,000	94,000		1,88,000	1,30,000	94,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	28,000	By Nirmal's Capital A/c	1,30,000
To Balance *c/d* (Bank Overdraft)	1,08,000	By Keshav's Capital A/c	4,000
		By Pankaj's Capital A/c	2,000
	1,36,000		1,36,000

BALANCE SHEET (AFTER RETIREMENT) *as at 31st March, 2018*

Liabilities		₹	Assets		₹
Capital A/cs:			Building		2,40,000
Keshav	1,60,000		Machinery		80,000
Pankaj	80,000	2,40,000	Stock		36,000
Bank Overdraft		1,08,000	Debtors	40,000	
Creditors		42,000	*Less:* Provision for Doubtful Debts	6,000	34,000
		3,90,000			3,90,000

Working Notes:

1. *Adjustment of Nirmal's Share of Goodwill:*

   Goodwill = ₹ 1,44,000

   Nirmal's share of Goodwill = ₹ 1,44,000 × 1/4 = ₹ 36,000, which will be contributed by Keshav and Pankaj in their gaining ratio, *i.e.*, 2 : 1.

2. *Adjustment of Capital:*

   Total capital of the new firm = ₹ 2,40,000, it is to be contributed by Keshav and Pankaj in their new ratio, *i.e.*, 2 : 1. Therefore,
   Keshav's capital in new firm = ₹ 2,40,000 × 2/3 = ₹ 1,60,000
   Pankaj's capital in new firm = ₹ 2,40,000 × 1/3 = ₹ 80,000
   Keshav's present capital (after all adjustments) = ₹ 1,64,000
   Therefore, he will withdraw ₹ 4,000, *i.e.*, ₹ 1,64,000 – ₹ 1,60,000
   Pankaj's present capital (after all adjustments) = ₹ 82,000
   Therefore, he will withdraw ₹ 2,000, *i.e.*, ₹ 82,000 – ₹ 80,000.

5. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
April 1 (*a*)	Bank A/c	...Dr.		1,40,000	
	To Realisation A/c				1,40,000
	(Being the excess value of machinery taken by creditor received)				
(*b*)	No Entry				
(*c*)	Realisation A/c	...Dr.		45,000	
	To Bank A/c				45,000
	(Being the payment made to creditor in addition to investments)				
(*d*)	Bank A/c	...Dr.		99,360	
	To Realisation A/c				99,360
	(Being the amount realised from debtors) (Note)				
(*e*)	Lal's Capital A/c	...Dr.		4,500	
	Pal's Capital A/c	...Dr.		10,500	
	To Realisation A/c				15,000
	(Being the loss on dissolution transferred to partners)				

Note: *Calculation of Amount Realised from Debtors:*

Particulars	₹
(*i*) 60% of Debtors realised at 90% (₹ 1,20,000 × 60/100 × 90/100)	64,800
(*ii*) 40% of Debtors sold for 80% *less* 10% [(₹ 1,20,000 × 40/100 × 80/100 = ₹ 38,400) – 10% of ₹ 38,400]	34,560
	99,360

6. *(a)* JOURNAL OF KAILASH LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Land and Building A/c ...Dr. To M/s. Jain Brothers (Being the Land and Building purchased from M/s. Jain Brothers)		20,00,000	 20,00,000
	M/s. Jain Brothers ...Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being the issue of 1,00,000 equity shares of ₹ 10 each at 100% premium against payment of purchase of Land and Building)		20,00,000	 10,00,000 10,00,000
	Incorporation Expenses A/c ...Dr. To Equity Share Capital A/c (Being the issue of 10,000 equity shares of ₹ 10 each at par to promoters against their remuneration)		1,00,000	 1,00,000
	Bank A/c ...Dr. To Equity Shares Application and Allotment A/c To Preference Shares Application and Allotment A/c (Being the application money received for 2,00,000 equity shares @ ₹ 20 each and for 50,000, 12% Preference Shares @ ₹ 10 each)		45,00,000	 40,00,000 5,00,000
	Equity Shares Application and Allotment A/c ...Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being the allotment of 2,00,000 equity shares of ₹ 10 each at 100% premium)		40,00,000	 20,00,000 20,00,000
	Preference Shares Application and Allotment A/c ...Dr. To 12% Preference Share Capital A/c (Being the allotment of 50,000, 12% Preference Shares of ₹ 10 each at par)		5,00,000	 5,00,000
	Underwriting Commission A/c ...Dr. To M/s. Gupta Brothers (Being the underwriting commission payable)		90,000	 90,000
	M/s. Gupta Brothers ...Dr. To Equity Share Capital A/c (Being the issue of 9,000 (*i.e.*, ₹ 90,000 ÷ ₹ 10) equity shares of ₹ 10 each at par against payment of underwriting commission)		90,000	 90,000
	Securities Premium Reserve A/c ...Dr. To Underwriting Commission A/c (Being the underwriting commission written off from Securities Premium Reserve)		90,000	 90,000

(*b*) (*i*) *Calculation of Allotment Money not Paid by Mohan:*

Applied shares by Mohan = 6,000

Allotted shares to Mohan = $6{,}000 \times \dfrac{30{,}000}{40{,}000} = 4{,}500$ shares

	₹
Application money paid on 6,000 shares	2,40,000
Less: Application money due on 4,500 shares	1,80,000
Excess money to be adjusted against allotment	60,000
Allotment money due on 4,500 shares @ ₹ 30 each	1,35,000
Less: Excess money already adjusted	60,000
Allotment money not paid by Mohan	75,000

(*ii*) *Calculation of Allotment Money Received:*

	₹
Total allotment money due on 30,000 shares @ ₹ 30 each	9,00,000
Less: Excess money adjusted (10,000 shares × ₹ 40)	4,00,000
	5,00,000
Less: Allotment Money not paid by Mohan	75,000
Allotment money received	4,25,000

7. (*a*) JOURNAL OF NEW VENTURES LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
April 1	Sundry Assets A/c	...Dr.		2,80,000	
	To Creditors A/c				50,000
	To Verma Ltd.				2,30,000
	(Being the purchase of business of Verma Ltd.)				
April 3	Verma Ltd.	...Dr.		50,000	
	To Bank A/c				50,000
	(Being the part payment made to Verma Ltd.)				
April 5	Verma Ltd.	...Dr.		1,80,000	
	To 8% Debentures A/c				1,50,000
	To Securities Premium Reserve A/c				30,000
	(Being 1,500 (*i.e.*, ₹ 1,80,000 ÷ ₹ 120), 8% Debentures of ₹ 100 each issued at 20% premium for the balance payment)				

(*b*) AN EXTRACT OF BALANCE SHEET OF CAUVERY SOFTWARE LTD.

as at...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Non-current Liabilities		
Long-term Borrowings	1	5,00,000
2. Current Liabilities		
Short-term Borrowings	2	2,00,000

Notes to Accounts

Particulars	₹	₹
1. Long-term Borrowings		
5,000; 10% Debentures of ₹ 100 each		5,00,000
2. Short-term Borrowings		
Loan from Bank of Baroda		2,00,000
2,500; 10% Debentures of ₹ 100 each issued as Collateral Security	2,50,000	
Less: Debentures Suspense A/c	2,50,000	...
		2,00,000

(*c*) JOURNAL OF VIJAY LAXMI LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		22,95,000	
	To Debentures Application and Allotment A/c				22,95,000
	(Being the application money received for 13,500 debentures @ ₹ 170 each)				
	Debentures Application and Allotment A/c	...Dr.		22,95,000	
	To 12% Debentures A/c				10,00,000
	To Securities Premium Reserve A/c				7,00,000
	To Bank A/c				5,95,000
	(Being the allotment of 10,000; 12% Debentures of ₹ 100 each at premium of ₹ 70 each and balance refunded)				

8. (*a*) JOURNAL OF STRONG LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2013					
April 1	Sundry Assets A/c	...Dr.		6,00,000	
	Goodwill A/c (Balancing Figure)	...Dr.		20,000	
	To Liabilities A/c				70,000
	To P & Co.				5,50,000
	(Being the purchase of business of P & Co. for ₹ 5,50,000)				
	P & Co.	...Dr.		5,50,000	
	Loss on Issue of Debentures A/c	...Dr.		25,000	
	To 12% Debentures A/c				5,00,000
	To Securities Premium Reserve A/c				50,000
	To Premium on Redemption of Debentures A/c				25,000
	(Being the purchase price paid by issue of 5,000; 12% Debentures of ₹ 100 each at 10% premium payable at 5% premium)				
2014					
March 31	Securities Premium Reserve A/c	...Dr.		25,000	
	To Loss on Issue of Debentures A/c				25,000
	(Being the loss on issue of debentures written off from Securities Premium Reserve)				
2017					
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		1,25,000*	
	To Debentures Redemption Reserve A/c				1,25,000
	(Being the amount of 25% face value of outstanding debentures transferred to DRR)				

April 1	Debentures Redemption Investment A/c ...Dr. To Bank A/c (Being the investment made @ 15% of face value of debentures)		75,000**	75,000
2018 March 31	Bank A/c ...Dr. To Debentures Redemption Investment A/c (Being the investment encashed for redemption)		75,000	75,000
March 31	12% Debentures A/c ...Dr. Premium on Redemption of Debentures A/c ...Dr. To Debentureholders' A/c (Being the amount due on redemption)		5,00,000 25,000	5,25,000
March 31	Debentureholders' A/c ...Dr. To Bank A/c (Being the payment made to debentureholders)		5,25,000	5,25,000
March 31	Debentureholder's A/c ...Dr. To General Reserve A/c (Being DRR transferred to General Reserve after the redemption of all debentures)		1,25,000	1,25,000

* DRR = 25% of ₹ 5,00,000 = ₹ 1,25,000;

** DRI = 15% of ₹ 5,00,000 = ₹ 75,000.

(*b*)

S.No.	Particulars	Main Head	Sub-head
1.	Capital Advances	Non-current Assets	Long-term Loans and Advances
2.	Work-in-Progress	Current Assets	Inventories
3.	Unpaid/Unclaimed Dividend	Current Liabilities	Other Current Liabilities
4.	Provision for Warranties	Non-current Liabilities	Long-term Provisions

SECTION B

9. **Young India Ltd.**

CASH FLOW STATEMENT *for the year ended 31st March, 2018*

Particulars		₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		9,00,000
Adjustments for Non-cash and Non-operating Items:		
(*i*) Depreciation	1,70,000	
(*ii*) Interest on Debentures (WN 2)	44,000	
(*iii*) Loss on Sale of Machinery	20,000	2,34,000
Operating Profit before Working Capital Changes		11,34,000
Add: Increase in Current Liabilities:		
Trade Payables		50,000
Less: Increase in Current Assets and Decrease in Current Liabilities:		11,84,000
Inventories	1,50,000	
Trade Receivables	50,000	
Outstanding Expenses	1,70,000	3,70,000
Cash Generated from Operating Activities		8,14,000
Less: Tax Paid		2,50,000
Cash Flow from Operating Activities		5,64,000

II. Cash Flow from Investing Activities	
Proceeds from Sale of Machinery	10,000
Proceeds from Non-current Investments	1,00,000
Purchase of Fixed Assets (WN 3)	(6,00,000)
Cash Used in Investing Activities	(4,90,000)
III. Cash Flow from Financing Activities	
Proceeds from Issue of Debentures	2,00,000
Interest on debentures paid	(44,000)
Dividend paid (WN 4)	(2,30,000)
Interim dividend paid	(1,00,000)
Cash Used in Financing Activities	(1,74,000)
IV. Net Decrease in Cash and Cash Equivalents (I + II + III)	(1,00,000)
Add: Cash and Bank Balance (Opening)	2,00,000
V. Cash and Bank Balance (Closing)	1,00,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)	4,00,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)	2,00,000
Profit during the year	2,00,000
Add: Transfer to General Reserve	1,00,000
Interim Dividend Paid	1,00,000
Dividend Paid (Proposed Dividend for the year ended 31st March, 2017)	2,50,000
Provision for Tax	2,50,000
Net Profit before Tax	9,00,000

2. *Calculation of Interest on Debentures:*

	₹
(*i*) ₹ $6,00,000 \times 6/100 \times 4/12$	12,000
(*ii*) ₹ $8,00,000 \times 6/100 \times 8/12$	32,000
Total	44,000

3. *Dr.* FIXED ASSETS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	15,00,000	By Bank A/c	10,000
To Bank A/c (Balancing Figure)—Purchase	6,00,000	By Loss on Sale of Machinery A/c	20,000
		By Depreciation A/c	1,70,000
		By Balance *c/d*	19,00,000
	21,00,000		21,00,000

4. *Dr.* DIVIDEND PAYABLE ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Dividend Paid)	2,30,000	By Balance *b/d*	50,000
To Balance *c/d*	70,000	By Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	2,50,000
	3,00,000		3,00,000

10. (*a*) (*i*) To analyse change in individual items of Statement of Profit and Loss.

(*ii*) To study the trend in different items of Revenue and Expenses.

(*b*) $$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{2.5}{1}$$

If Current Liability is 1, Current Assets = 2.5

Working Capital = 2.5 – 1 = 1.5

If Working Capital is 1.5, Current Assets = 2.5

If Working Capital is 1, Current Assets = 2.5/1.5

If Working Capital is ₹ 60,000, Current Assets = 2.5/1.5 × ₹ 60,000 = ₹ 1,00,000.

Current Liabilities = Current Assets – Working Capital

= ₹ 1,00,000 – ₹ 60,000 = ₹ 40,000.

(*c*) COMMON-SIZE BALANCE SHEET *as at 31st March, 2018 and 2017*

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31st March, 2018 (₹)	31st March, 2017 (₹)	31st March, 2018 (%)	31st March, 2017 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(*a*) Share Capital		24,00,000	18,00,000	66.67	60.00
(*b*) Reserves and Surplus		3,60,000	2,40,000	10.00	8.00
2. Non-Current Liabilities					
Long-term Borrowings		7,20,000	6,00,000	20.00	20.00
3. Current Liabilities					
Short-term Borrowings		1,20,000	3,60,000	3.33	12.00
Total		36,00,000	30,00,000	100.00	100.00
II. ASSETS					
1. Non-Current Assets					
Fixed Assets:					
(*i*) Tangible Assets		24,00,000	18,00,000	66.67	60.00
(*ii*) Intangible Assets		1,20,000	3,60,000	3.33	12.00
2. Current Assets					
(*a*) Inventories		3,24,000	2,70,000	9.00	9.00
(*b*) Trade Receivables		3,96,000	3,30,000	11.00	11.00
(*c*) Cash and Cash Equivalents		3,60,000	2,40,000	10.00	8.00
Total		36,00,000	30,00,000	100.00	100.00

11. (*a*) (*i*)

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{₹\,2,30,000}{₹\,1,55,000} = 1.48 : 1.$$

Current Assets = Cash + Bank + Inventory + Trade Receivables

= ₹ 50,000 + ₹ 70,000 + ₹ 30,000 + ₹ 80,000

= ₹ 2,30,000.

Current Liabilities = Trade Payables + Short-term Loan from Bank

= ₹ 65,000 + ₹ 90,000 = ₹ 1,55,000.

(*ii*) Inventory Turnover Ratio $= \dfrac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$

$$= \frac{₹\,3{,}00{,}000}{₹\,32{,}500} = 9.23 \text{ Times.}$$

$$\text{Average Inventory} = \frac{\text{Opening Inventory} + \text{Closing Inventory}}{2}$$

$$= \frac{₹\,35{,}000 + ₹\,30{,}000}{2} = ₹\,32{,}500.$$

(*b*) (*i*) Liquid Ratio $= \dfrac{\text{Liquid Assets}}{\text{Current Liabilities}}$

$$= \frac{₹\,2{,}70{,}000}{₹\,1{,}50{,}000} = 1.8 : 1.$$

Liquid Assets = Total Current Assets – Prepaid Insurance – Closing Inventory
= ₹ 3,00,000 – ₹ 5,000 – ₹ 25,000
= ₹ 2,70,000.

(*ii*) Proprietary Ratio $= \dfrac{\text{Shareholders' Funds}}{\text{Total Assets}}$

$$= \frac{₹\,4{,}50{,}000}{₹\,9{,}00{,}000} = 0.50 : 1 \text{ or } 50\%.$$

Shareholders' Funds = Share Capital + Reserves and Surplus
= ₹ 4,00,000 + ₹ 50,000 = ₹ 4,50,000

Total Assets = Current Assets + Non-current Assets
= ₹ 3,00,000 + ₹ 6,00,000 = ₹ 9,00,000.

(*iii*) Working Capital Turnover Ratio $= \dfrac{\text{Revenue from Operations}}{\text{Working Capital}}$

$$= \frac{₹\,5{,}00{,}000}{₹\,1{,}50{,}000} = 3.33 \text{ Times.}$$

Working Capital = Current Assets – Current Liabilities
= ₹ 3,00,000 – ₹ 1,50,000
= ₹ 1,50,000.

MODEL TEST PAPER 19 (Solution)

SECTION A

PART I

1. (*i*) In the absence of Partnership Deed, no partner is entitled to get any interest on capital. So, interest on capital will not be allowed to *T*.

(*ii*) When one business is taken over by another business, the excess of purchase consideration over its net value (*i.e.*, assets – liabilities) is referred to as *Purchased Goodwill*.

Following are the important features of Purchased Goodwill:

(*a*) It arises on purchase of a business.

(*b*) It is recorded in the books of account.

(*c*) It is shown in the Balance Sheet as an asset.

(*iii*) Securities Premium Reserve can only be used for the purposes stated in Section 52(2) of the Companies Act, 2013. Since it does not prescribe the use of Securities Premium Reserve for payment of dividend, it cannot be distributed as dividend.

(*iv*) Glory Ltd. should invest ₹ 75,000 in specified securities on or before 30th April, 2018.

(*v*) **Difference between Securities Premium Reserve and Premium on Redemption of Debentures**

Securities Premium Reserve	*Premium on Redemption of Debentures*
1. It is a capital profit and can be used in writing off the capital losses.	It is a capital loss.
2. The balance of Securities Premium Reserve is shown on the Equity and Liabilities part of the Balance Sheet, under the main head Shareholders' Funds and sub-head Reserves and Surplus.	It is a liability and appears under the main head 'Non-Current Liabilities' and sub-head 'Long-term Borrowings' till the redemption of debentures.

(*vi*) *Current Maturities of Long-term Debts* is that part of long-term borrowings which is due for payment within 12 months of the date of Balance Sheet or within the period of Operating Cycle from the date of Balance Sheet. For example, Debentures issued on 1st April, 2015 for ₹ 5,00,000 redeemable in five equal yearly instalments starting from 31st March, 2019. ₹ 1,00,000 redeemable within 12 months from the date of Balance Sheet, *i.e.*, by 31st March, 2019 (assuming Operating Cycle is of 12 months or less) will be shown as 'Current Maturities of Long-term Debts' and balance ₹ 4,00,000 will be shown as 'Long-term Borrowings' in the Balance Sheet as at 31st March, 2018.

2. (*a*) CALCULATION OF WEIGHTED PROFIT

Particulars	31st March, 2016 (₹)	31st March, 2017 (₹)	31st March, 2018 (₹)
Given Profits	2,00,000	2,30,000	2,50,000
Less: Remuneration to partners	50,000	50,000	50,000
	1,50,000	1,80,000	2,00,000
Add: Undervaluation of Closing Inventory	...	10,000	24,000
	1,50,000	1,90,000	2,24,000
Less: Undervaluation of Opening Inventory	...	...	10,000
	1,50,000	1,90,000	2,14,000
Less: Bad Debts	...	4,000	...
	1,50,000	1,86,000	2,14,000
Less: Unrecorded Expenses	...	...	8,000
Adjusted Profits	1,50,000	1,86,000	2,06,000
Weights	1	2	3
Weighted Profit	1,50,000	3,72,000	6,18,000

$$\text{Weighted Average Profit} = \frac{\text{Total of Weighted Profit}}{\text{Total of Weights}}$$

$$= \frac{₹\,11,40,000}{6} = ₹\,1,90,000$$

$$\text{Goodwill} = \text{Weighted Average Profit} \times \text{No. of Years' Purchase}$$

$$= ₹\,1,90,000 \times 4 = ₹\,7,60,000.$$

(*b*)

Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT *for the year ended 31st March, 2018* *Cr.*

Particulars		₹	Particulars	₹
To Interest on Capital A/cs:			By Profit and Loss A/c (Net Profit)	1,00,000
X	9,600			
Y	14,400			
Z	4,000	28,000		
To Profit transferred to:				
X's Capital A/c	24,400			
Y's Capital A/c	31,600			
Z's Capital A/c	16,000	72,000		
		1,00,000		1,00,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	*Z* ₹	Particulars	*X* ₹	*Y* ₹	*Z* ₹
To Balance *c/d*	1,14,000	1,66,000	70,000	By Balance *b/d*	80,000	1,20,000	...
				By Cash/Bank A/c	...	...	50,000
				By Interest on Capital A/c	9,600	14,400	4,000
				By Profit and Loss App. A/c	24,400	31,600	16,000
	1,14,000	1,66,000	70,000		1,14,000	1,66,000	70,000

Working Notes:

1. *Calculation of New Ratio:*

   Z's share = 1/5, Remaining share = 1 – 1/5 = 4/5, which will be shared by *X* and *Y* in their old ratio, *i.e.*, 2 : 3. Thus,

   X's new share = 4/5 × 2/5 = 8/25

   Y's new share = 4/5 × 3/5 = 12/25

   Z's new share = 1/5 or 5/25

   New Ratio = 8 : 12 : 5.

2. *Calculation of share in profit of partners:*

   Profit of ₹ 25,000 belongs to first four months which will be shared by *X* and *Y* in their old ratio, as follows:

   X = ₹ 3,200 (interest on capital) + ₹ 6,800 (share in profit) = ₹ 10,000.

   Y = ₹ 4,800 (interest on capital) + ₹ 10,200 (share in profit) = ₹ 15,000.

   Profit of ₹ 75,000 belongs to next eight months which will be shared by *X*, *Y* and *Z* in new ratio, as follows:

   X = ₹ 6,400 (Interest on Capital) + ₹ 17,600 (share in profit) = ₹ 24,000

   Y = ₹ 9,600 (Interest on Capital) + ₹ 26,400 (share in profit) – ₹ 5,000 (deficiency of *Z*)

   Z = ₹ 4,000 (Interest on Capital) + ₹ 11,000 (share in profit) + ₹ 5,000 (recovered from *Y*) = ₹ 20,000.

3. (*a*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Machinery A/c	1,80,000	By Land and Building A/c		1,20,000
To Bad Debts A/c	15,000	By Loss transferred to:		
(₹ 35,000 – ₹ 20,000: Provision for Doubtful Debts)		*X*'s Capital A/c	21,429	
		Y's Capital A/c	32,142	
		Z's Capital A/c	21,429	75,000
	1,95,000			1,95,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To Revaluation A/c (Loss)	21,429	32,142	21,429	By Balance *b/d*	4,00,000	6,00,000	4,00,000
To *X*'s Capital A/c	...	...	80,000	By Workmen Compensation			
To Bank A/c	1,00,000	...	...	Reserve A/c	4,286	6,428	4,286
To *X*'s Loan A/c	3,62,857	...	...	By *Z*'s Capital A/c (WN 2)	80,000	...	...
To Balance *c/d* (WN 3)	...	6,00,000	8,00,000	By Bank A/c (Bal. Fig.)	...	25,714	4,97,143
	4,84,286	6,32,142	9,01,429		4,84,286	6,32,142	9,01,429

BALANCE SHEET (AFTER *X*'S RETIREMENT) *as at 31st March, 2018*

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		5,20,000
Y	6,00,000		Machinery		4,20,000
Z	8,00,000	14,00,000	Closing Stock		2,00,000
X's Loan A/c		3,62,857	Debtors	2,20,000	
Employees' Provident Fund		70,000	*Less:* Bad Debts	35,000	1,85,000
Provision for Workmen Compensation Claim		15,000	Cash at Bank (WN 4)		6,22,857
Sundry Creditors		2,00,000	Cash in Hand		1,00,000
		20,47,857			20,47,857

Working Notes:

1. *Calculation of Gaining Ratio:*

   Gain = New share – Old share

   Y's Gain = 3/7 – 3/7 = 0

   Z's Gain = 4/7 – 2/7 = 2/7

   Therefore, only *Z* gains and he alone contributes for *X*'s share of goodwill.

2. *Adjustment of Goodwill:*

   X's share of goodwill = ₹ 2,80,000 × 2/7 = ₹ 80,000

   As *Z* alone gains on retirement of *X*, he will contribute ₹ 80,000.

3. *Calculation of Capital:*

   Total capital of new firm, *i.e.*, of *Y* and *Z* = ₹ 14,00,000 which will be contributed by *Y* and *Z* in 3 : 4 ratio, Therefore,

   Y's capital in new firm = ₹ 14,00,000 × 3/7 = ₹ 6,00,000;

   Z's capital in new firm = ₹ 14,00,000 × 4/7 = ₹ 8,00,000.

4. Cash at Bank = ₹ 2,00,000 + ₹ 25,714 + ₹ 4,97,143 – ₹ 1,00,000 (Paid to *X*) = ₹ 6,22,857.

3. (*b*) (*i*) *Calculation of Net Effect of Accumulated Profits, Losses and Reserves:*

	₹
General Reserve	30,000
Contingency Reserve	5,000
Profit and Loss A/c (Cr.)	15,000
Advertisement Suspense A/c	(20,000)
Net Effect	30,000

(*ii*) *Calculation of Sacrifice / Gain:*

$$X\text{'s Gain} = 3/5 - 3/6 = \frac{18-15}{30} = 3/30$$

$$Z\text{'s Gain} = 2/5 - 1/6 = \frac{12-5}{30} = 7/30$$

Gaining ratio = 3 : 7

Y's share = ₹ 30,000 × 2/6 = ₹ 10,000.

(*iii*) ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018				
April 1	*X*'s Capital/Current A/c ...Dr.		3,000	
	Z's Capital/Current A/c ...Dr.		7,000	
	To *Y*'s Capital/Current A/c			10,000
	(Being *Y*'s share of accumulated profits, losses and reserves adjusted in gaining ratio)			

4.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Debtors		1,70,000	By Provision for Doubtful Debts		20,000
To Stock		1,50,000	By Creditors		80,000
To Investments		2,50,000	By *X*'s Brother's Loan		80,000
To Building		2,50,000	By Investment Fluctuation Fund		50,000
To Goodwill		1,00,000	By *Y*'s Capital A/c (Stock—Book value ₹ 50,000)		40,000
To *X*'s Capital A/c (*X*'s Brother's Loan)		80,000	By Bank A/c (Assets Realised):		
To Bank A/c (Liabilities paid):			Debtors	1,20,000	
Realisation Expenses	20,000		Investments	2,00,000	
Creditors	60,000	80,000	Goodwill	60,000	
			Building*	2,90,000	
			Stock (Remaining)	50,000	7,20,000
			By Loss transferred to:		
			X's Capital A/c	72,000	
			Y's Capital A/c	18,000	90,000
		10,80,000			10,80,000

*Building Realised = ₹ 3,00,000 – ₹ 10,000 (Auctioneer's Commission) = ₹ 2,90,000.

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	Particulars	*X* (₹)	*Y* (₹)
To Realisation A/c	...	40,000	By Balance *b/d*	5,00,000	4,00,000
To Realisation A/c (Loss)	72,000	18,000	By Realisation A/c	80,000	...
To Profit and Loss A/c	80,000	20,000			
To Bank A/c (Final Payment) (Bal. Fig.)	4,28,000	3,22,000			
	5,80,000	4,00,000		5,80,000	4,00,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	2,00,000	By Bank Overdraft	60,000
To Realisation A/c (Assets Realised)	7,20,000	By *Y*'s Loan A/c	30,000
		By Realisation A/c (Liabilities Paid)	80,000
		By *X*'s Capital A/c (Final Payment)	4,28,000
		By *Y*'s Capital A/c (Final Payment)	3,22,000
	9,20,000		9,20,000

Notes:

1. Bank overdraft is to be taken to Bank/Cash Account and not to be transferred to Realisation Account.
2. If an asset (recorded or unrecorded) is given in payment of a liability (recorded or unrecorded) then No Entry is passed for such payment.
3. Book value of stock taken by *Y* = ₹ 40,000 × 100/80 = ₹ 50,000;
   Book value of remaining stock = ₹ 1,50,000 – ₹ 50,000 = ₹ 1,00,000;
   Realised value of remaining stock = ₹ 1,00,000 × 50/100 = ₹ 50,000.

5. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		4,00,000	
	To Equity Shares Application A/c				4,00,000
	(Being the application money received for 1,00,000 shares @ ₹ 4 each)				
	Equity Shares Application A/c	...Dr.		4,00,000	
	To Equity Share Capital A/c				3,00,000
	To Equity Shares Allotment A/c				1,00,000
	(Being the application money adjusted)				
	Equity Shares Allotment A/c	...Dr.		2,25,000	
	To Equity Share Capital A/c				2,25,000
	(Being the allotment money due)				
	Bank A/c	...Dr.		1,23,750	
	Calls-in-Arrears A/c	...Dr.		1,250	
	To Equity Shares Allotment A/c				1,25,000
	(Being the allotment money received except on 750 shares)				
	Equity Share Capital A/c	...Dr.		5,250	
	To Calls-in-Arrears A/c				1,250
	To Forfeited Shares A/c				4,000
	(Being 750 shares of Vibha forfeited for non-payment of allotment money)				
	Equity Shares First and Final Call A/c	...Dr.		2,22,750	
	To Equity Share Capital A/c				2,22,750
	(Being the call made on 74,250 shares)				
	Bank A/c	...Dr.		2,20,500	
	Calls-in-Arrears A/c	...Dr.		2,250	
	To Equity Shares First and Final Call A/c				2,22,750
	(Being the call money received except on 750 shares)				
	Equity Share Capital A/c	...Dr.		7,500	
	To Calls-in-Arrears A/c				2,250
	To Forfeited Shares A/c				5,250
	(Being 750 shares of Monika forfeited for non-payment of first and final call money)				
	Bank A/c	...Dr.		9,000	
	Forfeited Shares A/c	...Dr.		6,000	
	To Equity Share Capital A/c				15,000
	(Being the reissue of 1,500 forfeited shares as fully paid-up)				
	Forfeited Shares A/c	...Dr.		3,250	
	To Capital Reserve A/c				3,250
	(Being the balance of Forfeited Shares Account transferred)				

Dr. CALLS-IN-ARREARS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Equity Shares Allotment A/c	1,250	By Equity Share Capital A/c	1,250
To Equity Shares First and Final Call A/c	2,250	By Equity Share Capital A/c	2,250
	3,500		3,500

Dr. FORFEITED SHARES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Equity Share Capital A/c	6,000	By Equity Share Capital A/c	4,000
To Capital Reserve A/c (₹ 4,000 + ₹ 5,250 – ₹ 6,000)	3,250	By Equity Share Capital A/c	5,250
	9,250		9,250

Working Notes:

1. Number of shares applied by Vibha = $\frac{1,00,000}{75,000} \times 750$ = 1,000 shares.

   Amount due on Allotment from Vibha = 750 × ₹ 3 = ₹ 2,250
   Excess Application money received from Vibha = (1,000 – 750) × ₹ 4 = ₹ 1,000
   Amount unpaid on Allotment from Vibha = ₹ (2,250 – 1,000) = ₹ 1,250
   Total Amount received on Allotment = ₹ (2,25,000 – 1,00,000 – 1,250) = ₹ 1,23,750.

2. Number of shares allotted to Monika = $\frac{75,000}{1,00,000} \times 1,000$ = 750 shares.

6. (*a*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Case (*i*)	Bank A/c ...Dr.		27,50,000	
	To Debentures Application and Allotment A/c			27,50,000
	(Being the application and allotment money received)			
	Debentures Application and Allotment A/c ...Dr.		27,50,000	
	To 9% Debentures A/c			25,00,000
	To Securities Premium Reserve A/c			2,50,000
	(Being the 9% Debentures issued at premium)			
Case (*ii*)	Bank A/c ...Dr.		25,00,000	
	To Debentures Application and Allotment A/c			25,00,000
	(Being the application and allotment money received)			
	Debentures Application and Allotment A/c ...Dr.		25,00,000	
	Loss on Issue of Debentures A/c ...Dr.		2,50,000	
	To 9% Debentures A/c			25,00,000
	To Premium on Redemption of Debentures A/c			2,50,000
	(Being 9% Debentures allotted at par redeemable at 10% premium)			
Case (*iii*)	Bank A/c ...Dr.		26,25,000	
	To Debentures Application and Allotment A/c			26,25,000
	(Being the application and allotment money received)			
	Debentures Application and Allotment A/c ...Dr.		26,25,000	
	Loss on Issue of Debentures A/c ...Dr.		2,50,000	
	To 9% Debentures A/c			25,00,000
	To Securities Premium Reserve A/c			1,25,000
	To Premium on Redemption of Debentures A/c			2,50,000
	(Being 9% Debentures allotted being issued at premium and redeemable at premium)			
Case (*iv*)	Machinery A/c ...Dr.		31,25,000	
	To Vendor's A/c			31,25,000
	(Being the machinery purchased)			
	Vendor's A/c ...Dr.		31,25,000	
	To 9% Debentures A/c			25,00,000
	To Securities Premium Reserve A/c			6,25,000
	(Being 9% Debentures issued at Premium to the Vendor)			

Note: *Case* (*iv*): No. of Debentures issued = ₹ 31,25,000/₹ 1,250 = 2,500 Debentures.

(*b*) JOURNAL OF WALTER LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		90,000	
	To Debentures Redemption Investment A/c			90,000
	(Being the investment encashed before redemption)			
	Own Debentures A/c ...Dr.		5,70,000	
	To Bank A/c			5,70,000
	(Being own 6,000; 8% Debentures purchased @ ₹ 95 each for immediate cancellation)			
	8% Debentures A/c ...Dr.		6,00,000	
	To Own Debentures A/c			5,70,000
	To Gain on Cancellation of Own Debentures A/c			30,000
	(Being own 6,000; 8% Debentures cancelled and gain accounted)			
	Gain on Cancellation of Own Debentures A/c ...Dr.		30,000	
	To Capital Reserve A/c			30,000
	(Being the gain on cancellation transferred)			
	Debentures Redemption Reserve A/c ...Dr.		1,50,000	
	To General Reserve A/c			1,50,000
	(Being DRR transferred to General Reserve after redemption)			

Notes:

1. Walter Ltd. must have invested in specified securities equivalent to 15% of the nominal (face) value of the debentures to be redeemed during the year, *i.e.*, 15% of ₹ 6,00,000.
2. Walter Ltd. must have created Debentures Redemption Reserve equivalent to 25% of the nominal value of the debentures to be redeemed, *i.e.*, 25% of ₹ 6,00,000. This amount is transferred to General Reserve after redemption (cancellation) of the debentures.

7. (*a*) JOURNAL OF GREEN LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2015				
April 1	Bank A/c ...Dr.		42,00,000	
	To Debentures Application and Allotment A/c			42,00,000
	(Being the application money received)			
	Debentures Application and Allotment A/c ...Dr.		42,00,000	
	Loss on Issue of Debentures A/c ...Dr.		4,00,000	
	To 10% Debentures A/c			40,00,000
	To Securities Premium Reserve A/c			2,00,000
	To Premium on Redemption of Debentures A/c			4,00,000
	(Being the allotment of 40,000; 10% Debentures at 5% premium and redeemable at 10% premium)			
2017				
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		10,00,000	
	To Debentures Redemption Reserve A/c			10,00,000
	(Being 25% of face value of outstanding debentures transferred to DRR)			
April 1	Debentures Redemption Investment A/c ...Dr.		3,00,000	
	To Bank A/c			3,00,000
	(Being 15% of the value of redeemable debentures invested)			
Sept. 30	Bank A/c ...Dr.		3,00,000	
	To Debentures Redemption Investment A/c			3,00,000
	(Being the investment realised)			

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
Sept. 30	10% Debentures A/c	...Dr.		20,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		2,00,000	
	To Debentureholders' A/c				22,00,000
	(Being the amount due on redemption of 20,000; 10% Debentures)				
	Debentureholders' A/c	...Dr.		22,00,000	
	To Bank A/c				22,00,000
	(Being the payment made to debentureholders)				
	Debentures Redemption Reserve A/c	...Dr.		5,00,000	
	To General Reserve A/c				5,00,000
	(Being the proportionate amount of DRR transferred)				
2018					
April 1	Debentures Redemption Investment A/c	...Dr.		3,00,000	
	To Bank A/c				3,00,000
	(Being 15% of the value of redeemable debentures invested)				
Sept. 30	Bank A/c	...Dr.		3,00,000	
	To Debentures Redemption Investment A/c				3,00,000
	(Being the investment realised)				
Sept. 30	10% Debentures A/c	...Dr.		20,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		2,00,000	
	To Debentureholders' A/c				22,00,000
	(Being the amount due on redemption of balance 20,000; 10% Debentures)				
	Debentureholders' A/c	...Dr.		22,00,000	
	To Bank A/c				22,00,000
	(Being the payment made to debentureholders)				
	Debentures Redemption Reserve A/c	...Dr.		5,00,000	
	To General Reserve A/c				5,00,000
	(Being the balance of DRR transferred to General Reserve)				

(*b*) **Strong Ltd.**

BALANCE SHEET *as at 31st March, 2018*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		50,000
(*b*) Reserves and Surplus	1	42,000
2. Non-Current Liabilities		
Long-term Borrowings	2	30,000
3. Current Liabilities		25,000
Total		1,47,000
II. ASSETS		
1. Non-Current Assets		
Fixed Assets (Tangible)	3	83,000
2. Current Assets		64,000
Total		1,47,000

Notes to Accounts

Particulars	₹
1. Reserves and Surplus	
General Reserve	30,000
Surplus, *i.e.*, Balance in Statement of Profit and Loss	12,000
	42,000
2. Long-term Borrowings	
8% Debentures	30,000
3. Fixed Assets (Tangible)	
Cost	90,000
Less: Accumulated Depreciation	7,000
	83,000

8.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Bad Debts A/c	1,000	By Furniture A/c		6,000
To Outstanding Electricity Charges A/c	11,000	By Prepaid (Unexpired) Insurance A/c		5,000
		By Loss transferred to:		
		A's Capital A/c	750	
		B's Capital A/c	250	1,000
	12,000			12,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Goodwill A/c	30,000	10,000	...	By Balance *b/d*	54,000	35,000	...
To Revaluation A/c (Loss)	750	250	...	By Workmen Compensation Fund A/c	3,000	1,000	...
To Balance *c/d*	39,450	30,150	23,200	By Investment Fluctuation Reserve A/c	1,200	400	...
				By Premium for Goodwill A/c	12,000	4,000	...
				By Cash A/c (WN)	...	...	23,200
	70,200	40,400	23,200		70,200	40,400	23,200

BALANCE SHEET (OF RECONSTITUTED FIRM) *as at 31st March, 2018*

Liabilities		₹	Assets		₹
Workmen Compensation Claim		2,000	Cash (₹ 6,100 + ₹ 16,000 + ₹ 23,200)		45,300
Outstanding Electricity Charges		11,000	Stock		15,000
Employees' Provident Fund		17,000	Debtors	50,000	
Capital A/cs:			*Less:* Bad Debts	3,000	47,000
A	39,450		Investments		4,500
B	30,150		Prepaid (Unexpired) Insurance		5,000
C	23,200	92,800	Furniture		6,000
		1,22,800			1,22,800

Working Note:

Calculation of C's Proportionate Capital:	₹
A's capital after all adjustments	39,450
B's capital after all adjustments	30,150
Combined capital of *A* and *B* for 3/4th share	69,600

Therefore, Total Capital of New Firm should be = ₹ 69,600 × 4/3 = ₹ 92,800

C's capital for 1/4th share = ₹ 92,800 × 1/4 = ₹ 23,200.

SECTION B

9. **JP International**

CASH FLOW STATEMENT *for the year ended 31st March, 2018*

Particulars		₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		53,000
Adjustments for Non-cash and Non-operating Activities:		
Add: Interest on Debentures	9,600	
Depreciation (WN 3)	25,000	
Interest on Bank Loan	2,000	
Premium on Redemption of Debentures	1,000	37,600
		90,600
Less: Gain (Profit) on Sale of Machinery		7,000
Operating Profit before Working Capital Changes		83,600
Add: *Increase in Current Liabilities:*		
Trade Payables		1,05,000
		1,88,600
Less: *Increase in Current Assets:*		
Inventories	22,000	
Trade Receivables	20,000	42,000
Cash Generated from Operating Activities		1,46,600
Less: Tax paid		15,000
Cash Flow from Operating Activities		1,31,600
II. Cash Flow from Investing Activities		
Sale Proceeds of Machinery		12,000
Purchase of Machinery (WN 2)		(1,40,000)
Sale Proceeds of Non-current Investment		12,000
Cash Used in Investing Activities		(1,16,000)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Shares		50,000
Redemption of 12% Debentures (₹ 20,000 + ₹ 1,000)		(21,000)
Interest on Debentures Paid		(9,600)
Payment of Bank Loan		(10,000)
Interest on Bank Loan Paid		(2,000)
Payment of Interim Dividend		(20,000)
Cash Used in Financing Activities		(12,600)
IV. Net Increase in Cash and Cash Equivalents (I + II + III)		3,000
Add: Cash and Cash Equivalents (Opening)		15,000
V. Cash and Cash Equivalents (Closing)		18,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹	₹
Closing Surplus, *i.e.*, Balance in Statement of Profit and Loss		35,000
Less: Opening Surplus, *i.e.*, Balance in Statement of Profit and Loss		30,000
Profit during the year		5,000
Add: Transfer to General Reserve	13,000	
Provision for Tax (Tax paid)	15,000	
Interim Dividend Paid	20,000	48,000
Net Profit before Tax		53,000

2. *Dr.* MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	3,50,000	By Bank A/c	12,000
To Gain (Profit) on Sale of Machinery A/c	7,000	By Accumulated Depreciation A/c	15,000
To Bank A/c (Purchase) (Balancing Figure)	1,40,000	By Balance *c/d*	4,70,000
	4,97,000		4,97,000

3. *Dr.* ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Machinery A/c (Transfer)	15,000	By Balance *b/d*	50,000
To Balance *c/d*	60,000	By Depreciation A/c (Statement of Profit and Loss) (Balancing Figure)	25,000
	75,000		75,000

4. *Dr.* NON-CURRENT INVESTMENT ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	50,000	By Bank A/c*	12,000
To Capital Reserve A/c (Gain on Sale)	2,000	By Balance *c/d*	40,000
	52,000		52,000

**Calculation of Sale Proceeds of Non-current Investment:*

Book Value of Non-current Investment Sold = Opening Balance – Closing Balance

= ₹ 50,000 – ₹ 40,000 = ₹ 10,000

Sale Proceeds = Book Value + Gain on Sale = ₹ 10,000 + 20% of ₹ 10,000 = ₹ 12,000.

10. (*a*) (*i*)

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

$$= \frac{₹\ 50{,}000}{₹\ 25{,}000} = 2 \text{ Times.}$$

$$\text{Cost of Revenue from Operations} = \text{Opening Inventory + Purchases + Carriage Inwards – Closing Inventory}$$

$$= ₹\ 28{,}000 + ₹\ 40{,}000 + ₹\ 4{,}000 - ₹\ 22{,}000$$

$$= ₹\ 50{,}000$$

$$\text{Average Inventory} = \frac{\text{Opening Inventory + Closing Inventory}}{2}$$

$$= \frac{₹\ 28{,}000 + ₹\ 22{,}000}{2} = ₹\ 25{,}000.$$

(*ii*) Operating Ratio

$$= \frac{\text{Cost of Revenue from Operations} + \text{Operating Expenses}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{₹\,50{,}000 + ₹\,4{,}000 + ₹\,2{,}000}{₹\,80{,}000} \times 100$$

$$= \frac{₹\,56{,}000}{₹\,80{,}000} \times 100 = 70\%.$$

(*iii*) Gross Profit Ratio $= \dfrac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$

$$= \frac{₹\,30{,}000}{₹\,80{,}000} \times 100 = 37.5\%.$$

Gross Profit = Revenue from Operations – Cost of Revenue from Operations
= ₹ 80,000 – ₹ 50,000 = ₹ 30,000.

(*b*) (*i*) Trade Receivables Turnover Ratio $= \dfrac{\text{Credit Revenue from Operations}}{\text{Average Trade Receivables}}$

$$= \frac{₹\,3{,}25{,}000}{₹\,70{,}000} = 4.64 \text{ Times.}$$

Calculation of Credit Revenue from Operations:

Let Credit Revenue from Operations = ₹ 100

Then, Cash Revenue from Operations = 60% of ₹ 100 = ₹ 60

Total Revenue from Operations = ₹ 100 + ₹ 60 = ₹ 160.

So, Credit Revenue from Operations = ₹ 5,20,000 × ₹ 100/₹ 160 = ₹ 3,25,000.

Calculation of Average Trade Receivables:

Closing Trade Receivables = ₹ 80,000

Opening Trade Receivables = 3/4 × ₹ 80,000 = ₹ 60,000

Average Trade Receivables $= \dfrac{₹\,60{,}000 + ₹\,80{,}000}{2} = ₹\,70{,}000.$

(*ii*) Current Liabilities = ₹ 1,60,000

Liquid Ratio $= \dfrac{\text{Liquid Assets}}{\text{Current Liabilities}}$

$$\frac{1.5}{1} = \frac{\text{Liquid Assets}}{₹\,1{,}60{,}000}$$

∴ Liquid Assets = ₹ 1,60,000 × 1.5 = ₹ 2,40,000

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\frac{2.5}{1} = \frac{\text{Current Assets}}{₹\,1,60,000}$$

Current Assets = ₹ 1,60,000 × 2.5 = ₹ 4,00,000.

11. (*a*) (*i*) *Increase:* Both Current Assets and Current Liabilities decrease by same amount of ₹ 9,000.

(*ii*) *No Change:* Issuing shares to Vendor has no effect on either Current Assets or Current Liabilities.

(*b*) (*i*) *No Flow*. **Reason:** Sale of Marketable Securities at par represents movement between items of Cash and Cash Equivalents.

(*ii*) Operating Activities are the principal revenue producing activities of the enterprise and other activities that are not Investing or Financing Activities. Whereas Investing Activities are the acquisition and disposal of Long-term Assets and Other Investment not included in Cash Equivalents.

(*c*) **Better Sales Ltd.**

COMPARATIVE INCOME STATEMENT

for the years ended 31st March, 2018 and 2017

Particulars	Note No.	31st March, 2018 ₹	31st March, 2017 ₹	Absolute Change (Increase/ Decrease) ₹	Percentage Change (Increase/ Decrease) %
		(A)	(B)	(C = A – B)	$\left(D = \frac{C}{B} \times 100\right)$
I. Revenue from Operations		7,00,000	5,00,000	2,00,000	40.00
II. Other Income		75,000	1,00,000	(25,000)	(25.00)
III. Total Income (I + II)		7,75,000	6,00,000	1,75,000	29.17
IV. Expenses		4,50,000	3,75,000	75,000	20.00
V. Net Profit before Tax (III – IV)		3,25,000	2,25,000	1,00,000	44.44
VI. Tax (50%)		1,62,500	1,12,500	50,000	44.44
VII. Net Profit after Tax (V – VI)		1,62,500	1,12,500	50,000	44.44

MODEL TEST PAPTER 20 (Solution)

SECTION A
PART I

1. (*i*) Partnership Deed is a useful document because of the following reasons:

(*a*) It regulates the rights, duties and liabilities of each partner.

(*b*) If any dispute arises among the partners, then it may be settled by referring Partnership Deed as it acts as a good evidence in the court of law.

(*ii*) Revaluation Account is prepared:

(*a*) To ascertain the Gain/Loss arising on account of revaluation of assets and reassessment of liabilities.

(*b*) To record the effect of Revaluation of Assets and Reassessment of Liabilities so as to show Assets and Liabilities at their revalued amounts.

(*iii*) *Pro rata* Allotment means allotment of shares in proportion. *Pro rata* Allotment *takes place only when the issue of shares is oversubscribed.*

Example: Total No. of Shares offered for subscription = 40,000

Total No. of Shares applied by the public = 48,000

No. of Shares applied by Mr. X = 960

No. of Shares allotted to Mr. $X = \frac{40,000}{48,000} \times 960 = 800$ shares.

(*iv*) The following items are shown under the head Reserves and Surplus:

(*a*) Capital Reserve,

(*b*) Capital Redemption Reserve,

(*c*) Securities Premium Reserve,

(*d*) Revaluation Reserve, and

(*e*) Surplus, *i.e.*, Balance in Statement of Profit and Loss.

(*v*) Debentures Redemption Reserve (DRR) is created out of profits available for the distribution as dividend for the purpose of redemption of debentures. The amount credited to the Debentures Redemption Reserve can be used only for redemption of debentures.

(*vi*) *Preliminary Expenses are the expenses incurred prior to the incorporation of the company.*

Example: Stamp duty and registration fee paid to the Registrar of Companies, public issue expenses, etc.

- Preliminary Expenses are written off in the year in which they are incurred.
- They may be written off from Securities Premium Reserve as permitted by Section 52(2) of the Companies Act, 2013 or from Statement of Profit and Loss.

PART II

2. (*a*) (*i*) Interest on Drawings = $\dfrac{\text{Amount of Drawings} \times \text{Rate} \times 6.5\,*}{100 \times 12}$

= ₹ 36,000 × 9/100 × 13/24 = ₹ 1,755.

*Average Period = $\dfrac{(12+1)\text{ months}}{2}$ = 6.5 months.

(*ii*) Interest on Drawings = $\dfrac{\text{Amount of Drawings} \times \text{Rate} \times 5.5\,*}{100 \times 12}$

= ₹ 36,000 × 9/100 × 11/24 = ₹ 1,485.

*Average Period = $\dfrac{(11+0)\text{ months}}{2}$ = 5.5 months.

(*iii*) To calculate interest, product method should be followed:

Date of Drawings	Amount ₹	Period up to 31st March, 2018	Product ₹
1st June, 2017	12,000	10	1,20,000
31st August, 2017	8,000	7	56,000
30th September, 2017	3,000	6	18,000
30th November, 2017	7,000	4	28,000
31st January, 2018	6,000	2	12,000
Total			2,34,000

Interest on Drawings = $\dfrac{\text{Total of Product} \times \text{Rate} \times 1\text{ month}}{100 \times 12}$

= ₹ 2,34,000 × 9/100 × 1/12 = ₹ 1,755.

(*b*)

TABLE SHOWING ADJUSTMENT

Particulars	*A*'s Capital A/c		*B*'s Capital A/c		*C*'s Capital A/c		Firm	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
I. Amount actually credited, now to be debited	11,000	...	11,000	...	11,000	...	...	33,000
II. Amounts which should have been credited:								
(*i*) Salary	...	...	...	...	...	5,000	5,000	...
(*ii*) Interest on Capital	...	2,500	...	1,250	...	1,250	5,000	...
(*iii*) Share of Profit (2 : 1 : 1)	...	11,500	...	5,750	...	5,750	23,000	...
	11,000	14,000	11,000	7,000	11,000	12,000	33,000	33,000
III. Net Effect	3,000 (Cr.)		4,000 (Dr.)		1,000 (Cr.)		...	

ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 March 31	*B*'s Capital A/c ...Dr.		4,000	
	To *A*'s Capital A/c			3,000
	To *C*'s Capital A/c			1,000
	(Being the adjustment entry passed)			

(*c*) (*i*) *Goodwill on the basis of Capitalisation of Super Profit:*

Average Profit = ₹ 4,00,000

Capital Employed = Assets – External Liabilities

= ₹ 40,00,000 – ₹ 7,20,000

= ₹ 32,80,000.

Normal Rate of Return = 10%

Normal Profit = ₹ 32,80,000 × 10/100 = ₹ 3,28,000

Super Profit = Average Profit – Normal Profit

= ₹ 4,00,000 – ₹ 3,28,000 = ₹ 72,000

Goodwill = Super Profit × 100/Normal Rate of Return

= ₹ 72,000 × 100/10 = ₹ 7,20,000.

(*iii*) *Goodwill on the basis of Super Profit Method:*

Goodwill = Super Profit × No. of Years' Purchase

= ₹ 72,000 × 3 = ₹ 2,16,000.

3.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Stock A/c		11,000	By Fixed Assets A/c	75,000
To Gain (Profit) transferred to:			By Provision for Doubtful Debts A/c	1,000
Khanna's Capital A/c	23,100		By Creditors A/c	2,000
Seth's Capital A/c	15,400		By Investments A/c	10,000
Mehta's Capital A/c	38,500	77,000		
		88,000		88,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Khanna ₹	Seth ₹	Mehta ₹	Particulars	Khanna ₹	Seth ₹	Mehta ₹
To Goodwill A/c	90,000	60,000	1,50,000	By Balance *b/d*	5,00,000	2,55,000	3,00,000
To Profit and Loss A/c	18,000	12,000	30,000	By Workmen Compensation Reserve A/c	30,000	20,000	50,000
To Profit and Loss Suspense A/c (WN 1)	...	2,400	...	By Revaluation A/c	23,100	15,400	38,500
To Seth's Drawings A/c	...	5,000	...	By Mehta's Current A/c (WN 2)	...	...	2,00,000
To Seth's Executor's A/c	...	2,11,000	...				
To Khanna's Current A/c	2,00,000	...	...				
To Balance *c/d* (WN 2)	2,45,100	...	4,08,500				
	5,53,100	2,90,400	5,88,500		5,53,100	2,90,400	5,88,500

Dr. SETH'S EXECUTOR'S ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c	1,05,500	By Seth's Capital A/c	2,11,000
To Balance *c/d*	1,05,500		
	2,11,000		2,11,000

BALANCE SHEET
as at 12th June, 2018

Liabilities		₹	Assets		₹
Creditors		49,000	Fixed Assets		7,35,000
Employees' Provident Fund		20,000	Stock		19,000
Khanna's Current A/c		2,00,000	Debtors	1,20,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	3,000	1,17,000
Khanna	2,45,100		Mehta's Current A/c		2,00,000
Mehta	4,08,500	6,53,600			
Bank Overdraft (WN 3)		40,500			
Seth's Executor's A/c		1,05,500			
Profit and Loss Suspense A/c		2,400			
		10,71,000			10,71,000

Working Notes:

1. Seth's share in Profit/(Loss) till the date of death (from 1st April, 2018 to 12th June, 2018)

   = (₹ 60,000) × 2/10 × 73/365

   = (₹ 2,400). Negative balance means loss.

2. *Adjustment of Capitals of Khanna and Mehta:*

	₹
Khanna's capital after all adjustments	4,45,100
Mehta's capital after all adjustments	2,08,500
Total capital of new firm	6,53,600

Total capital of new firm will be in the new profit-sharing ratio of Khanna and Mehta, *i.e.*, 3 : 5. Therefore,

Khanna's new capital = ₹ 6,53,600 × 3/8 = ₹ 2,45,100

Mehta's new capital = ₹ 6,53,600 × 5/8 = ₹ 4,08,500

Khanna has excess capital = ₹ 4,45,100 – ₹ 2,45,100 = ₹ 2,00,000, which will be credited to his Current Account.

Mehta has deficient capital = ₹ 4,08,500 – ₹ 2,08,500 = ₹ 2,00,000, which will be debited to his Current Account.

3. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	50,000	By Seth's Drawings A/c	5,000
To Investments A/c	20,000	By Seth's Executor's A/c	1,05,500
To Balance *c/d* (Bank Overdraft)	40,500		
	1,10,500		1,10,500

4. (*a*)

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
April 1	General Reserve A/c	...Dr.		30,000	
	Workmen Compensation Reserve A/c	...Dr.		1,00,000	
	To *X*'s Capital A/c				52,000
	To *Y*'s Capital A/c				78,000
	(Being the amount of reserves distributed)				
	X's Capital A/c	...Dr.		12,000	
	Y's Capital A/c	...Dr.		18,000	
	To Profit and Loss A/c				20,000
	To Advertisement Suspense A/c				10,000
	(Being the losses adjusted)				
	Realisation A/c	...Dr.		5,50,000	
	To Stock A/c				1,00,000
	To Debtors A/c				1,50,000
	To Land and Building A/c				3,00,000
	(Being the assets transferred)				
	Creditors A/c	...Dr.		1,05,000	
	To Realisation A/c				1,05,000
	(Being the creditors transferred)				
	Bank A/c	...Dr.		4,40,000	
	To Realisation A/c				4,40,000
	(Being the Land and Building and stock realised)				
	X's Capital A/c	...Dr.		2,000	
	Y's Capital A/c	...Dr.		3,000	
	To Realisation A/c				5,000
	(Being the loss on realisation transferred)				
	X's Capital A/c	...Dr.		2,38,000	
	Y's Capital A/c	...Dr.		3,57,000	
	To Bank A/c				5,95,000
	(Being the final payments made)				

(*b*)

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Realisation A/c	...Dr.		1,000	
	To *A*'s Capital A/c				1,000
	(Being the remuneration payable to *A* for carrying out dissolution)				
(*ii*)	No Entry				
(*iii*)	Realisation A/c	...Dr.		6,000	
	To Cash/Bank A/c				6,000
	(Being the damages claim paid)				
(*iv*)	Cash/Bank A/c	...Dr.		79,000	
	To Realisation A/c				79,000
	(Being the assets realised)				
(*v*)	Reserve A/c	...Dr.		6,000	
	To *A*'s Capital A/c				2,000
	To B's Capital A/c				2,000
	To C's Capital A/c				2,000
	(Being the reserve appropriated among partners)				
(*vi*)	Realisation A/c	...Dr.		5,000	
	To Cash/Bank A/c				5,000
	(Being the liability against bill discounted paid)				

5. JOURNAL OF *AB* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		12,50,000	
	To Shares Application A/c				12,50,000
	(Being the application money received)				
	Shares Application A/c	...Dr.		12,50,000	
	To Share Capital A/c				10,00,000
	To Shares Allotment A/c				2,50,000
	(Being the application money adjusted)				
	Shares Allotment A/c	...Dr.		10,00,000	
	To Share Capital A/c				10,00,000
	(Being the allotment money due)				
	Bank A/c	...Dr.		7,74,000	
	To Shares Allotment A/c				7,50,000
	To Calls-in-Advance A/c				24,000
	(Being the allotment money received along with calls-in-advance on 480 shares)				
	Shares First Call A/c	...Dr.		10,00,000	
	To Share Capital A/c				10,00,000
	(Being the first call made due)				
	Bank A/c	...Dr.		9,88,000	
	Calls-in-Advance A/c	...Dr.		12,000	
	To Shares First Call A/c				10,00,000
	(Being the call money received and calls-in-advance adjusted)				
	Shares Second and Final Call A/c	...Dr.		10,00,000	
	To Share Capital A/c				10,00,000
	(Being the second and final call made due)				
	Bank A/c	...Dr.		9,78,000	
	Calls-in-Advance A/c	...Dr.		12,000	
	Calls-in-Arrears A/c	...Dr.		10,000	
	To Shares Second and Final Call A/c				10,00,000
	(Being the second and final call received except on 400 shares and calls-in-advance adjusted)				
	Bank A/c	...Dr.		10,250	
	To Calls-in-Arrears A/c				10,000
	To Interest on Calls-in-Arrears A/c				250
	(Being the call money received along with interest) (WN)				
	Interest on Calls-in-Advance A/c	...Dr.		1,320	
	To Bank A/c				1,320
	(Being the interest on calls-in-advance paid) (WN)				

Working Note:

Interest on Calls-in-Advance at 12% p.a.

		₹
₹ 12,000 (*i.e.*, 480 × ₹ 25) × 12/100 × 3/12	=	360
₹ 12,000 × 12/100 × 8/12	=	960
		1,320

Interest on Calls-in-Arrears at 10% p.a.

₹ 10,000 (*i.e.*, 400 × ₹ 25) × 3/12 × 10/100 = ₹ 250

6. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		1,20,000	
	To Debentures Application A/c				1,20,000
	(Being the application money for 4,000 debentures @ ₹ 30 each received)				
	Debentures Application A/c	...Dr.		1,20,000	
	To 10% Debentures A/c				1,20,000
	(Being the application money transferred to 10% Debentures A/c)				
	Debentures Allotment A/c	...Dr.		2,80,000	
	To 10% Debentures A/c				2,80,000
	(Being the allotment money due on 4,000 debentures @ ₹ 70 each)				
	Bank A/c	...Dr.		2,80,000	
	To Debentures Allotment A/c				2,80,000
	(Being the allotment money received)				

BALANCE SHEET OF FEEBLE LTD.
as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Non-Current Liabilities		
Long-term Borrowings	1	4,00,000
Total		4,00,000
II. ASSETS		
Current Assets		
Cash and Cash Equivalents	2	4,00,000
Total		4,00,000

Notes to Accounts

Particulars	₹
1. Long-term Borrowings	
4,000; 10% Debentures of ₹ 100 each	4,00,000
2. Cash and Cash Equivalents	
Cash at Bank	4,00,000

(*b*) (*i*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		40,000	
	To Debentures Application and Allotment A/c				40,000
	(Being the application money received)				
	Debentures Application and Allotment A/c	...Dr.		40,000	
	Loss on Issue of Debentures A/c	...Dr.		4,000	
	To 12% Debentures A/c				40,000
	To Premium on Redemption of Debentures A/c				4,000
	(Being the allotment of 12% Debentures redeemable at premium)				

(*ii*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		85,500	
	To Debentures Application and Allotment A/c			85,500
	(Being the application money received)			
	Debentures Application and Allotment A/c ...Dr.		85,500	
	Loss on Issue of Debentures A/c ...Dr.		13,500	
	To 12% Debentures A/c			90,000
	To Premium on Redemption of Debentures A/c			9,000
	(Being the allotment of 12% Debentures issued at a discount and redeemable at premium)			

7. (*a*) JOURNAL OF *X* LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018				
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		1,36,000	
	To Debentures Redemption Reserve A/c			1,36,000
	(Being the balance transferred to make DRR equal to 25% of outstanding debentures)			
April 1	Debentures Redemption Investment A/c ...Dr.		1,50,000	
	To Bank A/c			1,50,000
	(Being 15% of redeemable debentures invested in specified securities)			
Oct. 1	Bank A/c ...Dr.		1,50,000	
	To Debentures Redemption Investment A/c			1,50,000
	(Being the investment realised)			
Oct. 1	9% Debentures A/c ...Dr.		10,00,000	
	Premium on Redemption of Debentures A/c ...Dr.		50,000	
	To Debentureholders' A/c			10,50,000
	(Being the amount due on redemption)			
Oct. 1	Debentureholders' A/c ...Dr.		10,50,000	
	To Bank A/c			10,50,000
	(Being the payment made to debentureholders)			
Oct. 1	Debentures Redemption Reserve A/c ...Dr.		2,50,000	
	To General Reserve A/c			2,50,000
	(Being the balance in DRR transferred)			

(*b*) **At the time of Issue of Debentures**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		11,00,000	
	To Debentures Application and Allotment A/c			11,00,000
	(Being the application money received)			
	Debentures Application and Allotment A/c ...Dr.		11,00,000	
	To 10% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			1,00,000
	(Being the allotment of 10% Debentures issued at premium)			

At the time of Redemption of Debentures

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	10% Debentures A/c ...Dr.		10,00,000	
	To Debentureholders' A/c			10,00,000
	(Being the amount due on redemption)			
	Debentureholders' A/c ...Dr.		10,00,000	
	To Bank A/c			10,00,000
	(Being the payment made)			

Notes:

1. As per Rule 18(7)(*b*) of the Companies (Share capital and Debentures) Rules, 2014, All India Financial Institutions regulated by RBI and Banking Companies are exempted from creation of DRR.
2. They are also not required to invest/deposit the amount in banks or specified securities.

(*c*)

BALANCE SHEET OF GREEN LTD. *as at 31st March, 2018*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		20,00,000
(*b*) Reserves and Surplus		6,25,000
2. Non-Current Liabilities		
Long-term Borrowings		10,00,000
3. Current Liabilities		
Trade Payables		5,00,000
Total		41,25,000
II. ASSETS		
1. Non-Current Assets		
(*a*) *Fixed Assets:*		
Tangible Assets (Machinery)		17,50,000
(*b*) Non-Current Investments		6,87,500
2. Current Assets		
(*a*) Inventories		7,50,000
(*b*) Trade Receivables		5,00,000
(*c*) Cash and Bank Balances		4,37,500
Total		41,25,000

8.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Stock A/c		70,000	By Land and Building A/c	50,000
To Gain (Profit) transferred to:			By Provision for Doubtful Debts A/c	5,000
X's Capital A/c	21,000		By Accrued Income A/c	10,000
Y's Capital A/c	14,000	35,000	By Bad Debts Recovered A/c	40,000
		1,05,000		1,05,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Goodwill A/c	6,000	4,000	...	By Balance *b/d*	1,76,000	2,54,000	...
To Advertisement Suspense A/c	6,000	4,000	...	By *Z*'s Loan A/c	...	...	3,00,000
To Bank A/c (WN 4)	...	20,000	...	By Premium for Goodwill A/c	72,000	36,000	...
To Balance *c/d* (WN 4)	4,00,000	3,00,000	3,00,000	By *Z*'s Current A/c (WN 3)	48,000	24,000	...
				By Revaluation A/c	21,000	14,000	...
				By Bank A/c (WN 4)	95,000	...	...
	4,12,000	3,28,000	3,00,000		4,12,000	3,28,000	3,00,000

BALANCE SHEET OF NEW FIRM *as at 1st April, 2018*

Liabilities		₹	Assets		₹
Sundry Creditors		30,000	Land and Building		1,10,000
Workmen Compensation Reserve		10,000	Investments		45,000
Investment Fluctuation Reserve		5,000	Debtors	1,00,000	
Employees' Provident Fund		10,000	*Less:* Provision for Doubtful Debts	5,000	95,000
Workmen Compensation Claim		10,000	Stock		2,30,000
X's Current A/c		3,000	Bank Balance (WN 6)		5,03,000
Y's Current A/c		1,500	Accrued Income		10,000
Capital A/cs:			*Z*'s Current A/c (₹ 72,000 + ₹ 4,500)		76,500
X	4,00,000				
Y	3,00,000				
Z	3,00,000	10,00,000			
		10,69,500			10,69,500

Working Notes:

1. *Valuation of Firm's Goodwill:*

$$\text{Average Profit} = \frac{₹\ 4,80,000 + ₹\ 9,30,000^{*} + ₹\ 13,80,000}{3} = ₹\ 9,30,000$$

Super Profit = Average Profit – Normal Profit = ₹ 9,30,000 – ₹ 6,30,000 = ₹ 3,00,000

Value of Firm's Goodwill = Super Profit × Number of Years' Purchase = ₹ 3,00,000 × 2 = ₹ 6,00,000.

*₹ 9,50,000 – ₹ 20,000 =₹ 9,30,000.

2. *Calculation of New Profit-sharing Ratio and Sacrificing Ratio:*

	X	*Y*	*Z*
I. Old Share	3/5	2/5	...
II. Sacrifice/Acquired	$\frac{1}{5}\left(i.e., \frac{1}{3} \times \frac{3}{5}\right)$	$\frac{1}{10}$	$\frac{3}{10}\left(i.e., \frac{1}{5} + \frac{1}{10}\right)$
III. New Share	2/5	3/10	3/10

Thus, New Profit-sharing Ratio of *X*, *Y* and $Z = \frac{4}{10} : \frac{3}{10} : \frac{3}{10} = 4:3:3.$

As *X* sacrifices 1/5th share and *Y* sacrifices 1/10th share

∴ Sacrificing Ratio of *X* and *Y* = 1/5 : 1/10 = 2 : 1.

3. *Adjustment of Goodwill:*

Z's share of Goodwill = ₹ 6,00,000 × 3/10 = ₹ 1,80,000, out of which Z brings only 60% of his share of goodwill in cash. Thus, for balance 40% his Current Account will be debited.

Journal Entry for adjustment of Goodwill:

		₹	₹
Premium for Goodwill A/c	...Dr.	1,08,000	
Z's Current A/c	...Dr.	72,000	
To X's Capital A/c			1,20,000
To Y's Capital A/c			60,000

4. *Adjustment of Capitals:*

Z's capital for 3/10 share = ₹ 3,00,000

Total capital of new firm = ₹ 3,00,000 × 10/3 = ₹ 10,00,000, which will be contributed by X, Y and Z in their new profit-sharing ratio, *i.e.*, 4 : 3 : 3. Thus,

X's capital in new firm = ₹ 10,00,000 × 4/10 = ₹ 4,00,000;

Y's capital in new firm = ₹ 10,00,000 × 3/10 = ₹ 3,00,000;

Z's capital in new firm = ₹ 3,00,000.

In effect, X will bring further capital = ₹ 4,00,000 – ₹ 3,05,000 = ₹ 95,000

Y will withdraw excess capital = ₹ 3,20,000 – ₹ 3,00,000 = ₹ 20,000.

5. *Adjustment for Workmen Compensation Reserve and Investment Fluctuation Reserve:*

Workmen Compensation Reserve (after adjusting claim) =	₹ 10,000
Investment Fluctuation Reserve (after adjusting ₹ 5,000) =	₹ 5,000
Total =	₹ 15,000

Z's share = ₹ 15,000 × 3/10 = ₹ 4,500

It will be credited to X and Y in their sacrificing ratio, *i.e.*, 2 : 1.

		₹	₹
Entry: Z's Current A/c	...Dr.	4,500	
To X's Current A/c			3,000
To Y's Current A/c			1,500

6. Bank Balance: ₹ 2,80,000 + ₹ 1,08,000 + ₹ 40,000 + ₹ 95,000 – ₹ 20,000 = ₹ 5,03,000.

SECTION B

9. CASH FLOW STATEMENT *for the year ended 31st March, 2018*

Particulars		₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		1,65,000
Adjustments for Non-cash and Non-operating Activities:		
Add: Depreciation (WN 2)	80,000	
Interest on Debentures	10,000	90,000
		2,55,000
Less: Gain (Profit) on Sale of Machinery	10,000	
Dividend Received	2,000	
Gain (Profit) on Sale of Non-current Investments (20% of ₹ 40,000)	8,000	20,000
Operating Profit before Working Capital Changes		2,35,000
Add: Decrease in Current Assets:		
Trade Receivables		1,10,000
		3,45,000
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Inventories	40,000	
Trade Payables	15,000	55,000
Cash Generated from Operations		2,90,000
Less: Tax Paid		28,000
Cash Flow from Operating Activities		2,62,000

II. Cash Flow from Investing Activities	
Sale Proceeds from Machinery	25,000
Sale Proceeds from Non-current Investments	48,000
Dividend Received	2,000
Purchase of Machinery (WN 3)	(4,40,000)
Purchase of Non-current Investments (WN 4)	(75,000)
Cash Used in Investing Activities	(4,40,000)
III. Cash Flow from Financing Activities	
Proceeds from Issue of Debentures	60,000
Interest paid on Debentures	(10,000)
Bank Loan repaid	(15,000)
Proceeds from Issue of Shares	2,10,000
Dividend Paid (₹ 33,000 – ₹ 4,000)	(29,000)
Cash Flow from Financing Activities	2,16,000
IV. Net Increase in Cash and Cash Equivalents (I + II + III)	38,000
Add: Cash and Cash Equivalents (Opening)	1,48,000
V. Cash and Cash Equivalents (Closing)	1,86,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Closing Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,70,000
Less: Opening Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,00,000
Profit during the year	70,000
Add: Transfer to General Reserve	30,000
Provision for Tax	32,000
Dividend Paid (Proposed Dividend for 2016–17)	33,000
Net Profit before Tax	1,65,000

2. *Dr.* ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Machinery A/c	55,000	By Balance *b/d*	95,000
To Balance *c/d*	1,20,000	By Depreciation A/c	80,000
	1,75,000		1,75,000

3. *Dr.* MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	7,00,000	By Bank A/c	25,000
To Gain (Profit) on Sale of Machinery A/c	10,000	By Accumulated Depreciation A/c	55,000
To Bank A/c (Balancing Figure)—Purchase	4,40,000	By Balance *c/d*	10,70,000
	11,50,000		11,50,000

4. *Dr.* NON-CURRENT INVESTMENTS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,00,000	By Bank A/c (₹ 40,000 + ₹ 8,000)	48,000
To Gain (Profit) on Sale of Investments A/c	8,000	By Balance *c/d*	1,35,000
To Bank A/c (Balancing Figure)—Purchase	75,000		
	1,83,000		1,83,000

10. (*a*) (*i*) $$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

$$= \frac{₹\,90{,}000}{₹\,60{,}000} = 1.5 : 1.$$

Liquid Assets = Current Assets – Prepaid Expenses – Closing Inventory
= ₹ 1,00,000 – ₹ 3,000 – ₹ 7,000 = ₹ 90,000.

(*ii*) $$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{₹\,57{,}000}{₹\,4{,}00{,}000} \times 100 = 14.25\%.$$

Gross Profit = Revenue from Operations – Cost of Revenue from Operations
= ₹ 4,00,000 – (Opening Inventory + Net Purchases* + Direct Expenses – Closing Inventory)
= [₹ 4,00,000 – (₹ 10,000 + ₹ 3,20,000 + 20,000 – ₹ 7,000)
= ₹ 57,000.

*Net purchases = 80% of Revenue from Operations
= 80% of ₹ 4,00,000 = ₹ 3,20,000.

(*iii*) $$\text{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Equity}}$$

$$= \frac{₹\,5{,}50{,}000}{₹\,11{,}00{,}000} = 0.5 : 1.$$

Debt = 9% Debentures + Long-term Loan from Bank
= ₹ 4,00,000 + ₹ 1,50,000 = ₹ 5,50,000

Equity = Equity Share Capital + 8% Preference Share Capital
= ₹ 8,00,000 + ₹ 3,00,000 = ₹ 11,00,000.

(*b*) $$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$\frac{1.5}{1} = \frac{\text{Quick Assets}}{₹\,40{,}000}$$

∴ Quick Assets = ₹ 60,000
Stock = Current Assets – Quick Assets
= ₹ 1,00,000 – ₹ 60,000 = ₹ 40,000.

(*c*) Current Ratio = 4.5 : 1

Quick Ratio = 3 : 1

$\therefore$ Inventory = 4.5 – 3 = 1.5

If Inventory is 1.5, Current Assets = 4.5

If Inventory is 1, Current Assets = 4.5/1.5

If Inventory is ₹ 72,000, Current Assets = 4.5/1.5 × ₹ 72,000 = ₹ 2,16,000

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\frac{4.5}{1} = \frac{₹\ 2,16,000}{\text{Current Liabilities}}$$

$$\text{Current Liabilities} = \frac{₹\ 2,16,000}{4.5}$$

$$= ₹\ 48,000.$$

11. (*a*) *Advantages of Comparative Balance Sheet:*

(*i*) In a Balance Sheet the emphasis is on status, whereas in the Comparative Balance Sheet the emphasis is on change, which may be used in studying the trends in enterprise.

(*ii*) It shows the effects of business operations on its assets, equity and liabilities.

(*b*)
$$\text{Return on Investment} = \frac{\text{Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$$

$$= \frac{₹\ 2,50,000}{₹\ 10,00,000} \times 100 = 25\%.$$

Note: Profit after interest but before Tax $= ₹\ 1,05,000 \times \frac{100}{50} = ₹\ 2,10,000$

Profit before Interest and Tax $= ₹\ 2,10,000 + \left(₹\ 5,00,000 \times \frac{8}{100}\right) = ₹\ 2,50,000$

Capital Employed = Shareholders' Funds + Non-current Liabilities

= (Equity Share Capital + Preference Share Capital) + Debentures

= (₹ 2,00,000 + ₹ 3,00,000) + ₹ 5,00,000 = ₹ 10,00,000.

(*c*)

Effect on Current Ratio	Reason
1. Improve	As current assets have increased by the amount of profit (included in Trade Receivables), whereas, current liabilities remain unchanged.
2. Reduce	As only current assets (Increase in Trade Receivables is less than the decrease in Inventory) have decreased by the amount of loss, whereas, current liabilities remain unchanged.

(*d*)

COMMON-SIZE BALANCE SHEET
as at 31st March, 2018 and 2017

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31st March, 2018 (₹)	31st March, 2017 (₹)	31st March, 2018 (%)	31st March, 2017 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds		9,00,000	6,00,000	60	60
2. Non-Current Liabilities		3,00,000	3,00,000	20	30
3. Current Liabilities		3,00,000	1,00,000	20	10
Total		15,00,000	10,00,000	100	100
II. ASSETS					
1. Non-Current Assets		10,50,000	7,00,000	70	70
2. Current Assets		4,50,000	3,00,000	30	30
Total		15,00,000	10,00,000	100	100