Model Test Paper 1

Time Allowed: 3 Hrs. **Max. Marks: 80**

General Instructions:

*(Candidates are allowed additional 15 minutes for **only** reading the paper. They must NOT start writing during this time.)*

(i) ***Part I*** *of* ***Section A*** *is Compulsory.*
(ii) *Answer* ***any 4*** *Questions from* ***Part II*** *of* ***Section A*** *and* ***any two*** *questions from* ***either Section B*** *or* ***Section C****.*
(iii) *The intended marks for questions or parts of questions are given in the brackets [].*
(iv) *Transactions should be recorded in the answer book.*
(v) *All calculations should be shown clearly.*
(vi) *All working, including rough work, should be done on the same page as, and adjacent to, the rest of the answer.*

Section A

Part I (12 Marks)

(*Answer **all** questions*)

1. Answer briefly each of the following questions:

(*i*) State the provisions of Partnership Act, 1932 in the absence of a partnership deed regarding:

(*a*) Interest on partners' drawings, and

(*b*) Interest on advances by partners other than capital.

(*ii*) Enumerate **two** main steps involved in valuation of goodwill by Super Profit Method.

(*iii*) Discuss the need for revaluation of assets and reassessment of liabilities of the firm on retirement of a partner.

(*iv*) Janta Ltd. invited applications for 10,000 shares of ₹100 each. Applications were received for 15,000 shares. Name the kind of subscription. Give two alternatives for allotting shares.

(*v*) State the accounting treatment of debentures issued as collateral security when Journal entry is passed for such issue in the books of account. Explain with example.

(*vi*) State giving reason whether Trade Receivables are Current Assets or Non-current Assets in the following cases:

Case	Operating Cycle Period	Expected Realisation Period
1	14 Months	13 Months
2	11 Months	12 Months

[6 × 2 = 12]

Part II (48 Marks)

(*Answer* ***any four*** *questions*)

2. (*a*) Arti and Bharti are partners in a firm, sharing profits in the ratio of 3 : 2. Their fixed capitals as on 1st April, 2019 were ₹ 15,00,000 and ₹ 10,00,000 respectively.

Their Partnership Deed provided as follows:

(*i*) Partners are to be allowed interest on their capitals @ 10% per annum.

(*ii*) They are to be charged interest on drawings @ 4% per annum.

(*iii*) Arti is to get salary of ₹ 5,000 per month.

(*iv*) Bharti is to get commission @ 5% of net profit of the firm before charging such commission.

(*v*) Arti is to get rent of ₹ 7,500 per month for the use of his premises by the firm.

Profit for the year ended 31st March, 2020, before providing for any of the above was ₹ 10,00,000.

Both partners withdrew ₹ 12,500 in the beginning of every month for the year.

Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2020 and Partners' Current Accounts. [8]

(*b*) Prachi, Ritika and Ishita are partners in a firm sharing profits and losses in the ratio of 3 : 2 : 5. Ishita retired on 1st April, 2020. On the date of her retirement, it was decided to value goodwill on the basis of two years' purchase of weighted average profits of the firm for the last three years.

The profits of the firm for last three years and weights assigned were:

Year	Profit	Weights Assigned
2017–18	₹ 60,000 (including gain from sale of asset ₹ 20,000)	1
2018–19	₹ 1,60,000	2
2019–20	₹ 2,00,000	3

You are required to:

(*i*) Calculate the firm's goodwill on the date of Ishita's retirement (Show the workings with the formula).

(*ii*) Pass the necessary Journal entry to credit Ishita's Capital Account for her share of goodwill. [4]

3. (*a*) Shikhar and Ravi are partners sharing profits and losses in the ratio of 2 : 1. On 1st April, 2019, they admit Kavi as a partner for 1/4th share in profits of the firm with guaranteed minimum profit of ₹ 2,50,000. Profit for the year ended 31st March, 2020 was ₹ 7,60,000. Pass the Journal entries in the books of the firm. [4]

(*b*) Mohan and Mahesh were partners in a firm sharing profits in the ratio of 3 : 2. On 1st April, 2020, they admitted Nusrat as a partner in the firm. The Balance Sheet of Mohan and Mahesh on that date was as follows:

Liabilities		₹	Assets	₹
Creditors		2,10,000	Cash in Hand	1,40,000
Workmen Compensation Reserve		3,00,000	Debtors	1,60,000
General Reserve		1,60,000	Stock	1,20,000
Capital A/cs:			Machinery	1,00,000
Mohan	1,00,000		Building	2,80,000
Mahesh	80,000	1,80,000	Goodwill	50,000
		8,50,000		8,50,000

It was agreed that:

(*i*) Value of Building and Stock be appreciated to ₹ 3,80,000 and ₹ 1,60,000 respectively.

(*ii*) Unaccounted accrued income of ₹ 3,000 to be provided for. A debtor whose dues of ₹ 10,000 were written off as bad debts paid 50% in settlement.

(*iii*) Provision for Doubtful Debts is to be maintained at 5% on Debtors.

(*iv*) Liability for Workmen Compensation was determined at ₹ 2,30,000.

(*v*) Nusrat brought her share of goodwill ₹ 1,00,000 in cash.

(*vi*) Nusrat was to further bring capital equal to 20% of the combined capital of Mohan and Mahesh after giving effect to above revaluation and adjustments.

(*vii*) Future profit-sharing ratio will be Mohan 2/5th, Mahesh 2/5th, Nusrat 1/5th.

Prepare Revaluation Account, Partner's Capital Accounts and Balance Sheet of the new firm. Also show clearly the calculation of Capital brought by Nusrat. [8]

4. Venus Ltd. with a Registered capital of 5,00,000 equity shares of ₹ 100 each, issued 1,00,000 equity shares for subscription payable ₹ 30 on application, ₹ 20 on allotment, ₹ 30 on first call and ₹ 20 on second and final call. The amount due on allotment was duly received except from Mr. *X* holding 6,000 shares. His shares were immediately forfeited. On the first call being made, Mr. *Y* holding 5,000 equity shares paid the total amount due on his holding. Second and final call was not made. Out of the forfeited shares, 5,000 shares were reissued as fully paid-up @ ₹ 80 per share.

You are required to:

(*i*) Pass Journal entries in the books of the Company.

(*ii*) Prepare Calls-in-Arrears Account.

(*iii*) Prepare Forfeited Shares Account. [12]

5. (*a*) What Journal entries are passed in the books of a firm at the time of dissolution:

(*i*) if payment of ₹ 10,000 is made for an unrecorded liability.

(*ii*) if a partner takes the responsibility to pay an unrecorded liability of ₹ 15,000.

(*iii*) if an unrecorded asset of ₹ 20,000 is taken by a partner.

(*iv*) if an unrecorded asset of ₹ 25,000 is taken by a creditor. [4]

(*b*) *A*, *B* and *C* were partners sharing profits and losses in the ratio of 3 : 1 : 1. They decided to dissolve the firm on 31st March, 2020, when their Balance Sheet was as follows:

BALANCE SHEET *as at 31st March, 2020*

Liabilities		₹	Assets		₹
Trade Creditors		60,000	Cash at Bank		32,000
Loan from Mrs. *B*		15,000	Debtors	2,42,000	
Reserve		1,00,000	*Less:* Provision for Doubtful Debts	12,000	2,30,000
Capital A/cs:			Stock		78,000
A	2,45,000		Investments		1,70,000
B	90,000		Fixed Assets		10,000
C	60,000	3,95,000	Advertisement Suspense A/c		50,000
		5,70,000			5,70,000

It is agreed as follows:

(*i*) '*A*' is to take all fixed assets at book value *less* ₹ 2,000, Debtors amounting to ₹ 2,00,000 at ₹ 1,72,000. *A* takes the responsibility to pay Trade creditors at that value.

(*ii*) '*B*' is to take stock at book value *less* ₹ 8,000 and part of the investments at ₹ 72,000 (being book value *less* 10%).

(*iii*) '*C*' is to take the remaining investments at 90% of book value *less* ₹ 1,000 allowances and to assume responsibility for the discharge of the Mrs. *B*'s loan, together with accruing interest of ₹ 300, which has not been recorded in the books of the firm.

(*iv*) Remaining debtors were sold to a debt collecting agency at 50% of book value.

(*v*) *A* was to receive ₹ 2,700 as remuneration for completing the dissolution work and was to bear the realisation expenses. The expenses of realisation ₹ 1,700 were paid by *A* out of his own funds.

Prepare Realisation Account, Partners' Capital Accounts and Bank Account to close the books of the firm. [8]

6. (*a*) On 31st March, 2020, the Balance Sheet of Suman, Harish and Meeta who were sharing profits in the ratio of 5 : 3 : 2 was as follows:

Liabilities		₹	Assets		₹
Creditors		70,000	Bank		1,30,000
Outstanding Rent		22,500	Debtors	20,000	
Provision for Legal Claims		57,500	*Less:* Provision for Doubtful Debts	500	19,500
General Reserve		50,000	Stock		21,000
Capital A/cs:			Furniture		67,500
Suman	1,27,000		Land and Building		2,00,000
Harish	90,000		Goodwill		50,000
Meeta	71,000	2,88,000			
		4,88,000			4,88,000

Meeta retired from the firm on 1st April, 2020 and it was agreed that:

(*i*) Land and Building will be appreciated by 5% and Furniture will be reduced by 20%.

(*ii*) Provision for Doubtful Debts will be made at 5% on Debtors and Provision for Legal Claims will be made at ₹ 60,000.

(*iii*) Goodwill of the firm was valued at ₹ 60,000.

(*iv*) There was unrecorded furniture estimated at ₹ 3,000, half of which was given for an unrecorded liability of ₹ 6,000 in settlement of claim of ₹ 3,000 and remaining was given to Meeta at a discount of 10% in part satisfaction of his claim.

(*v*) Balance of Meeta's claim was discharged by cheque.

You are required to prepare:

(*a*) Revaluation Account;

(*b*) Partners' Capital Accounts;

(*c*) Balance Sheet of the New Firm. [8]

(*b*) Kavita, Meenakshi and Gauri are partners doing a paper business. After the accounts of partnership had been prepared, it was noticed that interest on capital for the year ending 31st March, 2018 and 2019, has been allowed to partners @ 6% p.a. although there is no provision for it in the Partnership Deed. Their fixed capitals were ₹ 2,00,000, ₹ 1,60,000 and ₹ 1,20,000 respectively.

During the last two years, they had shared the profits as under:

Year	Profit
31st March, 2018	3 : 2 : 1
31st March, 2019	5 : 3 : 2

You are required to give necessary adjusting entry on 1st April, 2019. [4]

7. (*a*) Star Ltd. purchased assets of ₹ 99,000 from Moon Ltd. It was agreed that the purchase consideration will be paid by issuing 11% Debentures of ₹ 100 each. Pass Journal entries when debentures have been issued (*i*) at par, (*ii*) at a premium of 10% and (*iii*) at a discount of 10%. [4]

(*b*) Royal Finance Ltd., a listed NBFC, issued 50,000; 9% Debentures of ₹ 100 each at a discount of 10% on 30th June, 2018 and redeemable on 31st March, 2020 at a premium of 5%. The issue was fully subscribed. The company met the legal requirements and invested in Fixed Deposit with bank earning interest @ 10% p.a. on 1st April, 2019. Tax was deducted at source (TDS) by bank @ 10%.

Pass Journal entries for issue and redemption of debentures along with interest on investment. [8]

8. From the given Trial Balance, prepare Balance Sheet of Sangita Ltd. as per Schedule III, of the Companies Act, 2013 as at 31st March, 2020:

TRIAL BALANCE *as at 31st March, 2020*

Particulars	Dr. (₹)	Cr. (₹)
Building	11,00,000	...
Fixed Deposit—Long-term	...	2,50,000
Furniture	3,00,000	...
Goodwill	1,00,000	...
Inventories	2,40,000	...
Trade Payables	...	1,60,000
Machinery	2,50,000	...
Cash at Bank	3,80,000	...
Cash in Hand	7,20,000	...
General Reserve	...	1,20,000
Calls-in-Arrears (On 1,000 shares)	20,000	...
Securities Premium	...	1,00,000
Share Capital: (18,000 Equity shares of ₹ 100 each fully called)	...	18,00,000
Advances to Staff	2,20,000	...
8% Debentures	...	2,50,000
Provision for Tax	...	3,60,000
Trade Receivables	1,60,000	...
Statement of Profit and Loss	...	4,80,000
Investment—Long-term	1,50,000	...
Unclaimed Dividend	...	1,10,000
Share Forfeiture	...	10,000
	36,40,000	36,40,000

Additional Information:

(*i*) Authorised capital is 25,000 Equity shares of ₹ 100 per share.

(*ii*) Share capital includes 1,000 equity shares issued to promoters at par for their services.

(*iii*) Proposed Dividend for the year ended 31st March, 2020 was ₹ 1,70,000. [12]

Section B

(20 Marks)

(*Answer* ***any two*** *questions*)

9. (*a*) The Proprietary Ratio of *M*. Ltd is 0.8 : 1. State with reason whether the following transactions will increase, decrease or not change the proprietary ratio:

(*i*) Took a loan from bank ₹ 20,00,000 payable after 5 years.

(*ii*) Purchased machines for cash ₹ 8,00,000. [2]

(*b*) Prepare a Comparative Statement of Profit and Loss from the following information:

Particulars	31st March, 2020	31st March, 2019
Revenue from Operations	₹ 70,00,000	₹ 50,00,000
Employee Benefit Expenses	₹ 35,00,000	₹ 20,00,000
Depreciation and Amortisation Expenses	₹ 8,00,000	₹ 5,00,000
Other Expenses	₹ 16,00,000	₹ 12,00,000
Tax Rate	40%	40%

[4]

(*c*) From the following information, calculate Net Cash Flow from Investing Activities:

Particulars	31st March, 2020 ₹	31st March, 2019 ₹
Machinery (At Cost)	4,10,000	2,50,000
Accumulated Depreciation	90,000	60,000

Additional Information: During the year, a machine costing ₹ 80,000 with its accumulated depreciation of ₹ 50,000 was sold at a profit of 20%. [4]

10. Given below is the Balance Sheet of Vishva Ltd., prepare Cash Flow Statement as per AS-3 revised for the year ending 31st March, 2020:

BALANCE SHEET OF VISHVA LTD. *as at 31st March, 2020*

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		1,02,000	84,000
(*b*) Reserves and Surplus	1	36,000	22,560
2. Non-Current Liabilities			
Long-term Borrowings	2	60,000	48,000
3. Current Liabilities			
(*a*) Short-term Borrowings	3	10,000	5,000
(*b*) Trade Payables		28,800	36,000
(*c*) Short-term Provisions	4	16,800	18,000
Total		2,53,600	2,13,560
II. ASSETS			
1. Non-Current Assets			
Fixed Assets—Tangible Assets	5	1,18,800	1,32,000
2. Current Assets			
(*a*) Inventories		61,800	45,600
(*b*) Trade Receivables	6	33,600	27,600
(*c*) Cash and Bank Balance		39,400	8,360
Total		2,53,600	2,13,560

Notes to Accounts

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)
1. Reserves and Surplus			
Surplus, *i.e.*, Balance in Statement of Profit and Loss		15,600	5,760
General Reserve		20,400	16,800
Total		36,000	22,560
2. Long-term Borrowings			
10% Debentures		60,000	48,000
3. Short-term Borrowings			
Bank Overdraft		10,000	5,000
4. Short-term Provisions			
Provision for Tax		16,800	18,000
5. Tangible Assets			
Building		96,000	97,200
Machinery		22,800	34,800
		1,18,800	1,32,000
6. Trade Receivables			
Debtors		19,200	24,000
Bills Receivable		14,400	3,600
		33,600	27,600

Additional Information:

(*a*) Tax paid during the year ended 31st March, 2020 ₹ 14,400.

(*b*) Depreciation on machinery charged during the year ended 31st March, 2020 was ₹ 14,400.

(*c*) Additional debentures were issued on 31st March, 2020. [10]

11. (*a*) From the following information, calculate (up to two decimal places):

(*i*) Liquid Ratio;

(*ii*) Proprietary Ratio; and

(*iii*) Working Capital Turnover Ratio.

	₹		₹
Revenue from Operations	4,50,000	Gross Profit	1,50,000
Total Current Assets	3,00,000	Closing Stock	25,000
Prepaid Insurance	5,000	Total Current Liabilities	1,50,000
Share Capital	4,00,000	Reserves and Surplus	57,000
Preliminary Expenses	7,000	Fixed Assets	6,00,000

[6]

(*b*) Cash Revenue from Operations 60% of Credit Revenue from Operations, Total Revenue from Operations ₹ 5,20,000. Closing Trade Receivables ₹ 80,000, Opening Trade Receivables 3/4th of Closing Trade Receivables. Compute Trade Receivables Turnover Ratio. [2]

(*c*) Current Liabilities ₹ 4,00,000. Liquid Ratio is 1.5 : 1 and Current Ratio 2.5 : 1. Calculate Current Assets and Inventory. [2]

Answers

1. (*i*) (*a*) Interest on partners' drawings is not charged.
   (*b*) Interest on advances by partners is allowed @ 6% p.a.

(*ii*) **Step 1:** Calculate Super Profit by deducting normal profit of the industry from actual or average profit earned by firm.

Step 2: Multiply Super Profit with the given number of years' purchase.

(*iii*) Assets are revalued and liabilities are reassessed at the time of retirement with the purposes that they are stated at their current values and the partners (including the retiring partner) are not placed at an advantage or disadvantage due to change in their values.

(*iv*) It is over-subscription. Two alternatives to allot the shares are:
(a) Reject the excess applications received for 5,000 shares.
(b) *Pro rata* allotment in the ratio of 15 : 10 or 3 : 2, *i.e.*, to every three applications, two shares may be allotted.

(*v*) Journal entry passed for debentures issued as Collateral Security is:

Debentures Suspense A/c	...Dr.		
To ...% Debentures A/c			
(Being the debentures issued as collateral security)			

Example: Premio Ltd. has taken loan from HDFC Bank Ltd. of ₹ 10,00,000. It had issued 20,000, 8% Debentures of ₹ 100 each as collateral security. It will pass following entries:

Bank A/c	...Dr.	₹ 10,00,000	
To Loan (HDFC Bank Ltd.) A/c			₹ 10,00,000
(Loan taken from HDFC Bank Ltd.)			
Debentures Suspense A/c	...Dr.	₹ 20,00,000	
To 8% Debentures A/c			₹ 20,00,000
(Being 20,000, 8% Debentures of ₹ 100 each issued as collateral security)			

(*vi*) **Case 1:** Current Assets. Reason—Expected Realisation Period is less than the Operating Cycle Period although it is more than the 12 months period.

Case 2: Current Assets. Reason—Expected Realisation Period is 12 months although it is more than the Operating Cycle Period.

2. (*a*)

Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT *for the year ended 31st March, 2020* Cr.

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Profit and Loss A/c (WN 1)		9,10,000
Arti	1,50,000		(₹ 10,00,000 – ₹ 90,000)		
Bharti	1,00,000	2,50,000	By Interest on Drawings A/cs (WN 2):		
To Arti's Current A/c (Salary)		60,000	Arti	3,250	
To Bharti's Current A/c (Commission)		45,500	Bharti	3,250	6,500
(5/100 × ₹ 9,10,000)					
To Profit transferred to:					
Arti's Current A/c	3,36,600				
(₹ 5,61,000 × 3/5)					
Bharti's Current A/c	2,24,400	5,61,000			
(₹ 5,61,000 × 2/5)					
		9,16,500			9,16,500

Dr. PARTNERS' CURRENT ACCOUNTS *Cr.*

Particulars	Arti ₹	Bharti ₹	Particulars	Arti ₹	Bharti ₹
To Drawings A/c	1,50,000	1,50,000	By Interest on Capital A/c	1,50,000	1,00,000
To Interest on Drawings A/c	3,250	3,250	By Salary A/c	60,000	...
To Balance *c/d*	4,83,350	2,16,650	By Commission A/c	...	45,500
			By Rent A/c	90,000	...
			By Profit and Loss Appropriation A/c (Profit Share)	3,36,600	2,24,400
	6,36,600	3,69,900		6,36,600	3,69,900

Working Notes:

1. Rent is a charge against profit. Hence, it is debited to Profit and Loss Account. Therefore, Profit is reduced by ₹ 90,000 (*i.e.*, ₹ 7,500 × 12). Rent payable to Arti is credited to Arti's Current Account.
2. Interest on Drawings is charged @ 4% per annum for 6.5 Months on total drawings.
   Interest on Drawings for each Partner = ₹ 1,50,000 × 6.5/12 (or 13/2 × 1/12) × 4/100 = ₹ 3,250.
3. Net Profit means profit as per Profit and Loss Account, *i.e.*, after debiting expenses that are charges. Rent of ₹ 90,000 is a charge. Hence net profit is ₹ 9,10,000.

(*b*) (*i*) CALCULATION OF WEIGHTED PROFIT (ADJUSTED)

A Year	*B* Profit (₹)	*C* Weights	*D* = *B* × *C* Weighted Profit (₹)
2017–18	₹ 40,000 (*i.e.*, ₹ 60,000 – ₹ 20,000)	1	40,000
2018–19	₹ 1,60,000	2	3,20,000
2019–20	₹ 2,00,000	3	6,00,000
Total		6	9,60,000

$$\text{Weighted Average Profit} = \frac{\text{Total of Weighted Profit}}{\text{Total of Weights}} = \frac{₹\ 9,60,000}{6} = ₹\ 1,60,000$$

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

$$= ₹\ 1,60,000 \times 2 = ₹\ 3,20,000$$

$$\text{Ishita's Share of Goodwill} = ₹\ 3,20,000 \times 5/10 = ₹\ 1,60,000.$$

(*ii*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020				
April 1	Prachi's Capital A/c ...Dr.		96,000	
	Ritika's Capital A/c ...Dr.		64,000	
	To Ishita's Capital A/c			1,60,000
	(Being the share of goodwill of Ishita adjusted between Prachi and Ritika in their gaining ratio, *i.e.*, 3 : 2)			

3. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Profit and Loss Appropriation A/c	...Dr.		7,60,000	
	To Shikhar's Capital A/c				3,80,000
	To Ravi's Capital A/c				1,90,000
	To Kavi's Capital A/c				1,90,000
	(Being the distribution of profits in new profit-sharing ratio of 2 : 1 : 1)				
	Shikhar's Capital A/c	...Dr.		40,000	
	Ravi's Capital A/c	...Dr.		20,000	
	To Kavi's Capital A/c				60,000
	(Being the deficiency met by guaranteeing partners)				

Working Notes:

1. *Calculation of New Shares:*

Let the total share = 1
Kavi's share = 1/4,
Remaining Share = 1 – 1/4 = 3/4
Shikhar's New Profit Share = 3/4 × 2/3 = 2/4
Ravi's New Profit Share = 3/4 × 1/3 = 1/4

2. Kavi's Share of Profit = ₹ 7,60,000 × 1/4 = ₹ 1,90,000.
3. Deficiency = Guaranteed Amount – Actual Share
= ₹ 2,50,000 – ₹ 1,90,000 = ₹ 60,000.
4. Deficiency is to be borne by Shikhar and Ravi in the ratio of 2 : 1 as follows:

Deficiency to be borne by Shikhar = ₹ 60,000 × 2/3 = ₹ 40,000

Deficiency to be borne by Ravi = ₹ 60,000 × 1/3 = ₹ 20,000.

(*b*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts A/c		8,000	By Building A/c	1,00,000
To Gain (Profit) transferred to:			By Stock A/c	40,000
Mohan's Capital A/c	84,000		By Accrued Income A/c	3,000
Mahesh's Capital A/c	56,000	1,40,000	By Bad Debts Recovered A/c	5,000
		1,48,000		1,48,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Mohan ₹	Mahesh ₹	Nusrat ₹	Particulars	Mohan ₹	Mahesh ₹	Nusrat ₹
To Goodwill A/c	30,000	20,000	...	By Balance *b/d*	1,00,000	80,000	...
To Balance *c/d* (Balancing Figure)	3,92,000	2,08,000	1,20,000	By Revaluation A/c	84,000	56,000	...
				By General Reserve A/c	96,000	64,000	...
				By Workmen Compensation Reserve A/c (WN 3)	42,000	28,000	...
				By Premium for Goodwill A/c*	1,00,000	...	...
				By Cash A/c (WN 1)	...	...	1,20,000
	4,22,000	2,28,000	1,20,000		4,22,000	2,28,000	1,20,000

* Amount of Premium for Goodwill has been credited to Mohan's Capital Account because only he has sacrificed his share of profit for Nusrat.

BALANCE SHEET OF THE RECONSTITUTED FIRM *as at 1st April, 2020*

Liabilities		₹	Assets		₹
Creditors		2,10,000	Cash in Hand (WN 2)		3,65,000
Workmen Compensation Claim		2,30,000	Debtors	1,60,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	8,000	1,52,000
Mohan	3,92,000		Stock		1,60,000
Mahesh	2,08,000		Accrued Income		3,000
Nusrat	1,20,000	7,20,000	Machinery		1,00,000
			Building		3,80,000
		11,60,000			11,60,000

Working Notes:

1. Nusrat's capital = 20% (Adjusted Mohan's Capital + Adjusted Mahesh's Capital)
   = (₹ 3,92,000 + ₹ 2,08,000) × 20/100 = ₹ 1,20,000.

2. *Dr.* CASH ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,40,000	By Balance *c/d*	3,65,000
To Bad Debts Recovered A/c	5,000		
To Nusrat's Capital A/c	1,20,000		
To Premium for Goodwill A/c	1,00,000		
	3,65,000		3,65,000

3. After adjusting liability for Workmen Compensation ₹ 2,30,000 from Workmen Compensation Reserve of ₹ 3,00,000, balance ₹ 70,000 (*i.e.*, ₹ 3,00,000 – ₹ 2,30,000) is distributed between Mohan and Mahesh in their old ratio, *i.e.*, 3 : 2.

4. (*i*) JOURNAL OF VENUS LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		30,00,000	
	To Equity Shares Application A/c				30,00,000
	(Being application money received on 1,00,000 shares @ ₹ 30 per share)				
	Equity Shares Application A/c	...Dr.		30,00,000	
	To Equity Share Capital A/c				30,00,000
	(Being application money transferred to Equity Share Capital A/c)				
	Equity Shares Allotment A/c	...Dr.		20,00,000	
	To Equity Share Capital A/c				20,00,000
	(Being allotment made due on 1,00,000 equity shares @ ₹ 20 per share)				
	Bank A/c	...Dr.		18,80,000	
	Calls-in-Arrears A/c (6,000 × ₹ 20)	...Dr.		1,20,000	
	To Equity Shares Allotment A/c				20,00,000
	(Being allotment money received except on 6,000 shares)				
	Equity Share Capital A/c	...Dr.		3,00,000	
	To Forfeited Shares A/c				1,80,000
	To Calls-in-Arrears A/c				1,20,000
	(Being 6,000 shares forfeited for non-payment of allotment money)				

	Equity Shares First Call A/c ...Dr.		28,20,000	
	To Equity Share Capital A/c			28,20,000
	(Being first call made due on 94,000 equity shares @ ₹ 30 per share)			
	Bank A/c ...Dr.		29,20,000	
	To Equity Shares First Call A/c			28,20,000
	To Calls-in-Advance A/c			1,00,000
	(Being first call money received on 94,000 equity shares @ ₹ 30 per share and ₹ 20 per share on 5,000 shares received in advance)			
	Bank A/c (5,000 × ₹ 80) ...Dr.		4,00,000	
	Forfeited Shares A/c (5,000 × ₹ 20) ...Dr.		1,00,000	
	To Equity Share Capital A/c			5,00,000
	(Being 5,000 shares reissued at ₹ 80 per share as fully paid-up)			
	Forfeited Shares A/c ...Dr.		50,000	
	To Capital Reserve A/c			50,000
	(Being gain on reissue transferred to Capital Reserve Account) (WN 1)			

(*ii*) *Dr.* CALLS-IN-ARREARS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Equity Shares Allotment A/c	1,20,000	By Equity Share Capital A/c	1,20,000
	1,20,000		1,20,000

(*iii*) *Dr.* FORFEITED SHARES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Equity Share Capital A/c	1,00,000	By Equity Share Capital A/c	1,80,000
To Capital Reserve A/c	50,000		
To Balance *c/d*	30,000		
	1,80,000		1,80,000

Working Note:

Calculation of Gain on Reissue of forfeited shares:

Amount forfeited on 5,000 shares $\left[\frac{₹\,1,80,000}{6,000} \times 5,000\right]$	₹ 1,50,000
Less: Discount on reissue	₹ 1,00,000
Gain on reissue transferred to Capital Reserve	₹ 50,000

5. (*a*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Realisation A/c ...Dr.		10,000	
	To Bank/Cash A/c			10,000
	(Being the payment of unrecorded liability)			
(*ii*)	Realisation A/c ...Dr.		15,000	
	To Partner's Capital A/c			15,000
	(Being an unrecorded liability undertaken to pay by a partner)			
(*iii*)	Partner's Capital A/c ...Dr.		20,000	
	To Realisation A/c			20,000
	(Being an unrecorded asset taken by a partner)			
(*iv*)	No entry			

(*b*)

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundy Assets—Transfer:			By Trade Creditors		60,000
Debtors	2,42,000		By Mrs. *B*'s Loan		15,000
Investments	1,70,000		By Provision for Doubtful Debts		12,000
Stock	78,000		By *A*'s Capital A/c:		
Fixed Assets	10,000	5,00,000	Fixed Assets	8,000	
To *A*'s Capital A/c (Trade Creditors)		60,000	Debtors	1,72,000	1,80,000
To *C*'s Capital A/c (Mrs. *B*'s Loan + Interest)		15,300	By *B*'s Capital A/c:		
To *A*'s Capital A/c (Remuneration)		2,700	Stock	70,000	
			Investments	72,000	1,42,000
			By *C*'s Capital A/c (Remaining Investments)		80,000
			By Bank A/c (Remaining Debtors)		21,000
			By Loss on Realisation transferred to:		
			A's Capital A/c	40,800	
			B's Capital A/c	13,600	
			C's Capital A/c	13,600	68,000
		5,78,000			5,78,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* ₹	*B* ₹	*C* ₹	Particulars	*A* ₹	*B* ₹	*C* ₹
To Realisation A/c (Assets)	1,80,000	1,42,000	80,000	By Balance *b/d*	2,45,000	90,000	60,000
To Realisation A/c (Loss)	40,800	13,600	13,600	By Realisation A/c	60,000	...	15,300
To Advertisement				By Realisation A/c	2,700	...	...
Suspense A/c	30,000	10,000	10,000	By Reserve A/c	60,000	20,000	20,000
To Bank A/c (Final Payment)	1,16,900	...	...	By Bank A/c (Bal. Fig.) (Cash brought in)	...	55,600	8,300
	3,67,700	1,65,600	1,03,600		3,67,700	1,65,600	1,03,600

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	32,000	By *A*'s Capital A/c (Final Payment)	1,16,900
To Realisation A/c (Assets realised)	21,000		
To *B*'s Capital A/c (Cash brought in)	55,600		
To *C*'s Capital (Cash brought in)	8,300		
	1,16,900		1,16,900

Working Notes:

1. Book value of Investments taken by *B* = ₹ 72,000 × 100/90 = ₹ 80,000.
2. Remaining Investments = ₹ 1,70,000 – ₹ 80,000 = ₹ 90,000.
3. Agreed value of Investments taken by *C* = (90% of ₹ 90,000) – ₹ 1,000 = ₹ 81,000 – ₹ 1,000 = ₹ 80,000.

6. (*a*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Furniture A/c	13,500	By Land and Building A/c		10,000
To Provision for Doubtful Debts A/c (5% of ₹ 20,000 – ₹ 500)	500	By Furniture A/c (Unrecorded furniture)		1,350
To Provision for Legal Claims A/c	2,500	By Loss transferred to:		
To Bank A/c (Unrecorded Liability)	3,000	Suman's Capital A/c	4,075	
		Harish's Capital A/c	2,445	
		Meeta's Capital A/c	1,630	8,150
	19,500			19,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Suman ₹	Harish ₹	Meeta ₹	Particulars	Suman ₹	Harish ₹	Meeta ₹
To Goodwill A/c	25,000	15,000	10,000	By Balance *b/d*	1,27,000	90,000	71,000
To Meeta's Capital A/c	7,500	4,500	...	By Suman's Capital A/c (Note)	...	...	7,500
To Furniture A/c	...	...	1,350	By Harish's Capital A/c (Note)	...	...	4,500
To Revaluation A/c (Loss)	4,075	2,445	1,630	By General Reserve A/c	25,000	15,000	10,000
To Bank A/c	...	...	80,020				
To Balance *c/d*	1,15,425	83,055	...				
	1,52,000	1,05,000	93,000		1,52,000	1,05,000	93,000

BALANCE SHEET OF THE RECONSTITUTED FIRM *as at 31st March, 2020*

Liabilities		₹	Assets		₹
Creditors		70,000	Bank (₹ 1,30,000 – ₹ 3,000 – ₹ 80,020)		46,980
Outstanding Rent		22,500	Debtors	20,000	
Provision for Legal Claims		60,000	*Less:* Provision for Doubtful Debts	1,000	19,000
Capital A/cs:			Stock		21,000
Suman	1,15,425		Furniture (₹ 67,500 – ₹ 13,500)		54,000
Harish	83,055	1,98,480	Land and Building (₹ 2,00,000 + ₹ 10,000)		2,10,000
		3,50,980			3,50,980

Note: Meeta's share of goodwill ₹ 12,000 (₹ 60,000 × 2/10) is adjusted between Suman and Harish in their gaining ratio, *i.e.*, 5 : 3.

(*b*) ADJUSTING JOURNAL ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019					
April 1	Meenakshi's Current A/c	...Dr.		960	
	Gauri's Current A/c	...Dr.		3,840	
	To Kavita's Current A/c				4,800
	(Being the adjustment for interest on capital)				

STATEMENT SHOWING REQUIRED ADJUSTMENT

Particulars	Kavita (₹)	Meenakshi (₹)	Gauri (₹)	Total (₹)
A. Debit: Interest on Capital Wrongly Credited:				
2017–18	12,000 (Dr.)	9,600 (Dr.)	7,200 (Dr.)	28,800
2018–19	12,000 (Dr.)	9,600 (Dr.)	7,200 (Dr.)	28,800
B. Credit: Profit to be distributed:				
2017–18 (In the ratio of 3 : 2 : 1)	14,400 (Cr.)	9,600 (Cr.)	4,800 (Cr.)	28,800
2018–19 (In the ratio of 5 : 3 : 2)	14,400 (Cr.)	8,640 (Cr.)	5,760 (Cr.)	28,800
C. Net Effect	4,800 (Cr.)	960 (Dr.)	3,840 (Dr.)	...

7. (*a*) JOURNAL OF STAR LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	For Purchase of Assets:				
	Sundry Assets A/c	...Dr.		99,000	
	To Moon Ltd.				99,000
	(Being the sundry assets purchased from Moon Ltd. for ₹ 99,000)				
(*i*)	**Issue of Debentures at Par:**				
	Moon Ltd.	...Dr.		99,000	
	To 11% Debentures A/c				99,000
	(Being the allotment of 990; 11% Debentures of ₹ 100 each at par to Moon Ltd.)				
(*ii*)	**Issue of Debentures at Premium:**				
	Moon Ltd.	...Dr.		99,000	
	To 11% Debentures A/c				90,000
	To Securities Premium Reserve A/c				9,000
	(Being 900 (₹ 99,000 ÷ ₹ 110); 11% Debentures of ₹ 100 each issued at a premium of 10% to Moon Ltd.)				
(*iii*)	**Issue of Debentures at Discount:**				
	Moon Ltd.	...Dr.		99,000	
	Discount on Issue of Debentures A/c	...Dr.		11,000	
	To 11% Debentures A/c				1,10,000
	(Being 1,100 (₹ 99,000 ÷ ₹ 90); 11% Debentures of ₹ 100 each issued at a discount of 10% to Moon Ltd.)				

(*b*) JOURNAL OF ROYAL FINANCE LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018 June 30	Bank A/c	...Dr.		45,00,000	
	To Debentures Application and Allotment A/c				45,00,000
	(Being the application money received for 50,000 debentures @ ₹ 90 each)				
June 30	Debentures Application and Allotment A/c	...Dr.		45,00,000	
	Loss on Issue of Debentures A/c	...Dr.		7,50,000	
	To 9% Debentures A/c				50,00,000
	To Premium on Redemption of Debentures A/c				2,50,000
	(Being the issue of 50,000; 9% Debentures of ₹ 100 each at 10% discount redeemable at 5% premium)				

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019 March 31	Statement of Profit and Loss (Finance Cost)	...Dr.		7,50,000	
	To Loss on Issue of Debentures A/c				7,50,000
	(Being the loss on issue of debentures written off)				
April 1	Debentures Redemption Investment A/c	...Dr.		7,50,000	
	To Bank A/c				7,50,000
	(Being 15% of the value of debentures invested in 10% fixed deposit with bank)				
2020 March 31	Bank A/c	...Dr.		8,17,500	
	TDS Collected (Receivable) A/c	...Dr.		7,500	
	To Debentures Redemption Investment A/c				7,50,000
	To Interest Earned A/c				75,000
	(Being the realisation of 10% fixed deposit)				
March 31	9% Debentures A/c	...Dr.		50,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		2,50,000	
	To Debentureholders' A/c				52,50,000
	(Being the amount due on redemption of debentures)				
March 31	Debentureholders' A/c	...Dr.		52,50,000	
	To Bank A/c				52,50,000
	(Being the payment made to debentureholders)				

Note: The company is not required to transfer amount to DRR being a listed company. However, it is required to invest in DRI.

8. **Sangita Ltd.**

BALANCE SHEET *as at 31st March, 2020*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital	1	17,90,000
(*b*) Reserves and Surplus	2	7,00,000
2. Non-Current Liabilities		
Long-term Borrowings	3	5,00,000
3. Current Liabilities		
(*a*) Trade Payables		1,60,000
(*b*) Other Current Liabilities	4	1,10,000
(*c*) Short-term Provisions	5	3,60,000
Total		36,20,000
II. ASSETS		
1. Non-Current Assets		
(*a*) *Fixed Assets:*		
(*i*) Tangible Assets	6	16,50,000
(*ii*) Intangible Assets	7	1,00,000
(*b*) Non-current Investment		1,50,000
2. Current Assets		
(*a*) Inventories		2,40,000
(*b*) Trade Receivables		1,60,000
(*c*) Cash and Bank Balances	8	11,00,000
(*d*) Short-term Loans and Advances		2,20,000
Total		36,20,000

Notes to Accounts

			₹
1.	**Share Capital**		
	Authorised Capital		
	25,000 Equity shares of ₹ 100 each		25,00,000
	Issued Capital		
	... Equity shares of ₹ 100 each		...
	(1,000 Equity shares were issued at par for consideration other than cash)		
	Subscribed Capital		
	Subscribed and fully paid-up		
	17,000 Equity shares of ₹ 100 each		17,00,000
	(1,000 Equity shares were issued at par for consideration other than cash)		
	Subscribed but not fully paid		
	1,000 Equity shares of 100 each	1,00,000	
	Less: Calls-in Arrears	20,000	
		80,000	
	Add: Share Forfeiture A/c	10,000	90,000
			17,90,000
2.	**Reserves and Surplus**		
	Securities Premium		1,00,000
	General Reserve		1,20,000
	Surplus, *i.e.*, Balance in Statement of Profit and Loss		4,80,000
			7,00,000
3.	**Long-term Borrowings**		
	8% Debentures		2,50,000
	Fixed Deposit		2,50,000
			5,00,000
4.	**Other Current Liabilities**—Unclaimed Dividend		1,10,000
5.	**Short-term Provisions**—Provision for Tax		3,60,000
6.	**Tangible Assets**		
	Building		11,00,000
	Machinery		2,50,000
	Furniture		3,00,000
			16,50,000
7.	**Intangible Assets**—Goodwill		1,00,000
8.	**Cash and Bank Balances**		
	Cash at Bank		3,80,000
	Cash in Hand		7,20,000
			11,00,000

Note: Contingent liability for proposed dividend ₹ 1,70,000.

9. (*a*)

S.No.	Effect on Proprietary Ratio	Reason
(*i*)	Decrease	No change in Shareholders' Funds but Total Assets will increase by ₹ 20,00,000.
(*ii*)	No change	No change in Total Assets and Shareholders' Funds.

(*b*) COMPARATIVE STATEMENT OF PROFIT AND LOSS
for the years ended 31st March, 2020 and 2019

Particulars	Note No.	31st March, 2020 ₹	31st March, 2019 ₹	Absolute Change (Increase or Decrease) (₹)	Percentage Change (Increase or Decrease) (%)
I. Revenue from Operations		70,00,000	50,00,000	20,00,000	40.00
II. Expenses					
(*a*) Employee Benefit Expenses		35,00,000	20,00,000	15,00,000	75.00
(*b*) Depreciation and Amortisation Expenses		8,00,000	5,00,000	3,00,000	60.00
(*c*) Other Expenses		16,00,000	12,00,000	4,00,000	33.33
Total Expenses		59,00,000	37,00,000	22,00,000	59.46
III. Profit before Tax (I – II)		11,00,000	13,00,000	(2,00,000)	(15.38)
IV. Tax @ 40%		4,40,000	5,20,000	(80,000)	(15.38)
V. Profit after Tax (III – IV)		6,60,000	7,80,000	(1,20,000)	(15.38)

(*c*) CASH FLOW FROM INVESTING ACTIVITIES

Particulars	₹
Purchase of Machinery (WN 1)	(2,40,000)
Sale of Machinery	36,000
Cash Used in Investing Activities	(2,04,000)

Working Notes:

1. *Dr.* MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	2,50,000	By Bank A/c (Sale Proceeds)	36,000*
To Gain (Profit) on Sale of Machinery A/c (Statement of Profit and Loss)	6,000	By Accumulated Depreciation A/c	50,000
To Bank A/c (Purchase)—Balancing Figure	2,40,000	By Balance *c/d*	4,10,000
	4,96,000		4,96,000

	₹
*Book Value of Machinery on the date of Sale (₹ 80,000 – ₹ 50,000)	30,000
Add: Profit on Sale of Machinery (20% of ₹ 30,000)	6,000
Sale Proceeds	36,000

2. *Dr.* ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Machinery A/c—Transfer	50,000	By Balance *b/d*	60,000
To Balance *c/d*	90,000	By Statement of Profit and Loss (Depreciation of Current Year) (Balancing Figure)	80,000
	1,40,000		1,40,000

10. **Vishva Ltd.**

CASH FLOW STATEMENT *for the year ended 31st March, 2020 as per AS-3 (Revised)*

Particulars	₹	₹
(A) Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)	26,640	
Add: Depreciation on Building (₹ 97,200 – ₹ 96,000)	1,200	
Depreciation on Machinery	14,400	
Interest on Debentures (10% × ₹ 48,000)	4,800	
Operating Profit before Working Capital Changes	47,040	
Add: Decrease in Current Assets and Increase in Current Liabilities:		
Decrease in Debtors	4,800	
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Decrease in Trade Payables	(7,200)	
Increase in Inventories	(16,200)	
Increase in Bills Receivables	(10,800)	
Cash Generated from Operating Activities	17,640	
Less: Tax paid	(14,400)	
Cash Flow from Operating Activities		3,240
(B) Cash Flow from Investing Activities		
Purchase of Machinery (WN 3)	(2,400)	
Cash Used in Investing Activities		(2,400)
(C) Cash Flow from Financing Activities		
Cash Proceeds from Issue of Equity Shares (₹ 1,02,000 – ₹ 84,000)	18,000	
Cash Proceeds from Issue of 10% Debentures (₹ 60,000 – ₹ 48,000)	12,000	
Proceeds from Bank Overdraft	5,000	
Interest on Debentures Paid	(4,800)	
Cash Flow from Financing Activities		30,200
(D) Net Increase/Decrease in Cash and Cash Equivalents (A + B + C)		31,040
Add: Opening Cash and Bank Balance		8,360
(E) Closing Cash and Cash Equivalents (Cash and Bank Balance)		39,400

Working Notes:

1. *Calculation of Net Profit before Tax:*

Particulars	₹
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)	15,600
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)	(5,760)
Profit for the year	9,840
Add: Transfer to General Reserve (₹ 20,400 – ₹ 16,800)	3,600
Add: Provision for Tax (WN 2)	13,200
Net Profit before Tax	26,640

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

Particulars	₹	Particulars	₹
To Bank A/c (Tax paid)	14,400	By Balance *b/d*	18,000
To Balance *c/d*	16,800	By Statement of Profit and Loss (Balancing Figure: Provision Made)	13,200
	31,200		31,200

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

Particulars	₹	Particulars	₹
To Balance *b/d*	34,800	By Depreciation A/c	14,400
To Bank A/c (Balancing Figure: Purchase)	2,400	By Balance *c/d*	22,800
	37,200		37,200

11. (*a*) (*i*) Liquid Ratio $= \frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{₹\ 2,70,000}{₹\ 1,50,000} = 1.80 : 1.$

Note: Quick Assets = Total Current Assets – Closing Stock – Prepaid Insurance
= ₹ 3,00,000 – ₹ 25,000 – ₹ 5,000 = ₹ 2,70,000.

(*ii*) Proprietary Ratio $= \frac{\text{Shareholders' Funds}}{\text{Total Assets}} = \frac{₹\ 4,50,000}{₹\ 9,00,000} = 0.50$ or 50%.

Notes: 1. Shareholders' Funds = Share Capital + Reserves and Surplus – Preliminary Expenses
= ₹ 4,00,000 + ₹ 57,000 – ₹ 7,000 = ₹ 4,50,000.

2. Total Assets = Total Current Assets + Fixed Assets
= ₹ 3,00,000 + ₹ 6,00,000 = ₹ 9,00,000.

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

$= \frac{₹\ 4,50,000}{₹\ 1,50,000} = 3$ Times.

Note: Working Capital = Current Assets – Current Liabilities = ₹ 3,00,000 – ₹ 1,50,000 = ₹ 1,50,000.

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

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

Notes:

1. Let Credit Revenue from Operations = *X*, Cash Revenue from Operations = .6*X*
Total Revenue from Operations = 1.6 *X* = ₹ 5,20,000
X = ₹ 5,20,000/1.6 = ₹ 3,25,000.

2. Average Trade Receivables = (Opening Trade Receivables + Closing Trade Receivables)/2
= [(₹ 80,000 × 3/4) + ₹ 80,000]/2 = ₹ 70,000.

(*c*) Current Assets = Current Liabilities × Current Ratio
= ₹ 4,00,000 × 2.5 = ₹ 10,00,000.

Inventory = Current Assets – Quick Assets (Note)
= ₹ 10,00,000 – ₹ 6,00,000 = ₹ 4,00,000.

Note:

Quick Assets = Current Liabilities × Quick Ratio
= ₹ 4,00,000 × 1.5 = ₹ 6,00,000.

Model Test Paper 2

Time Allowed: 3 Hrs. **Max. Marks: 80**

General Instructions: **As per Model Test Paper 1**

Section A

Part I (12 Marks)

*(Answer **all** questions)*

1. Answer briefly each of the following questions:

(*i*) State **two** situations in which interest on partners' capitals should be allowed.

(*ii*) What is Gaining Ratio? How is it calculated?

(*iii*) Interest on debentures is paid even if the company has incurred loss. Justify.

(*iv*) State **two** differences between Premium on Issue of Debentures and Premium on Redemption of Debentures.

(*v*) State **any two** reasons for preparing Revaluation Account on admission of a new partner.

(*vi*) What are the closing entries for Interest on Calls-in-Arrears Account and Interest on Calls-in-Advance Account? [6 × 2 = 12]

Part II (48 Marks)

(*Answer **any four** questions*)

2. (*a*) Mudit, Sudhir and Uday are partners in a firm sharing profits in the ratio of 3 : 1 : 1. Their fixed capital balances are ₹ 4,00,000, ₹ 1,60,000 and ₹ 1,20,000 respectively. Net profit for the year ended 31st March, 2020 distributed amongst the partners was ₹ 1,00,000, without considering the following:

(*i*) Interest on capitals @ 2.5% p.a.;

(*ii*) Salary to Mudit ₹ 18,000 p.a. and commission to Uday ₹ 12,000;

(*iii*) Mudit was allowed a commission of 6% of divisible profit after charging such commission.

Pass a rectifying Journal entry in the books of the firm. Show the workings. [4]

(*b*) Vinit and Yogesh were partners sharing profits and losses equally. They decided to dissolve the firm on 31st March, 2020, when the Balance Sheet of the firm was as under:

BALANCE SHEET *as on 31st March, 2020*

Liabilities		₹	Assets		₹
Creditors		3,60,000	Bank		80,000
Mrs. Vinit's Loan		60,000	Stock		70,000
Yogesh's Loan		1,00,000	Investments		1,00,000
Investment Fluctuation Fund		30,000	Debtors	2,00,000	
Capital A/cs: Vinit	2,00,000		*Less:* Provision for Doubtful Debts	20,000	1,80,000
Yogesh	1,00,000	3,00,000	Fixed Assets		3,80,000
			Profit and Loss A/c		40,000
		8,50,000			8,50,000

The firm was dissolved and following transactions took place:

(*i*) Vinit agreed to pay Mrs. Vinit's Loan and took stock at 20% discount.

(*ii*) Yogesh took 90% of the investments at 10% discount.

(*iii*) Sunil, a debtor of ₹ 50,000 had to pay the due amount 3 months after the date of dissolution. He was allowed a discount of 5% for making payment immediately. The remaining debtors were collected in full.

(*iv*) Creditors were paid ₹ 3,50,000 in settlement.

(*v*) Fixed Assets realised ₹ 2,82,000 and remaining investment realised ₹ 7,500.

(*vi*) There was an old furniture which has been written off from the books. Yogesh took it for ₹ 4,000.

(*vii*) There was an unrecorded asset value estimated at ₹ 3,000, half of which was given for an unrecorded liability of ₹ 5,000 in settlement of a claim of ₹ 2,500 and remaining half was sold at a discount of ₹ 200.

(*viii*) Realisation expenses ₹ 2,000 were paid by Vinit.

You are required to prepare: (*i*) Realisation Account and (*ii*) Partners' Capital Accounts. [8]

3. (*a*) Milton Ltd. offered 30,000 shares of ₹ 10 each to public for subscription, application money being ₹ 10 per share. Applications were received for 50,000 shares and *pro rata* allotment was made to the applicants of 40,000 shares. Out of the *pro rata* category, Smriti had applied for 1,000 shares and Drishti was allotted 450 shares. From the above information:

(*i*) Determine the *pro rata* ratio.

(*ii*) Determine the number of shares allotted to Smriti and number of shares applied by Drishti.

(*iii*) How will be the application money in respect of applications rejected dealt? [4]

(*b*) Premia Ltd. invited applications for 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The amount was payable as follows:

On Application—₹ 9 per share (including premium).

On Allotment—the balance amount.

Applications for 3,00,000 shares were received. Applications for 2,00,000 shares were rejected and money refunded. Shares were allotted on *pro rata* basis to the remaining applicants. The allotment was made. The amount was duly received except on 1,500 shares applied by Ravi. His shares were forfeited. The forfeited shares were reissued at a discount of ₹ 4 per share.

Pass necessary Journal entries for the above transactions in the books of Premia Ltd. [8]

4. (*a*) *A*, *B* and *C* were partners in a firm sharing profits in the ratio of 3 : 2 : 1. On 31st March, 2020, their Balance Sheet was as follows:

BALANCE SHEET OF *A*, *B* AND *C*
as on 31st March, 2020

Liabilities		₹	Assets	₹
Creditors		84,000	Bank	17,000
General Reserve		21,000	Debtors	23,000
Capital A/cs: *A*	60,000		Stock	1,10,000
B	40,000		Investments	30,000
C	20,000	1,20,000	Furniture and Fittings	10,000
			Machinery	35,000
		2,25,000		2,25,000

On 1st April, 2020, *D* was admitted as a partner and it was decided that:

(*i*) New profit-sharing ratio among *A*, *B*, *C* and *D* will be 2 : 2 : 1 : 1.

(*ii*) Goodwill of the firm was valued at 2 years' purchase of average profit of last three completed years. The profits were—Year I: ₹ 48,000, Year II: ₹ 40,000, Year III: ₹ 47,000. *D* brought his share of goodwill premium in cash.

(*iii*) Market value of the investments was ₹ 24,000.

(*iv*) Machinery will be reduced to ₹ 29,000.

(*v*) A creditor of ₹ 3,000 was not likely to claim the amount and hence to be written off.

(*vi*) Total capital of the firm was decided to be ₹ 1,76,400 and *D* was to bring 1/6th thereof.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm. [8]

(*b*) On the date of Ajay's admission as a partner, an extract of the Balance Sheet of Asin and Shreyas sharing profits and losses in the ratio of 3 : 2 was as under:

Liabilities	₹	Assets	₹
General Reserve	50,000	Investment (Market Value ₹ 1,90,000)	2,00,000
Contingency Reserve	40,000	Advertisement Expenditure	20,000
Investment Fluctuation Reserve	20,000	(Deferred Revenue Expenditure)	
Workmen Compensation Reserve	20,000		
Employee's Provident Fund	25,000		

Ajay was admitted for 1/5th share of profit. A claim on account of Workmen's Compensation is estimated at ₹ 15,000 only.

Pass the necessary Journal entries to adjust accumulated Profits and Losses. [4]

5. (*a*) Under which heads and sub-heads will be the following items shown in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013:

(*i*) Public Deposits; (*ii*) Calls-in-Advance;
(*iii*) Building under Construction; (*iv*) Capital Advance;
(*v*) Premium on Redemption of Debentures; (*vi*) Computer Software? [6]

(*b*) Journalise the following transactions in the books of Jetset Ltd.:

(*i*) Purchased machinery from Machinery Mart Ltd. for ₹ 9,90,000 payable 20% by drawing a Promissory Note in favour of Machinery Mart Ltd. and the balance by issue of fully paid 10% Debentures of ₹ 100 each at a discount of 10%.

(*ii*) Issued 2,000, 10% Debentures of ₹ 100 each credited as fully paid to the promoters for their services and issued 1,000, 10% Debentures of ₹ 100 each credited as fully paid to the underwriters for their underwriting services. [6]

6. On 31st March, 2020, the Balance Sheet of Suman, Harish and Meeta who were sharing profits and losses in the ratio of 2 : 3 : 2, was as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Building	19,00,000
Suman	10,00,000		Machinery	5,00,000
Harish	15,00,000		Furniture	7,70,000
Meeta	10,00,000	35,00,000	Closing Stock	5,00,000
Workmen Compensation Reserve		8,40,000	Sundry Debtors	7,00,000
Sundry Creditors		5,10,000	Cash at Bank	4,80,000
		48,50,000		48,50,000

On 1st April, 2020, Harish retired from the firm and remaining partners continued the business. It was agreed to revalue the assets and liabilities as follows:

(*i*) Building be appreciated by 20%.

(*ii*) Machinery be reduced by 20%.

(*iii*) Closing stock be valued at ₹ 4,50,000.

(*iv*) Provision for Doubtful Debts be made at 5% on Sundry Debtors.

(*v*) Sundry Creditors of ₹ 85,000 be written off.

(*vi*) Goodwill of the firm be valued at ₹ 14,00,000 and Harish's share of the goodwill be adjusted in the Capital Accounts of Suman and Meeta, who will share future profits and losses in the ratio of 3 : 2.

(*vii*) Claim on account of Workmen Compensation is ₹ 4,20,000.

(*viii*) Amount due to Harish was settled by accepting a bill of exchange in his favour payable after 4 months.

You are required to prepare:

(*a*) Revaluation Account;

(*b*) Partners' Capital Accounts; and

(*c*) Balance Sheet of the new firm. [12]

7. (*a*) *A* and *B* are partners sharing profits in the ratio of 3 : 2 in a firm. They admitted *C* as partner in the firm for 1/5th share in the profits. *C* is given a guarantee that his share of profits in any year will not be less than ₹ 5,00,000. Deficiency, if any, would be borne by *A* and *B* equally. Loss for the current year ended on 31st March, 2020, was ₹ 25,00,000.

Pass necessary Journal entries in the books of the firm. [4]

(*b*) *X* and *Y* are partners sharing profits in the ratio of 2 : 3 with capitals of ₹ 1,00,000 and ₹ 50,000 respectively. The Partnership Deed provides for interest on capital @ 6% p.a. even if it results in loss to the firm and profit for the year was ₹ 7,500. Show the distribution of profit/loss by preparing the relevant account. [2]

(*c*) *X, Y* and *Z* are partners in a firm. The terms of partnership are:

(*i*) Profits and Losses are to be shared by *X*, *Y* and *Z* in the ratio of 6 : 3 : 1;

(*ii*) Interest on capitals is to be allowed @ 6% p.a.;

(*iii*) Interest on opening Current Account balances is to be allowed or charged @ 5% p.a.;

(*iv*) Interest @ 5% is to be charged on the excess drawings (excluding salary) over share of profit.

Share of profit for this clause means share in balance profit after deducting partners' salary, interest on Capital and Current Accounts. Interest on Drawings under this clause is to be ignored for this purpose; and

(*v*) *Y* and *Z* to get salary @ ₹ 6,000 and ₹ 8,000 p.a. respectively.

Following further details are given:

Partners	Fixed Capital Accounts 31st March, 2020 ₹	Current Accounts 31st March, 2019 ₹	Drawings for 2019–20 (including Salary) ₹
X	90,000	20,000 (Cr.)	40,000
Y	60,000	10,000 (Dr.)	31,000
Z	30,000	12,000 (Cr.)	23,000

Profit and Loss Account for 2019–20 (before providing for partners' salary, interest, etc.) shows profit of ₹ 1,15,900.

Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2020.

[6]

8. (*a*) Ankit Ltd. has an authorised capital of ₹ 15,00,000 divided into 1,00,000 Equity shares of ₹ 10 each and 50,000, 9% preference shares of ₹ 10 each. The company invited applications for all the preference shares and 90,000 equity shares. The preference shares were subscribed, called and paid, while subscriptions were received for 85,000 equity shares. During the first year, ₹ 8 per share were called. Ram holding 1,000 shares and

Shyam holding 2,000 shares did not pay first call of ₹ 2. Shyam's shares were forfeited after the first call and later on 1,500 of the forfeited shares were reissued at ₹ 6 per share ₹ 8 called-up.

Show share capital in the Balance Sheet as at 31st March, 2020, as per Schedule III of the Companies Act, 2013. [6]

(*b*) Zebra Ltd. an unlisted (Non-NBFC or HFC) company, has 3,000; 10% Debentures of ₹ 100 each outstanding as on 31st March, 2019. These debentures are due for redemption on 31st March, 2020. The Debentures Redemption Reserve has a balance of ₹ 10,000 on 31st March, 2019.

You are required to pass Journal entries to complete the redemption of debentures. [6]

Section B

(20 Marks)

(*Answer* ***any two*** *questions*)

9. (*a*) From the following information, calculate Inventory Turnover Ratio:

	₹
Revenue from Operations	16,00,000
Average Inventory	2,20,000
Gross Loss	5%

[2]

(*b*) The following information is given about Provision for Tax of Star Ltd.:

Particulars	31st March, 2019 (₹)	31st March, 2020 (₹)
Provision for Tax	1,40,000	1,80,000

Tax paid during the year ₹ 1,30,000.

Prepare Provision for Tax Account. How will it be shown in Cash Flow Statement? [2]

(*c*) From the following data, prepare Common-size Balance Sheet of Venus Limited:

Particulars	31st March, 2020 (₹)	31st March, 2019 (₹)
Share Capital	4,00,000	3,00,000
Reserves and Surplus	1,75,000	1,25,000
10% Debentures	2,00,000	1,50,000
Trade Payables	25,000	25,000
Cash and Cash Equivalents	1,00,000	1,00,000
Trade Receivables	2,00,000	1,00,000
Land and Building	5,00,000	4,00,000

[6]

10. (*a*) Prepare Cash Flow Statement (as per AS-3) for the year 2019–20 from the following Balance Sheet:

BALANCE SHEET OF MASK LTD.
as at 31st March, 2020

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		10,00,000	8,00,000
(*b*) Reserves and Surplus	1	4,00,000	(1,00,000)
2. Non-Current Liabilities			
Long-term Borrowings	2	9,00,000	10,00,000
3. Current Liabilities			
(*a*) Short-term Borrowings	3	3,00,000	1,20,000
(*b*) Short-term Provisions	4	1,60,000	1,80,000
Total		27,60,000	20,00,000
II. ASSETS			
1. Non-Current Assets			
(*a*) *Fixed Assets:*			
(*i*) Tangible Assets	5	20,06,000	14,40,000
(*ii*) Intangible Assets	6	40,000	60,000
(*b*) Non-current Investments		2,00,000	1,50,000
2. Current Assets			
(*a*) Current Investments		1,00,000	1,20,000
(*b*) Inventories		2,14,000	90,000
(*c*) Cash and Bank Balances		2,00,000	1,40,000
Total		27,60,000	20,00,000

Notes to Accounts

Particulars	31st March, 2020 (₹)	31st March, 2019 (₹)
1. Reserves and Surplus		
Surplus, *i.e.*, Balance in Statement of Profit and Loss	4,00,000	(1,00,000)
2. Long-term Borrowings		
12% Debentures	9,00,000	10,00,000
3. Short-term Borrowings		
Bank Overdraft	3,00,000	1,20,000
4. Short-term Provisions		
Provision for Tax	1,60,000	1,80,000
5. Tangible Assets		
Machinery	24,06,000	16,42,000
Less: Accumulated Depreciation	(4,00,000)	(2,02,000)
	20,06,000	14,40,000
6. Intangible Assets		
Goodwill	40,000	60,000

Additional information:

(*i*) 12% Debentures were redeemed on 31st March, 2020.

(*ii*) Income Tax ₹ 1,40,000 was paid during the year.

(*iii*) A part of the machine, costing ₹ 2,00,000, accumulated depreciation thereon being ₹ 80,000 was sold for ₹ 72,000.

(*iv*) Proposed Dividend for the years ended 31st March, 2019 and 2020 were ₹ 80,000 and ₹ 1,00,000 respectively. [8]

(*b*) State whether the following would result in *inflow*, *outflow* or *no flow* of cash:

(*i*) Goodwill written off.

(*ii*) Cash withdrawn from bank. [2]

11. (*a*) State the objective of calculating Solvency Ratios. [2]

(*b*) From the following information, calculate Return on Investment and Debt to Equity Ratio:

Net Profit after Interest and Tax	:	₹ 3,00,000
10% Debentures of ₹ 100 each	:	₹ 5,00,000
Capital Employed	:	₹ 40,00,000
Tax Rate @ 40%		

[4]

(*c*) (*i*) From the following, calculate Trade Receivables Turnover Ratio:

Total Revenue from Operations for the year	₹ 4,20,000
Cash Revenue from Operations	40% of Credit Revenue from Operations
Closing Trade Receivables	₹ 1,00,000
Excess of closing trade receivables over opening trade receivables	₹ 40,000

(*ii*) From the following information, calculate Interest Coverage Ratio:

Profit after interest and tax	₹ 2,48,500
Rate of Income Tax	30%
12% Debentures	₹ 3,00,000

[4]

Answers

1. (*i*) (*a*) When partners contribute unequal amount of capital and share profits equally.

(*b*) When the capital contribution is same but profit sharing is unequal.

(*ii*) Gaining Ratio is the ratio in which the remaining partners take the share of the retiring or deceased partner. This ratio is calculated by taking difference between new profit share and old profit share of each continuing partner.

Gain of a Partner = New Profit Share − Old Profit Share.

(*iii*) Debentures is the borrowing of the company. Interest payable on the Debentures, therefore, is an expense payable irrespective of the company earning profit or incurring loss. It is a *charge against profit* of the company. Therefore, interest on debentures is paid even if the company has incurred loss.

(*iv*) **Difference between Premium on Issue of Debentures and Premium on Redemption of Debentures**

Premium on Issue of Debentures	*Premium on Redemption of Debentures*
1. It is a capital profit and may be used in writing off the capital losses.	It is a capital loss.
2. It is credited to Securities Premium Reserve and is shown in 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 is shown in the Equity and Liabilities part of the Balance Sheet under the head 'Non-Current Liabilities' and sub-head 'Long-term Borrowings' till the redemption of debentures.

(*v*) Revaluation Account is prepared:

(*a*) to record the effect of Revaluation of Assets and Reassessment of Liabilities so as to show the assets and liabilities at their current value.

(*b*) to ensure that partners (including new partner) are not put to an advantage or disadvantage due to the change in their values.

(*vi*) *Closing Entry for Interest on Calls-in-Arrears Account:*

Interest on Calls-in-Arrears A/c ...Dr.
To Statement of Profit and Loss

Closing Entry for Interest on Calls-in-Advance Account:

Statement of Profit and Loss ...Dr.
To Interest on Calls-in-Advance A/c

2. (*a*)

ADJUSTING JOURNAL ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sudhir's Current A/c	...Dr.		6,000	
	To Mudit's Current A/c				1,000
	To Uday's Current A/c				5,000
	(Being the interest on capital, salary and commission to partners missed in distributing profits, now adjusted)				

Working Note:

STATEMENT SHOWING REQUIRED ADJUSTMENT

Particulars	Mudit's Current A/c		Sudhir's Current A/c		Uday's Current A/c		Firm	
	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹
Profit already distributed, reversed	60,000	...	20,000	...	20,000	...	...	1,00,000
Interest on capital should be credited*	...	10,000	...	4,000	...	3,000	17,000	...
Salary should be credited	...	18,000	...	...	...	...	18,000	...
Commission should be credited	...	3,000**	...	...	...	12,000	15,000	...
Remaining Profit distributed among the partners	...	30,000	...	10,000	...	10,000	50,000	...
Total	60,000	61,000	20,000	14,000	20,000	25,000	1,00,000	1,00,000
Net Effect	1,000 (Cr.)		6,000 (Dr.)		5,000 (Cr.)		Nil	

*Interest on Partner's Capital:

Mudit = ₹ 4,00,000 × 2.5/100 = ₹ 10,000;

Sudhir = ₹ 1,60,000 × 2.5/100 = ₹ 4,000;

Uday = ₹ 1,20,000 × 2.5/100 = ₹ 3,000.

**Mudit's Commission = ₹ (1,00,000 – 17,000 – 18,000 – 12,000) × 6/106 = ₹ 3,000.

(*b*)

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets:			By Provision for Doubtful Debts A/c		20,000
Stock	70,000		By Investment Fluctuation Fund A/c		30,000
Investments	1,00,000		By Creditors		3,60,000
Debtors	2,00,000		By Mrs. Vinit's Loan A/c		60,000
Fixed Assets	3,80,000	7,50,000	By Vinit's Capital A/c (Stock)		56,000
To Vinit's Capital A/c (Mrs. Vinit's Loan)		60,000	By Yogesh's Capital A/c (Investment) (₹ 90,000 – ₹ 9,000)		81,000
To Bank A/c (Creditors)		3,50,000	By Bank A/c (Assets):		
To Bank A/c (Unrecorded Liability)		2,500	Debtors (₹ 47,500 + ₹ 1,50,000)	1,97,500	
To Vinit's Capital A/c (Realisation Expenses)		2,000	Fixed Assets	2,82,000	
			Investments (Remaining)	7,500	
			Unrecorded Asset	1,300	4,88,300
			By Yogesh's Capital A/c (Old furniture)		4,000
			By Loss transferred to:		
			Vinit's Capital A/c	32,600	
			Yogesh's Capital A/c	32,600	65,200
		11,64,500			11,64,500

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	Vinit ₹	Yogesh ₹	Particulars	Vinit ₹	Yogesh ₹
To Realisation A/c	32,600	32,600	By Balance *b/d*	2,00,000	1,00,000
To Profit and Loss A/c	20,000	20,000	By Realisation A/c	2,000	...
To Realisation A/c	56,000	81,000	By Realisation A/c	60,000	...
To Realisation A/c	...	4,000	By Yogesh's Loan A/c (Note)	...	37,600
To Bank A/c (Final Payment)	1,53,400	...			
	2,62,000	1,37,600		2,62,000	1,37,600

Dr. BANK ACCOUNT* Cr.

Particulars	₹	Particulars	₹
To Balance *b/d*	80,000	By Realisation A/c	3,50,000
To Realisation A/c (Assets Realised)	4,88,300	By Realisation A/c	2,500
		By Yogesh's Loan A/c (Note)	62,400
		By Vinit's Capital A/c (Final Payment)	1,53,400
	5,68,300		5,68,300

Note: Yogesh's Capital Account shows a debit balance of ₹ 37,600. Hence, his Loan Account is credited to his Capital Account to the extent of ₹ 37,600 and balance of ₹ 62,400 is paid after payment to outside parties.

*Bank Account is not asked in the question. It is given for verification of answer.

3. (*a*) (*i*) *Pro rata* Ratio = No. of shares applied : No. of shares allotted

= 40,000 : 30,000 = 4 : 3.

(*ii*) No. of shares allotted to Smriti = $\frac{30,000}{40,000} \times 1,000$ = 750 shares

No. of shares applied by Drishti = $\frac{40,000}{30,000} \times 450$ = 600 shares

(*iii*) Excess application money (received on applications rejected) is refunded, *i.e.*, ₹ 1,00,000 (10,000 × ₹ 10).

(*b*) JOURNAL OF PREMIA LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (3,00,000 × ₹ 9)	...Dr.		27,00,000	
	To Shares Application A/c				27,00,000
	(Being the application money received)				
	Shares Application A/c	...Dr.		27,00,000	
	To Share Capital A/c (75,000 × ₹ 4)				3,00,000
	To Securities Premium Reserve A/c (75,000 × ₹ 5)				3,75,000
	To Shares Allotment A/c				2,25,000
	To Bank A/c				18,00,000
	(Being the application money adjusted)				
	Shares Allotment A/c (75,000 × ₹ 6)	...Dr.		4,50,000	
	To Share Capital A/c				4,50,000
	(Being the allotment money due)				
	Bank A/c	...Dr.		2,21,625	
	Calls-in-Arrears A/c (WN)	...Dr.		3,375	
	To Shares Allotment A/c				2,25,000
	(Being the call money received except on 1,125 shares)				

Share Capital A/c (1,125 × ₹ 10) ...Dr.		11,250	
To Forfeited Shares A/c (₹ 4,500 + ₹ 3,375)			7,875
To Calls-in-Arrears A/c			3,375
(Being 1,125 shares forfeited for non-payment of call money)			
Bank A/c (1,125 × ₹ 6) ...Dr.		6,750	
Forfeited Shares A/c (1,125 × ₹ 4) ...Dr.		4,500	
To Share Capital A/c			11,250
(Being reissue of 1,125 shares of a discount of ₹ 4 per share)			
Forfeited Shares A/c ...Dr.		3,375	
To Capital Reserve A/c			3,375
(Being balance in forfeited shares account (₹ 7,875 – ₹ 4,500) transferred)			

Working Note:

Number of shares allotted to Ravi (the defaulter shareholder) = $\frac{75,000}{1,00,000} \times 1,500$ = 1,125 Shares.

		₹
Amount Received from Ravi on Application		13,500
Less: Adjusted — Share Capital	₹ 4,500	
— Securities Premium	₹ 5,625	10,125
Excess Application Money		3,375
Amount Due on Allotment		6,750
Arrears		3,375

4. (*a*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Investments A/c	6,000	By Creditors A/c		3,000
To Machinery A/c	6,000	By Loss transferred to:		
		A's Capital A/c	4,500	
		B's Capital A/c	3,000	
		C's Capital A/c	1,500	9,000
	12,000			12,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* ₹	*B* ₹	*C* ₹	*D* ₹	Particulars	*A* ₹	*B* ₹	*C* ₹	*D* ₹
To Revaluation A/c	4,500	3,000	1,500	...	By Balance *b/d*	60,000	40,000	20,000	...
To Balance *c/d*	81,000	44,000	22,000	29,400	By General Reserve A/c	10,500	7,000	3,500	...
					By Premium for Goodwill A/c	15,000	...	...	...
					By Bank A/c (WN 3)	...	...	...	29,400
	85,500	47,000	23,500	29,400		85,500	47,000	23,500	29,400

BALANCE SHEET OF RECONSTITUTED FIRM *as at 31st March, 2020*

Liabilities		₹	Assets	₹
Creditors		81,000	Bank ₹(17,000 + 15,000 + 29,400)	61,400
Capital A/cs:			Debtors	23,000
A	81,000		Stock	1,10,000
B	44,000		Investments	24,000
C	22,000		Furniture and Fittings	10,000
D	29,400	1,76,400	Machinery	29,000
		2,57,400		2,57,400

Working Notes:

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

	A	*B*	*C*	*D*
I. Old Share	3/6	2/6	1/6	...
II. New Share	2/6	2/6	1/6	1/6
III. Sacrifice/(Gain) (I – II)	1/6 (Sacrifice)	...	...	–1/6 (Gain)

D gets his 1/6th share from *A*.

2. *Calculation of Goodwill:*

A. Average Profit $= \frac{₹\,48{,}000 + ₹\,40{,}000 + ₹\,47{,}000}{3} = ₹\,45{,}000$ = ₹ 45,000

B. Firm's Goodwill = ₹ 45,000 × 2 = ₹ 90,000.

C. Goodwill Premium to be brought in by *D* = 1/6 of ₹ 90,000 = ₹ 15,000.

3. *Calculation of Capital of D:*

$$D\text{'s Capital} = \frac{1}{6} \times ₹\,1{,}76{,}400 = ₹\,29{,}400.$$

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Investment Fluctuation Reserve A/c	...Dr.		10,000	
	To Investment A/c				10,000
	(Being the value of investment brought down to market value)				
	Workmen Compensation Reserve A/c	...Dr.		15,000	
	To Provision for Workmen Compensation Claim A/c				15,000
	(Being the Workmen Compensation Claim provided for)				
	General Reserve A/c	...Dr.		50,000	
	Contingency Reserve A/c	...Dr.		40,000	
	Investment Fluctuation Reserve A/c (₹ 20,000 – ₹ 10,000)	...Dr.		10,000	
	Workmen Compensation Reserve A/c (₹ 20,000 – ₹ 15,000)	...Dr.		5,000	
	To Asin's Capital A/c				63,000
	To Shreyas's Capital A/c				42,000
	(Being the transfer of accumulated profits to old partners in their Old Profit-sharing Ratio)				
	Asin's Capital A/c	...Dr.		12,000	
	Shreyas's Capital A/c	...Dr.		8,000	
	To Advertisement Expenditure A/c				20,000
	(Being the transfer of accumulated losses to old partners in their Old Profit-sharing ratio)				

Working Notes:

1. Investment Fluctuation Reserve has been transferred to Old Partners' Capital Accounts after providing for an anticipated loss of ₹ 10,000 (*i.e.*, ₹ 2,00,000 – ₹ 1,90,000) according to Prudence Concept.
2. Balance of Workmen Compensation Reserve after meeting Provision for claim has been transferred to Partners' Capital Accounts in their Old Profit-sharing Ratio.
3. Employees' Provident Fund is a statutory liability towards employees. It is not a reserve, hence, it is not distributed among the partners.

5. (*a*)

S.No.	Items	Main Head	Sub-head
(*i*)	Public Deposits	Non-Current Liabilities	Long-term Borrowings
(*ii*)	Calls-in-Advance	Current Liabilities	Other Current Liabilities
(*iii*)	Building under Construction	Non-Current Assets	*Fixed Assets:* Capital Work-in-Progress
(*iv*)	Capital Advance	Non-Current Assets	Long-term Loans and Advances
(*v*)	Premium on Redemption of Debentures	Non-Current Liabilities	Long-term Borrowings
(*vi*)	Computer Software	Non-Current Assets	Fixed Assets—Intangible Assets

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

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Machinery A/c	...Dr.		9,90,000	
	To *Y* Ltd.				9,90,000
	(Being the purchase of Machinery from *Y* Ltd.)				
	Y Ltd.	...Dr.		1,98,000	
	To Bills Payable A/c				1,98,000
	(Being the part payment made to vendor by drawing a Promissory Note)				
	Y Ltd.	...Dr.		7,92,000	
	Discount on Issue of Debentures A/c	...Dr.		88,000	
	To 10% Debentures A/c (Note)				8,80,000
	(Being the issue of 8,800; 10% Debentures of ₹ 100 each at a discount of 10%)				
(*ii*)	Goodwill/Incorporation Expenses A/c	...Dr.		2,00,000	
	To Promoters				2,00,000
	(Being the amount payable to promoters)				
	Promoters	...Dr.		2,00,000	
	To 10% Debentures A/c				2,00,000
	(Being the debentures issued to promoters)				
	Underwriting Commission A/c	...Dr.		1,00,000	
	To Underwriters' A/c				1,00,000
	(Being the underwriting commission due to underwriters)				
	Underwriters' A/c	...Dr.		1,00,000	
	To 10% Debentures A/c				1,00,000
	(Being 1,000; 10% Debentures of ₹ 100 each issued as par to underwriters as per the Board's Resolution dated...)				

Note: No. of Debentures to be Issued = $\frac{₹\,7,92,000}{₹\,90}$ = 8,800 Debentures.

6.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Machinery A/c		1,00,000	By Building A/c	3,80,000
To Closing Stock A/c		50,000	By Sundry Creditors A/c	85,000
To Provision for Doubtful Debts A/c		35,000		
To Gain (Profit) transferred to:				
Suman's Capital A/c	80,000			
Harish's Capital A/c	1,20,000			
Meeta's Capital A/c	80,000	2,80,000		
		4,65,000		4,65,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Suman ₹	Harish ₹	Meeta ₹	Particulars	Suman ₹	Harish ₹	Meeta ₹
To Harish's Capital A/c (WN 3)	4,40,000	...	1,60,000	By Balance *b/d*	10,00,000	15,00,000	10,00,000
To Bills Payable A/c	...	24,00,000	...	By Revaluation A/c	80,000	1,20,000	80,000
To Balance *c/d*	7,60,000	...	10,40,000	By Suman's Capital A/c (WN 3)	...	4,40,000	...
				By Meeta's Capital A/c (WN 3)	...	1,60,000	...
				By Workmen Compensation Reserve A/c (WN 2)	1,20,000	1,80,000	1,20,000
	12,00,000	24,00,000	12,00,000		12,00,000	24,00,000	12,00,000

BALANCE SHEET OF THE NEW FIRM *as at 1st April, 2020*

Liabilities		₹	Assets		₹
Capital A/cs:			Building		22,80,000
Suman	7,60,000		Machinery		4,00,000
Meeta	10,40,000	18,00,000	Furniture		7,70,000
Bills Payable		24,00,000	Closing Stock		4,50,000
Sundry Creditors		4,25,000	Sundry Debtors	7,00,000	
Workmen Compensation Claim (Note 2)		4,20,000	*Less:* Provision for Doubtful Debts	35,000	6,65,000
			Cash		4,80,000
		50,45,000			50,45,000

Working Notes:

1. *Calculation of Gaining Ratio:*

   Gain of a partner = New Share – Old Share

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

   $$\text{Meeta's Gain} = \frac{2}{5} - \frac{2}{7} = \frac{14-10}{35} = \frac{4}{35}$$

   Thus, Gaining Ratio of Suman and Meeta = 11/35 : 4/35 or 11 : 4.

2. The Liability of ₹ 4,20,000 on account of Workmen Compensation Claim is less than the amount of available reserve of ₹ 8,40,000. Liability of ₹ 4,20,000 will be shown on the liability side of Balance Sheet and balance of ₹ 4,20,000 will be transferred to Partners' Capital Accounts in their profit-sharing ratio of 2 : 3 : 2.

3. Harish's share of Goodwill ₹ 6,00,000 (*i.e.*, ₹ 14,00,000 × 3/7) to be contributed by Suman and Meeta in their gaining ratio of 11 : 4.

   Thus, Suman's contribution = ₹ 6,00,000 × 11/15 = ₹ 4,40,000; Meeta's contribution = ₹ 6,00,000 × 4/15 = ₹ 1,60,000.

7. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020					
March 31	*A*'s Capital A/c	...Dr.		12,00,000	
	B's Capital A/c	...Dr.		8,00,000	
	C's Capital A/c	...Dr.		5,00,000	
	To Profit and Loss A/c				25,00,000
	(Being the loss distributed among partners in the ratio of 12 : 8 : 5)				
	A's Capital A/c	...Dr.		5,00,000	
	B's Capital A/c	...Dr.		5,00,000	
	To *C*'s Capital A/c				10,00,000
	(Being the deficiency of *C*'s guaranteed profit borne by *A* and *B* equally)				

Working Notes:

1. *Calculation of New Profit-sharing Ratio:*

   Let the total profit = 1;

   C's Share = $\frac{1}{5}$; Remaining Share = $\frac{4}{5}$; which is divided between *A* and *B* in their Old Profit-sharing Ratio, *i.e.*, 3 : 2.

   A's New Share = $\frac{3}{5} \times \frac{4}{5} = \frac{12}{25}$; *B*'s New Share = $\frac{2}{5} \times \frac{4}{5} = \frac{8}{25}$;

   Hence, New Profit-sharing Ratio among *A*, *B* and *C* = $\frac{12}{25} : \frac{8}{25} : \frac{1}{5} = \frac{12}{25} : \frac{8}{25} : \frac{5}{25}$ or 12 : 8 : 5.

2. *C* is guaranteed a profit of ₹ 5,00,000 p.a. Loss incurred by the firm is ₹ 25,00,000, out of which ₹ 5,00,000 has been debited to *C*'s Capital Account. Thus, *C*'s Capital Account is to be credited by the amount of deficiency ₹ 10,00,000 (*i.e.*, ₹ 5,00,000 (His share of loss for the year) + ₹ 5,00,000 (Minimum Guaranteed Profit)).

(*b*)

Dr. PROFIT AND LOSS ACCOUNT *for the year ended ...* *Cr.*

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Profit before Interest on Capital		7,500
X (₹ 1,00,000 × 6/100)	6,000		By Loss transferred to:		
Y (₹ 50,000 × 6/100)	3,000	9,000	*X*'s Capital A/c	600	
			Y's Capital A/c	900	1,500
		9,000			9,000

Note: Profit and Loss Appropriation Account should not be prepared since all the charges against profits are shown in Profit and Loss Account and all appropriations out of profits are shown in Profit and Loss Appropriation Account.

(*c*)

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2020* *Cr.*

Particulars		₹	Particulars	₹
To Interest on Capital A/cs:			By Profit and Loss A/c (Net Profit)	1,15,900
X(₹ 90,000 × 6/100)	5,400		By Interest on Drawings A/c:	
Y(₹ 60,000 × 6/100)	3,600		*Z*(₹ 6,000 × 5/100)	300
Z (₹ 30,000 × 6/100)	1,800	10,800	By Interest on Current A/c:	
To Interest on Current A/cs:			*Y*(₹ 10,000 × 5/100)	500
X(₹ 20,000 × 5/100)	1,000			
Z(₹ 12,000 × 5/100)	600	1,600		
To Partners' Salary A/cs:				
Y	6,000			
Z	8,000	14,000		
To Profit transferred to:				
X's Current A/c	54,180			
Y's Current A/c	27,090			
Z's Current A/c	9,030	90,300		
		1,16,700		1,16,700

Working Note:

Ascertainment of Interest on Drawings to be Charged or Allowed

Particulars	X ₹	Y ₹	Z ₹
Drawings Including Salaries	40,000	31,000	23,000
Less: Salaries	...	6,000	8,000
Drawings excluding Salaries	40,000	25,000	15,000
Share of Profit of ₹ 90,000* (6 : 3 : 1)	54,000	27,000	9,000
Excess or Short Drawings	14,000 (Short)	2,000 (Short)	6,000 Excess
Interest to be Charged	...	...	300

*₹ 1,15,900 (Profit) – ₹ 14,000 (Salary of *Y* and *Z*) – ₹ 10,800 (Interest on Capitals of *X*, *Y* and *Z*) – ₹ 1,600 (Interest on Current A/cs of *X* and *Z*) + ₹ 500 (Interest on *Y*'s Current A/c) = ₹ 90,000.

8. (*a*) **Ankit Ltd.**

BALANCE SHEET *as at 31st March, 2020 (Extract)*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
Share Capital	1	11,77,000

Notes to Accounts

1. Share Capital		₹
Authorised Capital		
1,00,000 Equity Shares of ₹ 10 each		10,00,000
50,000; 9% Preference Shares of ₹ 10 each		5,00,000
		15,00,000
Issued Capital		
90,000 Equity Shares of ₹ 10 each		9,00,000
50,000; 9% Preference Shares of ₹ 10 each		5,00,000
		14,00,000
Subscribed Capital		
Subscribed and fully paid-up		
50,000; 9% Preference Shares of ₹ 10 each		5,00,000
Subscribed but not fully paid-up		
84,500 Equity Shares of ₹ 10 each ₹ 8 called-up	6,76,000	
Less: Calls-in-Arrears (1,000 × ₹ 2)	(2,000)	6,74,000
Add: Forfeited Shares A/c (500 × ₹ 6)		3,000
		11,77,000

(*b*) JOURNAL OF ZEBRA LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019 March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		20,000	
	To Debentures Redemption Reserve A/c				20,000
	(Being the balance amount transferred to DRR) (Note)				
April 1	Debentures Redemption Investment A/c	...Dr.		45,000	
	To Bank A/c				45,000
	(Being the investment made of a sum equal to 15% of the nominal (face) value of debentures to be redeemed, *i.e.*, ₹ 3,00,000)				
2020 March 31	Bank A/c	...Dr.		45,000	
	To Debentures Redemption Investment A/c				45,000
	(Being the Debentures Redemption Investment realised)				
March 31	10% Debentures A/c	...Dr.		3,00,000	
	To Debentureholders' A/c				3,00,000
	(Being the amount due to debentureholders on redemption)				
March 31	Debentureholders' A/c	...Dr.		3,00,000	
	To Bank A/c				3,00,000
	(Being the amount due to debentureholders paid)				
March 31	Debentures Redemption Reserve A/c	...Dr.		30,000	
	To General Reserve A/c				30,000
	(Being the DRR transferred to General Reserve)				

Note: Balance in DRR is ₹ 10,000 as on 31st March, 2019. ₹ 20,000 is further transferred from Surplus, *i.e.*, Balance in Statement of Profit and Loss to make DRR equal to ₹ 30,000, *i.e.*, 10% of ₹ 3,00,000.

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

$$= \frac{₹\,16,80,000}{₹\,2,20,000} = 7.64 \text{ Times.}$$

Cost of Revenue from Operations = Revenue from Operations + Gross Loss
= ₹ 16,00,000 + ₹ 80,000 (*i.e.*, 5% of ₹ 16,00,000)
= ₹ 16,80,000.

(*b*)

Dr. PROVISION FOR TAX ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Tax paid)	1,30,000	By Balance *b/d*	1,40,000
To Balance *c/d*	1,80,000	By Statement of Profit and Loss (Balancing Figure: Provision made)	1,70,000
	3,10,000		3,10,000

Shown as deduction under Cash Flow from Operating Activities

Add back to current year's profit for calculating Net Profit before Tax

(*c*)

Venus Limited

COMMON-SIZE BALANCE SHEET *as at 31st March, 2020 and 2019*

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31st March, 2020 (₹)	31st March, 2019 (₹)	31st March, 2020 (%)	31st March, 2019 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(*a*) Share Capital		4,00,000	3,00,000	50.00	50.00
(*b*) Reserves and Surplus		1,75,000	1,25,000	21.88	20.83
2. Non-Current Liabilities					
Long-term Borrowings (10% Debentures)		2,00,000	1,50,000	25.00	25.00
3. Current Liabilities					
Trade Payables		25,000	25,000	3.12	4.17
Total		8,00,000	6,00,000	100.00	100.00
II. ASSETS					
1. Non-Current Assets					
Fixed Assets—Tangible Assets		5,00,000	4,00,000	62.50	66.67
2. Current Assets					
(*a*) Trade Receivables		2,00,000	1,00,000	25.00	16.67
(*b*) Cash and Cash Equivalents		1,00,000	1,00,000	12.50	16.66
Total		8,00,000	6,00,000	100.00	100.00

10.

Mask Ltd.

CASH FLOW STATEMENT *for the year ended 31st March, 2020*

Particulars	₹	₹
A. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)	7,00,000	
Add: Non-cash and Non-operating Items:		
Goodwill amortised	20,000	
Loss on Sale of Machinery (WN 3)	48,000	
Depreciation on Machinery (WN 4)	2,78,000	
Interest on Debentures (₹ 10,00,000 × 12/100)	1,20,000	
Operating Profit before Working Capital Changes		11,66,000
Add: Decrease in Current Assets:		
Current Investments		20,000
		11,86,000
Less: Increase in Current Assets:		
Stock-in-Trade		1,24,000
Cash Generated from Operations		10,62,000
Less: Tax Paid		1,40,000
Cash Flow from Operating Activities		9,22,000

B. Cash Flow from Investing Activities		
Purchase of Machinery (WN 3)	(9,64,000)	
Purchase of Non-current Investments	(50,000)	
Proceeds from Sale of Machinery	72,000	
Cash Used in Investing Activities		(9,42,000)
C. Cash Flow from Financing Activities		
Receipts from Issue of Share Capital	2,00,000	
Redemption of 12% Debentures	(1,00,000)	
Payment of Interest on Debentures (₹ 10,00,000 × 12/100)	(1,20,000)	
Dividend Paid	(80,000)	
Increase in Bank Overdraft	1,80,000	
Cash Flow from Financing Activities		80,000
D. Net Increase in Cash and Cash Equivalents (A + B + C)		60,000
Add: Opening Cash and Bank Balances		1,40,000
E. Closing Cash and Bank Balances		2,00,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Net Profit as per Statement of Profit and Loss [₹ 4,00,000 + ₹ 1,00,000 (Loss)]	5,00,000
Add: Provision for tax made during the year (WN 2)	1,20,000
Proposed Dividend (Proposed Dividend for the year ended 31st March, 2019)	80,000
Net Profit before Tax	7,00,000

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

Particulars	₹	Particulars	₹
To Bank A/c (Tax paid)	1,40,000	By Balance *b/d*	1,80,000
To Balance *c/d*	1,60,000	By Statement of Profit and Loss (Provision Made)—Balancing Figure	1,20,000
	3,00,000		3,00,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	16,42,000	By Bank A/c (Sale)	72,000
To Bank A/c (Purchase)—Balancing Figure	9,64,000	By Accumulated Depreciation A/c	80,000
		By Loss on Sale of Machinery A/c* (Statement of Profit and Loss)	48,000
		By Balance *c/d*	24,06,000
	26,06,000		26,06,000

*Loss on Sale of Machinery = Book Value as on date of Sale − Sale Proceeds
= (₹ 2,00,000 − ₹ 80,000) − ₹ 72,000 = ₹ 48,000.

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

Particulars	₹	Particulars	₹
To Machinery A/c (Transfer)	80,000	By Balance *b/d*	2,02,000
To Balance *c/d*	4,00,000	By Statement of Profit and Loss (Depreciation Provided)—Balancing Figure	2,78,000
	4,80,000		4,80,000

5. Proposed Dividend of Current Year, *i.e.*, 2019–20 will not affect Cash Flow Statement since it is not accounted in the books of account being a Contingent Liability.

11. (*a*) Solvency Ratios are calculated to determine the ability of the business to meet its long-term debt.

(*b*) Net Profit after Interest and Tax = ₹ 3,00,000

Tax Rate = 40%

Let, Net Profit before Tax = ₹ 100

It means, Tax = 40% of ₹ 100 = ₹ 40

Net Profit after Tax = ₹ 100 – ₹ 40 = ₹ 60

Net Profit before Tax = ₹ 3,00,000 × ₹ 100/₹ 60 = ₹ 5,00,000

Profit before Interest and Tax = ₹ 5,00,000 + (₹ 5,00,000 × 10/100) = ₹ 5,50,000

$$\text{Return on Investment} = \frac{\text{Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$$

$$= (₹\ 5,50,000/₹\ 40,00,000) \times 100 = 13.75\%.$$

Shareholders' Funds = Capital Employed – Long-term Debt

= ₹ 40,00,000 – ₹ 5,00,000 = ₹ 35,00,000

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

$$= ₹\ 5,00,000/₹\ 35,00,000 = 0.14 : 1.$$

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

$$= \frac{₹\ 3,00,000 \text{ (Note 1)}}{₹\ 80,000 \text{ (Note 2 and 3)}} = 3.75 \text{ Times.}$$

Notes: 1. Let the Credit Revenue from Operations = ₹ 100

Cash Revenue from Operations = ₹ 40

Total Revenue from Operations = ₹ 100 + ₹ 40 = ₹ 140

∴ Credit Revenue from Operations = ₹100/₹140 × ₹ 4,20,000 = ₹ 3,00,000.

2. Opening Trade Receivables = ₹ 1,00,000 – ₹ 40,000 = ₹ 60,000.

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

$$= \frac{₹\ 60,000 + ₹\ 1,00,000}{2} = ₹\ 80,000.$$

(*ii*) $$\text{Interest Coverage Ratio} = \frac{\text{Net Profit before Interest and Tax}}{\text{Interest on Long-term Borrowings}}$$

$$= \frac{₹\ 3,91,000 \text{ (Note 2)}}{₹\ 36,000 \text{ (Note 1)}} = 10.86 \text{ Times.}$$

Notes: 1. Interest on Debentures = 12% of ₹ 3,00,000 = ₹ 36,000.

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

	₹
Net Profit after Interest and Tax	2,48,500
Add: Tax 30% [*i.e.*, ₹ 2,48,000 × 30/70*]	1,06,500
	3,55,000
Add: Interest on Debentures	36,000
Net Profit before Interest and Tax	3,91,000

*Let Net Profit after interest but before Tax = ₹ 100; Tax = ₹ 30

Net Profit after Interest and Tax = ₹ 100 – ₹ 30 = ₹ 70.

Model Test Paper 3

Time Allowed: 3 Hrs. **Max. Marks: 80**

General Instructions: **As per Model Test Paper 1**

Section A

Part I (12 Marks)

(*Answer **all** questions*)

1. Answer each of the following questions briefly:

(*i*) What is meant by 'fluctuating capital' of a partner? Distinguish between 'Fixed Capital Account' and 'Fluctuating Capital Account' on the basis of credit balance.

(*ii*) Green Ltd. forfeited 1,000 equity shares of ₹ 100 each for non-payment of first call of ₹ 20 per share and second and final call of ₹ 25 per share.

(*a*) State the minimum amount at which these shares can be reissued.

(*b*) If these shares were reissued at ₹ 50 per share as fully paid-up, what will be the amount of Capital Reserve?

(*iii*) State **any two** effects of retirement of a partner.

(*iv*) Name the major headings under which the Equity and Liabilities part of a company's Balance Sheet is organised and presented.

(*v*) State **any two** purposes other than 'Issue of fully-paid Bonus Shares' for which Securities Premium Reserve can be used.

(*vi*) List **any four** items which are not transferred to Realisation Account. [6 × 2 = 12]

Part II (48 Marks)

(*Answer **any four** questions*)

2. (*a*) From the following information, calculate goodwill of the firm of Atal and Madan at the time of admission of Mehra:

(*i*) At *three years' purchase of Super Profit*.

(*ii*) On the basis of *Capitalisation of Super Profit*.

(*a*) Average Profit of the firm for the last three years is ₹ 62,500.

(*b*) Normal Rate of Return is 10%.

BALANCE SHEET OF ATAL AND MADAN
as at 31st March, 2020

Liabilities		₹	Assets	₹
Sundry Creditors		1,00,000	Machinery	1,00,000
Bills Payable		25,000	Land and Building	2,00,000
General Reserve		50,000	Investment (Non-trade)	1,00,000
Capital A/cs:			Sundry Debtors	37,500
Atal	2,00,000		Bank	1,37,500
Madan	2,25,000	4,25,000	Advertisement Suspense A/c	25,000
		6,00,000		6,00,000

[4]

(*b*) *L*, *M* and *N* were partners in a firm sharing profits in the ratio of 2 : 1 : 1. On 1st April, 2020 their Balance Sheet was as follows:

BALANCE SHEET OF *L*, *M* AND *N*
as at 1st April, 2020

Liabilities		₹	Assets		₹
Capital A/cs:			Land		8,00,000
L	6,00,000		Building		6,00,000
M	4,80,000		Furniture		2,40,000
N	4,80,000	15,60,000	Debtors	4,00,000	
General Reserve		4,40,000	*Less:* Provision for Doubtful Debts	20,000	3,80,000
Workmen's Compensation Reserve		3,60,000	Stock		4,40,000
Creditors		2,40,000	Cash		1,40,000
		26,00,000			26,00,000

On the above date *N* retired. The following terms were agreed:

(*i*) Land was to be appreciated by 40% and Building was to be depreciated by ₹ 1,00,000.

(*ii*) Furniture was to be reduced by ₹ 30,000.

(*iii*) Liabilities against Workmen's Compensation Reserve were determined at ₹ 1,60,000.

(*iv*) *N* to be paid ₹ 8,37,500.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the New Firm. [8]

3. On 1st April, 2020, Airdrop Ltd. issued for subscription 5,00,000 Equity Shares of ₹ 10 each payable as follows:

On Application ₹ 3

On Allotment ₹ 3

On First and Final Call ₹ 4 (three months after allotment).

Applications were received for 6,50,000 shares and company made allotment in full to the applicants who applied for fifty or more shares and returned money to the applicants for 1,50,000 shares.

One shareholder, who was allotted 10,000 shares, paid first and final call with allotment money and another shareholder did not pay allotment money on his 15,000 shares but which he paid with first and final call.

Articles of Association of the company provided to charge and allow interest on Calls-in-Arrears and Calls-in-Advance respectively according to the *Table F o*f the Companies Act, 2013.

You are required to:

(*i*) Pass Journal entries to record the above transactions in the books of the company (including entries for interest on Calls-in-Advance and Calls-in-Arrears).

(*ii*) Prepare Calls-in-Arrears Account and Calls-in-Advance Account. [12]

4. (*a*) Anju, Manju and Sanju who were sharing profits in the ratio of 2 : 2 : 1 decided to dissolve the firm when their Balance Sheet was as follows:

Liabilities		₹	Assets	₹
Creditors		1,60,000	Building	1,50,000
Bills Payable		55,000	Furniture	10,000
Bank Overdraft		15,000	Computer	25,000
Commission Received in Advance		8,000	Investment (Market Value ₹ 55,000)	60,000
Capital A/cs:			Debtors	70,000
Anju	80,000		Stock	50,000
Manju	80,000		Bills Receivable	5,000
Sanju	80,000	2,40,000	Loan to Sanju	1,00,000
			Profit and Loss A/c	8,000
		4,78,000		4,78,000

The firm was dissolved on the above date on the following terms:

(*i*) Debtors realised ₹ 50,000; Stock ₹ 20,000; Building ₹ 99,700.

(*ii*) Firm had an unrecorded asset which realised ₹ 50,000 and also an unrecorded liability of ₹ 75,000.

(*iii*) Commission received in advance was returned to the customer after deducting ₹ 3,000.

(*iv*) Creditors of ₹ 60,000 accepted investment at book value. Remaining creditors were paid by cheque.

(*v*) Anju was to get ₹ 2,700 as remuneration for completing the dissolution work and was to bear the realisation expenses. The expenses of realisation ₹ 1,700 were paid by Anju.

You are required to prepare:

(*i*) Realisation Account.

(*ii*) Partners' Capital Accounts. [8]

(*b*) Parul, Simran and Anshul are partners in a firm. For the year ended 31st March, 2020, the profits of the firm ₹ 3,00,000 were distributed equally among them, without providing for the following provisions of the partnership deed:

(*i*) Simran has guaranteed to the firm that the firm would earn a profit of at least ₹ 3,37,500. Any shortfall in these profits would be personally met by her.

(*ii*) Profit is to be shared in the ratio of 2 : 2 : 1.

You are required to pass the necessary Journal entries to rectify the error in accounting. [4]

5. (*a*) On 1st April, 2020, Karm Ltd. issued 7,000, 10% Debentures of ₹ 500 each at a premium of ₹ 50 per debenture redeemable at a premium of 20% after 5 years.

It had balance of ₹ 3,50,000 in the Capital Reserve. The company decides to 'write off' loss on issue of debentures in the year ended 31st March, 2021.

Pass necessary Journal entries at the time of issue of debentures and writing off loss on issue of Debentures and prepare Loss on Issue of Debentures Account. [4]

(*b*) Ratnakar Ltd. took over the assets of ₹ 7,00,000 and creditors of ₹ 80,000 of Mother Ltd. for ₹ 6,00,000 payable 10% by a cheque and the balance by issue of fully paid 10% Debentures of ₹ 100 each at a discount of 10% and redeemable at a premium of 5% after 3 years. Pass the necessary Journal entries in the books of Ratnakar Ltd. [4]

(*c*) *BG* Ltd. issued 2,000, 12% Debentures of ₹ 100 each on 1st April, 2020. The issue was fully subscribed. According to the terms of issue, interest on the debentures is payable half-yearly on 30th September and 31st March and the tax deducted at source is 10%.

Pass necessary Journal entries related to the payment of debenture interest and transfer of interest on debentures to the Statement of Profit and Loss. [4]

6. (*a*) Ram and Shyam are partners in a firm sharing profits in the ratio of 5 : 3. Their fixed capitals on 31st March, 2020 are: Ram ₹ 60,000 and Shyam ₹ 80,000. They agreed to allow interest on capital @ 12% p.a. The profit of the firm for the year ended 31st March, 2020 before allowing interest on capital was ₹ 12,600.

Pass necessary Journal entries for the above transactions in the books of the firm. Also show your working notes clearly. [4]

(*b*) Tushar and Kapil are partners having capitals of ₹ 15,00,000 and ₹ 10,00,000 respectively. Current Account Balances as on 1st April, 2019 were: Tushar—₹ 1,00,000 (Cr.); Kapil—₹ 50,000 (Cr.). Tushar withdrew ₹ 25,000 per quarter at the end of each quarter and Kapil withdrew ₹ 12,500 per month on the 1st day of every month.

Their deed provides that:

(*i*) Interest on Capital is to be allowed @ 5% p.a.

(*ii*) Interest on drawings is to be charged @ 6%.

(*iii*) Kapil is entitled to a salary of ₹ 1,25,000.

(*iv*) Tushar is entitled for commission @ 10% on net profit after charging Kapil's salary, interest on capitals and his own commission.

(*v*) Of the first ₹ 2,50,000 divisible as profits in any year, Tushar is entitled to 70% and Kapil to 30%. Annual profits in excess of ₹ 2,50,000 are to be shared equally.

The profit for the year ended 31st March, 2020 was ₹ 13,50,000. Prepare Profit and Loss Appropriation Account and Partners' Current Accounts. [8]

7. (*a*) Following balances have been extracted from the books of Damodar Ltd. as at 31st March, 2020:

	₹
Equity Share Capital (Fully paid shares of ₹ 100 each)	10,00,000
Statement of Profit and Loss (Dr.)	1,25,000
Unclaimed Dividend	25,000
Cash and Bank Balance	6,25,000
Securities Premium Reserve	1,87,500
Tangible Fixed Assets (at cost)	8,75,000
Accumulated Depreciation till Date	62,500
Trade Marks	1,75,000
10% Debentures	5,00,000
(1/5 of the Debentures to be redeemed on 31st March, 2021)	
Interest accrued and due on 10% Debentures	25,000

You are required to prepare as at 31st March, 2020:

(*i*) Balance Sheet of Damodar Ltd. as at 31st March, 2020.

(*ii*) Notes to Accounts. [8]

(*b*) Vinod Ltd., an unlisted (Non-NBFC or HFC) company, has 30,000, 10% Debentures of ₹ 100 each due for redemption on 31st March, 2020. Debenture Redemption Reserve has a balance of ₹ 3,00,000 on 31st March, 2019 and the company had purchased the required investment on 30th April, 2019.

Pass necessary Journal entries for redemption of debentures on 31st March, 2020. [4]

8. (*a*) *X*, *Y* and *Z* are partners sharing profits in the ratio of 3 : 2 : 1. Their Balance Sheet as at 31st March, 2020 is as follows:

BALANCE SHEET *as at 31st March, 2020*

Liabilities		₹	Assets	₹
Capital A/cs:			Goodwill	60,000
X	1,20,000		Furniture	95,000
Y	1,20,000		Business Premises	2,05,000
Z	1,20,000	3,60,000	Stock-in-Trade	40,000
General Reserve		60,000	Debtors	28,000
Sundry Creditors		20,000	Cash at Bank	15,000
Outstanding Salaries and Wages		7,200	Cash in Hand	4,200
		4,47,200		4,47,200

On 1st April, 2020, they admit *W* as a partner on the following conditions:

(*i*) *W* will bring ₹ 1,20,000 as his Capital and also ₹ 30,000 as Premium for Goodwill for his one-fourth share in the future profit/loss of the firm.

(*ii*) The values of the fixed assets of the firm will be increased by 10% before the admission of *W*.

(*iii*) The future profits and losses of the firm will be shared equally by all the partners.

You are required to prepare:

(*i*) Revaluation Account;

(*ii*) Partners' Capital Accounts; and

(*iii*) Balance Sheet of the new firm. [8]

(*b*) Gautam and Yashica are partners in a firm sharing profits in the ratio of 3 : 2. They admitted Asma for 1/4th share in future profits. At the time of admission of Asma:

(*i*) Unrecorded Accrued income of ₹ 5,000 be provided for.

(*ii*) A debtor whose dues of ₹ 25,000 were written off as bad debts paid ₹ 20,000 in full settlement.

(*iii*) There is a liability of ₹ 25,000 included in Sundry Creditors that is not likely to arise.

Pass the necessary Journal entries. [4]

Section B

(20 Marks)

(*Answer* ***any two*** *questions*)

9. (*a*) Total Debt ₹ 12,00,000, Current Liabilities ₹ 4,00,000, Capital Employed ₹ 12,00,000. Calculate Debt to Total Assets Ratio. [2]

(*b*) Classify the following into Operating, Investing and Financing Activities:

(*i*) Sale of shares and debentures of other companies by a financing company.

(*ii*) Dividend on shares and interest on debentures paid by a Mutual Fund Company.

(*iii*) Payment of preliminary expenses.

(*iv*) Interest paid on Short-term Borrowings. [2]

(*c*) From the following data, prepare Common-size Statement of Profit and Loss of Nicholson Ltd.:

Particulars	31st March, 2020	31st March, 2019
Revenue from Operations	₹ 10,00,000	₹ 8,00,000
Cost of Materials Consumed	50% of Revenue from Operations	50% of Revenue from Operations
Employees Benefit Expenses	₹ 1,00,000	₹ 80,000
Finance Costs	₹ 10,000	₹ 8,000
Tax Rate	40% of Profit before Tax	40% of Profit before Tax

[6]

10. (*a*) Current Ratio of *X* Ltd. is 2 : 1. State with reason which of the following transactions would (*i*) *increase*; (*ii*) *decrease*; or (*iii*) *not change* the ratio:

(*i*) Included in the Trade Payables was a bill payable of ₹ 9,000 which was met on maturity.

(*ii*) Company issued 1,00,000 equity shares of ₹ 10 each to the Vendors of machinery purchased. [2]

(*b*) Net Profit after Interest but before Tax ₹ 1,40,000; 15% Long-term debts ₹ 4,00,000; Shareholders' Funds ₹ 2,40,000; Tax Rate 50%. Calculate Return on Investment. [2]

(*c*) On the basis of the given information, calculate the following ratios:

(*i*) Operating Ratio; (*ii*) Liquid Ratio; (*iii*) Proprietary Ratio.

Information:	₹
Cash Revenue from Operations	4,00,000
Credit Revenue from Operations	2,00,000
Cost of Revenue from Operations	3,90,000
Depreciation	3,000
Employees' Benefit Expenses	27,000
Current Liabilities	1,95,000
Current Assets	4,13,000
Closing Inventory	23,000
Equity Share Capital	4,37,000
Preference Share Capital	1,74,000
Non-Current Assets	3,87,000
Debentures Redemption Reserve	29,000

[6]

11. Prepare Cash Flow Statement (as per AS-3) for the year 2019–20 from the following Balance Sheet:

BALANCE SHEET OF SWASTIK LTD. *as at 31st March, 2020*

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		8,00,000	6,00,000
(*b*) Reserves and Surplus	1	3,30,000	2,20,000
2. Non-Current Liabilities			
Long-term Borrowings	2	1,60,000	1,00,000
3. Current Liabilities			
(*a*) Trade Payables		1,25,000	1,40,000
(*b*) Short-term Provisions	3	40,000	55,000
Total		14,55,000	11,15,000
II. ASSETS			
1. Non-Current Assets			
(*a*) Fixed Assets (Tangible)	4	9,50,000	6,05,000
(*b*) Non-current Investments		1,35,000	1,00,000
2. Current Assets			
(*a*) Current Investments—Marketable Securities		80,000	40,000
(*b*) Trade Receivables		90,000	2,00,000
(*c*) Cash and Bank Balances (Cash at Bank)		2,00,000	1,70,000
Total		14,55,000	11,15,000

Notes to Accounts

Particulars	31st March, 2020 (₹)	31st March, 2019 (₹)
1. Reserves and Surplus		
Capital Reserve	8,000	...
Securities Premium Reserve	10,000	...
General Reserve	1,42,000	1,20,000
Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,70,000	1,00,000
	3,30,000	2,20,000
2. Long-term Borrowings		
10% Debentures	1,60,000	1,00,000
3. Short-term Provisions		
Provision for Tax	40,000	55,000
4. Fixed Assets—Tangible		
Machinery (Cost)	10,70,000	7,00,000
Less: Accumulated Depreciation	1,20,000	95,000
	9,50,000	6,05,000

Additional Information:

(*i*) During the year, Machinery costing ₹ 70,000 (accumulated depreciation of ₹ 55,000) was sold at a profit of ₹ 10,000.

(*ii*) At the end of the year, some Non-current Investments costing ₹ 40,000 were sold at a profit of 20% which is transferred to Capital Reserve.

(*iii*) Additional Debentures were issued at par on 1st October, 2019.

(*iv*) Interim dividend paid during the year amounted to ₹ 60,000. [10]

Answers

1. (*i*) Fluctuating Capital of a partner implies a method of maintaining Capital Account of partner where all the adjustments regarding interest on capital, drawings, share of profits, etc., are recorded in his Capital Account.

Fixed Capital Account always shows a credit balance while Fluctuating Capital Account may show credit or debit balance.

(*ii*) (*a*) ₹ 45 per share.

(*b*)

Amount forfeited on 1,000 shares (1,000 × ₹ 55)	₹ 55,000
Less: Loss on reissue (1,000 × ₹ 50)	₹ 50,000
Gain on Reissue transferred to Capital Reserve	₹ 5,000

(*iii*) (*a*) Old partnership comes to an end and a new partnership between/among the remaining partners comes into existence.

(*b*) The combined share of remaining partners increases.

(*iv*) 1. Shareholders' Funds;
2. Share Application Money Pending Allotment;
3. Non-current Liabilities;
4. Current Liabilities.

(*v*) 1. To write off preliminary expenses.
2. To write off premium payable on the redemption of debentures.

(*vi*) 1. Fictitious Assets.
2. Cash and Bank Balances.
3. Partners' Loans/Advances.
4. Accumulated Profits and Reserves (*e.g.*, credit Balance in Profit and Loss A/c, General Reserve).

2. (*a*) *Calculation of Goodwill of the Firm:*

Capital Employed/Net Assets = Total Assets (Excluding Non-trade Investment and Fictitious Assets) – Outside Liabilities

= [(₹ 1,00,000 + ₹ 2,00,000 + ₹ 37,500 + ₹ 1,37,500) – (₹ 1,00,000 + ₹ 25,000)] = ₹ 3,50,000

(*i*) *On the basis of Three Years' purchase of Super Profit:*

Average Profit = ₹ 62,500 (Given)

Normal Profit = Capital Employed × Normal Rate of Return

$$= ₹\ 3{,}50{,}000 \times \frac{10}{100} = ₹\ 35{,}000$$

Super Profit = Average Profit – Normal Profit

= ₹ 62,500 – ₹ 35,000 = ₹ 27,500

Goodwill = Super Profit × Number of Years' Purchase

= ₹ 27,500 × 3 = ₹ 82,500.

(*ii*) *On the basis of Capitalisation of Super Profit:*

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

$$= ₹\ 27{,}500 \times \frac{100}{10} = ₹\ 2{,}75{,}000.$$

(*b*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Building A/c		1,00,000	By Land A/c	3,20,000
To Furniture A/c		30,000		
To Gain (Profit) transferred to:				
L's Capital A/c	95,000			
M's Capital A/c	47,500			
N's Capital A/c	47,500	1,90,000		
		3,20,000		3,20,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*L* ₹	*M* ₹	*N* ₹	Particulars	*L* ₹	*M* ₹	*N* ₹
To *N*'s Capital A/c (Goodwill)	1,00,000	50,000	...	By Balance *b/d*	6,00,000	4,80,000	4,80,000
				By General Reserve A/c	2,20,000	1,10,000	1,10,000
To *N*'s Loan A/c	...	...	8,37,500	By *M*'s Capital A/c (Goodwill) (WN 1)	...	...	50,000
To Balance *c/d*	9,15,000	6,37,500	...				
				By *L*'s Capital A/c (Goodwill) (WN 1)	...	...	1,00,000
				By Workmen's Compensation Fund (WN 2)	1,00,000	50,000	50,000
				By Revaluation A/c (Profit)	95,000	47,500	47,500
	10,15,000	6,87,500	8,37,500		10,15,000	6,87,500	8,37,500

BALANCE SHEET OF *L* AND *M as at 1st April, 2020*

Liabilities		₹	Assets		₹
Capital Accounts:			Land		11,20,000
L	9,15,000		Building		5,00,000
M	6,37,500	15,52,500	Furniture		2,10,000
N's Loan A/c		8,37,500	Debtors	4,00,000	
Workmen's Compensation Claim		1,60,000	*Less:* Provision for Doubtful Debts	20,000	3,80,000
Creditors		2,40,000	Stock		4,40,000
			Cash		1,40,000
		27,90,000			27,90,000

Working Notes:

	₹
1. Amount agreed to be paid to *N*	8,37,500
Less: *N*'s Capital (after all adjustments but before his share of goodwill) (₹ 4,80,000 + ₹ 1,10,000 + ₹ 50,000 + ₹ 47,500)	6,87,500
N's Share of Goodwill (Hidden Goodwill)	1,50,000

N's Share of Goodwill ₹ 1,50,000 is adjusted between *L* and *M* in their gaining ratio, *i.e.*, 2 : 1.

2. There was a liability of ₹ 1,60,000 for Workmen Compensation. Workmen Compensation Fund of ₹ 1,60,000 will be used to make provision of such liability and balance amount of ₹ 2,00,000 will be distributed among the partners in their old profit-sharing ratio.

3. (*i*) JOURNAL OF AIRDROP LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		19,50,000	
	To Equity Shares Application A/c				19,50,000
	(Being the application money received on 6,50,000 shares)				
	Equity Shares Application A/c	...Dr.		19,50,000	
	To Equity Share Capital A/c (5,00,000 × ₹ 3)				15,00,000
	To Bank A/c (1,50,000 × ₹ 3)				4,50,000
	(Being the application money adjusted and surplus refunded)				
	Equity Shares Allotment A/c	...Dr.		15,00,000	
	To Equity Share Capital A/c				15,00,000
	(Being the allotment money due on 5,00,000 shares @ ₹ 3 each)				
	Bank A/c	...Dr.		14,95,000	
	Calls-in-Arrears A/c (15,000 × ₹ 3)	...Dr.		45,000	
	To Equity Shares Allotment A/c				15,00,000
	To Calls-in-Advance A/c (10,000 × ₹ 4)				40,000
	(Being the allotment money received except on 15,000 shares and Calls-in-Advance received on 10,000 shares)				
	Equity Shares First and Final Call A/c	...Dr.		20,00,000	
	To Equity Share Capital A/c				20,00,000
	(Being the first and final call money due on 5,00,000 shares @ ₹ 4 per share)				
	Bank A/c	...Dr.		20,05,000	
	To Equity Shares First and Final Call A/c				19,60,000
	To Calls-in-Arrears A/c				45,000
	(Being the amount of first and final call received including arrears on 15,000 shares as allotment money)				
	Calls-in-Advance A/c	...Dr.		40,000	
	To Equity Shares First and Final Call A/c				40,000
	(Being the Calls-in-Advance adjusted)				
	Interest on Calls-in-Advance A/c	...Dr.		1,200	
	To Sundry Members' A/c (WN 1)				1,200
	(Being the interest allowed on Calls-in-Advance)				
	Sundry Members' A/c	...Dr.		1,200	
	To Bank A/c				1,200
	(Being the interest paid on Calls-in-Advance)				
	Sundry Members' A/c	...Dr.		1,125	
	To Interest on Calls-in-Arrears A/c (WN 2)				1,125
	(Being the interest charged on Calls-in-Arrears)				
	Bank A/c	...Dr.		1,125	
	To Sundry Members' A/c				1,125
	(Being the interest received on Calls-in-Arrears)				

	Statement of Profit and Loss ...Dr. To Interest on Calls-in-Advance A/c (Being the transfer of Interest on Calls-in-Advance to Statement of Profit and Loss at the end of the accounting period)		1,200	 1,200
	Interest on Calls-in-Arrears A/c ...Dr. To Statement of Profit and Loss (Being the transfer of interest on Calls-in-Arrears to Statement of Profit and Loss at the end of the accounting period)		1,125	 1,125

Working Notes:

1. Interest on Calls-in-Advance = ₹ 40,000 × $\frac{3}{12} \times \frac{12}{100}$ = ₹ 1,200.

2. Interest on Calls-in-Arrears = ₹ 45,000 × $\frac{3}{12} \times \frac{10}{100}$ = ₹ 1,125.

(*ii*)

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

Particulars	₹	Particulars	₹
To Equity Shares Allotment A/c	45,000	By Bank A/c	45,000
	45,000		45,000

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

Particulars	₹	Particulars	₹
To Equity Shares First and Final Call A/c	40,000	By Bank A/c	40,000
	40,000		40,000

4. (*a*)

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Sundry Liabilities (Transfer):		
Building A/c	1,50,000		Creditors A/c	1,60,000	
Furniture A/c	10,000		Bills Payable A/c	55,000	
Computer A/c	25,000		Commission Received in Advance	8,000	2,23,000
Investment	60,000		By Bank A/c (Assets Realised):		
Debtors A/c	70,000		Debtors	50,000	
Stock A/c	50,000		Stock	20,000	
Bills Receivable A/c	5,000	3,70,000	Building	99,700	
To Bank A/c (Liabilities Paid):			Unrecorded Asset	50,000	2,19,700
Creditors	1,00,000		By Loss on Realisation transferred to:		
Bills Payable	55,000		Anju's Capital A/c	66,000	
Unrecorded Liability	75,000		Manju's Capital A/c	66,000	
Commission Received in Advance	5,000	2,35,000	Sanju's Capital A/c	33,000	1,65,000
To Anju's Capital A/c (Remuneration)		2,700			
		6,07,700			6,07,700

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Anju (₹)	Manju (₹)	Sanju (₹)	Particulars	Anju (₹)	Manju (₹)	Sanju (₹)
To Realisation A/c (Loss)	66,000	66,000	33,000	By Balance *b/d*	80,000	80,000	80,000
To Loan to Sanju A/c	...	...	1,00,000	By Realisation A/c	2,700	...	...
To Profit and Loss A/c	3,200	3,200	1,600	By Bank A/c (Bal. Fig.)	...	...	54,600
To Bank A/c (Final Payment)	13,500	10,800	...	(Cash Brought in)			
	82,700	80,000	1,34,600		82,700	80,000	1,34,600

Notes: 1. Furniture and Computer have not realised any amount.

2. Loan to Sanju is transferred (debited) to her Capital Account as per ISC Council Guidelines.
3. Bank Overdraft is to be taken to Bank/Cash Account and not to be transferred to Realisation Account.
4. Creditors of ₹ 60,000 accepted investment. No entry will be passed for transfer of asset. However, cheque given to remaining creditors of ₹ 1,00,000 (*i.e.*, ₹ 1,60,000 – ₹ 60,000) will be recorded as a payment.

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Parul's Capital A/c	...Dr.		1,00,000	
	Simran's Capital A/c	...Dr.		1,00,000	
	Anshul's Capital A/c	...Dr.		1,00,000	
	To Profit and Loss Adjustment A/c				3,00,000
	(Being the share of profit wrongly credited, now debited to Capital Accounts)				
	Simran's Capital A/c	...Dr.		37,500	
	To Profit and Loss Adjustment A/c				37,500
	(Being the shortfall of profit personally met by Simran)				
	Profit and Loss Adjustment A/c	...Dr.		3,37,500	
	To Parul's Capital A/c				1,35,000
	To Simran's Capital A/c				1,35,000
	To Anshul's Capital A/c				67,500
	(Being the divisible profit credited to partners in 2 : 2 : 1)				

5. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020					
April 1	Bank A/c	...Dr.		38,50,000	
	To Debentures Application and Allotment A/c				38,50,000
	(Being the debentures application money received on 7,000 debentures @ ₹ 550)				
April 1	Debentures Application and Allotment A/c (7,000 × ₹ 550)	...Dr.		38,50,000	
	Loss on Issue of Debentures A/c (7,000 × ₹ 100)	...Dr.		7,00,000	
	To 10% Debentures A/c (7,000 × ₹ 500)				35,00,000
	To Securities Premium Reserve A/c (7,000 × ₹ 50)				3,50,000
	To Premium on Redemption of Debentures A/c (7,000 × ₹ 100)				7,00,000
	(Being the issue of 7,000 debentures at a premium of ₹ 50 redeemable at a premium of 20%)				

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2021 March 31	Capital Reserve A/c	...Dr.		3,50,000	
	Securities Premium Reserve A/c	...Dr.		3,50,000	
	To Loss on Issue of Debentures A/c				7,00,000
	(Being the loss written off)				

Dr. LOSS ON ISSUE OF DEBENTURES ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2020 April 1	To Premium on Redemption of Debentures A/c	7,00,000	2021 March 31	By Capital Reserve A/c	3,50,000
			March 31	By Securities Premium Reserve A/c	3,50,000
		7,00,000			7,00,000

(*b*) JOURNAL OF RATNAKAR LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c	...Dr.		7,00,000	
	To Creditors A/c				80,000
	To Mother Ltd.				6,00,000
	To Capital Reserve A/c (Balancing Figure)				20,000
	(Being the purchase of business from Mother Ltd.)				
	Mother Ltd.	...Dr.		60,000	
	To Bank A/c				60,000
	(Being the part payment made to vendor by a cheque)				
	Mother Ltd.	...Dr.		5,40,000	
	Loss on Issue of Debentures A/c (₹ 60,000 + ₹ 30,000)	...Dr.		90,000	
	To 10% Debentures A/c				6,00,000
	To Premium on Redemption of Debentures A/c				30,000
	(Being the issue of 6,000, 10% Debentures at a discount of 10% repayable at a premium of 5%)				

Note: No. of Debentures to be issued = ₹ 5,40,000/₹ 90 = 6,000 Debentures.

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

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020 Sept. 30	Debentures' Interest A/c	...Dr.		12,000	
	To Debentureholders' A/c				10,800
	To TDS Payable A/c				1,200
	(Being the interest due for 6 months and TDS deducted @ 10%)				
	Debentureholders' A/c	...Dr.		10,800	
	TDS Payable A/c	...Dr.		1,200	
	To Bank A/c				12,000
	(Being the interest paid to debentureholders and TDS deposited in Government Account)				
2021 March 31	Debentures' Interest A/c	...Dr.		12,000	
	To Debentureholders' A/c				10,800
	To TDS Payable A/c				1,200
	(Being the interest due on debentures for the half-year ended 31st March, 2021, TDS deducted @ 10%)				

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Debentureholders' A/c	...Dr.		10,800	
	TDS Payable A/c	...Dr.		1,200	
	To Bank A/c				12,000
	(Being the interest paid and TDS deposited in the Government Account)				
	Statement of Profit and Loss (Finance cost)	...Dr.		24,000	
	To Debentures' Interest A/c				24,000
	(Being the interest transferred to Statement of Profit and Loss as Finance Cost)				

Note: It is assumed that interest and TDS was paid on 31st March, 2021. Hence, entry for the payment is made.

6. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020					
March 31	Interest on Capital A/c	...Dr.		12,600	
	To Ram's Current A/c				5,400
	To Shyam's Current A/c				7,200
	(Being the interest on capital credited to Partners' Current Account)				
	Profit and Loss Appropriation A/c	...Dr.		12,600	
	To Interest on Capital Account				12,600
	(Being the interest on capital transferred to Profit and Loss Appropriation Account)				

Working Note:

Calculation of Interest on Capital: ₹

$$\text{On Ram's Capital} = ₹\,60{,}000 \times \frac{12}{100} = 7{,}200$$

$$\text{On Shyam's Capital} = ₹\,80{,}000 \times \frac{12}{100} = 9{,}600$$

$$\text{Total Interest} = 16{,}800$$

However, total distributable profits are just ₹ 12,600.

So, total profits of ₹ 12,600 will be distributed between Ram and Shyam in the ratio of their interest on capital, *i.e.,* in the ratio of ₹ 7,200 and ₹ 9,600, *i.e.*, in the ratio of 3 : 4.

$$\text{Interest on capital allowed to Ram} = ₹\,12{,}600 \times \frac{3}{7} = ₹\,5{,}400$$

$$\text{Interest on capital allowed to Shyam} = ₹\,12{,}600 \times \frac{4}{7} = ₹\,7{,}200.$$

(*b*) PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2020* *Cr.*

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Profit and Loss A/c (Net Profit)		13,50,000
Tushar (5% of ₹ 15,00,000)	75,000		By Interest on Drawings A/cs:		
Kapil (5% of ₹ 10,00,000)	50,000	1,25,000	Tushar (₹ 25,000 × 4 × 6/100*)	6,000	
To Kapil's Salary A/c		1,25,000	Kapil (₹ 12,500 × 12 × 6/100*)	9,000	15,000
To Tushar's Commission A/c: [₹(13,50,000 – 1,25,000 – 1,25,000) × 10/110]		1,00,000			
To Profit transferred to:					
Tushar's Current A/c	5,57,500				
Kapil's Current A/c	4,57,500	10,15,000			
		13,65,000			13,65,000

*As *per annum* word is not mentioned with rate, interest on drawings will be provided without considering time factor.

Dr. PARTNERS' CURRENT ACCOUNTS *Cr.*

Particulars	Tushar (₹)	Kapil (₹)	Particulars	Tushar (₹)	Kapil (₹)
To Drawings A/c	1,00,000	1,50,000	By Balance *b/d*	1,00,000	50,000
To Interest on Drawings A/c	6,000	9,000	By Interest on Capital A/c	75,000	50,000
To Balance *c/d*	7,26,500	5,23,500	By Kapil's Salary A/c	...	1,25,000
			By Tushar's Commission A/c	1,00,000	...
			By Profit and Loss Appropriation A/c (Profit)	5,57,500	4,57,500
	8,32,500	6,82,500		8,32,500	6,82,500

Working Notes:

Distribution of Profits: Distributable Profits = ₹ 13,50,000 + ₹ 15,000 – ₹ 1,25,000 – ₹ 1,25,000 – ₹ 1,00,000
= ₹ 10,15,000

Particulars	Tushar	Kapil
Divided First ₹ 2,50,000 in 7 : 3	₹ 2,50,000 × 7/10 = ₹ 1,75,000	₹ 2,50,000 × 3/10 = ₹ 75,000
Divide Balance ₹ 7,65,000 Equally	₹ 7,65,000 × 1/2 = ₹ 3,82,500	₹ 7,65,000 × 1/2 = ₹ 3,82,500
Total Share of Profits	₹ 5,57,500	₹ 4,57,500

7. (*a*) **Damodar Ltd.**

BALANCE SHEET *as at 31st March, 2020*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital	1	10,00,000
(*b*) Reserves and Surplus	2	62,500
2. Non-Current Liabilities		
Long-term Borrowings	3	4,00,000
3. Current Liabilities		
Other Current Liabilities	4	1,50,000
Total		16,12,500
II. ASSETS		
1. Non-Current Assets		
Fixed Assets:		
(*i*) Tangible Assets	5	8,12,500
(*ii*) Intangible Assets	6	1,75,000
2. Current Assets		
Cash and Bank Balance	7	6,25,000
Total		16,12,500

Notes to Accounts

Particulars	₹
1. Share Capital	
Authorised Capital	
... Equity Shares of ₹ 100 each	...
Issued Capital	
10,000 Equity Shares of ₹ 100 each	10,00,000
Subscribed Capital	
Subscribed and Fully paid-up	
10,000 Equity Shares of ₹ 100 each	10,00,000

2. Reserves and Surplus		
Securities Premium Reserve	1,87,500	
Surplus, *i.e.*, Balance in Statement of Profit and Loss	(1,25,000)	62,500
3. Long-term Borrowings		
10% Debentures (4/5 of the Debentures to be redeemed after 31st March, 2021)		4,00,000
4. Other Current Liabilities		
Unclaimed Dividend	25,000	
Current Maturities of Long-term Debts (1/5th of Debentures to be redeemed on 31st March, 2021)	1,00,000	
Interest Accrued and due on 10% Debentures	25,000	1,50,000
5. Tangible Assets		
Fixed Assets at Cost	8,75,000	
Less: Accumulated Depreciation	62,500	8,12,500
6. Intangible Assets		
Trade Marks		1,75,000
7. Cash and Bank Balance		
Cash at Bank		6,25,000

(*b*) **In the Books of Vinod Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020				
March 31	Bank A/c ...Dr.		4,50,000	
	To Debentures Redemption Investment A/c			4,50,000
	(Being the investment encashed)			
March 31	10% Debentures A/c ...Dr.		30,00,000	
	To Debentureholders' A/c			30,00,000
	(Being the amount due to debentureholders)			
March 31	Debentureholders' A/c ...Dr.		30,00,000	
	To Bank A/c			30,00,000
	(Being the payment made to debentureholders)			
March 31	Debentures Redemption Reserve A/c ...Dr.		3,00,000	
	To General Reserve A/c			3,00,000
	(Being the transfer of Debenture Redemption Reserve to General Reserve on redemption of the debentures)			

8. (*a*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Gain (Profit) on Revaluation transferred to:			By Furniture A/c	9,500
X's Capital A/c	15,000		By Business Premises A/c	20,500
Y's Capital A/c	10,000			
Z's Capital A/c	5,000	30,000		
		30,000		30,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	X (₹)	Y (₹)	Z (₹)	W (₹)	Particulars	X (₹)	Y (₹)	Z (₹)	W (₹)
To Goodwill A/c	30,000	20,000	10,000	...	By Balance *b/d*	1,20,000	1,20,000	1,20,000	...
To *X*'s Capital A/c	...	...	7,500	...	By Revaluation A/c	15,000	10,000	5,000	...
To *Y*'s Capital A/c (For Goodwill)	...	...	2,500	...	By General Reserve A/c	30,000	20,000	10,000	...
					By Bank A/c	...	...	...	1,20,000
To Balance *c/d*	1,65,000	1,40,000	1,15,000	1,20,000	By Premium for Goodwill A/c	22,500	7,500	...	...
					By *Z*'s Capital A/c (WN 2)	7,500	2,500	...	...
	1,95,000	1,60,000	1,35,000	1,20,000		1,95,000	1,60,000	1,35,000	1,20,000

BALANCE SHEET OF NEW FIRM *as at 1st April, 2020*

Liabilities		₹	Assets	₹
Capital A/cs:			Furniture	1,04,500
X	1,65,000		Business Premises	2,25,500
Y	1,40,000		Stock-in-Trade	40,000
Z	1,15,000		Debtors	28,000
W	1,20,000	5,40,000	Cash at Bank (₹ 15,000 + ₹ 1,20,000 + ₹ 30,000)	1,65,000
Sundry Creditors		20,000	Cash in Hand	4,200
Outstanding Salaries and Wages		7,200		
		5,67,200		5,67,200

Working Notes:

1. *Calculation of Sacrificing Ratio:*

Sacrifice = Old Share – New Share

$$X\text{'s Sacrifice } \frac{3}{6}-\frac{1}{4}=\frac{6-3}{12}=\frac{3}{12};$$

$$Y\text{'s Sacrifice} = \frac{2}{6}-\frac{1}{4}=\frac{4-3}{12}=\frac{1}{12};$$

$$Z\text{'s Sacrifice} = \frac{1}{6}-\frac{1}{4}=\frac{2-3}{12}=-\frac{1}{12} \text{ (Gain).}$$

2. *Z* is also a gaining partner, his Capital Account will be debited for adjusting goodwill and General Reserve. *Z* will compensate *X* and *Y* in the ratio of 3 : 1 as he is also gaining.

   Goodwill = ₹ 1,20,000* × 1/12 = ₹ 10,000, for which *Z* will be debited by ₹ 10,000 and *X* will be credited by ₹ 7,500 and *Y* by ₹ 2,500.

   *Value of firm's goodwill on the basis of *W*'s share of goodwill = ₹ 30,000 × 4/1 = ₹ 1,20,000.

3. *For Distribution of General Reserve:*

		₹	₹
General Reserve A/c	...Dr.	60,000	
To *X*'s Capital A/c			30,000
To *Y*'s Capital A/c			20,000
To *Z*'s Capital A/c			10,000

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Unrecorded Accrued Income A/c	...Dr.		5,000	
	Bank A/c (Bad Debts Recovered)	...Dr.		20,000	
	Creditors A/c	...Dr.		25,000	
	To Revaluation A/c				50,000
	(Being the increase in value of assets and decrease in value of liabilities recorded)				
	Revaluation A/c	...Dr.		50,000	
	To Gautam's Capital A/c				30,000
	To Yashica's Capital A/c				20,000
	(Being the gain on Revaluation transferred to partners in their old profit-sharing ratio)				

9. (*a*) Debt to Total Assets Ratio $= \dfrac{\text{Debt}}{\text{Total Assets}} = \dfrac{₹\ 8,00,000}{₹\ 16,00,000} = 0.5 : 1.$

Working Notes:

1. Debt = Total Debt – Current Liabilities = ₹ 12,00,000 – ₹ 4,00,000 = ₹ 8,00,000.
2. Total Assets = Capital Employed + Current Liabilities = ₹ 12,00,000 + ₹ 4,00,000 = ₹ 16,00,000.

(*b*) (*i*) Operating Activity.
(*ii*) Financing Activity.
(*iii*) Operating Activity.
(*iv*) Financing Activity.

(*c*) **Nicholson Ltd.**

COMMON-SIZE STATEMENT OF PROFIT AND LOSS

for the years ended 31st March, 2020 and 2019

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)	Percentage of Revenue from Operations	
				31 March, 2020 (%)	31 March, 2019 (%)
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
Less: Tax (40%)		1,56,000	1,24,800	15.60	15.60
IV. **Profit after Tax**		2,34,000	1,87,200	23.40	23.40

10. (*a*)

Effect on Current Ratio	**Reason**
(*i*) Increase	Included in Trade Payables a Bill Payable already met on maturity would decrease both Current Assets (Cash or Bank) and Current Liabilities (Bills Payable).
(*ii*) No Change	Payment to Vendors of machinery by way of issuing equity shares would neither affect Current Assets nor Current Liabilities.

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

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

Working Notes:

1. Net Profit before Interest and Tax = Net Profit after Interest but before Tax + Interest on Long-term Debts
= ₹ 1,40,000 + ₹ 60,000(15% of ₹ 4,00,000) = ₹ 2,00,000
2. Capital Employed = Shareholders' Funds + Long-term Debts
= ₹ 2,40,000 + ₹ 4,00,000 = ₹ 6,40,000.

(*c*) (*i*) $$\text{Operating Ratio} = \frac{\text{Cost of Revenue from Operations + Operating Expenses}}{\text{Revenue from Operations}} \times 100$$

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

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

(*ii*) $$\text{Liquid Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

$$= \frac{₹\ 3,90,000}{₹\ 1,95,000} = 2 : 1.$$

Note: Quick Assets = Current Assets – Closing Inventory.

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

$$= \frac{₹\,6,40,000}{₹\,8,00,000} = 0.80 : 1.$$

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

11. **Swastik Ltd.**

CASH FLOW STATEMENT *for the year ended 31st March, 2020*

Particulars	₹	₹
A. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)	1,92,000	
Add: Non-cash and Non-operating charges:		
Depreciation on Machinery (WN 3)	80,000	
Interest on Debentures (₹ 10,000 + ₹ 3,000)	13,000	
	2,85,000	
Less: Gain (Profit) on Sale of Machinery	10,000	
Operating Profit before Working Capital Changes	2,75,000	
Add: Decrease in Current Assets:		
Trade Receivables	1,10,000	
	3,85,000	
Less: Decrease in Current Liabilities:		
Trade Payables	15,000	
Cash Generated from Operating Activities before Tax	3,70,000	
Less: Tax Paid	55,000	
Cash Flow from Operating Activities		3,15,000

B. Cash Flow from Investing Activities		
Purchase of Machinery (WN 2)	(4,40,000)	
Sale of Machinery (WN 2)	25,000	
Purchase of Non-current Investments (WN 4)	(75,000)	
Sale of Non-current Investments	48,000	
Cash Used in Investing Activities		(4,42,000)
C. Cash Flow from Financing Activities		
Proceeds from Issue of Debentures	60,000	
Interest paid on Debentures	(13,000)	
Proceeds from Issue of Shares (including premium)	2,10,000	
Interim Dividend Paid	(60,000)	
Cash Flow from Financing Activities		1,97,000
D. Net Increase in Cash and Cash Equivalents (A + B + C)		70,000
Add: Opening Cash and Cash Equivalents*		2,10,000
E. Cash and Cash Equivalents at the end of the Year		2,80,000

*Cash and Cash Equivalents = Marketable Securities + Cash and Bank Balances
31st March, 2019 = ₹ 40,000 + ₹ 1,70,000 = ₹ 2,10,000
31st March, 2020 = ₹ 80,000 + ₹ 2,00,000 = ₹ 2,80,000.

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Closing Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,70,000
Less: Opening Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,00,000
Profit during the Year	70,000
Add: Provision for Tax	40,000
Transfer to General Reserve	22,000
Interim Dividend Paid	60,000
Net Profit before Tax	1,92,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	7,00,000	By Bank A/c (Sale)	25,000
To Gain (Profit) on Sale of Machinery A/c (Statement of Profit and Loss)	10,000	By Accumulated Depreciation A/c	55,000
To Bank A/c (Purchase) (Balancing Figure)	4,40,000	By Balance *c/d*	10,70,000
	11,50,000		11,50,000

3. *Dr.* ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Machinery A/c (on Sold Machinery)	55,000	By Balance *b/d*	95,000
To Balance *c/d*	1,20,000	By Statement of Profit and Loss (Bal. Fig.)	80,000
	1,75,000		1,75,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	1,00,000	By Bank A/c (Sale) (₹ 40,000 + 20% ₹ 40,000)	48,000
To Capital Reserve A/c (Profit on Sale)	8,000	By Balance *c/d*	1,35,000
To Bank A/c (Purchase) (Bal. Fig.)	75,000		
	1,83,000		1,83,000