

Answers

1. (b)

Working Note:

Combined capital of Om and Shiv for 2/3rd share = ₹ 90,000

$$\begin{aligned}\text{Mohan's capital for } 1/3\text{rd share} &= ₹ 90,000 \times \frac{3}{2} \times \frac{1}{3} \\ &= ₹ 45,000.\end{aligned}$$

2. (b)

3. (b)

4. (d)

$$5. \text{ Goodwill} = \text{Super Profit} \times \frac{100}{\text{Normal Rate of Return}}$$

6. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Realisation A/c To Mohan's Capital A/c (Being the unrecorded liability paid by Mohan)	...Dr.	10,000	10,000

7. Securities Premium Account.

8. In case of redemption of debentures in equal instalments, DRI purchased for the first instalment will remain invested till the last redemption.

9. The purpose of Realisation Account is to close the books of account of a dissolved firm and to compute the net effect (profit or loss) on realisation of various assets and settlement of various liabilities.

10. Issue of Debentures as a collateral security means the issue of Debentures as an additional security against the loan in addition to principal security.

11. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023 March 31	Lokesh's Capital A/c Nihal's Capital A/c To Mansoor's Capital A/c (Being the retiring partner's share of goodwill adjusted between Lokesh and Nihal in their gaining ratio of 3 : 2) (WN)	...Dr. ...Dr.	8,400 5,600	14,000
	Mansoor's Capital A/c To Computer A/c (Being the computer given to Mansoor in full settlement of his claims)	...Dr.	84,000	84,000

Working Note:

Calculation of Hidden Goodwill:

	₹
(a) Amount agreed to be paid to Mansoor in full settlement of his claim	84,000
(b) Mansoor's capital (after all adjustments)	(70,000)
(c) Hidden Goodwill ((a) – (b))	14,000

Or

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bad Debts A/c ...Dr. To Debtors A/c (Being the bad debts written off)		3,000	3,000
	Provision for Doubtful Debts A/c ...Dr. To Bad Debts A/c (Being the bad debts transferred to Provision for Doubtful Debts A/c)		3,000	3,000
	Revaluation A/c ...Dr. To Provision for Doubtful Debts A/c [5% (₹ 38,000 – ₹ 3,000)] – [(₹ 4,000 – ₹ 3,000)] (Being the short provision for doubtful debts created)		750	750
	Shivam's Capital A/c ...Dr. Kapil's Capital A/c ...Dr. Deepak's Capital A/c ...Dr. To Revaluation A/c (Being the loss on revaluation transferred to partners in their old profit-sharing ratio)		300 225 225	750

12. (i) (a) Calculation of Normal (corrected) Profit:

Year	Profit (₹)	Adjustment (₹)	Normal (corrected) Profit (₹)
2019–20	3,71,400	...	3,71,400
2020–21	4,20,000	₹ 60,000 (Office expenses) – ₹ 6,000 (Depreciation)	4,74,000
2021–22	3,60,000	–₹ 5,400 (Depreciation) [(10% of (₹ 60,000 – ₹ 6,000))]	3,54,600
			12,00,000

(b) Valuation of Goodwill:

Average Net Profit (corrected) for the last three years

$$= \frac{\text{₹ } 3,71,400 + \text{₹ } 4,74,000 + \text{₹ } 3,54,600}{3} = \text{₹ } 4,00,000$$

$$\begin{aligned} \text{Value of Firm's Goodwill} &= \text{Average Net Profit} \times \text{Number of Years' Purchase} \\ &= \text{₹ } 4,00,000 \times 2 = \text{₹ } 8,00,000 \end{aligned}$$

$$\text{Zaman's share of Goodwill} = \text{₹ } 8,00,000 \times \frac{1}{5} = \text{₹ } 1,60,000.$$

(ii) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022 April 1	Bank A/c ...Dr. To Zaman's Capital A/c To Premium for Goodwill A/c (Being Zaman brought in cash for his capital and his share of goodwill)		6,60,000	5,00,000 1,60,000
	Premium for Goodwill A/c ...Dr. To Xavier's Capital A/c To Yusuf's Capital A/c (Being the goodwill credited to sacrificing partners in their sacrificing ratio, i.e., 3 : 2)		1,60,000	96,000 64,000

13. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022 March 31	Surplus, i.e., Balance in Statement of Profit & Loss A/c ...Dr. To Debenture Redemption Reserve A/c (10% of ₹ 90,00,000 – ₹ 6,00,000) (Being the profit transferred to Debenture Redemption Reserve)		3,00,000	3,00,000
2022 Sept. 30	Debenture Redemption Reserve A/c ...Dr. To General Reserve A/c (Being the transfer of Debenture Redemption Reserve to General Reserve on the redemption of all the debentures)		9,00,000	9,00,000

Or

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Debentures Redemption Investment A/c ...Dr. To Bank A/c (Being the investment made in specified securities)		2,25,000	2,25,000
	Bank A/c ...Dr. To Debentures Redemption Investment A/c (Being the investment realised)		2,25,000	2,25,000
	10% Debentures A/c ...Dr.		15,00,000	
	Premium on Redemption of Debentures A/c ...Dr. To Debentureholders' A/c (Being the amount due on redemption)		2,25,000	17,25,000
	Debentureholders' A/c ...Dr. To Bank A/c (Being the payment made to debentureholders)		17,25,000	17,25,000

Note: Debenture Redemption Reserve (DRR) is not required to be created by a listed company.

14. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the debenture application money received)		1,05,000	1,05,000
	Debentures Application and Allotment A/c ...Dr.		1,05,000	
	Loss on Issue of Debentures A/c ...Dr.		10,000	
	To 7% Debentures A/c			1,00,000
	To Securities Premium A/c			5,000
	To Premium on Redemption of Debentures A/c (Being the issue of 1,000; 7% Debentures of ₹ 100 each at a premium of 5% and redeemable at a premium of 10%)			10,000
	Securities Premium A/c ...Dr.		5,000	
	Statement of Profit & Loss ...Dr. To Loss on Issue of Debentures A/c (Being the loss on Issue of Debentures written-off)		5,000	10,000

15.

Dr. REALISATION ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Sundry Assets A/c	2,68,625	By Sundry Creditors A/c	75,000
To Bank A/c:		By Employees' Provident Fund A/c	7,500
Sundry Creditors	75,000	By Bank A/c (Sundry Assets)	2,32,500
Employees Provident Fund	7,500	By Loss transferred to:	
To Pawan's Capital A/c (Note 1)	15,875	Saurabh's Capital A/c	20,800
		Gaurav's Capital A/c	15,600
		Pawan's Capital A/c	15,600
	3,67,000		52,000
			3,67,000

Notes:

1. Calculation of Total Remuneration of Pawan:

Sundry Assets realised other than Cash = ₹ 2,32,500.

(i) Commission on Assets Realised = 1% of ₹ 2,32,500 = ₹ 2,325.

Cash Available for Partners and Commission based on Cash Distribution to Partners

= ₹ 1,375 (Cash) + ₹ 2,32,500 – ₹ 75,000 (Sundry Creditors)

– ₹ 7,500 (Employees' Provident Fund) – ₹ 2,325 (Commission) = ₹ 1,49,050.

(ii) Commission based on Cash distribution = ₹ 1,49,050 × 10/110 = ₹ 13,550

Hence Total Remuneration (i + ii) = ₹ 2,325 + ₹ 13,550 = ₹ 15,875.

2. Workmen Compensation Reserve (₹ 50,000) will be distributed among partners in their profit-sharing ratio as Workmen Compensation liability is Nil.

16. (a)

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.							
Particulars	Abha ₹	Bimal ₹	Chintu ₹	Particulars	Abha ₹	Bimal ₹	Chintu ₹
To Bank A/c (Bal. Fig.)	...	5,800	...	By Balance b/d	1,20,000	1,00,000	...
To Balance c/d (WN)	2,00,000	1,20,000	80,000	By General Reserve A/c	12,000	8,000	...
				By Revaluation A/c (Profit)	4,200	2,800	...
				By Bank A/c	...	...	80,000
				By Premium for Goodwill A/c	15,000	15,000	...
				By Bank A/c (Bal. Fig.)	48,800	...	...
	2,00,000	1,25,800	80,000		2,00,000	1,25,800	80,000

(b)

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

Working Note:*Calculation of new capital of partners on the basis of Chintu's capital:*

Chintu's capital = ₹ 80,000

Chintu's share of profit = 1/5

Total capital of new firm = ₹ 80,000 × 5/1 = ₹ 4,00,000

Abha's new capital = ₹ 4,00,000 × 5/10 = ₹ 2,00,000

Bimal's new capital = ₹ 4,00,000 × 3/10 = ₹ 1,20,000.

Or

(a)

REVALUATION ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Investments A/c	5,000	By Accrued Commission A/c	500
To Gain (Profit) on Revaluation transferred to:		By Bad Debts Recovered A/c	15,800
Xavier's Capital A/c	6,780		
Yogesh's Capital A/c	4,520		
	11,300		
	16,300		16,300

(b)

PARTNERS' CAPITAL ACCOUNTS							
Dr.							Cr.
Particulars	Xavier ₹	Yogesh ₹	Gopal ₹	Particulars	Xavier ₹	Yogesh ₹	Gopal ₹
To Goodwill A/c	3,000	2,000	...	By Balance b/d	60,000	40,000	...
To Balance c/d	1,14,780	76,520	47,825	By Bank A/c (Note)	...	...	47,825
				By Premium for Goodwill A/c	15,000	10,000	...
				By Workmen Compensation Reserve A/c	6,000	4,000	...
				By General Reserve A/c	30,000	20,000	...
				By Revaluation A/c (Profit)	6,780	4,520	...
	1,17,780	78,520	47,825		1,17,780	78,520	47,825

Note:*Calculation of Gopal's Capital:*

	₹
Adjusted capital of Xavier	1,14,780
Adjusted capital of Yogesh	76,520
Combined capital of Xavier and Yogesh for 4/5th share	1,91,300

Total capital of the new firm = ₹ 1,91,300 × 5/4 = ₹ 2,39,125

Gopal's capital in new firm = ₹ 2,39,125 × 1/5 = ₹ 47,825.

17.

BALANCE SHEET
as at 31st March, 2023

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital	1	5,00,000	
(b) Reserves and Surplus	2	2,22,000	
2. Non-Current Liabilities			
Long-term Borrowings	3	1,60,000	
3. Current Liabilities			
(a) Short-term Borrowings	4	40,000	
(b) Trade Payables		60,000	
(c) Other Current Liabilities	5	8,000	
Total		9,90,000	
II. ASSETS			
1. Non-Current Assets			
<i>Property, Plant and Equipment and Intangible Assets:</i>			
(i) Property, Plant and Equipment (Fixed Assets)		7,30,000	
(ii) Non-current Investments (Long-term Investment)		32,000	
2. Current Assets			
(a) Inventories		50,000	
(b) Trade Receivables		20,000	
(c) Cash and Bank Balances		1,58,000	
Total		9,90,000	

Notes to Accounts

1. Share Capital	₹
Authorised Capital	
... Equity Shares of ₹ 100 each	...
Issued Capital	
5,000 Equity Shares of ₹ 100 each	5,00,000
Subscribed Capital	
Subscribed and fully paid-up	
5,000 Equity Shares of ₹ 100 each	5,00,000
2. Reserves and Surplus	
Reserves and Surplus (Surplus, i.e., Balance in Statement of Profit & Loss)	2,22,000
3. Long-term Borrowings	
8% Debentures (4/5th of the Debentures to be redeemed after 31st March, 2024)	1,60,000
4. Short-term Borrowings	
Current Maturities of Long-term Borrowings (1/5th of Debentures to be redeemed on 31st March, 2024)	40,000
5. Other Current Liabilities	
Interest accrued and due on 8% Debentures	8,000

18. ADJUSTING JOURNAL ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023 April 1	Rajesh's Current A/c ...Dr. To Naveen's Current A/c To Qadir's Current A/c (Being the interest on capital wrongly allowed withdrawn and partners' salary earlier omitted, now rectified)		17,800	10,000 7,800

Working Note:

STATEMENT SHOWING REQUIRED ADJUSTMENT

Particulars	Naveen (₹)	Qadir (₹)	Rajesh (₹)	Total (₹)
I. Debit Interest on capital wrongly credited:				
2021-22	24,000 (Dr.)	21,600 (Dr.)	14,400 (Dr.)	60,000
2022-23	24,000 (Dr.)	21,600 (Dr.)	14,400 (Dr.)	60,000
II. Credit Salary to be credited:				
2021-22	14,000 (Cr.)	16,000 (Cr.)	...	30,000
2022-23	14,000 (Cr.)	16,000 (Cr.)	...	30,000
III. Credit Profit to be distributed:				
2021-22 (₹ 60,000 – ₹ 30,000) 3 : 2 : 1	15,000 (Cr.)	10,000 (Cr.)	5,000 (Cr.)	30,000 (Cr.)
2021-22 (₹ 60,000 – ₹ 30,000) 5 : 3 : 2	15,000 (Cr.)	9,000 (Cr.)	6,000 (Cr.)	30,000 (Cr.)
IV. Net Effect	10,000 (Cr.)	7,800 (Cr.)	17,800 (Dr.)	...

Or

Dr. PROFIT & LOSS APPROPRIATION ACCOUNT for the year ended 31st March, 2023 Cr.

Particulars	₹	Particulars	₹
To Interest on Capital A/cs:		By Profit & Loss A/c	3,06,000
Moli's Current A/c	25,000	(Profit as per Profit & Loss A/c)	
(₹ 5,00,000 × 5/100)		Less: Interest on Bhola's Loan	6,000
Bhola's Current A/c	40,000		3,00,000
(₹ 8,00,000 × 5/100)		By Interest on Drawings: (WN 1)	
Raj's Current A/c	20,000	Moli's Current A/c	1,800
(₹ 4,00,000 × 5/100)	85,000	Bhola's Current A/c	3,300
To Moli's Current A/c (Salary)	4,000	Raj's Current A/c	2,400
To Bhola's Current A/c (Commission)	30,000		7,500
(₹ 3,00,000 × 10/100)			
To Profit transferred to: (WN 2)			
Moli's Current A/c (₹ 1,88,500 × 3/10)	56,550		
Less: Given to Raj	37,300		
	19,250		
Bhola's Current A/c (₹ 1,88,500 × 3/10)	56,550		
Less: Given to Raj	37,300		
	19,250		
Raj's Current A/c (₹ 1,88,500 × 4/10)	75,400		
Add: From Moli	37,300		
From Bhola	37,300		
	1,50,000		
	3,07,500		3,07,500

Dr. PARTNERS' CURRENT ACCOUNTS				Cr.			
Particulars	Moli ₹	Bhola ₹	Raj ₹	Particulars	Moli ₹	Bhola ₹	Raj ₹
To Drawings A/c	40,000	60,000	80,000	By Interest on Capital A/c	25,000	40,000	20,000
To Interest on Drawings A/c	1,800	3,300	2,400	By Salary A/c	4,000	...	...
To Balance c/d	6,450	25,950	87,600	By Commission A/c	...	30,000	...
				By Profit & Loss Appropriation A/c (Profit)	19,250	19,250	1,50,000
	48,250	89,250	1,70,000		48,250	89,250	1,70,000

Working Notes:

1. Calculation of Interest on Drawings:

- (a) Interest on Moli's Drawings: ₹ 40,000 (i.e., ₹ 10,000 × 4 Instalments) × 4.5/12 months* × 12/100 = ₹ 1,800.
- (b) Interest on Bhola's Drawings: ₹ 60,000 (i.e., ₹ 5,000 × 12 months) × 5.5/12 months* × 12/100 = ₹ 3,300.
- (c) Interest on Raj's Drawings: ₹ 80,000 (i.e., ₹ 40,000 × 2 instalments) × 3/12 months* × 12/100 = ₹ 2,400.

$$\text{*Average period} = \frac{\text{Months Left after First Drawing} + \text{Months Left after Last Drawing}}{2}$$

(i) Average period in case of Moli = $\frac{9 + 0}{2} = 4.5$ Months.

(ii) Average period in case of Bhola = $\frac{11 + 0}{2} = 5.5$ Months.

(iii) Average period in case of Raj = $\frac{6 + 0}{2} = 3$ Months.

2. Distribution of Profit:

Profit after adjustments (₹ 3,00,000 + ₹ 7,500 – ₹ 85,000 – ₹ 4,000 – ₹ 30,000) = ₹ 1,88,500, it will be distributed among Moli, Bhola and Raj in the ratio of 3 : 3 : 4.

Moli's share of profit = ₹ 56,550, Bhola's share of profit = ₹ 56,550, and Raj's share of profit = ₹ 75,400. However, Raj's minimum guaranteed profit is ₹ 1,50,000. So there is a deficiency of ₹ 74,600 (i.e., ₹ 1,56,000 – ₹ 75,400). Deficiency to be borne by Moli and Bhola equally, i.e., ₹ 37,300 each.

19. (i)

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		6,00,000	
	To Equity Shares Application A/c (Being the application money received on 75,000 shares @ ₹ 8 per share)			6,00,000
	Equity Shares Application A/c ...Dr.		6,00,000	
	To Equity Share Capital A/c (75,000 × ₹ 3)			2,25,000
	To Securities Premium A/c (75,000 × ₹ 5)			3,75,000
	(Being the transfer of application money to Share Capital Account on allotment)			

Equity Shares Allotment A/c (75,000 × ₹ 12) ...Dr.	9,00,000	
To Equity Share Capital A/c (75,000 × ₹ 2)		1,50,000
To Securities Premium A/c (75,000 × ₹ 10)		7,50,000
(Being the allotment money due)		
Bank A/c (72,000 × ₹ 12) ...Dr.	8,64,000	
Calls-in-Arrears A/c (3,000 × ₹ 12) ...Dr.	36,000	
To Equity Shares Allotment A/c		9,00,000
(Being the allotment money received except on 3,000 shares)		
Equity Share Capital A/c (3,000 × ₹ 5) ...Dr.	15,000	
Securities Premium A/c (3,000 × ₹ 10) ...Dr.	30,000	
To Forfeited Shares A/c (3,000 × ₹ 3)		9,000
To Calls-in-Arrears A/c (3,000 × ₹ 12)		36,000
(Being 3,000 shares of Rahim forfeited for non-payment of allotment money)		
Equity Shares First and Final Call A/c ...Dr.	18,00,000	
To Equity Share Capital A/c		3,60,000
To Securities Premium A/c		14,40,000
(Being the first and final call due on 72,000 shares @ ₹ 25 per share)		
Bank A/c ...Dr.	17,25,000	
Calls-in-Arrears A/c ...Dr.	75,000	
To Equity Shares First and Final Call A/c		18,00,000
(Being the call money received on 69,000 shares)		
Equity Share Capital A/c (3,000 × ₹ 10) ...Dr.	30,000	
Securities Premium A/c (3,000 × ₹ 20) ...Dr.	60,000	
To Forfeited Shares A/c (3,000 × ₹ 5)		15,000
To Calls-in-Arrears A/c (3,000 × ₹ 25)		75,000
(Being 3,000 shares forfeited for non-payment of call money)		
Bank A/c ...Dr.	62,000	
To Equity Share Capital A/c (6,000 × ₹ 10)		60,000
To Securities Premium A/c		2,000
(Being all the forfeited 6,000 shares reissued for ₹ 62,000)		
Forfeited Shares A/c ...Dr.	24,000	
To Capital Reserve A/c		24,000
(Being the gain on reissue of forfeited shares transferred to Capital Reserve)		

Note: Entire amount forfeited, i.e., ₹ 9,000 + ₹ 15,000 = ₹ 24,000, will be transferred to Capital Reserve because there is no loss on reissue. Reissue of shares is at a premium.

(ii)

Dr.		CALLS-IN-ARREARS ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Equity Shares Allotment A/c	36,000	By Equity Share Capital A/c (3,000 × ₹ 2)	6,000		
To Equity Shares First and Final Call A/c	75,000	By Securities Premium A/c (3,000 × ₹ 10)	30,000		
		By Equity Share Capital A/c (3,000 × ₹ 5)	15,000		
		By Securities Premium A/c (3,000 × ₹ 20)	60,000		
	1,11,000		1,11,000		

Or

(i)

JOURNAL

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

Working Notes:1. *Calculation of allotment money not paid by Sitaram:*

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

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

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

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

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

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

(ii)

CALLS-IN-ARREARS ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Equity Shares Allotment A/c	2,00,000	By Equity Share Capital A/c (₹ 3,92,000 – ₹ 80,000)	3,12,000
To Equity Shares First and Final Call A/c	1,92,000	By Securities Premium A/c (4,000 × ₹ 20)	80,000
	3,92,000		3,92,000

Section B

20. (c)

Working Note:

$$\begin{aligned} \text{Current Assets} &= \text{Current Liabilities} \times 3 \\ &= ₹ 75,000 \times 3 = ₹ 2,25,000 \end{aligned}$$

$$\begin{aligned} \text{Quick Assets} &= \text{Current Assets} - \text{Inventories} \\ &= ₹ 2,25,000 - ₹ 40,000 = ₹ 1,85,000 \end{aligned}$$

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{₹ 1,85,000}{₹ 75,000} = 37 : 15.$$

21. (b)

22. Purchase of goods on credit.

23. Cash Equivalents are short-term, highly liquid investments that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in value.

24. Common-size Balance Sheet is the *vertical analysis* of Balance Sheet in which total assets figure is taken as 100 and all other figures of assets, equity, liabilities are expressed as percentage of total assets figure.

25.

HMSC Ltd.**COMPARATIVE BALANCE SHEET as at 31st March, 2023**

Particulars	Note No.	31st March, 2023 ₹	31st March, 2022 ₹	Absolute Change (Increase/Decrease) (₹)	Percentage Change (Increase/Decrease) (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds		44,40,000	24,00,000	20,40,000	85
2. Non-current Liabilities		12,00,000	12,00,000	...	...
3. Current Liabilities		3,60,000	4,00,000	(40,000)	(10)
Total		60,00,000	40,00,000	20,00,000	50
II. ASSETS					
1. Non-Current Assets		50,40,000	28,00,000	22,40,000	80
2. Current Assets		9,60,000	12,00,000	(2,40,000)	(20)
Total		60,00,000	40,00,000	20,00,000	50

26.

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

$$= \frac{₹ 13,20,000 \text{ (WN 3)} + ₹ 2,20,000 \text{ (WN 2)}}{₹ 22,00,000} \times 100$$

$$= \frac{₹ 15,40,000}{₹ 22,00,000} \times 100 = 70\%.$$

Working Notes:

- Cash Revenue from Operations = ₹ 10,00,000
Credit Revenue from Operations = ₹ 12,00,000
Therefore, Total Revenue from Operations = ₹ 22,00,000.
- Operating Expenses = 10% of ₹ 22,00,000 = ₹ 2,20,000.
- Gross Profit = 40% of ₹ 22,00,000 = ₹ 8,80,000
So, Cost of Revenue from Operations = ₹ 22,00,000 – ₹ 8,80,000 = ₹ 13,20,000.

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

$$= \frac{₹ 13,20,000}{₹ 1,60,000} = 8.25 \text{ Times.}$$

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

$$= \frac{₹ 1,50,000 + ₹ 1,70,000 *}{2} = ₹ 1,60,000.$$

$$* \text{Closing Inventory} = \text{Opening Inventory} + ₹ 20,000 = ₹ 1,50,000 + ₹ 20,000 = ₹ 1,70,000.$$

$$(iii) \text{ Proprietary Ratio} = \frac{\text{Shareholders' Fund/Equity}}{\text{Total Assets}}$$

$$= \frac{₹ 6,00,000}{₹ 8,00,000} = 3 : 4 \text{ or } 75\%.$$

Notes: (a) Shareholder's Fund/Equity = Share Capital + Reserves and Surplus
= ₹ 5,00,000 + ₹ 1,00,000 = ₹ 6,00,000.

(b) Total Assets = Non-current Assets + Current Assets
= ₹ 5,00,000 + ₹ 3,00,000 = ₹ 8,00,000.

27. CASH FLOW STATEMENT for the year ended 31st March, 2023

Particulars	₹	₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		4,70,000
<i>Adjustment for Non-cash and Non-Operating Items:</i>		
Depreciation on Fixed Assets		50,000
<i>Operating Profit before Working Capital Changes</i>		5,20,000
<i>Change in Current Assets and Current Liabilities:</i>		
Decrease in Trade Receivables	80,000	
Increase in Inventories	(3,30,000)	
Decrease in Creditors	(50,000)	
Increase in Bills Payable	1,00,000	(2,00,000)
Cash Generated from Operations		3,20,000
Less: Tax Paid (WN 2)		1,00,000
<i>Cash Flow from Operating Activities</i>		2,20,000
II. Cash Flow from Investing Activities		
Machinery Purchased (WN 3)	(1,50,000)	
Sale of Non-current Investments	50,000	
<i>Cash Used in Investing Activities</i>		(1,00,000)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Shares	2,50,000	
Raised Bank Loan	2,00,000	
Increase in Short-term Borrowings (Bank Overdraft)	50,000	
Interim Dividend Paid	(1,20,000)	
<i>Cash Flow from Financing Activities</i>		3,80,000
IV. Net Increase in Cash and Bank Balances (I + II + III)		5,00,000
V. Cash and Bank Balances in the beginning of Period		5,00,000
VI. Cash and Bank Balances at the end of Period (IV + V)		10,00,000

Working Notes:

1. <i>Calculation of Net Profit before Tax:</i>	₹
Closing balance of Surplus, i.e., Balance in Statement of Profit & Loss	6,00,000
Less: Opening Balance of Surplus, i.e., Balance in Statement of Profit & Loss	5,00,000
Profit during the year	1,00,000
Add: Transfer to General Reserve	50,000
Interim Dividend paid during the year	1,20,000
Provision for Tax	2,00,000
Net Profit before Tax	4,70,000

2. Dr.	PROVISION FOR TAX ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Bank A/c (Balancing Figure) (Tax Paid)	1,00,000	By Balance b/d	1,50,000
To Balance c/d	2,50,000	By Statement of Profit & Loss (Provision Made)	2,00,000
	3,50,000		3,50,000

3. Dr.	MACHINERY ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Balance b/d	2,00,000	By Depreciation A/c	50,000
To Bank A/c (Balancing Figure) (Purchase)	1,50,000	By Balance c/d	3,00,000
	3,50,000		3,50,000

Or

CASH FLOW STATEMENT for the year ended 31st March, 2023

Particulars	₹	₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		6,00,000
<i>Adjustment for Non-cash and Non-Operating Expenses:</i>		
Depreciation on Machinery	7,00,000	
Patents Amortised	40,000	
Interest on Debentures (10% on ₹ 10,00,000)	1,00,000	
Profit on Sale of Machinery	(60,000)	
Profit on Sale on Non-current Investments	(10,000)	7,70,000
<i>Operating Profit before Working Capital Changes</i>		13,70,000
<i>Change in Current Assets and Current Liabilities:</i>		
Increase in Trade Payables	9,50,000	
Decrease in Outstanding Expenses	(30,000)	
Decrease in Inventories	2,00,000	
Decrease in Trade Receivables	2,00,000	13,20,000
<i>Cash Flow from Operating Activities</i>		26,90,000

II. Cash Flow from Investing Activities	
Purchase of Machinery (WN 2)	(18,80,000)
Proceeds from Sale of Machinery	2,40,000
Purchase of Non-current Investment	(1,00,000)
Proceeds from Sale of Non-current Investment	60,000
<i>Cash Used in Investing Activities</i>	<u>(16,80,000)</u>
III. Cash Flow from Financing Activities	
Interim Dividend Paid [(₹ 2,00,000 – ₹ 60,000 (unclaimed))]	(1,40,000)
Interest paid on Debentures	(1,00,000)
<i>Cash Used in Financing Activities</i>	<u>(2,40,000)</u>
IV. Net Increase in Cash and Bank Balances (I + II + III)	<u>7,70,000</u>
Add: Cash and Bank Balance (Beginning)	1,80,000
V. Closing Cash and Bank Balances	<u>9,50,000</u>

Working Notes:

1. <i>Calculation of Net Profit before Tax:</i>	₹
Surplus, i.e., Balance in Statement of Profit & Loss (Closing)	9,00,000
Less: Surplus, i.e., Balance in Statement of Profit & Loss (Opening)	5,00,000
Profit for the year	4,00,000
Add: Interim Dividend	2,00,000
Net Profit before Tax	<u>6,00,000</u>

2. Dr.	MACHINERY ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Balance b/d	20,00,000	By Bank A/c (Sale)	2,40,000
To Statement of Profit & Loss (Profit on Sale)	60,000	(₹ 4,00,000 – ₹ 2,20,000 + 60,000)	
To Bank A/c (Balancing Figure) (Purchase)	18,80,000	By Depreciation A/c	7,00,000
		By Balance c/d	30,00,000
	<u>39,40,000</u>		<u>39,40,000</u>

3. Dr.	NON-CURRENT INVESTMENT ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Balance b/d	1,50,000	By Bank A/c (Sale)	60,000
To Statement of Profit & Loss (Profit on Sale)	10,000	By Balance c/d	2,00,000
To Bank A/c (Balancing Figure) (Purchases)	1,00,000		
	<u>2,60,000</u>		<u>2,60,000</u>

4. *Current Year Proposed Dividend:* ₹ 3,00,000 will be considered and approved in the AGM to be held in the year 2023–24. As it was neither appropriated out of profits nor paid during the year, it will not be considered while preparing Cash Flow Statement.