MODEL TEST PAPER 11 (Solution)

SECTION A

PART I

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

In Case of Profits:

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

In Case of Losses:

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

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

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

In Case of Profit:

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

In Case of Loss:

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

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

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

In Case of Profit:

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

In Case of Loss:

Reverse of the above entry is passed.

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

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

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

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

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

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

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

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

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

PART II

2. (*a*) JOURNAL

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

Working Note: TABLE SHOWING THE ADJUSTMENT TO BE MADE

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

(*b*) PROFIT AND LOSS APPROPRIATION ACCOUNT

for the year ended 31st March, 2019

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

Working Notes:

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

(*c*) *Interest on Drawings:*

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

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

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019					
March 31	*X*'s Capital A/c	...Dr.		875	
	Y's Capital A/c	...Dr.		625	
	To Interest on Drawings A/c				1,500
	(Being the interest on Drawings of partners adjusted)				

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

3. (*a*) JOURNAL

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

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

Working Notes:

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

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

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

2. *Distribution of Profit:*

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

3. *Valuation and Adjustment of Goodwill:*

$$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit}$$
$$= ₹\left[\frac{50,000+55,000+60,000}{3}\right] - ₹\ 30,000$$
$$= ₹\ 55,000 - ₹\ 30,000 = ₹\ 25,000$$
$$\text{Goodwill} = \text{Super Profit} \times \text{Number of Years' Purchase}$$
$$= ₹\ 25,000 \times 2 = ₹\ 50,000$$
$$\text{Bhim's Share in Goodwill} = ₹\ 50,000 \times \frac{5}{25} = ₹\ 10,000$$

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

(*b*)

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

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

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

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

Working Notes:

1. *Profit-sharing Ratio of X, Y and Z* = Capital Ratio = 2 : 3 : 5.
2. *Y*'s Share of Profit = ₹ 15,000 × $\frac{3}{12} \times \frac{3}{10}$ = ₹ 1,125.
3. *Y*'s Share of Goodwill = ₹ 2,40,000 × $\frac{3}{10}$ = ₹ 72,000, which is contributed by *X* and *Z* in their gaining ratio, *i.e.*, 2 : 5. Thus,

   X's Contribution = ₹ 72,000 × $\frac{2}{7}$ = ₹ 20,571; *Z*'s Contribution = ₹ 72,000 × $\frac{5}{7}$ = ₹ 51,429.
4. *For Adjustment of Y's share in Workmen Compensation Reserve:*

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

4. **HMSC Ltd.**

BALANCE SHEET *as at 31st March, 2019*

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

Notes to Accounts

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

5. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019					
April 1	General Reserve A/c	...Dr.		1,20,000	
	To Krishna's Capital A/c				90,000
	To Suresh's Capital A/c				30,000
	(Being the General Reserve distributed between old partners in their old profit-sharing ratio)				

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

Note: Profit-sharing ratio of Krishna and Suresh remains same after the admission of Rahul. It means they have sacrificed their profit shares in favour of Rahul in their profit-sharing ratio, *i.e.*, 3 : 1.

(*b*)

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Abha ₹	Bimal ₹	Chintu ₹	Particulars	Abha ₹	Bimal ₹	Chintu ₹
To Profit and Loss A/c	12,000	8,000	...	By Balance *b/d*	1,20,000	1,00,000	...
To Bank A/c (Balancing Figure)	...	5,800	...	By General Reserve A/c	24,000	16,000	...
				By Revaluation A/c (Profit)	4,200	2,800	...
To Balance *c/d* (WN)	2,00,000	1,20,000	80,000	By Bank A/c	...	...	80,000
				By Premium for Goodwill A/c	15,000	15,000	...
				By Bank A/c (Balancing Figure)	48,800	...	...
	2,12,000	1,33,800	80,000		2,12,000	1,33,800	80,000

Dr. BANK ACCOUNT *Cr.*

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

Working Note:

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

Chintu's capital for 1/5th share = ₹ 80,000

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

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

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

6. JOURNAL OF SHAKTI LTD.

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

Dr. BANK ACCOUNT *Cr.*

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

Dr. FORFEITED SHARES ACCOUNT *Cr.*

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

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

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

Notes to Accounts

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

Working Notes:

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

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

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

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

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

7. **In the Books of New Lakshmi Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2013	**On Issue of Debentures**			
April 1	Bank A/c ...Dr.		63,00,000	
	To Debentures Application and Allotment A/c			63,00,000
	(Being the receipt of application money)			
	Debentures Application and Allotment A/c ...Dr.		63,00,000	
	Loss on Issue of Debentures A/c (₹ 42,00,000 × 8/100) ...Dr.		3,36,000	
	To 10% Debentures A/c			42,00,000
	To Premium on Redemption of Debentures A/c			3,36,000
	To Bank A/c (21,000 × ₹ 100)			21,00,000
	(Being the allotment of 42,000; 10% Debentures of ₹ 100 each redeemable at a premium of 8% excess application money refunded)			
2014				
March 31	Statement of Profit and Loss (Finance Cost) ...Dr.		3,36,000	
	To Loss on Issue of Debentures A/c			3,36,000
	(Being the Loss on Issue of Debentures written off)			
2018	**On Redemption of Debentures**			
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		10,50,000	
	To Debentures Redemption Reserve A/c			10,50,000
	(Being the creation of DRR to the extent of 25% of ₹ 42,00,000 as per the requirement of the Companies Act, 2013)			
April 1	Debentures Redemption Investment A/c ...Dr.		6,30,000	
	To Bank A/c			6,30,000
	(Being the investment made to the extent of 15% of ₹ 42,00,000 to comply with provisions of the Companies Act, 2013)			

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019 March 31	Bank A/c	...Dr.		6,86,700	
	TDS Collected (Receivable) A/c	...Dr.		6,300	
	To Debentures Redemption Investment A/c				6,30,000
	To Interest Earned A/c				63,000
	(Being the encashment of investment for the purpose of redemption of debentures)				
March 31	10% Debentures A/c	...Dr.		42,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		3,36,000	
	To Debentureholders' A/c				45,36,000
	(Being the amount payable on redemption transferred to Debentureholders' A/c)				
March 31	Debentureholders' A/c	...Dr.		45,36,000	
	To Bank A/c				45,36,000
	(Being the amount paid to debentureholders on redemption)				
March 31	Debentures Redemption Reserve A/c	...Dr.		10,50,000	
	To General Reserve A/c				10,50,000
	(Being the transfer of DRR to General Reserve)				

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

8. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019 March 31	Realisation A/c	...Dr.		3,96,000	
	To Debtors A/c				76,000
	To Stock A/c				2,00,000
	To Furniture A/c				20,000
	To Leasehold Premises A/c				1,00,000
	(Being the assets transferred to Realisation Account)				
	Creditors A/c	...Dr.		36,000	
	Garima's Husband's Loan A/c	...Dr.		60,000	
	To Realisation A/c				96,000
	(Being the third party liabilities transferred to Realisation Account)				
	Bank A/c	...Dr.		4,08,000	
	To Realisation A/c*				4,08,000
	(Being the assets realised)				
	Realisation A/c	...Dr.		17,100	
	To Bank A/c				17,100
	(Being the creditors paid)				
	Realisation A/c	...Dr.		70,000	
	To Garima's Capital A/c				70,000
	(Being the realisation expenses paid and her husband's loan taken over by Garima)				
	Realisation A/c	...Dr.		20,900	
	To Hema's Capital A/c				12,540
	To Garima's Capital A/c				8,360
	(Being the gain (profit) on realisation distributed among partners)				
	Hema's Loan A/c	...Dr.		40,000	
	To Bank A/c				40,000
	(Being the Hema's loan paid)				
	Hema's Capital A/c	...Dr.		2,12,540	
	Garima's Capital A/c	...Dr.		1,78,360	
	To Bank A/c				3,90,900
	(Being the amount paid to partners as final settlement of accounts)				

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

Dr. REALISATION ACCOUNT *Cr.*

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

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

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

Dr. BANK ACCOUNT *Cr.*

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

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

SECTION B

9.

Bharat Ltd.

CASH FLOW STATEMENT

for the year ended 31st March, 2019 as per AS–3 (Revised)

Particulars	₹	₹
A. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)	1,68,000	
Add: Depreciation on Machinery (WN 2)	70,000	
Loss on Sale of Machinery (WN 2)	20,000	
Interest on Public Deposits [(10/100 × ₹ 3,00,000 × 6/12) + (10/100 × ₹ 4,00,000 × 6/12)]	35,000	
	2,93,000	
Less: Gain (Profit) on Sale of Non-Current Investments (WN 3)	15,000	
Operating Profit before Working Capital Changes	2,78,000	

Add: Increase in Current Liabilities:		
Trade Payables	55,000	
	3,33,000	
Less: Increase in Current Assets:		
Inventories	(1,50,000)	
Trade Receivables	(1,40,000)	
Cash Flow from Operating Activities		43,000
B. Cash Flow from Investing Activities		
Purchase of Machinery (WN 2)	(5,20,000)	
Sale of Machinery	1,50,000	
Sale of Non-Current Investments (WN 3)	90,000	
Cash Used in Investing Activities		(2,80,000)
C. Cash Flow from Financing Activities		
Redemption of Preference Shares (₹ 1,00,000 + ₹ 5,000 (Premium))	(1,05,000)	
Cash Proceeds from Issue of Equity Shares (₹ 7,00,000 – ₹ 3,00,000)	4,00,000	
Proceeds from Public Deposits	1,00,000	
Payment of Preference Dividend	(18,000)	
Final Dividend Paid on Equity	(30,000)	
Interest on Public Deposits	(35,000)	
Cash Flow from Financing Activities		3,12,000
D. Net Increase in Cash and Cash Equivalents (A + B + C)		75,000
Add: Opening Cash and Bank Balances		1,00,000
E. Closing Cash and Cash Equivalents		1,75,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

Particulars	₹
Surplus, *i.e.,* Balance in Statement of Profit and Loss (Closing)	1,00,000
Less: Surplus, *i.e.,* Balance in Statement of Profit and Loss (Opening)	10,000
Profit for the Year	90,000
Add: Transfer to General Reserve	30,000
Payment of Preference Dividend (9% of ₹ 2,00,000)	18,000
Dividend Paid (Proposed Dividend for 2017–18)	30,000
Net Profit before Tax	1,68,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	4,20,000	By Bank A/c (Sale)	1,50,000
To Bank A/c (Purchase) (Bal. Fig.)	5,20,000	By Loss on Sale of Machinery A/c* (Statement of Profit and Loss)	20,000
		By Depreciation A/c	70,000
		By Balance *c/d*	7,00,000
	9,40,000		9,40,000

**Calculation of Loss on Sale of Machinery:*

Particulars	₹
Book Value of Sold Machinery on the date of Sale (₹ 2,50,000 – ₹ 80,000)	1,70,000
Less: Sale Proceeds	1,50,000
Loss on Sale of Machinery	20,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	3,50,000	By Bank A/c (Sale)*	90,000
To Gain (Profit) on Sale of Non-current Investments (Statement of Profit and Loss)*	15,000	By Balance *c/d*	2,75,000
	3,65,000		3,65,000

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

Book Value = Opening Balance– Closing Balance = ₹ 3,50,000 – ₹ 2,75,000 = ₹ 75,000

Gain (Profit) on Sale = 20% of ₹ 75,000 = ₹ 15,000

Sale Proceeds of Non-Current Investments = Book Value + Gain (Profit) = ₹ 75,000 + ₹ 15,000 = ₹ 90,000.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(*b*)

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

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

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

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

(*d*) COMPARATIVE STATEMENT OF PROFIT AND LOSS

for the years ended 31st March, 2019 and 2018

Particulars	31st March, 2019 ₹	31st March, 2018 ₹	Increase/Decrease Absolute Change (₹)	Increase/Decrease Percentage Change (%)
I. **Revenue from Operations**	36,00,000	24,00,000	12,00,000	50
II. Other Income	4,32,000	4,80,000	(48,000)	(10)
III. **Total Revenue (I + II)**	40,32,000	28,80,000	11,52,000	40
IV. **Total Expenses**	25,20,000	14,40,000	10,80,000	75
V. **Profit before Tax (III – IV)**	15,12,000	14,40,000	72,000	5
VI. **Tax Paid**	6,04,800	5,76,000	28,800	5
VII. **Profit after Tax (V – VI)**	9,07,200	8,64,000	43,200	5

Working Note:

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
Revenue from Operations	36,00,000	24,00,000
Other Income (% of Revenue from Operations)	4,32,000 (*i.e.*, 12% of ₹ 36,00,000)	4,80,000 (*i.e.*, 20% of ₹ 24,00,000)
Expenses (% of Revenue from Operations)	25,20,000 (*i.e.*, 70% of ₹ 36,00,000)	14,40,000 (*i.e.*, 60% of ₹ 24,00,000)