MODEL TEST PAPER 12 (Solution)

SECTION A

PART I

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

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

(*b*) When a part of the capital is permanently withdrawn by the partner.

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

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

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

(*iii*) Maximum amount of discount which can be allowed on reissue is the forfeited amount of those shares credited to Forfeited Shares Account at the time of forfeiture.

(*iv*) Long-term Borrowings are those borrowings of a company which on the date of borrowing are payable after 12 months or after Operating Cycle period from the date of Balance Sheet.

They are shown under the head Non-current Liabilities as Long-term Borrowings.

(*v*) If the debentures are redeemed without utilising any amount of the divisible profits of the company, it is termed as redemption out of capital.

The Companies Act, 2013 has indirectly placed restriction on this method of redemption by requiring every company to create a Debentures Redemption Reserve equivalent to at least 25% of the amount of debentures outstanding before the commencement of redemption.

(*vi*) According to Section 2(30) of the Companies Act 2013, debenture includes debenture stock, bonds and any other instrument of the company *evidencing a debt* whether constituting a charge on the assets of the company or not.

Characteristics of Debentures are:

(*a*) They are issued by the company;

(*b*) A loan (borrowing) has been received by it against the issued document.

PART II

2. (*a*)

PROFIT AND LOSS ACCOUNT*

for the year ended 31st March, 2019

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

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

(*b*) JOURNAL

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

Working Note:

STATEMENT SHOWING THE ADJUSTMENT TO BE MADE

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

(*c*) CALCULATION OF NORMAL PROFIT

Year Ended	Profit (₹)	Adjustment (₹)	Normal Profit
31st March, 2017	3,00,000	(1,20,000)	1,80,000
31st March, 2018	(2,50,000)	(1,20,000)	(3,70,000)
31st March, 2019	8,50,000	(1,20,000)	7,30,000
			5,40,000

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

Normal Rate of Return = 15%

Average Capital Employed = ₹ 10,00,000

Normal Profit = 15% of ₹ 10,00,000 = ₹ 1,50,000

Super Profit = Average Profit – Normal Profit

= ₹ 1,80,000 – ₹ 1,50,000 = ₹ 30,000

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

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

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

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

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

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

Net Assets = Total Assets (excluding goodwill) – Outside Liabilities

= ₹ 12,00,000 – ₹ 1,00,000 = ₹ 11,00,000

Goodwill = Capitalised Value of the Firm – Net Assets

= ₹ 12,00,000 – ₹ 11,00,000 = ₹ 1,00,000.

3. (*a*)

Dr. REVALUATION ACCOUNT *Cr.*

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

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

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

BALANCE SHEET OF NEW FIRM
as at 1st April, 2019

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

Working Notes:

1. *Valuation of Goodwill:*

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

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

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

3. *For Adjustment of General Reserve:*
   Dr. *Z*'s Capital A/c: ₹ 3,600 (*i.e.*, ₹ 18,000 × 1/5);
   Cr. *X*'s Capital A/c: ₹ 2,160 (*i.e.*, ₹ 3,600 × 3/5) and *Y*'s Capital A/c: ₹ 1,440 (*i.e.*, ₹ 3,600 × 2/5).

(*b*) JOURNAL

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

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

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

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

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

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

(*ii*) JOURNAL

Date		Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019						
April	1	*P*'s Capital A/c	...Dr.		12,000	
		S's Capital A/c	...Dr.		33,000	
		To *R*'s Capital A/c				45,000
		(Being *R*'s Share of goodwill adjusted in the Capital A/cs of *P* and *S* in their gaining ratio, *i.e.*, 4 : 11)				

Working Note: *Calculation of Gaining Ratio:*

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

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

(*b*) Average of Profits

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

Estimated Profit till the date of *Z*'s death (1st April, 2019 to 31st May, 2019)

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

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

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

JOURNAL

Date		Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019						
May	31	Profit and Loss Suspense A/c	...Dr.		10,000	
		To *Z*'s Capital A/c				10,000
		(Being *Z*'s share of profit till the date of death adjusted)				

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

JOURNAL

Date		Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019						
May	31	*X*'s Capital A/c	...Dr.		8,000	
		Y's Capital A/c	...Dr.		2,000	
		To *Z*'s Capital A/c				10,000
		(Being *Z*'s share of profit till the date of death adjusted in the capital accounts of *X* and *Y* in their gaining ratio)				

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

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

(*c*) JOURNAL

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

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

5. JOURNAL OF FAST COMPUTERS LTD.

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

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

BALANCE SHEET OF FAST COMPUTERS LTD.
as at ...

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

Notes to Accounts

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

Working Notes:

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

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

2. *Money Received on Allotment:*

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

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

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

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

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

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

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

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

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

(*b*) JOURNAL OF MOON LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018	**On Creation of DRR**			
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		12,50,000	
	To Debentures Redemption Reserve A/c			12,50,000
	(Being the transfer of Profit to Debentures Redemption Reserve)			
April 1	**On Making the Investment**			
	Debentures Redemption Investment A/c (₹ 50,00,000 × 15%) ...Dr.		7,50,000	
	To Bank A/c			7,50,000
	(Being the Debentures Redemption Investment made)			
2019	**On Encashment of Investment**			
March 31	Bank A/c ...Dr.		7,50,000	
	To Debentures Redemption Investment A/c			7,50,000
	(Being the Debentures Redemption Investment realised)			
	On Redemption of Debentures			
	9% Debentures A/c ...Dr.		50,00,000	
	Premium on Redemption of Debentures A/c ...Dr.		5,00,000	
	To Debentureholders' A/c			55,00,000
	(Being the amount due on redemption)			
	Debentureholders' A/c ...Dr.		55,00,000	
	To Bank A/c			55,00,000
	(Being the payment made to debentureholders)			
	On transfer of DRR to General Reserve			
	Debentures Redemption Reserve A/c ...Dr.		12,50,000	
	To General Reserve A/c			12,50,000
	(Being the transfer of Debentures Redemption Reserve to General Reserve)			

7.

Dr. REALISATION ACCOUNT *Cr.*

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

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

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

Dr. BANK ACCOUNT *Cr.*

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

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

8. (*a*)

Super India Ltd.

BALANCE SHEET *as at 31st March, 2019*

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

Notes to Accounts

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

Contingent Liability

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

(*b*)

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

SECTION B

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

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

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

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

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

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

Current Liabilities = ₹ 1,95,000.

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

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

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

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

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

Debt = 10% Debentures = ₹ 5,00,000

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

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

$$6 = \frac{\text{Cost of Revenue from Operations}}{₹\ 20,000}$$

Cost of Revenue from Operations = ₹ 1,20,000

$\text{Gross Profit} = \dfrac{25}{100} \times ₹\ 1,20,000 = ₹\ 30,000$

Revenue from Operations = ₹ 1,20,000 + ₹ 30,000 = ₹ 1,50,000

$\text{Gross Profit Ratio} = \dfrac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100 = \dfrac{₹\ 30,000}{₹\ 1,50,000} \times 100 = 20\%.$

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

(*b*)

Effect on Debt to Equity Ratio	Reason
(*i*) Reduce	Equity will increase by the profit amount whereas Debt remains unchanged.
(*ii*) No Change	Neither Debt nor Equity are affected because debentures maturing within 12 months or within the period of Operating Cycle from the Balance Sheet date are Current Liabilities and shown under Current Maturities of Long-term Debts.

(*c*) CASH FLOW FROM FINANCING ACTIVITIES

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

(*d*) COMPARATIVE STATEMENT OF PROFIT AND LOSS
for the years ended 31st March, 2019 and 2018

Particulars	Note No.	31st March, 2019 ₹	31st March, 2018 ₹	Absolute Change (Increase/ Decrease) (₹)	Percentage Change (Increase/ Decrease) (%)
I. Revenue from Operations		9,00,000	6,00,000	3,00,000	50.00
II. Expenses					
Cost of Materials Consumed		4,50,000	3,60,000	90,000	25.00
Other Expenses		2,25,000	1,20,000	1,05,000	87.50
Total Expenses		6,75,000	4,80,000	1,95,000	40.63
III. Profit before Tax (I – II)		2,25,000	1,20,000	1,05,000	87.50
IV. Tax @ 30%		67,500	36,000	31,500	87.50
V. Profit after Tax (III – IV)		1,57,500	84,000	73,500	87.50

Working Note:

Particulars	31st March, 2019	31st March, 2018
Revenue from Operations	₹ 9,00,000	₹ 6,00,000
Cost of Materials Consumed (% of Revenue from Operations)	₹ 4,50,000 (*i.e.*, 50% of ₹ 9,00,000)	₹ 3,60,000 (*i.e.*, 60% of ₹ 6,00,000)
Other Expenses [% of (Revenue from Operations – Cost of Materials Consumed)]	₹ 2,25,000 (*i.e.*, 50% of ₹ 4,50,000)	₹ 1,20,000 (*i.e.*, 50% of ₹ 2,40,000)

11. **Monica Ltd.**

CASH FLOW STATEMENT *for the year ended 31st March, 2019*

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

Working Notes:

1. *Calculation of Net Profit before Tax:*

		₹
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)		9,00,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)		8,00,000
		1,00,000
Add: Interim Dividend	2,40,000	
Dividend Paid (Proposed Dividend for 2017–18)	1,00,000	
Provision for Tax (Provision made) (WN 2)	1,60,000	5,00,000
Net Profit before Tax		6,00,000

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

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

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

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

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

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