MODEL TEST PAPER 14 (Solution)

SECTION A

PART I

1. (*i*) In the absence of Partnership Deed, partner is not entitled to get any interest on capital. So, interest on capital will not be allowed to *T*.

(*ii*) When one business is taken over by another business, excess of purchase consideration over its net value (*i.e.*, assets – liabilities) is *Purchased Goodwill*.

Following are the important features of Purchased Goodwill:

(*a*) It arises on purchase of a business.

(*b*) It is recorded in the books of account.

(*c*) It is shown in the Balance Sheet as an asset.

(*iii*) Securities Premium Reserve can be used for the purposes specified in Section 52(2) of the Companies Act, 2013. Since it does not prescribe the use of Securities Premium Reserve for payment of dividend, it cannot be distributed as dividend.

(*iv*) Glory Ltd. should invest ₹ 75,000 in specified securities on or before 30th April, 2018.

(*v*) **Difference between Securities Premium Reserve and Premium on Redemption of Debentures**

Securities Premium Reserve	*Premium on Redemption of Debentures*
1. It is a capital profit and can be used in writing off the capital losses.	It is a capital loss.
2. The balance of Securities Premium Reserve is shown in the Equity and Liabilities part of the Balance Sheet, under the main head Shareholders' Funds and sub-head Reserve and Surplus.	It is a liability and appears in the Equity and Liabilities part of the Balance Sheet under the main head 'Non-Current Liabilities' and sub-head 'Long-term Borrowings' till the redemption of debentures.

(*vi*) *Current Maturities of Long-term Debts* is that part of long-term borrowings which is due for payment within 12 months of the date of Balance Sheet or within the period of Operating Cycle from the date of Balance Sheet. For example, Debentures issued on 1st April, 2015 for ₹ 5,00,000 redeemable in five equal yearly instalments starting from 31st March, 2019. ₹ 1,00,000 redeemable within 12 months from the date of Balance Sheet, *i.e.*, by 31st March, 2019 (assuming Operating Cycle is of 12 months or less) will be shown as 'Current Maturities of Long-term Debts' and balance ₹ 4,00,000 will be shown as 'Long-term Borrowings' in the Balance Sheet as at 31st March, 2018.

PART II

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

Dr. *for the year ended 31st March, 2019* *Cr.*

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

Working Note: *Calculation of Partners' Commission:*

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

(*b*) ADJUSTMENT ENTRY

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

Working Note:

TABLE SHOWING ADJUSTMENT TO BE MADE

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

(*c*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017				
March 31	Profit and Loss Appropriation A/c ...Dr.		2,00,000	
	To *X*'s Capital A/c			96,000
	To *Y*'s Capital A/c			64,000
	To *Z*'s Capital A/c			40,000
	(Being the profit for the year appropriated among partners in their profit-sharing ratio)			
	X's Capital A/c ...Dr.		6,000	
	Y's Capital A/c ...Dr.		4,000	
	To *Z*'s Capital A/c			10,000
	(Being the deficiency of *Z*'s share borne by *X* and *Y* in their profit-sharing ratio, *i.e.*, 12 : 8 or 3 : 2)			
2018				
March 31	Profit and Loss Appropriation A/c ...Dr.		3,00,000	
	To *X*'s Capital A/c			1,44,000
	To *Y*'s Capital A/c			96,000
	To *Z*'s Capital A/c			60,000
	(Being the profit for the year appropriated among partners in their profit-sharing ratio)			
2019				
March 31	*X*'s Capital A/c ...Dr.		96,000	
	Y's Capital A/c ...Dr.		64,000	
	Z's Capital A/c ...Dr.		40,000	
	To Profit and Loss A/c			2,00,000
	(Being the loss for the year debited to partners)			
	X's Capital A/c ...Dr.		54,000	
	Y's Capital A/c ...Dr.		36,000	
	To *Z*'s Capital A/c			90,000
	(Being *Z*'s share of deficiency borne by *X* and *Y* in their profit-sharing ratio, *i.e.*, 12 : 8 or 3 : 2) (Note)			

Note: For 2018–19, there is a loss of ₹ 2,00,000, out of which ₹ 40,000 will be debited to *Z*'s Capital Account, whereas, his share of profit guaranteed is ₹ 50,000. Thus, his share of deficiency will be ₹ 90,000.

3. (*a*)

Dr. REVALUATION ACCOUNT *Cr.*

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

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

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

Dr. PARTNERS' CURRENT ACCOUNTS Cr.

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

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

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

Working Notes:

1. *Calculation of Sacrificing Ratio:*

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

Thus, Sacrificing Ratio of *X* and *Y* = $\frac{7}{45} : \frac{3}{45}$ or 7 : 3.

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

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

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

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

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

(*b*) (*i*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019				
April 1	*X*'s Capital A/c (₹ 15,000 × 2/3) ...Dr.		10,000	
	Y's Capital A/c (₹ 15,000 × 1/3) ...Dr.		5,000	
	To *Z*'s Capital A/c (₹ 50,000 × 3/10)			15,000
	(Being the adjustment entry for accumulated losses)			

Working Notes:

1. *Calculation of Net Amount of Accumulated Losses:*

	₹
Profit and Loss (Dr.)	30,000
Advertisement Suspense A/c	20,000
Net Amount	50,000

2. *Calculation of Sacrificing Ratio and Z's New Share:*

	X	*Y*
Old Share	3/5	2/5
Sacrificed Share	1/3 × 3/5 = 1/5	1/4 × 2/5 = 1/10

Sacrificing Ratio = $\frac{1}{5} : \frac{1}{10} = 2:1.$

Z's New Share = $\frac{1}{5} + \frac{1}{10} = \frac{3}{10}.$

(*ii*) JOURNAL

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

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

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

$$= ₹\,60{,}000.$$

Firm's Goodwill = Average Profit × Number of Years' Purchase

= ₹ 60,000 × 2 = ₹ 1,20,000

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

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

Loss for the year ended 31st March, 2019 = ₹ 1,60,000

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

(*C*)

Dr. N'S CAPITAL ACCOUNT *Cr.*

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

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

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

Profit for the year 2017–18 = ₹ 90,000;

Sales for the year 2017–18 = ₹ 6,00,000

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

$$X\text{'s Share in Profit till 31st July, 2018} = \frac{15}{100} \times ₹\ 1,00,000 \times \frac{3}{6} = ₹\ 7,500.$$

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
July 31	Profit and Loss Suspense A/c	...Dr.		7,500	
	To *X*'s Capital A/c				7,500
	(Being *X*'s Share in profit credited to his Capital Account)				

5. JOURNAL OF *X* LTD.

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

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

Dr. FORFEITED SHARES ACCOUNT *Cr.*

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

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

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

Dr. CAPITAL RESERVE ACCOUNT *Cr.*

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

6. JOURNAL OF COSCO INFRASTRUCTURE LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2013	**On Issue of Debentures**			
March 31	Bank A/c ...Dr.		12,00,000	
	To Debentures Application and Allotment A/c			12,00,000
	(Being the application money received for 12,000 debentures)			
	Debentures Application and Allotment A/c ...Dr.		12,00,000	
	To 10% Debentures A/c			12,00,000
	(Being 12,000; 10% Debentures of ₹ 100 each allotted)			
2016	**On Creation of DRR**			
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		1,00,000	
	To Debentures Redemption Reserve A/c			1,00,000
	(Being 1/3rd of 25% of ₹ 12,00,000 transferred to DRR)			
2017				
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		1,00,000	
	To Debentures Redemption Reserve A/c			1,00,000
	(Being 1/3rd of 25% of ₹ 12,00,000 transferred to DRR)			
2018				
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		1,00,000	
	To Debentures Redemption Reserve A/c			1,00,000
	(Being 1/3rd of 25% of ₹ 12,00,000 transferred to DRR)			
	On Making DRI			
April 1	Debentures Redemption Investment A/c ...Dr.		1,80,000	
	To Bank A/c			1,80,000
	(Being 15% of nominal (face) value of debentures to be redeemed by 31st March, 2019 invested)			
	On Redemption of Debentures			
Sept. 30	Bank A/c ...Dr.		1,80,000	
	To Debentures Redemption Investment A/c			1,80,000
	(Being the debentures redemption Investment realised)			

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

7.

Dr. REALISATION ACCOUNT *Cr.*

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

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

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

Dr. BANK ACCOUNT *Cr.*

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

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

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

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

2. MEMORANDUM BALANCE SHEET

as at 31st March, 2018

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

8. (*a*) ***XYZ* Ltd.**

BALANCE SHEET

as at 31st March, 2019 (₹ in '000)

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

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

Notes to Accounts (₹ in '000)

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

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

BALANCE SHEET *as at ...*

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

Note to Accounts

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

SECTION B

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

Debt = 9% Debentures = ₹ 20,000

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

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

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

Revenue from Operations = ₹ 1,50,000

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

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

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

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

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

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

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

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

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

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

Let the Opening Trade Receivables = x

Closing Trade Receivables will be = $2x$

$x + 2x$ = ₹ 90,000

$3x$ = ₹ 90,000

$x = \frac{₹\ 90{,}000}{3}$ = ₹ 30,000
(Opening Trade Receivables)

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

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

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

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

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

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

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

10.

Varun Ltd.

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

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

Working Notes:

1. *Calculation of Net Profit before Tax:*

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

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

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

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

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

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

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

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

(*b*)

Raja Ltd.

COMMON-SIZE INCOME STATEMENT *for the year ended 31st March, 2019*

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

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

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

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

= ₹ 1,15,000 + ₹ 14,000 = ₹ 1,29,000

Revenue from Operations = ₹ 3,00,000.

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

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

Or

Cost of Revenue from Operations = Opening Inventory + Purchases + Freight Inwards – Closing Inventory

= ₹ 45,000 + ₹ 1,10,000 + ₹ 15,000 – ₹ 55,000

= ₹ 1,15,000.

**Operating Expenses = Employees Benefit Expenses + Depreciation

= ₹ 6,000 + ₹ 8,000 = ₹ 14,000.

(*d*) (*i*) *Outflow*. **Reason:** Buy-back of equity shares for cash would result in *Outflow of Cash* because it decreases cash.

(*ii*) Financing Activity.