MODEL TEST PAPER 17 (Solution)

SECTION A

PART I

1. (*i*) Hidden Goodwill means that the value of goodwill is not given but is inferred on the basis of the net worth of the business. *Hidden Goodwill is the excess of desired total capital of the firm over the actual combined capital of all partners.*

For example, *A* and *B* are partners with a capital of ₹ 5,000 each. They admit *C* as a partner with 1/4th share in the profits of the firm. *C* brings ₹ 8,000 as his capital. The Profit and Loss Account showed a credit balance of ₹ 4,000 as on the date of admission of *C*. On the basis of *C*'s capital, total capital of the firm should be ₹ 32,000 (*i.e.*, ₹ 8,000 × 4/1). But the actual capital of the firm is ₹ 22,000 [*i.e.*, ₹ 5,000 (*A*'s Capital) + ₹ 5,000 (*B*'s Capital) + ₹ 4,000 (Profit and Loss Account) + ₹ 8,000 (*C*'s Capital)].

Hence, the Hidden Goodwill will be ₹ 10,000 (*i.e.*, ₹ 32,000 – ₹ 22,000).

(*ii*) **Distinction between Sacrificing Ratio and Gaining Ratio**

Basis	*Sacrificing Ratio*	*Gaining Ratio*
1. **Meaning**	Sacrificing ratio is the ratio in which the old partners make sacrifice of their shares in favour of incoming partner.	Gaining ratio is the ratio in which the partners gain share at the time of reconstitution of the firm.
2. **How to Calculate**	Sacrificing Ratio = Old Ratio – New Ratio	Gaining Ratio = New Ratio – Old Ratio.

(*iii*) (*a*) To write off Discount/Loss on Issue of Debentures.

(*b*) To provide for the premium payable on the redemption of Preference Shares or of debentures of the company.

(*iv*) **Amount of Profit required to be transferred to DRR**

= (₹ 20,00,000 × 25/100) – ₹ 1,00,000 = ₹ 4,00,000.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		4,00,000	
	To Debentures Redemption Reserve A/c				4,00,000
	(Being the amount transferred to DRR)				

(*v*) (*a*) When an amount equal to 100% of nominal (face) value of total redeemable debentures is transferred to Debentures Redemption Reserve out of surplus available for payment of dividend for the purpose of redemption of debentures, it is termed as redemption of debentures out of profits.

(*b*) If purchase consideration given is more than the net assets acquired, then the difference is debited to **Goodwill Account**.

(*vi*) *'Subscribed Capital' means such part of the capital which is for the time being subscribed by the members of a company.*

Shares subscribed but not fully paid up are that part of the issued capital on which the company has not received total nominal (face) value.

Shares are shown as Subscribed but not fully paid up:

(*a*) When the company has called-up entire nominal value of the share but few shareholders have not paid the called-up amount.

(*b*) When the company has not called-up the entire nominal value of the share.

2. (*a*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Esha's Capital A/c ...Dr. Manav's Capital A/c ...Dr. To Profit and Loss Adjustment A/c (Being the share of profit wrongly credited to partners, now reversed)		30,000 20,000	 50,000
	Profit and Loss Adjustment A/c ...Dr. To Esha's Capital A/c To Manav's Capital A/c (Being the interest on capital @ 10% p.a. allowed to each partner) (WN 1)		14,300	 5,100 9,200
	Esha's Capital A/c ...Dr. Manav's Capital A/c ...Dr. To Profit and Loss Adjustment A/c (Being the interest on drawings @ 5% p.a. charged from each partner) (WN 2)		75 225	 300
	Profit and Loss Adjustment A/c ...Dr. To Esha's Capital A/c To Manav's Capital A/c (Being the divisible profit distributed between partners in their profit-sharing ratio, *i.e.*, 3 : 2)		36,000	 21,600 14,400

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Esha ₹	Manav ₹	Particulars	Esha ₹	Manav ₹
To Profit and Loss Adjustment A/c	30,000	20,000	By Balance *b/d*	75,000	1,00,000
To Profit and Loss Adjustment A/c	75	225	By Profit and Loss Adjustment A/c	5,100	9,200
To Balance *c/d*	71,625	1,03,375	By Profit and Loss Adjustment A/c	21,600	14,400
	1,01,700	1,23,600		1,01,700	1,23,600

Working Notes:

1. CALCULATION OF OPENING CAPITAL AND INTEREST THEREON

Particulars	Esha (₹)	Manav (₹)
Capital as on 31st March, 2019	75,000	1,00,000
Add: Drawings	6,000	12,000
	81,000	1,12,000
Less: Profit	30,000	20,000
Opening Capital	51,000	92,000
Interest on Capital @ 10% p.a.	5,100	9,200

2. *Calculation of Interest on Drawings:*

	Esha	**Manav**
Drawings	₹ 6,000	₹ 12,000
Average Period	3 Months	4.5 Months
Interest on Drawings	₹ 75	₹ 225

(*b*) Average Profit = ₹ 80,000

Undervaluation of Stock = ₹ 8,000

Adjusted Average Profit = ₹ 80,000 + ₹ 8,000 (Note) = ₹ 88,000

$$\text{Normal Profit} = \text{Capital Employed (Investment)} \times \frac{\text{Normal Rate of Return}}{100}$$

$$= ₹\ 8,00,000 \times \frac{8}{100} = ₹\ 64,000$$

Super Profit = Adjusted Average Profit – Normal Profit

= ₹ 88,000 – ₹ 64,000 = ₹ 24,000

(*i*) Goodwill = Super Profit × 7

= ₹ 24,000 × 7 = ₹ 1,68,000.

Note: Undervaluation of stock reduces the net profit. Hence, it is added to determine adjusted profit.

$$(ii)\ \text{Goodwill} = \frac{\text{Super Profit} \times 100}{\text{Normal Rate of Return}} = \frac{₹\ 24,000 \times 100}{8} = ₹\ 3,00,000.$$

3. (*a*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Investments A/c		5,000	By Accrued Income A/c	500
To Gain (Profit) transferred to:			By Bad Debts Recovered A/c	800
A's Capital A/c	780		By Patents A/c	5,000
B's Capital A/c	520	1,300		
		6,300		6,300

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* ₹	*B* ₹	*C* ₹	Particulars	*A* ₹	*B* ₹	*C* ₹
To Balance *c/d*	93,780	62,520	52,100	By Balance *b/d*	60,000	40,000	...
				By General Reserve A/c	12,000	8,000	...
				By Workmen Compensation Reserve A/c	6,000	4,000	...
				By Revaluation A/c (Gain)	780	520	...
				By Premium for Goodwill A/c	15,000	10,000	...
				By Bank A/c (WN 2)	...	...	52,100
	93,780	62,520	52,100		93,780	62,520	52,100

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

Liabilities		₹	Assets		₹
Creditors		28,000	Cash at Bank (WN 3)		82,900
Workmen Compensation Claim		2,000	Debtors	70,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	5,000	65,000
A	93,780		Stock		30,000
B	62,520		Investments		45,000
C	52,100	2,08,400	Patents		15,000
			Accrued Income		500
		2,38,400			2,38,400

Working Notes:

1. Premium for Goodwill = ₹ 25,000, which will be shared by *A* and *B* in their sacrificing ratio, *i.e.*, 3 : 2.
2. *Calculation of C's Capital:*

   Adjusted Capitals of *A* and *B* for 3/4th share = ₹ 93,780 + ₹ 62,520 = ₹ 1,56,300

   Total Capital of the New Firm = ₹ 1,56,300 × 4/3 = ₹ 2,08,400

   C's Capital = 1/4 × ₹ 2,08,400 = ₹ 52,100.
3. Cash at Bank = ₹ 10,000 + ₹ 800 (Bad Debts Recovered) + ₹ 25,000 (Premium for Goodwill) + 52,100 (*C*'s Capital) – ₹ 5,000 (Payment for Dishonoured Discounted Bill)

   = ₹ 82,900.

(*b*)

	₹
Net Worth (including goodwill) of the new firm on the basis of capital brought by new partner (*Z*) (₹ 2,00,000 × 4/1)	8,00,000
Less: Net Worth (excluding goodwill) of the new firm (₹ 5,40,000 – ₹ 1,00,000 + ₹ 2,00,000)	6,40,000
Value of firm's goodwill	1,60,000
Z's share of goodwill (₹ 1,60,000 × 1/4)	40,000

4.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Machinery A/c		50,000	By Land and Building A/c	2,40,000
To Closing Stock A/c		1,00,000		
To Provision for Doubtful Debts A/c		20,000		
To Gain (Profit) on Revaluation transferred to:				
Leena's Capital A/c	20,000			
Madan's Capital A/c	20,000			
Naresh's Capital A/c	30,000	70,000		
		2,40,000		2,40,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Leena ₹	Madan ₹	Naresh ₹	Particulars	Leena ₹	Madan ₹	Naresh ₹
To Deferred Advertisement Expenditure A/c	28,571	28,571	42,858	By Balance *b/d*	12,50,000	8,00,000	10,50,000
To Madan's Capital A/c	1,60,000	...	...	By Revaluation A/c (Gain)	20,000	20,000	30,000
To Naresh's Capital A/c	16,000	...	...	By Leena's Capital A/c (WN 1, 2 and 3)	...	1,60,000	16,000
To Madan's Capital A/c	20,000	...	...	By Leena's Capital A/c (WN 4)	...	20,000	2,000
To Naresh's Capital A/c	2,000	...	...	By Bank A/c (Balancing Figure)	8,76,571	...	2,24,858
To Investments A/c	...	1,00,000	...				
To Bills Payable A/c	...	8,71,429	...				
To Balance *c/d* (WN 5)	19,20,000	...	12,80,000				
	21,46,571	10,00,000	13,22,858		21,46,571	10,00,000	13,22,858

BALANCE SHEET
as at 1st April, 2019

Liabilities			₹	Assets		₹
Trade Creditors			1,60,000	Land and Building		12,40,000
Bank Overdraft			44,000	Machinery		4,50,000
Bills Payable			8,71,429	Furniture		7,00,000
Long-term Debts			4,00,000	Closing Stock		7,00,000
Employees' Provident Fund			76,000	Investments		1,00,000
General Reserve			70,000	Sundry Debtors	4,00,000	
Capital A/cs:	Leena	19,20,000		*Less:* Provision for Doubtful Debts	20,000	3,80,000
	Naresh	12,80,000	32,00,000	Bank (WN 6)		12,51,429
			48,21,429			48,21,429

Working Notes:

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

Gain of a Partner = New Share – Old Share

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

$$\text{Naresh's Gain} = \frac{2}{5} - \frac{3}{7} = \frac{14-15}{35} = -\frac{1}{35}\,*$$

*Negative result indicates that Naresh has sacrificed. As Leena is the only gaining partner, she will compensate not only the retiring partner (Madan) but also the sacrificing partner (Naresh).

2. Naresh's Share of Goodwill = ₹ 5,60,000 × 1/35 = ₹ 16,000.

3. Madan's Share of Goodwill = ₹ 5,60,000 × 2/7 = ₹ 1,60,000.

4. *For Adjustment of General Reserve:*

		₹	₹
Leena's Capital A/c	...Dr.	22,000	
To Madan's Capital A/c			20,000
To Naresh's Capital A/c			2,000

5. *Capitals of the Partners in the New Firm:*

Total capital of the new firm = ₹ 32,00,000, which will be contributed by Leena and Naresh in their new profit-sharing ratio, *i.e.*, 3 : 2. Thus,

Leena's capital in new firm = ₹ 32,00,000 × 3/5 = ₹ 19,20,000; Naresh's capital in New Firm = ₹ 32,00,000 × 2/5 = ₹ 12,80,000.

6. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,50,000	By Balance *c/d*	12,51,429
To Leena's Capital A/c	8,76,571		
To Naresh's Capital A/c	2,24,858		
	12,51,429		12,51,429

5. (*a*) JOURNAL OF RUCHI LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Issue of Debentures				
2015					
April 1	Bank A/c	...Dr.		50,00,000	
	To Debentures Application and Allotment A/c				50,00,000
	(Being the application and allotment money received on issue of debentures)				
April 1	Debentures Application and Allotment A/c	...Dr.		50,00,000	
	Loss on Issue of Debentures A/c	...Dr.		4,00,000	
	To 7% Debentures A/c				50,00,000
	To Premium on Redemption of Debentures A/c				4,00,000
	(Being the allotment of 50,000; 7% Debentures of ₹ 100 each redeemable at 8% premium)				
	Before Redemption of Debentures				
2018					
Mar. 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		12,50,000	
	To Debentures Redemption Reserve A/c				12,50,0000
	(Being the profits transferred to Debentures Redemption Reserve)				
April 1	Debentures Redemption Investment A/c	...Dr.		7,50,000	
	To Bank A/c				7,50,000
	(Being the investment made as fixed deposit as per Companies Act, 2013 earning Interest @10% p.a.)				
	On Redemption of Debentures				
2019					
Mar. 31	Bank A/c	...Dr.		8,17,500	
	TDS Collected A/c	...Dr.		7,500	
	To Debentures Redemption Investment A/c				7,50,000
	To Interest Earned A/c				75,000
	(Being the fixed deposit encashed on redemption and interest received @10% per annum)				
Mar. 31	7% Debentures A/c	...Dr.		50,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		4,00,000	
	To Debentureholders' A/c				54,00,000
	(Being the amount due to debentureholders)				
	Debentureholders' A/c	...Dr.		54,00,000	
	To Bank A/c				54,00,000
	(Being the amount due paid on redemption)				
	Debentures Redemption Reserve A/c	...Dr.		12,50,000	
	To General Reserve A/c				12,50,000
	(Being the Debentures Redemption Reserve transferred to General Reserve)				

(*b*) BALANCE SHEET OF MOON LTD. *as at 31st March, 2019*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital	1	7,50,000
(*b*) Reserves and Surplus	2	3,10,000
2. Non-Current Liabilities		
Long-term Borrowings	3	2,60,000
3. Current Liabilities		
(*a*) Short-term Borrowings	4	40,000
(*b*) Trade Payables		3,20,000
(*c*) Short-term Provisions	5	50,000
Total		17,30,000
II. ASSETS		
1. Non-Current Assets		
(*a*) *Fixed Assets:*		
(*i*) Tangible Assets	6	8,60,000
(*ii*) Intangible Assets	7	15,000
(*b*) Non-current Investments	8	3,25,000
2. Current Assets		
(*a*) Current Investments		45,000
(*b*) Inventories		1,55,000
(*c*) Trade Receivables		2,00,000
(*d*) Cash and Cash Equivalents		1,30,000
Total		17,30,000

Notes to Accounts

Particulars	₹
1. Share Capital	
Authorised Capital	
... Equity Shares of ₹ 100 each	...
Issued Capital	
7,500 Equity Shares of ₹ 100 each	7,50,000
Subscribed Capital	
Subscribed and Fully Paid-up	
7,500 Equity Shares of ₹ 100 each	7,50,000
2. Reserves and Surplus	
Securities Premium Reserve	10,000
General Reserve	1,50,000
Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,50,000
	3,10,000
3. Long-term Borrowings	
8% Debentures	2,60,000
4. Short-term Borrowings	
8% Bank Loan (Short-term)	40,000
5. Short-term Provisions	
Provision for Tax	50,000
6. Tangible Assets	
Plant and Machinery (Net)	8,60,000
7. Intangible Assets	
Goodwill	15,000
8. Non-Current Investments	
Investment in Land and Building	3,25,000

6. (*a*) JOURNAL OF *X* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c	...Dr.		5,50,000	
	To *Y* Ltd.				5,50,000
	(Being the machinery purchased from *Y* Ltd.)				
	Y Ltd.	...Dr.		55,000	
	To Bank A/c				55,000
	(Being the part payment made to *Y* Ltd.)				
	Y Ltd.	...Dr.		4,95,000	
	To 9% Debentures A/c				4,50,000
	To Securities Premium Reserve A/c				45,000
	(Being the issue of 450 (*i.e.*, ₹ 4,95,000 ÷ ₹ 1,100); 9% Debentures of ₹ 1,000 each at 10% premium)				

(*b*) JOURNAL OF STAR LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019					
Mar. 31	Debentures' Interest A/c	...Dr.		25,000	
	To Debentureholders' A/c				22,500
	To TDS Payable A/c				2,500
	(Being the interest on debentures due for 6 months and TDS deducted @ 10%)				
	Debentureholders' A/c	...Dr.		22,500	
	TDS Payable A/c	...Dr.		2,500	
	To Bank A/c				25,000
	(Being the interest paid to debentureholders and TDS deposited in Government Account)				
	Statement of Profit and Loss (Finance Cost)	...Dr.		50,000	
	To Debentures' Interest A/c				50,000
	(Being the interest on debentures transferred to Statement of Profit and Loss as finance cost)				

7. (*a*) **Arvind Ltd.**

BALANCE SHEET (Extract) *as at*...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
(*a*) Share Capital	1	42,00,000
(*b*) Reserves and Surplus	2	2,80,000

Notes to Accounts

Particulars	₹
1. Share Capital	
Authorised Capital	
60,000 Equity Shares of ₹ 150 each	90,00,000
Issued Capital	
30,000 Equity Shares of ₹ 150 each	45,00,000
Subscribed Capital	
Subscribed and Fully paid-up	
28,000 Equity Shares of ₹ 150 each	42,00,000
2. Reserves and Surplus	
Securities Premium Reserve	2,80,000

(*b*)

Strong Ltd.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		9,00,000	
	To Equity Shares Application A/c				9,00,000
	(Being the application money received for 3,00,000 shares)				
	Equity Shares Application A/c	...Dr.		9,00,000	
	To Equity Share Capital A/c (1,00,000 × ₹ 3)				3,00,000
	To Equity Shares Allotment A/c				3,20,000
	To Calls-in-Advance A/c				60,000
	To Bank A/c				2,20,000
	(Being the application money adjusted and surplus refunded) (WN 1 and 2)				
	Equity Shares Allotment A/c	...Dr.		4,00,000	
	To Equity Share Capital A/c				4,00,000
	(Being the allotment money due on 1,00,000 shares)				
	Bank A/c (₹ 4,00,000 – ₹ 3,20,000)	...Dr.		80,000	
	To Equity Shares Allotment A/c				80,000
	(Being the remaining allotment money received)				
	Equity Shares First and Final Call A/c	...Dr.		3,00,000	
	To Equity Share Capital A/c				3,00,000
	(Being the first and final call money due on 1,00,000 shares)				
	Bank A/c	...Dr.		2,39,520*	
	Calls-in-Arrears A/c (160 × ₹ 3)	...Dr.		480	
	Calls-in-Advance A/c	...Dr.		60,000	
	To Equity Shares First and Final Call A/c				3,00,000
	(Being first and final call money received except on 160 shares @ ₹ 3 per share and advance received earlier (₹ 60,000) adjusted)				
	*₹ 3,00,000 – ₹ 480 – ₹ 60,000 = ₹ 2,39,520.				
	Equity Share Capital A/c (160 × ₹ 10)	...Dr.		1,600	
	To Calls-in-Arrears A/c (160 × ₹ 3)				480
	To Forfeited Shares A/c (160 × ₹ 7)				1,120
	(Being 160 shares forfeited for non-payment of call money)				
	Bank A/c (160 × ₹ 15)	...Dr.		2,400	
	To Equity Share Capital A/c (160 × ₹ 10)				1,600
	To Securities Premium Reserve A/c (160 × ₹ 5)				800
	(Being 160 forfeited shares reissued @ ₹ 15 per share as fully paid)				
	Forfeited Shares A/c	...Dr.		1,120	
	To Capital Reserve A/c				1,120
	(Being the gain on reissue of forfeited shares transferred to Capital Reserve)				

Working Notes:

1. *Adjustment of Application Money:*

	₹
Application money received on shares applied (3,00,000 × ₹ 3)	9,00,000
Less: 20% applications rejected (20% of 3,00,000, *i.e.*, 60,000 × ₹ 3)—Refunded **(A)**	1,80,000
	7,20,000
Less: Application money adjusted on allotted shares (1,00,000 × ₹ 3) (Category I and II)	3,00,000
Excess Application money (Category I and II)	4,20,000

2. *Adjustment of Excess Application Money:*

			₹
Category I:	Application money received (1,60,000 × ₹ 3)		4,80,000
	Less: Application money adjusted on allotted shares (80,000 × ₹ 3) **(C)**		2,40,000
	Excess application money		2,40,000
	Less: Excess application money to be adjusted on allotment		2,40,000
	Surplus		Nil
Category II:	Application money received on shares applied (80,000 × ₹ 3)		2,40,000
	Less: Application money due on shares allotted (20,000 × ₹ 3)		60,000
	Excess Application money		1,80,000
	Less: Money to be adjusted on Allotment (20,000 × ₹ 4) **(D)**	80,000	
	Money to be adjusted on first and final call (20,000 × ₹ 3) **(E)**	60,000	1,40,000
	Excess money to be refunded **(B)**		40,000

- Total Application Money Refunded = **A + B** = ₹ 1,80,000 + ₹ 40,000 = ₹ 2,20,000.
- Excess Application Money to be adjusted on Allotment: **C + D** = ₹ 2,40,000 + ₹ 80,000 = ₹ 3,20,000.
- Excess Application Money to be adjusted on First and Final Call (Calls-in-Advance) = ₹ 60,000 **(E)**.

8.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets—Transfer:			By Provision for Doubtful Debts		4,000
Building	1,20,000		By Mrs. *X*'s Loan		40,000
Investments	30,600		By Sundry Creditors		80,000
Goodwill	4,000		By Investments Fluctuation Reserve		8,000
Debtors	34,000		By Bank A/c (Assets Realised):		
Bills Receivable	37,400	2,26,000	Debtors	24,000	
To *X*'s Capital A/c (Mrs. *X*'s Loan)		40,000	Building	1,52,000	
To Bank A/c (Liabilities Paid):			Bills Receivable	36,000	
Sundry Creditors	72,000		Computer (Fully written off)	7,000	2,19,000
Liability for Damages (Unrecorded)	7,000	79,000	By *Y*'s Capital A/c (Investments)		27,000
To Bank A/c (Realisation Expenses)		2,500			
To *X*'s Capital A/c (Commission for dissolution work)		1,000			
To Gain (Profit) transferred to:					
X's Capital A/c	17,700				
Y's Capital A/c	11,800	29,500			
		3,78,000			3,78,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	Particulars	*X* ₹	*Y* ₹
To Realisation A/c (Assets taken)	...	27,000	By Balance *b/d*	42,000	42,000
To Profit and Loss A/c (Loss)	4,800	3,200	By Realisation A/c (Mrs. *X*'s Loan)	40,000	...
To Bank A/c (Final payment) (Balancing Figure)	95,900	23,600	By Realisation A/c (Commission)	1,000	...
			By Realisation A/c (Gain)	17,700	11,800
	1,00,700	53,800		1,00,700	53,800

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	6,000	By Realisation A/c (Liabilities paid)	79,000
To Realisation A/c (Assets Realised)	2,19,000	By Realisation A/c (Realisation Expenses)	2,500
		By *Y*'s Loan A/c	24,000
		By *X*'s Capital A/c (Final payment)	95,900
		By *Y*'s Capital A/c (Final payment)	23,600
	2,25,000		2,25,000

Note: If question is silent about the realisation of particular asset, then its realised value should be taken as **Nil**. Accordingly, the realised value of goodwill is taken as **Nil**.

SECTION B

9. **Techno India Ltd.**

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

Particulars		₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		1,35,000
Add: Non-cash and Non-operating Expenses:		
Depreciation on Equipment	6,000	
Loss on Sale of Equipment	6,000	
Interest on Bank Loan (10% of ₹ 50,000)	5,000	
Patents amortised	2,500	19,500
Operating Profit before Working Capital Changes		1,54,500
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Trade Payables	1,500	
Inventories	40,000	
Trade Receivables	20,000	61,500
Cash Generated from Operations		93,000
Less: Tax Paid		15,000
Cash Flow from Operating Activities		78,000
II. Cash Flow from Investing Activities		
Proceeds from Sale of Equipment (WN 2)	38,000	
Purchase of Equipment	(50,000)	
Purchase of Non-current Investments	(47,500)	
Cash Used in Investing Activities		(59,500)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Equity Shares	1,00,000	
Repayment of Bank Loan	(25,000)	
Payment of Interest on Bank Loan	(5,000)	
Payment of Interim Dividend	(35,000)	
Cash Flow from Financing Activities		35,000
IV. Net Increase in Cash and Cash Equivalents (I + II + III)		53,500
Add: Cash and Cash Equivalents in the beginning of the year		75,000
V. Cash and Cash Equivalents at the end of the year		1,28,500

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Closing balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,75,000
Less: Opening balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,00,000
Profit for the year	75,000
Add: Provision for Tax	25,000
Interim Dividend	35,000
Net Profit before Tax	1,35,000

2. *Dr.* EQUIPMENT ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	2,50,000	By Depreciation A/c	6,000
To Bank A/c (Purchase)	50,000	By Loss on Sale of Equipment A/c (Statement of Profit and Loss)	6,000
		By Bank A/c (Balancing Figure) (Sale)	38,000
		By Balance *c/d*	2,50,000
	3,00,000		3,00,000

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*) (*i*) Financing Activities.

(*ii*) Investing Activities.

(*c*) COMMON-SIZE STATEMENT OF PROFIT AND LOSS

for the years ended 31st March, 2019 and 2018

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		31st March, 2019 (₹)	31st March, 2018 (₹)	31st March, 2019 (%)	31st March, 2018 (%)
I. Revenue from Operations		10,00,000	8,00,000	100.00	100.00
II. *Expenses:*					
(*a*) Cost of Materials Consumed		5,00,000	4,00,000	50.00	50.00
(*b*) Employees Benefit Expenses		1,00,000	80,000	10.00	10.00
(*c*) Finance Costs		10,000	8,000	1.00	1.00
Total Expenses		6,10,000	4,88,000	61.00	61.00
III. Profit before Tax (I – II)		3,90,000	3,12,000	39.00	39.00
IV. *Less:* Tax		1,56,000	1,24,800	15.60	15.60
V. Profit after Tax (III – IV)		2,34,000	1,87,200	23.40	23.40

11. (*a*) $$\text{Trade Receivables Turnover Ratio} = \frac{\text{Revenue from Operations}}{\text{Average Trade Receivables}}$$

$$= \frac{₹\,7{,}20{,}000}{₹\,90{,}000} = 8 \text{ Times.}$$

Notes:

1. Provision for Doubtful Debts is not deducted from Trade Receivables to calculate Trade Receivables Turnover Ratio.
2. In the absence of information about opening Trade Receivables, Closing Trade Receivables are taken as Average Trade Receivables.

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

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

Net Profit before Interest and Tax = Net Profit after Interest but before Tax + Interest on Long-term Debts

= ₹ 1,40,000 + (15% of ₹ 4,00,000)

= ₹ 2,00,000

Capital Employed = Shareholders' Funds + Long-term Debts

= ₹ 2,40,000 + ₹ 4,00,000

= ₹ 6,40,000.

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

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

Operating Cost = Cost of Revenue from Operations + Depreciation + Employees' Benefit Expenses

= ₹ 3,90,000 + ₹ 3,000 + ₹ 27,000

= ₹ 4,20,000

Revenue from Operations = Cash Revenue from Operations + Credit Revenue from Operations

= ₹ 4,00,000 + ₹ 2,00,000

= ₹ 6,00,000.

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

Liquid Assets = Current Assets – Closing Inventory

= ₹ 4,13,000 – ₹ 23,000

= ₹ 3,90,000.

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

Shareholders' Fund = Equity Share Capital + Preference Share Capital + Debentures Redemption Reserve

= ₹ 4,37,000 + ₹ 1,74,000 + ₹ 29,000

= ₹ 6,40,000

Total Assets = Current Assets + Non-current Assets

= ₹ 4,13,000 + ₹ 3,87,000

= ₹ 8,00,000.