MODEL TEST PAPER 18 (Solution)

SECTION A

PART I

1. (*i*) (*a*) Share of Existing Goodwill written off.

(*b*) Share of Loss up to the date of retirement.

(*c*) Share of Accumulated Losses up to the date of retirement.

(*d*) Share of Loss on Revaluation of assets and Reassessment of liabilities on the date of retirement.

(*ii*) Partner's Executor's Account is prepared at the time of death of a partner so as to make the payment of deceased partner's share to his/her executors.

(*iii*) According to Section 71(4) of the Companies Act, 2013 and Rule 18(7)(*b*) of the Companies (Share Capital and Debentures) Rules, 2014, a Bank (or Banking Company) is not required to set aside amount to Debentures Redemption Reserve (DRR). Thus, in the given question, DRR will not be created.

Journal Entries: At the time of Redemption of Debentures

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
June 1	10% Debentures A/c	...Dr.		6,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		60,000	
	To Debentureholders' A/c				6,60,000
	(Being the amount due to debentureholders' on redemption)				
June 1	Debentureholders' A/c	...Dr.		6,60,000	
	To Bank A/c				6,60,000
	(Being the amount paid to debentureholders)				

(*iv*) *Adjustment Entry:*

Interest on Debentures A/c ...Dr.
  To Debentureholders' A/c
(Being the interest on debentures due)

Closing Entry:

Statement of Profit and Loss (Finance Cost) ...Dr.
  To Interest on Debentures A/c
(Being the transfer of interest on debentures to Statement of Profit and Loss)

(*v*) Premium on the issue of debentures is considered a capital profit, since it is not received during the normal course of business activities. If the amount is received in excess of the face value of debentures, *i.e.*, raising a loan, it is a *capital receipt*.

(*vi*) (*a*) Incorporation Cost A/c ...Dr.
  To Promoters' A/c
(Being the remuneration payable to promoters for their services to incorporate the company)

(*b*) Promoters' A/c ...Dr.
  To Share Capital A/c
  To Securities Premium Reserve A/c
(Being the shares issued to promoters at premium)

PART II

2. *(a)*

Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT *for the year ended 31st March, 2019* *Cr.*

Particulars		₹	Particulars	₹
To Interest on Capital A/cs:			By Profit and Loss A/c (Net Profit)	11,30,000
Ram (₹ 3,00,000 × 10/100)		30,000		
Shyam (₹ 2,00,000 × 10/100)		20,000		
Hari (₹ 1,50,000 × 10/100)		15,000		
Krishna (₹ 50,000 × 10/100)		5,000		
To Hari's Capital A/c (Salary)		60,000		
To Profit transferred to Capital A/cs (WN):				
Ram	3,45,000			
Shyam	3,70,000			
Hari	1,80,000			
Krishna	1,05,000	10,00,000		
		11,30,000		11,30,000

Working Note:

Calculation of Share of Profit:

Distributable Profit = ₹ 11,30,000 – ₹ 70,000 (Interest on Capital) – ₹ 60,000 (Salary)
= ₹ 10,00,000, which will be shared by them in their agreed ratio, *i.e.*, 4 : 3 : 2 : 1. Thus,

Ram's share of profit = ₹ 4,00,000; Shyam's share of profit = ₹ 3,00,000; Hari's share of profit = ₹ 2,00,000; and Krishna's share of profit = ₹ 1,00,000.

There is deficiency of ₹ 70,000 in Shyam's share of profit. This deficiency will be borne by Ram, Hari and Krishna in 4 : 2 : 1 ratio. Therefore, Ram will bear ₹ 40,000, Hari will bear ₹ 20,000 and Krishna will bear ₹ 10,000.

Now Krishna's share of profit = ₹ 1,00,000 – ₹ 10,000 (To Shyam) + ₹ 5,000 (Interest on Capital)
= ₹ 95,000

As per guarantee by Ram, there is deficiency of ₹ 15,000 in Krishna's share of profit. It will be borne by Ram only. Thus, final shares of profit:

Ram = ₹ 4,00,000 – ₹ 40,000 (To Shyam) – ₹ 15,000 (To Krishna) = ₹ 3,45,000;
Shyam = ₹ 3,00,000 + ₹ 70,000 (From Ram, Hari and Krishna) = ₹ 3,70,000;
Hari = ₹ 2,00,000 – ₹ 20,000 (To Shyam) = ₹ 1,80,000; and
Krishna = ₹ 1,00,000 – ₹ 10,000 (To Shyam) + ₹ 15,000 (From Ram) = ₹ 1,05,000.

(b) *(i)* *Calculation of Interest on Drawings:*

Nusrat = ₹ 20,000 × 10/100 × 6/12 = ₹ 1,000
Sonu = ₹ 15,000 × 10/100 × 6/12 = ₹ 750
Himesh = ₹ 10,000 × 10/100 × 6/12 = ₹ 500.

(ii) ADJUSTMENT TABLE

Particulars		Nusrat's Capital A/c		Sonu's Capital A/c		Himesh's Capital A/c		Firm	
		Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
I. Interest on Drawings	(Dr.)	1,000	...	750	...	500	...	...	2,250
II. Gain of ₹ 2,250 to be credited in 5 : 3 : 2	(Cr.)	...	1,125	...	675	...	450	2,250	...
		1,000	1,125	750	675	500	450	2,250	2,250
III. Net Effect		125 (Cr.)		75 (Dr.)		50 (Dr.)		...	

(*iii*) ADJUSTING ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sonu's Capital A/c	...Dr.		75	
	Himesh's Capital A/c	...Dr.		50	
	To Nusrat's Capital A/c				125
	(Being the adjustment for interest on drawings)				

(*c*) (*i*) CALCULATION OF NORMAL PROFIT

Year	Actual Profit ₹	Adjustment ₹	Normal Profit ₹
2014–15	1,00,000	...	1,00,000
2015–16	1,50,000	–10,000 (Abnormal Gain)	1,40,000
2016–17	40,000	+10,000 (Abnormal Loss)	50,000
2017–18	50,000 (Loss)	...	50,000 (Loss)
2018–19	60,000	...	60,000
Total			3,00,000

$$\text{Average Profit} = \frac{\text{Total Normal Profit}}{\text{Number of Years}} = \frac{₹\ 3,00,000}{5} = ₹\ 60,000$$

$$\text{Goodwill} = \text{Average Profit} \times \text{No. of Years' Purchase}$$
$$= ₹\ 60,000 \times 3 = ₹\ 1,80,000.$$

(*ii*) Capital Employed = ₹ 1,00,000

Normal Rate of Return = 8%

Normal Profit = Capital Employed × Normal Rate of Return/100

= ₹ 1,00,000 × 8/100 = ₹ 8,000

Average Profit = ₹ 12,000

Super Profit = Average Profit – Normal Profit

= ₹ 12,000 – ₹ 8,000 = ₹ 4,000

Goodwill = Super Profit × No. of Years' Purchase

= ₹ 4,000 × 3 = ₹ 12,000.

(*iii*) Average Profit = ₹ 30,000 (Given)

Normal Profit = ₹ 2,00,000 × 10/100

= ₹ 20,000

Super Profit = ₹ 30,000 – ₹ 20,000

= ₹ 10,000

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

= ₹ 10,000 × 100/10 = ₹ 1,00,000.

3. (*a*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Investments A/c	5,000	By Accrued Income A/c	1,000
		By Bad Debts Recovered A/c	4,000
	5,000		5,000

Note: There is neither gain (profit) nor loss on revaluation.

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Annie ₹	Bonnie ₹	Carl ₹	Particulars	Annie ₹	Bonnie ₹	Carl ₹
To Balance *c/d*	1,08,000	56,000	41,000	By Balance *b/d*	60,000	40,000	...
				By Carl's Current A/c (WN 2)	3,000	1,000	...
				By Premium for Goodwill A/c (WN 3)	45,000	15,000	...
				By Bank A/c (WN 4)	...	...	41,000
	1,08,000	56,000	41,000		1,08,000	56,000	41,000

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

Liabilities		₹	Assets		₹
Capital A/cs:			Investments		45,000
Annie	1,08,000		Stock		30,000
Bonnie	56,000		Debtors	65,000	
Carl	41,000	2,05,000	*Less:* Provision for Doubtful Debts	5,000	60,000
General Reserve		20,000	Accrued Income		1,000
Employees' Provident Fund		12,000	Cash at Bank (WN 5)		1,25,000
Creditors		28,000	Carl's Current A/c		4,000
		2,65,000			2,65,000

Working Notes:

1. Unless agreed otherwise, sacrificing ratio of old partners will be same as their old profit-sharing ratio.
2. *Journal entry for General Reserve:*

		₹	₹
Carl's Current A/c (₹ 20,000 × 1/5)	...Dr.	4,000	
To Annie's Capital A/c			3,000
To Bonnie's Capital A/c			1,000
(Being General Reserve adjusted between old partners in their sacrificing ratio)			

3. Amount of premium for goodwill brought by Carl, will be distributed between old partners in their sacrificing ratio.
4. *Calculation of Carl's Capital:*

Capitals of old partners after all adjustments:	₹
Annie	1,08,000
Bonnie	56,000
	1,64,000

Combined capital of Annie and Bonnie for 4/5 share = ₹ 1,64,000

It means, total capital of new firm = ₹ 1,64,000 × 5/4 = ₹ 2,05,000

Thus, Carl's capital for 1/5 share = ₹ 2,05,000 × 1/5 = ₹ 41,000.

5.

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	20,000	By Balance *c/d*	1,25,000
To Bad Debts Recovered A/c	4,000		
To Premium for Goodwill A/c	60,000		
To Carl's Capital A/c	41,000		
	1,25,000		1,25,000

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Revaluation A/c	...Dr.		40,000	
	To Stock A/c				40,000
	(Being the decrease in value of stock recorded)				
	Revaluation A/c	...Dr.		36,000	
	To Furniture A/c				36,000
	(Being the decrease in value of furniture recorded)				
	X's Capital A/c	...Dr.		45,600	
	Y's Capital A/c	...Dr.		30,400	
	To Revaluation A/c				76,000
	(Being the loss on revaluation transferred to Partners' Capital Accounts)				

4.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts A/c		4,000	By Building A/c	40,000
To Machinery A/c		20,000		
To Gain (Profit) transferred to Capital A/cs:				
Keshav	8,000			
Nirmal	4,000			
Pankaj	4,000	16,000		
		40,000		40,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Keshav ₹	Nirmal ₹	Pankaj ₹	Particulars	Keshav ₹	Nirmal ₹	Pankaj ₹
To Nirmal's Capital A/c	24,000	...	12,000	By Balance *b/d*	1,60,000	80,000	80,000
To Bank A/c	...	1,30,000	...	By General Reserve A/c	20,000	10,000	10,000
To Bank A/c (Bal. Fig.)	4,000	...	2,000	By Revaluation A/c (Gain)	8,000	4,000	4,000
To Balance *c/d* (WN 2)	1,60,000	...	80,000	By Keshav's Capital A/c	...	24,000	...
				By Pankaj's Capital A/c	...	12,000	...
	1,88,000	1,30,000	94,000		1,88,000	1,30,000	94,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	28,000	By Nirmal's Capital A/c	1,30,000
To Balance *c/d* (Bank Overdraft)	1,08,000	By Keshav's Capital A/c	4,000
		By Pankaj's Capital A/c	2,000
	1,36,000		1,36,000

BALANCE SHEET (AFTER RETIREMENT) *as at 31st March, 2019*

Liabilities		₹	Assets		₹
Capital A/cs:			Building		2,40,000
Keshav	1,60,000		Machinery		80,000
Pankaj	80,000	2,40,000	Stock		36,000
Bank Overdraft		1,08,000	Debtors	40,000	
Creditors		42,000	*Less:* Provision for Doubtful Debts	6,000	34,000
		3,90,000			3,90,000

Working Notes:

1. *Adjustment of Nirmal's Share of Goodwill:*
   Firm's Goodwill = ₹ 1,44,000
   Nirmal's share of Goodwill = ₹ 1,44,000 × 1/4 = ₹ 36,000, which will be contributed by Keshav and Pankaj in their gaining ratio, *i.e.*, 2 : 1.
2. *Adjustment of Capital:*
   Total capital of the new firm = ₹ 2,40,000, it is to be contributed by Keshav and Pankaj in their new ratio, *i.e.*, 2 : 1. Therefore,
   Keshav's capital in new firm = ₹ 2,40,000 × 2/3 = ₹ 1,60,000
   Pankaj's capital in new firm = ₹ 2,40,000 × 1/3 = ₹ 80,000
   Keshav's present capital (after all adjustments) = ₹ 1,64,000
   Therefore, he will withdraw ₹ 4,000, *i.e.*, ₹ 1,64,000 – ₹ 1,60,000
   Pankaj's present capital (after all adjustments) = ₹ 82,000
   Therefore, he will withdraw ₹ 2,000, *i.e.*, ₹ 82,000 – ₹ 80,000.

5. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019					
April 1 (*a*)	Bank A/c	...Dr.		1,40,000	
	To Realisation A/c				1,40,000
	(Being the excess value of machinery taken by creditor received)				
(*b*)	No Entry				
(*c*)	Realisation A/c	...Dr.		45,000	
	To Bank A/c				45,000
	(Being the payment made to creditor in addition to investments)				
(*d*)	Bank A/c	...Dr.		99,360	
	To Realisation A/c				99,360
	(Being the amount realised from debtors) (Note)				
(*e*)	Realisation A/c	...Dr.		13,000	
	To Lal's Capital A/c				13,000
	(Being the remuneration for dissolution allowed to Lal)				
(*f*)	Lal's Capital A/c	...Dr.		4,500	
	Pal's Capital A/c	...Dr.		10,500	
	To Realisation A/c				15,000
	(Being the loss on dissolution transferred to partners)				

Note: *Calculation of Amount Realised from Debtors:*

Particulars	₹
(*i*) 60% of Debtors realised at 90% (₹ 1,20,000 × 60/100 × 90/100)	64,800
(*ii*) 40% of Debtors sold for 80% *less* 10% [(₹ 1,20,000 × 40/100 × 80/100 = ₹ 38,400) – 10% of ₹ 38,400]	34,560
	99,360

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

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Land and Building A/c ...Dr.		20,00,000	
	To Rajesh			20,00,000
	(Being the Land and Building purchased from Rajesh)			
	Rajesh ...Dr.		20,00,000	
	To Equity Share Capital A/c			10,00,000
	To Securities Premium Reserve A/c			10,00,000
	(Being the issue of 1,00,000 equity shares of ₹ 10 each at 100% premium against payment of purchase of Land and Building)			
	Incorporation Expenses A/c ...Dr.		1,00,000	
	To Promoters' A/c			1,00,000
	(Being the amount due to promoters for incorporating the company)			
	Promoters' A/c ...Dr.		1,00,000	
	To Equity Share Capital A/c			1,00,000
	(Being the issue of 10,000 equity shares of ₹ 10 each at par to promoters as remuneration)			
	Bank A/c ...Dr.		45,00,000	
	To Equity Shares Application and Allotment A/c			40,00,000
	To Preference Shares Application and Allotment A/c			5,00,000
	(Being the application money received for 2,00,000 equity shares @ ₹ 20 each and for 50,000, 12% Preference Shares @ ₹ 10 each)			
	Equity Shares Application and Allotment A/c ...Dr.		40,00,000	
	To Equity Share Capital A/c			20,00,000
	To Securities Premium Reserve A/c			20,00,000
	(Being the allotment of 2,00,000 equity shares of ₹ 10 each at 100% premium)			
	Preference Shares Application and Allotment A/c ...Dr.		5,00,000	
	To 12% Preference Share Capital A/c			5,00,000
	(Being the allotment of 50,000, 12% Preference Shares of ₹ 10 each at par)			
	Underwriting Commission A/c* ...Dr.		90,000	
	To M/s. Gupta Brothers			90,000
	(Being the underwriting commission payable)			
	M/s. Gupta Brothers ...Dr.		90,000	
	To Equity Share Capital A/c			90,000
	(Being the issue of 9,000 (*i.e.*, ₹ 90,000 ÷ ₹ 10) equity shares of ₹ 10 each at par against payment of underwriting commission)			
	Securities Premium Reserve A/c ...Dr.		90,000	
	To Underwriting Commission A/c			90,000
	(Being the underwriting commission written off from Securities Premium Reserve)			

*Underwriting Commission = 2% of Issue Price = 2% of ₹ 45,00,000 = ₹ 90,000.

(*b*) (*i*) *Calculation of Allotment Money not Paid by Mohan:*

Applied shares by Mohan = 6,000

Allotted shares to Mohan $= 6{,}000 \times \dfrac{30{,}000}{40{,}000} = 4{,}500$ shares

	₹
Application money paid on 6,000 shares	2,40,000
Less: Application money due on 4,500 shares	1,80,000
Excess money to be adjusted against allotment	60,000
Allotment money due on 4,500 shares @ ₹ 30 each	1,35,000
Less: Excess money already adjusted	60,000
Allotment money not paid by Mohan	75,000

(*ii*) *Calculation of Allotment Money Received by the Company:*

	₹
Total allotment money due on 30,000 shares @ ₹ 30 each	9,00,000
Less: Excess money adjusted (10,000 shares × ₹ 40)	4,00,000
	5,00,000
Less: Allotment Money not paid by Mohan [as per (i)]	75,000
Allotment money received	4,25,000

7. (*a*) JOURNAL OF NEW VENTURES LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019				
April 1	Sundry Assets A/c ...Dr.		2,80,000	
	To Creditors A/c			50,000
	To Verma Ltd.			2,30,000
	(Being the purchase of business of Verma Ltd.)			
April 3	Verma Ltd. ...Dr.		50,000	
	To Bank A/c			50,000
	(Being the part payment made to Verma Ltd.)			
April 5	Verma Ltd. ...Dr.		1,80,000	
	To 8% Debentures A/c			1,50,000
	To Securities Premium Reserve A/c			30,000
	(Being 1,500 (*i.e.*, ₹ 1,80,000 ÷ ₹ 120), 8% Debentures of ₹ 100 each issued at 20% premium for the balance payment)			

(*b*) AN EXTRACT OF BALANCE SHEET OF CAUVERY SOFTWARE LTD.

as at...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Non-current Liabilities		
Long-term Borrowings	1	5,00,000
2. Current Liabilities		
Short-term Borrowings	2	2,00,000

Notes to Accounts

Particulars	₹	₹
1. Long-term Borrowings		
5,000; 10% Debentures of ₹ 100 each		5,00,000
2. Short-term Borrowings		
Loan from Bank of Baroda		2,00,000
2,500; 10% Debentures of ₹ 100 each issued as Collateral Security	2,50,000	
Less: Debentures Suspense A/c	2,50,000	...
		2,00,000

(*c*) JOURNAL OF VIJAY LAXMI LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		22,95,000	
	To Debentures Application and Allotment A/c				22,95,000
	(Being the application money received for 13,500 debentures @ ₹ 170 each)				
	Debentures Application and Allotment A/c	...Dr.		22,95,000	
	To 12% Debentures A/c				10,00,000
	To Securities Premium Reserve A/c				7,00,000
	To Bank A/c				5,95,000
	(Being the allotment of 10,000; 12% Debentures of ₹ 100 each at premium of ₹ 70 each and balance refunded)				

8. (*a*) JOURNAL OF STRONG LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2014					
April 1	Sundry Assets A/c	...Dr.		6,00,000	
	Goodwill A/c (Balancing Figure)	...Dr.		20,000	
	To Liabilities A/c				70,000
	To P & Co.				5,50,000
	(Being the purchase of business of P & Co. for ₹ 5,50,000)				
	P & Co.	...Dr.		5,50,000	
	Loss on Issue of Debentures A/c	...Dr.		25,000	
	To 12% Debentures A/c				5,00,000
	To Securities Premium Reserve A/c				50,000
	To Premium on Redemption of Debentures A/c				25,000
	(Being the purchase price paid by issue of 5,000; 12% Debentures of ₹ 100 each at 10% premium payable at 5% premium)				
2015					
March 31	Securities Premium Reserve A/c	...Dr.		25,000	
	To Loss on Issue of Debentures A/c				25,000
	(Being the loss on issue of debentures written off from Securities Premium Reserve)				
2018					
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		1,25,000	
	To Debentures Redemption Reserve A/c*				1,25,000
	(Being amount of 25% face value of outstanding debentures transferred)				

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
April 1	Debentures Redemption Investment A/c**	...Dr.		75,000	
	To Bank A/c				75,000
	(Being the investment made @ 15% of face value of debentures)				
2019 March 31	Bank A/c	...Dr.		75,000	
	To Debentures Redemption Investment A/c				75,000
	(Being the investment encashed for redemption)				
March 31	12% Debentures A/c	...Dr.		5,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		25,000	
	To Debentureholders' A/c				5,25,000
	(Being the amount due on redemption)				
March 31	Debentureholders' A/c	...Dr.		5,25,000	
	To Bank A/c				5,25,000
	(Being the payment made to debentureholders)				
March 31	Debentures Redemption Reserve A/c	...Dr.		1,25,000	
	To General Reserve A/c				1,25,000
	(Being DRR transferred to General Reserve after the redemption of all debentures)				

* DRR = 25% of ₹ 5,00,000 = ₹ 1,25,000;

** DRI = 15% of ₹ 5,00,000 = ₹ 75,000.

(*b*)

S.No.	Item	Main Head	Sub-head
1.	Capital Advances	Non-current Assets	Long-term Loans and Advances
2.	Work-in-Progress	Current Assets	Inventories
3.	Unpaid/Unclaimed Dividend	Current Liabilities	Other Current Liabilities
4.	Provision for Warranties	Non-current Liabilities	Long-term Provisions

SECTION B

9. **Young 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)		9,00,000
Adjustments for Non-cash and Non-operating Items:		
(*i*) Depreciation	1,70,000	
(*ii*) Interest on Debentures (WN 2)	44,000	
(*iii*) Loss on Sale of Machinery	20,000	2,34,000
Operating Profit before Working Capital Changes		11,34,000
Add: Increase in Current Liabilities:		
Trade Payables		50,000
Less: Increase in Current Assets and Decrease in Current Liabilities:		11,84,000
Inventories	1,50,000	
Trade Receivables	50,000	
Outstanding Expenses	1,70,000	3,70,000
Cash Generated from Operations		8,14,000
Less: Tax Paid		2,50,000
Cash Flow from Operating Activities		5,64,000

II. Cash Flow from Investing Activities	
Proceeds from Sale of Machinery	10,000
Proceeds from Non-current Investments	1,00,000
Purchase of Fixed Assets (WN 3)	(6,00,000)
Cash Used in Investing Activities	(4,90,000)
III. Cash Flow from Financing Activities	
Proceeds from Issue of Debentures	2,00,000
Interest on debentures paid	(44,000)
Dividend paid (WN 4)	(2,30,000)
Interim dividend paid	(1,00,000)
Cash Used in Financing Activities	(1,74,000)
IV. Net Decrease in Cash and Cash Equivalents (I + II + III)	(1,00,000)
Add: Cash and Cash Equivalents (Opening)	2,00,000
V. Cash and Cash Equivalents (Closing)	1,00,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)	4,00,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)	2,00,000
Profit during the year	2,00,000
Add: Transfer to General Reserve	1,00,000
Interim Dividend Paid	1,00,000
Dividend Paid (Proposed Dividend for the year ended 31st March, 2018)	2,50,000
Provision for Tax	2,50,000
Net Profit before Tax	9,00,000

2. *Calculation of Interest on Debentures:*

	₹
(*i*) ₹ 6,00,000 × 6/100 × 4/12	12,000
(*ii*) ₹ 8,00,000 × 6/100 × 8/12	32,000
Total	44,000

3. *Dr.* FIXED ASSETS (TANGIBLE) ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	15,00,000	By Bank A/c	10,000
To Bank A/c (Balancing Figure)—Purchase	6,00,000	By Loss on Sale of Machinery A/c*	20,000
		By Depreciation A/c	1,70,000
		By Balance *c/d*	19,00,000
	21,00,000		21,00,000

*Loss on Sale of Machinery = Book Value on Date of Sale – Sale Proceeds
= (₹ 50,000 – ₹ 20,000) – ₹ 10,000 = ₹ 20,000.

4. *Dr.* DIVIDEND PAYABLE ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Dividend Paid)—Bal. Fig.	2,30,000	By Balance *b/d*	50,000
To Balance *c/d*	70,000	By Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	2,50,000
	3,00,000		3,00,000

10. (*a*) (*i*) To analyse change in individual items of Statement of Profit and Loss.

(*ii*) To study the trend in different items of Revenue and Expenses.

(*b*)
$$\text{Interest Coverage Ratio} = \frac{\text{Profit before Interest and Tax}}{\text{Interest on Long-term Debtors}}$$
$$= \frac{₹\ 3,50,000}{₹\ 70,000} = 5 \text{ Times.}$$

Profit after Tax = ₹ 1,68,000

Tax Rate = 40%

Let Profit before Tax = ₹ 100

It means Tax = ₹ 40

Profit after Tax = ₹ 100 – ₹ 40 = ₹ 60

∴ Profit before Tax = ₹ 1,68,000 × 100/60 = ₹ 2,80,000

Interest on Debentures = ₹ 7,00,000 × 10/100 = ₹ 70,000

Profit before Interest and Tax = ₹ 2,80,000 + ₹ 70,000 = ₹ 3,50,000.

(*c*) COMMON-SIZE BALANCE SHEET *as at 31st March, 2019 and 2018*

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31st March, 2019 (₹)	31st March, 2018 (₹)	31st March, 2019 (%)	31st March, 2018 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(*a*) Share Capital		24,00,000	18,00,000	66.67	60.00
(*b*) Reserves and Surplus		3,60,000	2,40,000	10.00	8.00
2. Non-Current Liabilities					
Long-term Borrowings		7,20,000	6,00,000	20.00	20.00
3. Current Liabilities					
Short-term Borrowings		1,20,000	3,60,000	3.33	12.00
Total		36,00,000	30,00,000	100.00	100.00
II. ASSETS					
1. Non-Current Assets					
Fixed Assets:					
(*i*) Tangible Assets		24,00,000	18,00,000	66.67	60.00
(*ii*) Intangible Assets		1,20,000	3,60,000	3.33	12.00
2. Current Assets					
(*a*) Inventories		3,24,000	2,70,000	9.00	9.00
(*b*) Trade Receivables		3,96,000	3,30,000	11.00	11.00
(*c*) Cash and Cash Equivalents		3,60,000	2,40,000	10.00	8.00
Total		36,00,000	30,00,000	100.00	100.00

11. (*a*) (*i*)
$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{₹\,2,30,000}{₹\,1,55,000} = 1.48 : 1.$$

Current Assets = Cash + Bank + Inventory + Trade Receivables
= ₹ 50,000 + ₹ 70,000 + ₹ 30,000 + ₹ 80,000
= ₹ 2,30,000.

Current Liabilities = Trade Payables + Short-term Loan from Bank
= ₹ 65,000 + ₹ 90,000 = ₹ 1,55,000.

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

$= \dfrac{₹\,3,00,000}{₹\,32,500} = 9.23$ Times.

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

$= \dfrac{₹\,35,000 + ₹\,30,000}{2} = ₹\,32,500.$

(*b*) (*i*) Liquid Ratio $= \dfrac{\text{Liquid Assets}}{\text{Current Liabilities}}$

$= \dfrac{₹\,2,70,000}{₹\,1,50,000} = 1.8 : 1.$

Liquid Assets = Total Current Assets – Prepaid Insurance – Closing Inventory
= ₹ 3,00,000 – ₹ 5,000 – ₹ 25,000
= ₹ 2,70,000.

(*ii*) Proprietary Ratio $= \dfrac{\text{Shareholders' Funds}}{\text{Total Assets}}$

$= \dfrac{₹\,4,50,000}{₹\,9,00,000} = 0.50 : 1$ or 50%.

Shareholders' Funds = Share Capital + Reserves and Surplus
= ₹ 4,00,000 + ₹ 50,000 = ₹ 4,50,000

Total Assets = Current Assets + Non-current Assets
= ₹ 3,00,000 + ₹ 6,00,000 = ₹ 9,00,000.

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

$= \dfrac{₹\,5,00,000}{₹\,1,50,000} = 3.33$ Times.

Working Capital = Current Assets – Current Liabilities
= ₹ 3,00,000 – ₹ 1,50,000
= ₹ 1,50,000.