MODEL TEST PAPER 19 (Solution)

SECTION A

PART I

1. (*i*) In the absence of an agreement to the contrary, the following shall apply:
- Salary is not allowed (paid) to partners.
- Interest on capital is not allowed (paid).
- Profits and losses are shared equally by partners.
- Interest @ 6% p.a. is allowed (paid) on loans advanced by partners to the firm.

(*ii*) Profit and Loss Appropriation Account differs from Profit and Loss Account as follows:

Profit and Loss Appropriation Account	*Profit and Loss Account*
1. It shows appropriation of net profit.	It shows profit earned or loss incurred.
2. It deals with personal entitlements of the partners from the business.	It deals with general trading activities, *i.e.*, revenue and expenses of the business.
3. It starts with the net profit as disclosed by the Profit and Loss Account.	It starts with the gross profit as disclosed by the Trading Account.

(*iii*) **Difference between Calls-in-Arrears and Calls-in-Advance**

Basis	*Calls-in-Arrears*	*Calls-in-Advance*
1. **Meaning**	Calls-in-Arrears is the amount called-up by the company, but not paid by the shareholders.	Calls-in-Advance is the amount not called-up by the company but paid by the shareholders.
2. **Interest**	Interest is *charged* on Calls-in-Arrears.	Interest is *allowed* on Calls-in-Advance.
3. **Rate of Interest**	10% p.a.—as per *Table F*.	12% p.a.—as per *Table F*.

(*iv*) **Distinction between Debentureholders and Shareholders**

Debentureholders	*Shareholders*
1. Debentureholders are the lenders of the company.	Shareholders are the owners of the company.
2. A debentureholder gets interest on his investment at the stated rate whether the company earns profit or not.	A shareholder gets dividend on his investment.

(*v*) Debentures issued as collateral security can be dealt with in the books in two ways:
- ***First Method:*** Journal entry is not passed in the books of account at the time of issue of debentures as collateral security. However, it is disclosed by way of information below debentures, which are shown as Long-term Borrowings under Non-Current Liabilities (When Debentures issued as Collateral Security for Long-term Loan) or as Short-term Borrowings under Current Liabilities (When Debentures issued as Collateral Security for Short-term Loan).
- ***Second Method:*** Debentures issued as collateral security may be recorded in the books of account. The Journal entry passed is:

  Debentures Suspense A/c ...Dr.
  To ...% Debentures A/c

  When the loan is paid to the lender, the above entry is cancelled by passing a reverse entry.

(*vi*) Loss on Issue of Debentures arises when debentures are issued at par or at premium or at a discount but are redeemable at premium.

Accounting Treatment:

Loss on issue of debentures is written off in the year it occurs from:

(*i*) Securities Premium Reserve, if it has a balance; and/or

(*ii*) Statement of Profit and Loss.

2. (*a*) CALCULATION OF WEIGHTED PROFIT

Particulars		31st March, 2017 (₹)	31st March, 2018 (₹)	31st March, 2019 (₹)
Given Profits		2,00,000	2,30,000	2,50,000
Less: Remuneration to partners		50,000	50,000	50,000
		1,50,000	1,80,000	2,00,000
Add: Undervaluation of Closing Inventory		...	10,000	24,000
		1,50,000	1,90,000	2,24,000
Less: Undervaluation of Opening Inventory		...	...	10,000
		1,50,000	1,90,000	2,14,000
Less: Bad Debts		...	4,000	...
		1,50,000	1,86,000	2,14,000
Less: Unrecorded Expenses		...	...	8,000
Adjusted Profits	(**A**)	1,50,000	1,86,000	2,06,000
Weights	(**B**)	1	2	3
Weighted Profit	(**A × B**)	1,50,000	3,72,000	6,18,000

$$\text{Weighted Average Profit} = \frac{\text{Total of Weighted Profit}}{\text{Total of Weights}} = \frac{₹\,11,40,000}{6} = ₹\ 1,90,000$$

$$\text{Goodwill} = \text{Weighted Average Profit} \times \text{No. of Years' Purchase}$$

$$= ₹\ 1,90,000 \times 4 = ₹\ 7,60,000.$$

(*b*)

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)	1,00,000
X	9,600			
Y	14,400			
Z	4,000	28,000		
To Profit transferred to:				
X's Capital A/c	24,400			
Y's Capital A/c	31,600			
Z's Capital A/c	16,000	72,000		
		1,00,000		1,00,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X*	*Y*	*Z*
To Balance *c/d*	1,14,000	1,66,000	70,000	By Balance *b/d*	80,000	1,20,000	...
				By Cash/Bank A/c	...	...	50,000
				By Interest on Capital A/c	9,600	14,400	4,000
				By Profit and Loss App. A/c	24,400	31,600	16,000
	1,14,000	1,66,000	70,000		1,14,000	1,66,000	70,000

Working Notes:

1. *Calculation of New Ratio:*

   Z's share = 1/5, Remaining share = 1 – 1/5 = 4/5, which will be shared by *X* and *Y* in their old ratio, *i.e.*, 2 : 3. Thus,

   X's new share = 4/5 × 2/5 = 8/25

   Y's new share = 4/5 × 3/5 = 12/25

   Z's share = 1/5 or 5/25

   New Ratio = 8/25 : 12/25 : 5/25 = 8 : 12 : 5.

2. *Calculation of share in profit of partners:*

   Profit of ₹ 25,000 belongs to first four months which will be shared by *X* and *Y* in their old ratio, as follows:

   X = ₹ 3,200 (interest on capital) + ₹ 6,800 (share in profit) = ₹ 10,000.

   Y = ₹ 4,800 (interest on capital) + ₹ 10,200 (share in profit) = ₹ 15,000.

   Profit of ₹ 75,000 belongs to next eight months which will be shared by *X*, *Y* and *Z* in new ratio, as follows:

   X = ₹ 6,400 (Interest on Capital) + ₹ 17,600 (share in profit) = ₹ 24,000

   Y = ₹ 9,600 (Interest on Capital) + ₹ 26,400 (share in profit) – ₹ 5,000 (deficiency of *Z*)

   Z = ₹ 4,000 (Interest on Capital) + ₹ 11,000 (share in profit) + ₹ 5,000 (recovered from *Y*) = ₹ 20,000.

3. (*a*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Machinery A/c	1,80,000	By Land and Building A/c		1,20,000
To Bad Debts A/c	15,000	By Loss transferred to:		
(₹ 35,000 – ₹ 20,000: Provision for Doubtful Debts)		*X*'s Capital A/c	21,429	
		Y's Capital A/c	32,142	
		Z's Capital A/c	21,429	75,000
	1,95,000			1,95,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To Revaluation A/c (Loss)	21,429	32,142	21,429	By Balance *b/d*	4,00,000	6,00,000	4,00,000
To *X*'s Capital A/c	...	...	80,000	By Workmen Compensation Reserve A/c	4,286	6,428	4,286
To Bank A/c	1,00,000	...	...	By *Z*'s Capital A/c (WN 2)	80,000	...	...
To *X*'s Loan A/c	3,62,857	...	...	By Bank A/c (Bal. Fig.)	...	25,714	4,97,143
To Balance *c/d* (WN 3)	...	6,00,000	8,00,000				
	4,84,286	6,32,142	9,01,429		4,84,286	6,32,142	9,01,429

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

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		5,20,000
Y	6,00,000		Machinery		4,20,000
Z	8,00,000	14,00,000	Closing Stock		2,00,000
X's Loan A/c		3,62,857	Debtors	2,20,000	
Employees' Provident Fund		70,000	*Less:* Bad Debts	35,000	1,85,000
Provision for Workmen Compensation Claim		15,000	Cash at Bank (WN 4)		6,22,857
Sundry Creditors		2,00,000	Cash in Hand		1,00,000
		20,47,857			20,47,857

Working Notes:

1. *Calculation of Gaining Ratio:*

   Gain = New share – Old share

   Y's Gain = 3/7 – 3/7 = 0

   Z's Gain = 4/7 – 2/7 = 2/7

   Therefore, only Z gains and he alone compensates X for goodwill.

2. *Adjustment of Goodwill:*

   X's share of goodwill = ₹ 2,80,000 × 2/7 = ₹ 80,000

   As Z alone gains on retirement of X, he will compensate × by paying ₹ 80,000.

3. *Calculation of Capital:*

   Total capital of new firm, *i.e.*, of Y and Z = ₹ 14,00,000 which will be contributed by Y and Z in their new profit-sharing ratio, *i.e.*, 3 : 4, Therefore,

   Y's capital in new firm = ₹ 14,00,000 × 3/7 = ₹ 6,00,000;

   Z's capital in new firm = ₹ 14,00,000 × 4/7 = ₹ 8,00,000.

4. Cash at Bank = ₹ 2,00,000 + ₹ 25,714 + ₹ 4,97,143 – ₹ 1,00,000 (Paid to X) = ₹ 6,22,857.

(*b*) (*i*) *Calculation of Net Effect of Accumulated Profits, Losses and Reserves:*

	₹
General Reserve	30,000
Contingency Reserve	5,000
Profit and Loss A/c (Cr.)	15,000
Advertisement Suspense A/c	(20,000)
Net Effect	30,000

(*ii*) *Calculation of Sacrifice/Gain:*

$$X\text{'s Gain} = 3/5 - 3/6 = \frac{18 - 15}{30} = 3/30$$

$$Z\text{'s Gain} = 2/5 - 1/6 = \frac{12 - 5}{30} = 7/30$$

Gaining ratio = 3 : 7

Y's share = ₹ 30,000 × 2/6 = ₹ 10,000.

(*iii*) ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019				
April 1	X's Capital/Current A/c ...Dr.		3,000	
	Z's Capital/Current A/c ...Dr.		7,000	
	To Y's Capital/Current A/c			10,000
	(Being Y's share of accumulated profits, losses and reserves adjusted in gaining ratio)			

4.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Debtors		1,70,000	By Provision for Doubtful Debts		20,000
To Stock		1,50,000	By Creditors		80,000
To Investments		2,50,000	By *X*'s Brother's Loan		80,000
To Building		2,50,000	By Investment Fluctuation Fund		50,000
To Goodwill		1,00,000	By *Y*'s Capital A/c (Stock—Book value ₹ 50,000)		40,000
To *X*'s Capital A/c (*X*'s Brother's Loan)		80,000	By Bank A/c (Assets Realised):		
To Bank A/c (Liabilities paid):			Debtors	1,20,000	
Realisation Expenses	20,000		Investments	2,00,000	
Creditors	60,000	80,000	Goodwill	60,000	
			Building*	2,90,000	
			Stock (Remaining)	50,000	7,20,000
			By Loss transferred to:		
			X's Capital A/c	72,000	
			Y's Capital A/c	18,000	90,000
		10,80,000			10,80,000

*Building Realised = ₹ 3,00,000 – ₹ 10,000 (Auctioneer's Commission) = ₹ 2,90,000.

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	Particulars	*X* (₹)	*Y* (₹)
To Realisation A/c	...	40,000	By Balance *b/d*	5,00,000	4,00,000
To Realisation A/c (Loss)	72,000	18,000	By Realisation A/c	80,000	...
To Profit and Loss A/c	80,000	20,000			
To Bank A/c (Final Payment) (Bal. Fig.)	4,28,000	3,22,000			
	5,80,000	4,00,000		5,80,000	4,00,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	2,00,000	By Bank Overdraft	60,000
To Realisation A/c (Assets Realised)	7,20,000	By *Y*'s Loan A/c	30,000
		By Realisation A/c (Liabilities Paid)	80,000
		By *X*'s Capital A/c (Final Payment)	4,28,000
		By *Y*'s Capital A/c (Final Payment)	3,22,000
	9,20,000		9,20,000

Notes:

1. Bank overdraft is to be taken to Bank/Cash Account and not to be transferred to Realisation Account.
2. If an asset (recorded or unrecorded) is given in payment of a liability (recorded or unrecorded), no entry is passed for such payment.
3. Book value of stock taken by *Y* = ₹ 40,000 × 100/80 = ₹ 50,000;
   Book value of remaining stock = ₹ 1,50,000 – ₹ 50,000 = ₹ 1,00,000;
   Realised value of remaining stock = ₹ 1,00,000 × 50/100 = ₹ 50,000.

5. JOURNAL OF MOONTRACK LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		4,00,000	
	To Equity Shares Application A/c			4,00,000
	(Being the application money received for 1,00,000 shares @ ₹ 4 each)			
	Equity Shares Application A/c ...Dr.		4,00,000	
	To Equity Share Capital A/c			3,00,000
	To Equity Shares Allotment A/c			1,00,000
	(Being the application money adjusted)			
	Equity Shares Allotment A/c ...Dr.		2,25,000	
	To Equity Share Capital A/c			2,25,000
	(Being the allotment money due)			
	Bank A/c ...Dr.		1,23,750	
	Calls-in-Arrears A/c ...Dr.		1,250	
	To Equity Shares Allotment A/c			1,25,000
	(Being the allotment money received except on 750 shares)			
	Equity Share Capital A/c ...Dr.		5,250	
	To Calls-in-Arrears A/c			1,250
	To Forfeited Shares A/c			4,000
	(Being 750 shares of Vibha forfeited for non-payment of allotment money)			
	Equity Shares First and Final Call A/c ...Dr.		2,22,750	
	To Equity Share Capital A/c			2,22,750
	(Being the call made on 74,250 shares)			
	Bank A/c ...Dr.		2,20,500	
	Calls-in-Arrears A/c ...Dr.		2,250	
	To Equity Shares First and Final Call A/c			2,22,750
	(Being the call money received except on 750 shares)			
	Equity Share Capital A/c ...Dr.		7,500	
	To Calls-in-Arrears A/c			2,250
	To Forfeited Shares A/c			5,250
	(Being 750 shares of Monika forfeited for non-payment of first and final call money)			
	Bank A/c ...Dr.		9,000	
	Forfeited Shares A/c ...Dr.		6,000	
	To Equity Share Capital A/c			15,000
	(Being the reissue of 1,500 forfeited shares as fully paid-up)			
	Forfeited Shares A/c ...Dr.		3,250	
	To Capital Reserve A/c			3,250
	(Being the balance of Forfeited Shares Account transferred)			

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

Particulars	₹	Particulars	₹
To Equity Shares Allotment A/c	1,250	By Equity Share Capital A/c	1,250
To Equity Shares First and Final Call A/c	2,250	By Equity Share Capital A/c	2,250
	3,500		3,500

Dr. FORFEITED SHARES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Equity Share Capital A/c	6,000	By Equity Share Capital A/c	4,000
To Capital Reserve A/c (₹ 4,000 + ₹ 5,250 – ₹ 6,000)	3,250	By Equity Share Capital A/c	5,250
	9,250		9,250

Working Notes:

1. Number of shares applied by Vibha = $\frac{1,00,000}{75,000} \times 750$ = 1,000 shares.

   Amount due on Allotment from Vibha = 750 × ₹ 3 = ₹ 2,250

   Excess Application money received from Vibha = (1,000 – 750) × ₹ 4 = ₹ 1,000

   Amount unpaid on Allotment from Vibha = ₹ (2,250 – 1,000) = ₹ 1,250

   Total Amount received on Allotment = ₹ (2,25,000 – 1,00,000 – 1,250) = ₹ 1,23,750.

2. Number of shares allotted to Monika = $\frac{75,000}{1,00,000} \times 1,000$ = 750 shares.

6. (*a*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Case (*i*)	Bank A/c ...Dr.		27,50,000	
	To Debentures Application and Allotment A/c			27,50,000
	(Being the application and allotment money received)			
	Debentures Application and Allotment A/c ...Dr.		27,50,000	
	To 9% Debentures A/c			25,00,000
	To Securities Premium Reserve A/c			2,50,000
	(Being the 9% Debentures issued at premium)			
Case (*ii*)	Bank A/c ...Dr.		25,00,000	
	To Debentures Application and Allotment A/c			25,00,000
	(Being the application and allotment money received)			
	Debentures Application and Allotment A/c ...Dr.		25,00,000	
	Loss on Issue of Debentures A/c ...Dr.		2,50,000	
	To 9% Debentures A/c			25,00,000
	To Premium on Redemption of Debentures A/c			2,50,000
	(Being 9% Debentures allotted at par redeemable at 10% premium)			
Case (*iii*)	Bank A/c ...Dr.		26,25,000	
	To Debentures Application and Allotment A/c			26,25,000
	(Being the application and allotment money received)			
	Debentures Application and Allotment A/c ...Dr.		26,25,000	
	Loss on Issue of Debentures A/c ...Dr.		2,50,000	
	To 9% Debentures A/c			25,00,000
	To Securities Premium Reserve A/c			1,25,000
	To Premium on Redemption of Debentures A/c			2,50,000
	(Being 9% Debentures allotted being issued at premium and redeemable at premium)			
Case (*iv*)	Machinery A/c ...Dr.		31,25,000	
	To Vendor's A/c			31,25,000
	(Being the machinery purchased)			
	Vendor's A/c ...Dr.		31,25,000	
	To 9% Debentures A/c			25,00,000
	To Securities Premium Reserve A/c			6,25,000
	(Being 9% Debentures issued at Premium to the Vendor)			

Note: *Case* (*iv*): No. of Debentures issued = ₹ 31,25,000/₹ 1,250 = 2,500 Debentures.

(*b*) JOURNAL OF WALTER LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		90,000	
	To Debentures Redemption Investment A/c				90,000
	(Being the investment encashed before redemption)				
	Own Debentures A/c	...Dr.		5,70,000	
	To Bank A/c				5,70,000
	(Being own 6,000; 8% Debentures purchased @ ₹ 95 each for immediate cancellation)				
	8% Debentures A/c	...Dr.		6,00,000	
	To Own Debentures A/c				5,70,000
	To Gain (Profit) on Cancellation of Own Debentures A/c				30,000
	(Being own 6,000; 8% Debentures cancelled and gain accounted)				
	Gain (Profit) on Cancellation of Own Debentures A/c	...Dr.		30,000	
	To Capital Reserve A/c				30,000
	(Being the gain on cancellation transferred)				
	Debentures Redemption Reserve A/c	...Dr.		1,50,000	
	To General Reserve A/c				1,50,000
	(Being DRR transferred to General Reserve after redemption)				

Notes:

1. Walter Ltd. must have invested in specified securities equivalent to 15% of the nominal (face) value of the debentures to be redeemed during the year, *i.e.*, 15% of ₹ 6,00,000.
2. Walter Ltd. must have created Debentures Redemption Reserve equivalent to 25% of the nominal value of the debentures to be redeemed, *i.e.*, 25% of ₹ 6,00,000. This amount is transferred to General Reserve after redemption (cancellation) of the debentures.

7. (*a*) JOURNAL OF GREEN LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2016 April 1	Bank A/c	...Dr.		42,00,000	
	To Debentures Application and Allotment A/c				42,00,000
	(Being the application money received)				
	Debentures Application and Allotment A/c	...Dr.		42,00,000	
	Loss on Issue of Debentures A/c	...Dr.		4,00,000	
	To 10% Debentures A/c				40,00,000
	To Securities Premium Reserve A/c				2,00,000
	To Premium on Redemption of Debentures A/c				4,00,000
	(Being the allotment of 40,000; 10% Debentures at 5% premium and redeemable at 10% premium)				
2017 March 31	Securities Premium Reserve A/c	...Dr.		2,00,000	
	Statement of Profit and Loss (Finance Cost)	...Dr.		2,00,000	
	To Loss on Issue of Debentures A/c				4,00,000
	(Being the loss on issue of debentures written off)				
2018 March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		10,00,000	
	To Debentures Redemption Reserve A/c				10,00,000
	(Being 25% of face value of outstanding debentures transferred to DRR)				
April 1	Debentures Redemption Investment A/c	...Dr.		3,00,000	
	To Bank A/c				3,00,000
	(Being 15% of the value of redeemable debentures invested)				
Sept. 30	Bank A/c	...Dr.		3,00,000	
	To Debentures Redemption Investment A/c				3,00,000
	(Being the investment realised)				

Sept. 30	10% Debentures A/c ...Dr.		20,00,000	
	Premium on Redemption of Debentures A/c ...Dr.		2,00,000	
	To Debentureholders' A/c			22,00,000
	(Being the amount due on redemption of 20,000; 10% Debentures)			
	Debentureholders' A/c ...Dr.		22,00,000	
	To Bank A/c			22,00,000
	(Being the payment made to debentureholders)			
	Debentures Redemption Reserve A/c ...Dr.		5,00,000	
	To General Reserve A/c			5,00,000
	(Being the proportionate amount of DRR transferred)			
2019				
April 1	Debentures Redemption Investment A/c ...Dr.		3,00,000	
	To Bank A/c			3,00,000
	(Being 15% of the value of redeemable debentures invested)			
Sept. 30	Bank A/c ...Dr.		3,00,000	
	To Debentures Redemption Investment A/c			3,00,000
	(Being the investment realised)			
Sept. 30	10% Debentures A/c ...Dr.		20,00,000	
	Premium on Redemption of Debentures A/c ...Dr.		2,00,000	
	To Debentureholders' A/c			22,00,000
	(Being the amount due on redemption of balance 20,000; 10% Debentures)			
	Debentureholders' A/c ...Dr.		22,00,000	
	To Bank A/c			22,00,000
	(Being the payment made to debentureholders)			
	Debentures Redemption Reserve A/c ...Dr.		5,00,000	
	To General Reserve A/c			5,00,000
	(Being the balance of DRR transferred to General Reserve)			

(*b*) **Strong Ltd.**

BALANCE SHEET *as at 31st March, 2019*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		50,000
(*b*) Reserves and Surplus	1	42,000
2. Non-Current Liabilities		
Long-term Borrowings	2	30,000
3. Current Liabilities		25,000
Total		1,47,000
II. ASSETS		
1. Non-Current Assets		
Fixed Assets (Tangible)	3	83,000
2. Current Assets		64,000
Total		1,47,000

Notes to Accounts

Particulars	₹
1. Reserves and Surplus	
General Reserve	30,000
Surplus, *i.e.*, Balance in Statement of Profit and Loss	12,000
	42,000
2. Long-term Borrowings	
8% Debentures	30,000
3. Fixed Assets (Tangible)	
Cost	90,000
Less: Accumulated Depreciation	7,000
	83,000

8. (*a*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Bad Debts A/c	1,000	By Furniture A/c		6,000
To Outstanding Electricity Charges A/c	11,000	By Prepaid (Unexpired) Insurance A/c		5,000
		By Loss transferred to:		
		A's Capital A/c	750	
		B's Capital A/c	250	1,000
	12,000			12,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Goodwill A/c	30,000	10,000	...	By Balance *b/d*	54,000	35,000	...
To Revaluation A/c (Loss)	750	250	...	By Workmen Compensation Fund A/c	3,000	1,000	...
To Balance *c/d*	39,450	30,150	23,200	By Investment Fluctuation Reserve A/c	1,200	400	...
				By Premium for Goodwill A/c	12,000	4,000	...
				By Cash A/c (WN 2)	...	...	23,200
	70,200	40,400	23,200		70,200	40,400	23,200

BALANCE SHEET (OF RECONSTITUTED FIRM) *as at 31st March, 2019*

Liabilities		₹	Assets		₹
Workmen Compensation Claim		2,000	Cash (₹ 6,100 + ₹ 16,000 + ₹ 23,200)		45,300
Outstanding Electricity Charges		11,000	Stock		15,000
Employees' Provident Fund		17,000	Debtors	50,000	
Capital A/cs:			*Less:* Bad Debts	3,000	47,000
A	39,450		Investments		4,500
B	30,150		Prepaid (Unexpired) Insurance		5,000
C	23,200	92,800	Furniture		6,000
		1,22,800			1,22,800

Working Notes:

1. *Journal entries for Bad Debts:*

		₹	₹
(i) Bad Debts A/c	...Dr.	3,000	
To Debtors A/c			3,000
(ii) Provision for Doubtful Debts A/c	...Dr.	2,000	
Revaluation A/c	...Dr.	1,000	
To Bad Debts A/c			3,000

2. *Calculation of C's Proportionate Capital:*

	₹
A's capital after all adjustments	39,450
B's capital after all adjustments	30,150
Combined capital of *A* and *B* for 3/4th share	69,600

Therefore, Total Capital of New Firm should be = ₹ 69,600 × 4/3 = ₹ 92,800

C's capital for 1/4th share = ₹ 92,800 × 1/4 = ₹ 23,200.

(*b*) Out of ₹ 20,000 (*Z*'s Share of Goodwill), ₹ 12,000 is credited to *Y*'s Capital Account and ₹ 8,000 to *X*'s Capital Account. It means, Sacrificing Ratio between *Y* and *X* = ₹ 12,000 : 8,000 = 3 : 2, *i.e.*, Sacrificing Ratio between *X* and *Y* is 2 : 3.

$$X\text{'s Sacrifice in favour of } Z = \frac{1}{4} \times \frac{2}{5} = \frac{2}{20}$$

$$Y\text{'s Sacrifice in favour of } Z = \frac{1}{4} \times \frac{3}{5} = \frac{3}{20}$$

$$X\text{'s New Share} = \frac{3}{5} - \frac{2}{20} = \frac{12-2}{20} = \frac{10}{20}$$

$$Y\text{'s New Share} = \frac{2}{5} - \frac{3}{20} = \frac{8-3}{20} = \frac{5}{20}$$

$$\text{New Profit-sharing Ratio of } X, Y \text{ and } Z = \frac{10}{20} : \frac{5}{20} : \frac{1}{4} = 10 : 5 : 5 \text{ or } 2 : 1 : 1.$$

SECTION B

9. CASH FLOW STATEMENT OF JP INTERNATIONAL *for the year ended 31st March, 2019*

Particulars		₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		58,000
Adjustments for Non-cash and Non-operating Activities:		
Add: Interest on Debentures	9,600	
Depreciation (WN 3)	25,000	
Interest on Bank Loan	2,000	
Premium on Redemption of Debentures	1,000	37,600
		95,600
Less: Gain (Profit) on Sale of Machinery		7,000
Operating Profit before Working Capital Changes		88,600
Add: *Increase in Current Liabilities:*		
Trade Payables		1,05,000
		1,93,600
Less: *Increase in Current Assets:*		
Inventories	22,000	
Trade Receivables	20,000	42,000
Cash Generated from Operating Activities		1,51,600
Less: Tax paid		15,000
Cash Flow from Operating Activities		1,36,600

II. Cash Flow from Investing Activities	
Sale Proceeds of Machinery	12,000
Purchase of Machinery (WN 2)	(1,40,000)
Sale Proceeds of Non-current Investments	12,000
Cash Used in Investing Activities	(1,16,000)
III. Cash Flow from Financing Activities	
Proceeds from Issue of Shares	50,000
Redemption of 12% Debentures (₹ 20,000 + ₹ 1,000)	(21,000)
Interest on Debentures Paid	(9,600)
Payment of Bank Loan	(10,000)
Interest on Bank Loan Paid	(2,000)
Payment of Interim Dividend	(20,000)
Cash Used in Financing Activities	(12,600)
IV. Net Increase in Cash and Bank Balances (I + II + III)	8,000
Add: Cash and Bank Balances (Opening) (₹ 15,000 + ₹ 15,000)	30,000
V. Cash and Bank Balances (Closing) (₹ 20,000 + ₹ 18,000)	38,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹	₹
Closing Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss		55,000
Less: Opening Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss		45,000
Profit during the year		10,000
Add: Transfer to General Reserve	13,000	
Provision for Tax (Tax paid)	15,000	
Interim Dividend Paid (8% of ₹ 2,50,000)	20,000	48,000
Net Profit before Tax		58,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	3,50,000	By Bank A/c	12,000
To Gain (Profit) on Sale of Machinery A/c	7,000	By Accumulated Depreciation A/c	15,000
To Bank A/c (Purchase) (Balancing Figure)	1,40,000	By Balance *c/d*	4,70,000
	4,97,000		4,97,000

3. *Dr.* ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Machinery A/c (Transfer)	15,000	By Balance *b/d*	50,000
To Balance *c/d*	60,000	By Depreciation A/c (Statement of Profit and Loss) (Balancing Figure)	25,000
	75,000		75,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	50,000	By Bank A/c*	12,000
To Capital Reserve A/c (Gain on Sale)	2,000	By Balance *c/d*	40,000
	52,000		52,000

**Calculation of Sale Proceeds of Non-current Investments:*

Book Value of Non-current Investments Sold = Opening Balance – Closing Balance
= ₹ 50,000 – ₹ 40,000 = ₹ 10,000

Sale Proceeds = Book Value + Gain on Sale = ₹ 10,000 + 20% of ₹ 10,000 = ₹ 12,000.

10. (*a*) (*i*)

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

$$= \frac{₹\,50{,}000}{₹\,25{,}000} = 2 \text{ Times.}$$

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

$= ₹\,28{,}000 + ₹\,40{,}000 + ₹\,4{,}000 - ₹\,22{,}000$

$= ₹\,50{,}000$

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

$$= \frac{₹\,28{,}000 + ₹\,22{,}000}{2} = ₹\,25{,}000.$$

(*ii*) Operating Ratio

$$= \frac{\text{Cost of Revenue from Operations} + \text{Operating Expenses}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{₹\,50{,}000 + ₹\,4{,}000 + ₹\,2{,}000}{₹\,80{,}000} \times 100$$

$$= \frac{₹\,56{,}000}{₹\,80{,}000} \times 100 = 70\%.$$

(*iii*)

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{₹\,30{,}000}{₹\,80{,}000} \times 100 = 37.5\%.$$

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

$= ₹\,80{,}000 - ₹\,50{,}000 = ₹\,30{,}000.$

(*b*) (*i*)

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

$$= \frac{₹\,3{,}25{,}000}{₹\,70{,}000} = 4.64 \text{ Times.}$$

Calculation of Credit Revenue from Operations:

Let Credit Revenue from Operations = ₹ 100

Then, Cash Revenue from Operations = 60% of ₹ 100 = ₹ 60

Total Revenue from Operations = ₹ 100 + ₹ 60 = ₹ 160.

So, Credit Revenue from Operations = ₹ 5,20,000 × ₹ 100/₹ 160 = ₹ 3,25,000.

Calculation of Average Trade Receivables:

Closing Trade Receivables = ₹ 80,000

Opening Trade Receivables = 3/4 × ₹ 80,000 = ₹ 60,000

$$\text{Average Trade Receivables} = \frac{₹\,60{,}000 + ₹\,80{,}000}{2} = ₹\,70{,}000.$$

(*ii*) Current Liabilities = ₹ 1,60,000

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

$$\frac{1.5}{1} = \frac{\text{Liquid Assets}}{₹\,1,60,000}$$

$\therefore$ Liquid Assets = ₹ 1,60,000 × 1.5 = ₹ 2,40,000

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

$$\frac{2.5}{1} = \frac{\text{Current Assets}}{₹\,1,60,000}$$

Current Assets = ₹ 1,60,000 × 2.5 = ₹ 4,00,000.

11. (*a*) (*i*) *Increase:* Both Current Assets and Current Liabilities decrease by same amount of ₹ 9,000.

(*ii*) *No Change:* Issuing shares to Vendor has no effect on either Current Assets or Current Liabilities.

(*b*) (*i*) *No Flow*. **Reason:** Sale of Marketable Securities at par represents movement between items of Cash and Cash Equivalents.

(*ii*) Operating Activities are the principal revenue producing activities of the enterprise and other activities that are not Investing or Financing Activities. Whereas Investing Activities are the acquisition and disposal of Long-term Assets and Other Investment not included in Cash Equivalents.

(*c*)

Better Sales Ltd.

COMPARATIVE INCOME STATEMENT

for the years ended 31st March, 2019 and 2018

Particulars	Note No.	31st March, 2019 ₹ (A)	31st March, 2018 ₹ (B)	Absolute Change (Increase/ Decrease) ₹ (C = A – B)	Percentage Change (Increase/ Decrease) % $\left(D = \frac{C}{B} \times 100\right)$
I. Revenue from Operations		7,00,000	5,00,000	2,00,000	40.00
II. Other Income		75,000	1,00,000	(25,000)	(25.00)
III. Total Income (I + II)		7,75,000	6,00,000	1,75,000	29.17
IV. Expenses		4,50,000	3,75,000	75,000	20.00
V. Profit before Tax (III – IV)		3,25,000	2,25,000	1,00,000	44.44
VI. Tax (50%)		1,62,500	1,12,500	50,000	44.44
VII. Profit after Tax (V – VI)		1,62,500	1,12,500	50,000	44.44