MODEL TEST PAPER 12 (Solution)

PART A

1. Specific donations and specific legacies are treated as capital receipts and hence are credited to a 'Special Fund Account' (*e.g.*, Prize Fund, Tournament Fund, etc.) maintained for the purpose.

2. Since the amount of available profit is less than the total amount of Interest on Capital, the available profit has been distributed in the ratio of interest claims of *X* and *Y*, *i.e.*, ₹ 12,000 : ₹ 6,000 or 2 : 1. Thus,

Interest allowed on *X*'s Capital = ₹ 15,000 × $\frac{2}{3}$ = ₹ 10,000;

Interest allowed on *Y*'s Capital = ₹ 15,000 × $\frac{1}{3}$ = ₹ 5,000.

3. (*a*) In case of any dispute or doubt, Partnership Deed is the guiding document.

(*b*) It can specify the duties and powers of each partner.

4. (*a*) To make *pro rata* allotment to all the applicants.

(*b*) Accepting some applications in full and allotting the balance shares on *pro rata* basis to the remaining applicants.

5. ***Value of Compensation and Consideration*** is being reflected by giving credit to the sacrificing partners for the share sacrificed.

6. Assets Realised other than cash = ₹ 5,05,000 – ₹ 5,000 = ₹ 5,00,000

Commission on Assets Realised = 1% of ₹ 5,00,000 = ₹ 5,000

Cash Available for Partners after Payment to creditors and commission

= ₹ 5,05,000 – ₹ 2,25,000 – ₹ 5,000 = ₹ 2,75,000

Commission based on Cash distribution = ₹ 2,75,000 × 10/110 = ₹ 25,000

Hence, Total Remuneration of Mohan = ₹ 5,000 + ₹ 25,000 = ₹ 30,000.

7. ADJUSTMENT JOURNAL ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Q's Current A/c	...Dr.		200	
	R's Current A/c	...Dr.		400	
	To *P*'s Current A/c				600
	(Being the less interest on capital provided, now rectified)				

Working Note:

ADJUSTMENT TABLE

Particulars	P ₹	Q ₹	R ₹	Total ₹
I. *Amount already credited by way of:*				
Interest on Capital @ 9%	27,000	9,000	18,000	54,000
Share of Profit (₹ 60,000 – ₹ 54,000) in the ratio of 2 : 1 : 2	2,400	1,200	2,400	6,000
(...Dr.)	29,400	10,200	20,400	60,000
II. *Amount which should have been credited by way of:*				
Interest on Capital @ 10% (...Cr.)	30,000	10,000	20,000	60,000
III. Difference (I – II)	600 (Cr.) Short	200 (Dr.) Excess	400 (Dr.) Excess	Nil

8. AN EXTRACT OF INCOME AND EXPENDITURE ACCOUNT

Dr. *for the year ended 31st March, 2018* *Cr.*

Expenditure	₹	Income	₹
To Sports Materials Consumed (WN 1 and 2)	1,26,000		

AN EXTRACT OF BALANCE SHEET

as at 31st March, 2018

Liabilities	₹	Assets	₹
Creditors for Sports Materials	19,500	Advances for Sports Materials	6,500
		Stock of Sports Materials	5,000

Working Notes:

1. *Dr.* CREDITORS FOR SPORTS MATERIALS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d* (Advances)	10,000	By Balance *b/d*	30,000
To Bank A/c	1,08,000	By Stock of Sports Materials A/c (Balancing Figure) (Credit Purchase)	1,01,000
To Balance *c/d*	19,500	By Balance *c/d* (Advances)	6,500
	1,37,500		1,37,500

2. *Dr.* STOCK OF SPORTS MATERIALS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	30,000	By Income and Expenditure A/c (Sports Materials Consumed) —Balancing Figure	1,26,000
To Creditors for Sports Materials A/c (Transfer) (WN 1)	1,01,000	By Balance *c/d*	5,000
	1,31,000		1,31,000

9. JOURNAL OF *X* LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017				
Mar. 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		86,000	
	To Debentures Redemption Reserve A/c			86,000
	(Being the required amount transferred to Debentures Redemption Reserve) (Note)			
On or Before April 30	Debentures Redemption Investment A/c ...Dr.		1,20,000	
	To Bank A/c			1,20,000
	(Being 15% of ₹ 8,00,000 the nominal (face) value of debentures to be redeemed, invested)			
2018				
Mar. 31	Bank A/c ...Dr.		1,20,000	
	To Debentures Redemption Investment A/c			1,20,000
	(Being the investment encashed)			
	9% Debentures A/c ...Dr.		8,00,000	
	Premium on Redemption of Debentures A/c ...Dr.		40,000	
	To Debentureholders' A/c			8,40,000
	(Being the amount due to debentureholders on redemption)			
	Debentureholders' A/c ...Dr.		8,40,000	
	To Bank A/c			8,40,000
	(Being the amount due paid to the debentureholders)			
	Debentures Redemption Reserve A/c ...Dr.		2,00,000	
	To General Reserve A/c			2,00,000
	(Being the balance of Debentures Redemption Reserve transferred to General Reserve)			

Note: DRR is created for 25% nominal (face) value of Outstanding Debentures, *i.e.*, ₹ 8,00,000. Debentures Redemption Reserve has already a balance of ₹ 1,14,000. Thus, Amount transferred to DRR is equal to ₹ 86,000 (*i.e.*, ₹ 2,00,000 – ₹ 1,14,000).

10. Discount on Issue of Debentures = ₹ 6,00,000 × 6/100 = ₹ 36,000.

Since the debentures are redeemed at different dates, the total amount of discount is to be written-off in the proportion to the amount outstanding, against debentures.

Calculation of Amount of Discount on Issue of Debentures to be Written-off

Year	Debentures Outstanding (₹)	Ratio of Benefit Derived	Amount of Discount on Issue of Debentures to be Written-off
2013–14	6,00,000	3	₹ 36,000 × 3/12 = ₹ 9,000
2014–15	6,00,000	3	₹ 36,000 × 3/12 = ₹ 9,000
2015–16	6,00,000	3	₹ 36,000 × 3/12 = ₹ 9,000
2016–17	4,00,000	2	₹ 36,000 × 2/12 = ₹ 6,000
2017–18	2,00,000	1	₹ 36,000 × 1/12 = ₹ 3,000
Total		12	₹ 36,000

In the Books of *X* Ltd.

Dr. DISCOUNT ON ISSUE OF DEBENTURES ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2013			2014		
April 1	To 10% Debentures A/c	36,000	Mar. 31	By Statement of Profit and Loss	9,000
			Mar. 31	By Balance *c/d*	27,000
		36,000			36,000
2014			2015		
April 1	To Balance *b/d*	27,000	Mar. 31	By Statement of Profit and Loss	9,000
			Mar. 31	By Balance *c/d*	18,000
		27,000			27,000
2015			2016		
April 1	To Balance *b/d*	18,000	Mar. 31	By Statement of Profit and Loss	9,000
			Mar. 31	By Balance *c/d*	9,000
		18,000			18,000
2016			2017		
April 1	To Balance *b/d*	9,000	Mar. 31	By Statement of Profit and Loss	6,000
			Mar. 31	By Balance *c/d*	3,000
		9,000			9,000
2017			2018		
April 1	To Balance *b/d*	3,000	Mar. 31	By Statement of Profit and Loss	3,000

11. **Table Showing Deficiency in *C*'s Share in Profits**

Particulars	2015–16 (₹)	2016–17 (₹)	2017–18 (₹)
I. Guaranteed Profit	1,25,000	1,25,000	1,25,000
II. *C*'s Share of Profit and Loss as per Profit-sharing Ratio	₹ 5,00,000 × 5/25 = ₹ 1,00,000	₹ 7,50,000 × 5/25 = ₹ 1,50,000	(₹ 5,00,000 × 5/25) = (₹ 1,00,000)
III. Deficiency (I – II)	25,000	...	2,25,000

Since no specific ratio in which the deficiency is to be borne is given, it means *A* and *B* shall bear the deficiency in their agreed profit-sharing ratio which is 12 : 8 or 3 : 2.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016				
March 31	Profit and Loss Appropriation A/c ...Dr.		5,00,000	
	To *A*'s Capital A/c			2,40,000
	To *B*'s Capital A/c			1,60,000
	To *C*'s Capital A/c			1,00,000
	(Being the distribution of profits as if there is no guarantee)			
	A's Capital A/c ...Dr.		15,000	
	B's Capital A/c ...Dr.		10,000	
	To *C*'s Capital A/c			25,000
	(Being the deficiency met by guaranteeing partners)			
2017				
March 31	Profit and Loss Appropriation A/c ...Dr.		7,50,000	
	To *A*'s Capital A/c			3,60,000
	To *B*'s Capital A/c			2,40,000
	To *C*'s Capital A/c			1,50,000
	(Being the distribution of profits)			

2018				
March 31	*A*'s Capital A/c ...Dr.		2,40,000	
	B's Capital A/c ...Dr.		1,60,000	
	C's Capital A/c ...Dr.		1,00,000	
	To Profit and Loss A/c			5,00,000
	(Being the distribution of loss)			
	A's Capital A/c ...Dr.		1,35,000	
	B's Capital A/c ...Dr.		90,000	
	To *C*'s Capital A/c			2,25,000
	(Being the deficiency borne by guaranteeing partners)			

12. *Calculation of Sacrifice/(Gain):*

		X	*Y*	*Z*
I.	Old Share	2/5	2/5	1/5
II.	New Share	1/3	1/3	1/3
III.	Sacrifice/(Gain) (I – II)	1/15 (Sacrifice)	1/15 (Sacrifice)	–2/15 (Gain)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Machinery A/c	10,000	By Stock A/c		5,000
To Provision for Doubtful Debts A/c	3,000	By Loss transferred to:		
		X's Capital A/c	3,200	
		Y's Capital A/c	3,200	
		Z's Capital A/c	1,600	8,000
	13,000			13,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To Goodwill A/c	9,600	9,600	4,800	By Balance *b/d*	80,000	1,20,000	2,00,000
To Advertisement Suspense A/c	4,000	4,000	2,000	By General Reserve A/c	12,000	12,000	6,000
To *X*'s Capital A/c (Goodwill)	...	...	10,000	By Workmen Compensation Reserve A/c	1,600	1,600	800
To *Y*'s Capital A/c (Goodwill)	...	...	10,000	By Investment Fluctuation Reserve A/c	800	800	400
To Revaluation A/c (Loss)	3,200	3,200	1,600	By *Z*'s Capital A/c (Goodwill)	10,000	10,000	...
To Balance *c/d*	87,600	1,27,600	1,78,800				
	1,04,400	1,44,400	2,07,200		1,04,400	1,44,400	2,07,200

Working Note: *Adjustment of Goodwill:*

		₹	₹
Z's Capital A/c	...Dr.	20,000	
To *X*'s Capital A/c			10,000
To *Y*'s Capital A/c			10,000
(Being the adjustment of goodwill on change in profit-sharing ratio)			

13.

INCOME AND EXPENDITURE ACCOUNT
for the year ended 31st March, 2018

Dr. Expenditure		₹	Income		₹ *Cr.*
To Salaries		80,000	By Subscription (WN 1)		1,48,800
To Stationery		18,000	By Proceeds from Games	25,900	
To Telephone Expenses		8,000	*Less:* Games Prizes and Expenses	22,000	3,900
To Van Expenses		12,000	By Donations		12,500
To Loss on Sale of Van (WN 2)		12,500			
To Depreciation on:					
Computer (₹ 16,000 – ₹ 14,000)		2,000			
Van (25% of ₹ 63,000)		15,750			
Sports Equipments (₹ 62,000 – ₹ 54,000)		8,000			
To Surplus, *i.e.*, excess of Income over Expenditure		8,950			
		1,65,200			1,65,200

Calculation of Capital Fund on 1st April, 2017:

BALANCE SHEET *as at 1st April, 2017*

Liabilities	₹	Assets	₹
Capital Fund (Balancing Figure)	1,66,820	Van (WN 3)	22,500
		Computer	16,000
		Sports Equipments	62,000
		Cash in Hand	20,000
		Cash at Bank	31,920
		Subscription in Arrears	14,400
	1,66,820		1,66,820

Working Notes:

		₹
1.	Subscription received during the year (for 2017–18)	1,40,800
	Add: Outstanding Subscription for 2017–18 (₹ 16,200 – ₹ 8,200)	8,000
	Amount to be credited to Income and Expenditure Account	1,48,800

		₹
2.	*Calculation of Loss on Sale of Van:*	
	Book Value of Van sold on 1st April, 2017 (WN 3)	22,500
	Less: Sale Proceeds	10,000
	Loss on sale of Van	12,500

		₹
3.	*Calculation of Book Value of Van sold on 1st April, 2017:*	
	Original cost on 1st April, 2015	40,000
	Less: Depreciation (on 31st March, 2016)	10,000
	Book Value on 1st April, 2016	30,000
	Less: Depreciation (on 31st March, 2017)	7,500
	Book Value of van sold on 1st April, 2017	22,500

14. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*a*)	*X*'s Capital A/c	...Dr.		22,500	
	Bank A/c	...Dr.		32,500	
	To Realisation A/c				55,000
	(Being the half of furniture taken by *X* and rest realised at 30% profit)				
(*b*)	*X*'s Capital A/c	...Dr.		5,400	
	Bank A/c	...Dr.		11,200	
	To Realisation A/c				16,600
	(Being 70% of unrecorded investment sold at a loss of 20% and remaining taken by *X* at 90%)				
(*c*)	*Y*'s Loan A/c	...Dr.		6,000	
	Realisation A/c	...Dr.		400	
	To Bank A/c				6,400
	(Being *Y*'s Loan discharged at ₹ 6,400)				
(*d*)	Realisation A/c	...Dr.		5,000	
	To Bank A/c				5,000
	(Being the discounted Bills Receivable dishonoured)				
(*e*)	Realisation A/c	...Dr.		1,250	
	To Bank A/c				1,250
	(Being the creditors paid)				
(*f*)	Realisation A/c	...Dr.		10,000	
	To Bank A/c				10,000
	(Being the compensation paid to workers)				

15. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
April 1	Building A/c	...Dr.		25,000	
	To Revaluation A/c				25,000
	(Being the increase in value of building recorded)				
	Revaluation A/c	...Dr.		13,000	
	To Stock A/c				8,000
	To Provision for Doubtful Debts A/c				5,000
	(Being the decrease in value of stock and increase in provision for doubtful debts recorded)				
	Revaluation A/c	...Dr.		12,000	
	To *A*'s Capital A/c				4,000
	To *B*'s Capital A/c				6,000
	To *C*'s Capital A/c				2,000
	(Being the gain (profit) on revaluation transferred to partners)				
	Workmen Compensation Reserve A/c	...Dr.		20,000	
	To Workmen Compensation Claim A/c				8,000
	To *A*'s Capital A/c				4,000
	To *B*'s Capital A/c				6,000
	To *C*'s Capital A/c				2,000
	(Being the Workmen Compensation Claim accounted and balance Workmen Compensation Reserve appropriated)				

	Investment Fluctuation Reserve A/c ...Dr.		10,000	
	To Investment A/c			4,000
	To *A*'s Capital A/c			2,000
	To *B*'s Capital A/c			3,000
	To *C*'s Capital A/c			1,000
	(Being the fall in value of investment met by Investment Fluctuation Reserve and balance reserve appropriated among partners)			
	A's Capital A/c ...Dr.		4,000	
	B's Capital A/c ...Dr.		6,000	
	C's Capital A/c ...Dr.		2,000	
	To Goodwill A/c			12,000
	(Being the existing goodwill written off)			
	A's Capital A/c ...Dr.		4,000	
	B's Capital A/c ...Dr.		6,000	
	C's Capital A/c ...Dr.		2,000	
	To Advertisement Suspense A/c			12,000
	(Being the advertisement Suspense Account written off)			
	A's Capital A/c ...Dr.		48,000	
	To *B*'s Capital A/c			18,000
	To *C*'s Capital A/c			30,000
	(Being the gaining partner *A* compensates both the sacrificing partners) (WN 3)			
	C's Capital A/c ...Dr.		3,31,000	
	To *C*'s Executor's A/c			3,31,000
	(Being the amount payable to *C*'s Executor)			
	C's Executor's A/c ...Dr.		1,65,500	
	To Bank A/c			1,65,500
	(Being 50% amount paid to *C*'s Executor)			

Dr. *C*'S CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Goodwill A/c	2,000	By Balance *b/d*	3,00,000
To Advertisement Suspense A/c	2,000	By Workmen Compensation Reserve A/c	2,000
To *C*'s Executor's A/c (Balancing Figure)	3,31,000	By Investment Fluctuation Reserve A/c	1,000
		By Revaluation A/c (Gain)	2,000
		By *A*'s Capital A/c (Goodwill)	30,000
	3,35,000		3,35,000

Dr. *C*'S EXECUTOR'S ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2018 April 1	To Bank A/c	1,65,500	2018 April 1	By *C*'s Capital A/c	3,31,000
2019 March 31	To Balance *c/d*	1,82,050	2019 March 31	By Interest A/c	16,550
		3,47,550			3,47,550
2019 April 1	To Bank A/c (₹ 82,750 + ₹ 16,550)	99,300	2019 April 1	By Balance *b/d*	1,82,050
2020 March 31	To Balance *c/d*	91,025	2020 March 31	By Interest A/c	8,275
		1,90,325			1,90,325
2020 April 1	To Bank A/c (₹ 82,750 + ₹ 8,275)	91,025	2020 April 1	By Balance *b/d*	91,025
		91,025			91,025

Value: Sensitivity towards orphaned children.

Working Notes:

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

   $A = 3/5 - 2/6 = \frac{18-10}{30} = 8/30$; $B = \frac{2}{5} - \frac{3}{6} = \frac{12-15}{30} = -3/30$ (Sacrifice)

   A is the only gaining partner. Thus, he will compensate not only the deceased partner *C* but also the sacrificing partner *B*.

2. *Valuation of Goodwill:*

   $$\text{Average Profit} = \frac{₹\ 45,000 + ₹\ 90,000 + ₹\ 1,35,000}{3} = ₹\ 90,000$$

   Goodwill = Average Profit × No. of Years' Purchase
   = ₹ 90,000 × 2 = ₹ 1,80,000.

3. *Adjustment of Goodwill:*

   For *A*'s Gained Share = 8/30 of ₹ 1,80,000 = ₹ 48,000;
   For *B*'s Sacrifice = 3/30 of ₹ 1,80,000 = ₹ 18,000;
   For *C*'s Sacrifice = 1/6 of ₹ 1,80,000 = ₹ 30,000.

16.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Investments A/c	6,000	By Accrued Income A/c		4,500
To Provision for Doubtful Debts A/c	600	By Loss transferred to Current A/cs:		
To Outstanding Rent A/c	15,000	*X*	10,260	
		Y	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 Goodwill A/c	18,000	12,000	...	By Balance *b/d*	30,000	6,000	...
To Bank A/c	12,600	5,400	...	By Premium for			
To Investments A/c	18,000	...	...	Goodwill A/c	25,200	10,800	...
To Revaluation A/c (Loss)	10,260	6,840	...	By General Reserve A/c	21,600	14,400	...
To Balance *c/d*	17,940	6,960	...				
	76,800	31,200	...		76,800	31,200	...

BALANCE SHEET *as at 1st April, 2018*

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

Values: Sensitivity towards differently abled persons.

Working Notes:

1. *Calculation of Sacrificing Ratio:*

   Sacrifice = Old Share – New Share

   X sacrifices = 3/5 – 4/9 = 7/45; *Y* sacrifices = 2/5 – 3/9 = 3/45; Sacrificing Ratio = 7 : 3.

2. *Adjustment of Goodwill:*

$$\text{Firm's Goodwill} = 2\left[\frac{₹\ 90{,}000 + ₹\ 78{,}000 + ₹\ 75{,}000}{3}\right] = ₹\ 1{,}62{,}000$$

   Z's Share of Goodwill = ₹ 1,62,000 × 2/9 = ₹ 36,000, which will be distributed between *X* and *Y* in their sacrificing ratio, *i.e.*, 7 : 3.

Or

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
April 1	*A*'s Capital A/c	...Dr.		3,000	
	B's Capital A/c	...Dr.		2,000	
	C's Capital A/c	...Dr.		1,000	
	To Goodwill A/c				6,000
	(Being the existing goodwill written off)				
	A's Capital A/c	...Dr.		3,480	
	B's Capital A/c	...Dr.		2,320	
	To *C*'s Capital A/c				5,800
	(Being the *C*'s share of goodwill adjusted between gaining partners *A* and *B* in their gaining ratio, *i.e.*, 3 : 2)				

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Patents A/c	2,000	By Investment A/c		2,600
To Machinery A/c	5,000	By Creditors A/c		6,000
To Provision for Doubtful Debts A/c	400	By Loss transferred to:		
To Bank A/c (Revaluation Expenses)	2,000	*A*'s Capital A/c	400	
		B's Capital A/c	267	
		C's Capital A/c	133	800
	9,400			9,400

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Goodwill A/c	3,000	2,000	1,000	By Balance *b/d*	68,000	32,000	21,000
To Advertisement Expenditure A/c	2,625	1,750	875	By Workmen Compensation Reserve A/c	5,625	3,750	1,875
To Revaluation A/c	400	267	133	By Investment Flucuation Reserve A/c	3,000	2,000	1,000
To *C*'s Capital A/c	3,480	2,320	...	By *A*'s Capital A/c	...	...	3,480
To Investment A/c	...	...	17,600	By *B*'s Capital A/c	...	...	2,320
To Bank A/c	...	...	5,067				
To *C*'s Loan A/c*	...	...	2,500				
To Bills Payable A/c*	...	...	2,500				
To Balance *c/d*	67,120	31,413	...				
	76,625	37,750	29,675		76,625	37,750	29,675

*50% of ₹ 5,000 (*i.e.*, ₹ 21,000 + ₹ 1,875 + ₹ 1,000 + ₹ 3,480 + ₹ 2,320 – ₹ 1,000 – ₹ 875 – ₹ 133 – ₹ 17,600 – ₹ 5,067).

BALANCE SHEET *as at 1st April, 2018*

Liabilities		₹	Assets		₹
Creditors		15,000	Debtors	40,000	
Workmen Compensation Claim		750	*Less:* Provision for Doubtful Debts	2,400	37,600
C's Loan		2,500	Stock		30,000
Bills Payable (*C*)		2,500	Patents		8,000
Capital A/cs:			Machinery		45,000
A	67,120				
B	31,413	98,533			
Bank Overdraft		1,317			
		1,20,600			1,20,600

Value: *Value of Compensation and Consideration* is being reflected by giving credit to *C* (outgoing partner) for the share sacrificed.

Working Notes:

1. Unless agreed otherwise, Gaining ratio of continuing partners will be same as their old profit-sharing ratio.
2. *Adjustment of Goodwill:*
   C's Share of Goodwill = 1/6 of ₹ 34,800 = ₹ 5,800, which will be contributed by *A* and *B* in their gaining ratio.

17. **In the Books of Exe Ltd.**

JOURNAL

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 for 70,000 shares)				
	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				30,000
	(Being the application money rejected on 10,000 shares and shares issued to remaining applicants on *pro rata*)				
	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 shares allotment money due @ ₹ 5 each including premium of ₹ 2 per share)				
	Bank A/c	...Dr.		2,17,800	
	To Equity Shares Allotment A/c				2,17,800
	Or				
	Bank A/c	...Dr.		2,17,800	
	Calls-in-Arrears A/c	...Dr.		2,200	
	To Equity Shares Allotment A/c				2,20,000
	(Being the shares allotment money received except on 500 shares)				
	Equity Shares First Call A/c	...Dr.		1,00,000	
	To Equity Share Capital A/c				1,00,000
	(Being the shares first call money due @ ₹ 2 each)				

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

Value: The company has ignored the value of equitable distribution of wealth.

Working Notes:

1. Shares applied by Puneet = $\frac{60,000}{50,000} \times 500 = 600$ shares.

2. *Amount due on Allotment but not Received from Puneet:*

	₹
Amount due on allotment (500 × ₹ 5)	2,500
Less: Excess application money [(600 – 500) shares × ₹ 3]	300
Amount due on allotment but not received from Puneet	2,200

3. *Calculation of Amount received on Allotment:*

	₹	₹
Amount due on allotment (50,000 × ₹ 5)		2,50,000
Less: Amount received on application stage	30,000	
Amount due on allotment but not received from Puneet	2,200	32,200
		2,17,800

4. *Amount transferred to Capital Reserve:*

	₹
Amount forfeited on 800 shares of Rahul (800 × ₹ 6)	4,800
Add: Amount forfeited on 200 shares of Puneet (200 × ₹ 1,800/500)	720
	5,520
Less: Loss on reissue (1,000 × ₹ 1)	1,000
Gain on Reissue	4,520

Or

In the Books of Moon Ltd.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		57,00,000	
	To Equity Shares Application A/c				57,00,000
	(Being the shares application money received for 1,90,000 shares)				
	Equity Shares Application A/c	...Dr.		57,00,000	
	To Equity Share Capital A/c				38,00,000
	To Securities Premium Reserve A/c				19,00,000
	(Being the application money adjusted)				
	Equity Shares Allotment A/c	...Dr.		1,33,00,000	
	To Equity Share Capital A/c				38,00,000
	To Securities Premium Reserve A/c				95,00,000
	(Being the allotment money due on 1,90,000 shares @ ₹ 70 each including premium of ₹ 50 per share)				
	Bank A/c	...Dr.		1,32,30,000	
	Calls-in-Arrears A/c (1,000 × ₹ 70)	...Dr.		70,000	
	To Equity Shares Allotment A/c				1,33,00,000
	(Being the allotment money received except on 1,000 shares)				
	Equity Share Capital A/c (1,000 × ₹ 40)	...Dr.		40,000	
	Securities Premium Reserve A/c (1,000 × ₹ 50)	...Dr.		50,000	
	To Forfeited Shares A/c				20,000
	To Calls-in-Arrears A/c				70,000
	(Being 1,000 shares forfeited for non-payment of allotment money)				
	Equity Shares First and Final Call A/c	...Dr.		1,13,40,000	
	To Equity Share Capital A/c				1,13,40,000
	(Being the first and final call due on 1,89,000 shares @ ₹ 60 each)				

	Bank A/c ...Dr.		1,12,20,000	
	Calls-in-Arrears A/c (2,000 × ₹ 60) ...Dr.		1,20,000	
	To Equity Shares First and Final Call A/c			1,13,40,000
	(Being the first and final call received except on 2,000 shares)			
	Equity Share Capital A/c ...Dr.		2,00,000	
	To Forfeited Shares A/c			80,000
	To Calls-in-Arrears A/c			1,20,000
	(Being 2,000 shares forfeited for non-payment of first and final call)			
	Bank A/c ...Dr.		1,35,000	
	Forfeited Shares A/c ...Dr.		15,000	
	To Equity Share Capital A/c			1,50,000
	(Being 1,500 forfeited shares reissued @ ₹ 90 per share as fully paid)			
	Forfeited Shares A/c ...Dr.		35,000	
	To Capital Reserve A/c			35,000
	(Being the gain on reissue of 1,500 forfeited shares transferred to Capital Reserve)			

Value: Considering the interest of shareholders so that they do not incur loss.

Working Note:

Amount transferred to Capital Reserve:	₹
Amount forfeited on 500 shares of Ankit $\left(\frac{500}{1,000} \times ₹\ 20,000\right)$	10,000
Amount forfeited on 1,000 shares of Ankur $\left(\frac{1,000}{2,000} \times ₹\ 80,000\right)$	40,000
	50,000
Less: Amount of Discount on 1,500 shares (1,500 × ₹ 10)	15,000
Amount transferred to Capital Reserve	35,000

PART B

18. Transactions which represent movements between items of Cash or Cash Equivalents are not considered as Cash Flows (*e.g.*, Cash deposit into Bank) because these components are part of the cash management of an enterprise rather than part of the Operating/Investing/Financing Activities.

19. Cash Flow Statement is prepared to determine Cash Flow from Operating, Investing and Financing Activities and net change in Cash and Cash Equivalents between the dates of two consecutive Balance Sheets.

20. (*a*) Only the monetary information is considered in financial analysis while non-monetary aspects (qualitative aspect) like quality of management, staff, public relation, etc., are ignored.

(*b*)

Case	Current Assets or Non-current Assets	Reason
Case 1	Non-current Assets	Expected Realisation Period is more than the Operating Cycle Period and 12 months period.
Case 2	Current Assets	Expected Realisation Period is less than the Operating Cycle Period although it is more than 12 months period.
Case 3	Non-current Assets	Expected Realisation Period is more than the Operating Cycle Period and 12 months period.

21. (*a*) Common-size Balance Sheet is the *vertical analysis* of Balance Sheet in which Total Assets or Total of Equity and Liabilities is taken as 100 and all other items of Assets, Equity and Liabilities are expressed as percentage of Total Assets or Total of Equity and Liabilities.

(*b*) COMMON-SIZE BALANCE SHEET
as at 31st March, 2017 and 31st March, 2018

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31st March, 2017 (₹)	31st March, 2018 (₹)	31st March, 2017 (%)	31st March, 2018 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds		12,00,000	18,00,000	60	60
2. Non-current Liabilities		6,00,000	6,00,000	30	20
3. Current Liabilities		2,00,000	6,00,000	10	20
Total		20,00,000	30,00,000	100	100
II. ASSETS					
1. Non-current Assets		14,00,000	21,00,000	70	70
2. Current Assets		6,00,000	9,00,000	30	30
Total		20,00,000	30,00,000	100	100

22. $$\text{Operating Ratio} = \frac{\text{Operating Cost} \times 100}{\text{Revenue from Operations}} = \frac{₹\,15,40,000}{₹\,22,00,000} \times 100 = 70\%.$$

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

$$= \frac{₹\,13,20,000}{₹\,1,60,000} = 8.25 \text{ Times.}$$

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

$$= \frac{₹\,1,50,000 + ₹\,1,70,000}{2} = ₹\,1,60,000.$$

Notes:

- Total Revenue from Operations = Cash Revenue from Operations + Credit Revenue from Operations
  = ₹ 10,00,000 + (₹ 10,00,000 × 120/100) = ₹ 22,00,000.
- Gross Profit = Total Revenue from Operations × Rate of Gross Profit/100
  = ₹ 22,00,000 × 40/100 = ₹ 8,80,000.
- Cost of Revenue from Operations = Total Revenue from Operations – Gross Profit
  = ₹ 22,00,000 – ₹ 8,80,000 = ₹ 13,20,000.
- Operating Expenses = 10% of Total Revenue from Operations
  = ₹ 22,00,000 × 10/100 = ₹ 2,20,000.
- Operating Cost = Cost of Revenue from Operations + Operating Expenses
  = ₹ 13,20,000 + ₹ 2,20,000 = ₹ 15,40,000.

23. CASH FLOW STATEMENT

for the year ended 31st March, 2018 as per AS-3 (Revised)

Particulars	₹	₹	₹
I. Cash Flow from Operating Activities			
Net Profit before Tax and Extraordinary Items (WN 1)		90,000	
Add: Depreciation on Machinery (WN 3)		75,000	
Loss on Sale of Machinery (WN 2)		3,000	
Interest on Debentures (₹ 1,00,000 × 10%) + (₹ 1,00,000 × 10% × 6/12)		15,000	
		1,83,000	
Less: Gain (Profit) on Sale of 10% Non-current Investment (WN 2)	6,000		
Interest on 10% Non-current Investment (10% of ₹ 50,000)	5,000	11,000	
Operating Profit before Working Capital Changes		1,72,000	
Add: Decrease in Current Assets and Increase in Current Liabilities:			
Inventories		30,000	
Trade Payables		60,000	
Less: Increase in Current Assets:			
Trade Receivables		(50,000)	
Cash Flow from Operating Activities			2,12,000
II. Cash Flow from Investing Activities			
Purchase of Machinery (WN 2)		(2,90,000)	
Purchase of 10% Non-current Investments (WN 4)		(50,000)	
Sale Proceeds of Machinery (WN 2)		12,000	
Sale of 10% Non-current Investments (WN 4)		36,000	
Interest on 10% Non-current Investments		5,000	
Cash Used in Investing Activities			(2,87,000)
III. Cash Flow from Financing Activities			
Proceeds from Issue of Equity Shares (₹ 1,00,000 + ₹ 20,000 Premium)		1,20,000	
Proceeds from Issue of 10% Debentures (₹ 1,00,000 – ₹ 10,000 Discount)		90,000	
Interim Dividend Paid		(25,000)	
Interest on 10% Debentures		(15,000)	
Share Issue Expenses		(5,000)	
Cash Flow from Financing Activities			1,65,000
IV. Net Increase in Cash and Cash Equivalents (I + II + III)			90,000
Add: Opening Cash and Cash Equivalents (Cash at Bank)			1,30,000
V. Closing Cash and Cash Equivalents (Cash at Bank)			2,20,000

Working Notes:

1. *Calculation of Net Profit before Tax and Extraordinary Items:*

Particulars	₹
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)	2,15,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)	1,70,000
Profit for the Year	45,000
Add: Transfer to General Reserve (₹ 1,00,000 – ₹ 80,000)	20,000
Interim Dividend Paid	25,000
Net Profit before Tax and Extraordinary Items	90,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	6,10,000	By Accumulated Depreciation A/c	35,000
To Bank A/c (Balancing Figure)—Purchase	2,90,000	By Bank A/c (Sale Proceeds)	12,000
		By Loss on Sale of Machinery A/c* (Statement of Profit and Loss)	3,000
		By Balance *c/d*	8,50,000
	9,00,000		9,00,000

*CALCULATION OF LOSS ON SALE OF MACHINERY

Particulars	₹
Book Value of Machinery on the date of Sale (*i.e.,* ₹ 50,000 – ₹ 35,000)	15,000
Less: Sale Proceeds (Book Value – 20% = ₹ 15,000 – ₹ 3,000)	(12,000)
Loss on Sale of Machinery	3,000

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

Particulars	₹	Particulars	₹
To Machinery A/c (Transfer)	35,000	By Balance *b/d*	1,10,000
To Balance *c/d*	1,50,000	By Statement of Profit and Loss A/c (Balancing Figure)—Depreciation Provided	75,000
	1,85,000		1,85,000

4. *Dr.* 10% NON-CURRENT INVESTMENTS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	50,000	By Bank A/c (Sale) (₹ 30,000 + 20% of ₹ 30,000)	36,000
To Gain (Profit) on Sale of Investment A/c (Statement of Profit and Loss)	6,000	By Balance *c/d*	70,000
To Bank A/c (Balancing Figure)—Purchase	50,000		
	1,06,000		1,06,000

5. Discount on Issue of Debentures and Share Issue Expenses have been written off from Securities Premium Reserve as per Section 52(2) of the Companies Act, 2013. The balance of ₹ 5,000 in Securities Premium Reserve is after writing off Discount on Issue of Debentures and Share Issue Expenses. As such Discount on Issue of Debentures and Share Issue Expenses have not been written off through Statement of Profit and Loss, they are not adjusted while calculating operating profit.

6. *Dr.* SECURITIES PREMIUM RESERVE ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Share Issue Expense A/c	5,000	By Equity Shares Allotment A/c (20% of ₹ 1,00,000)	20,000
To Discount on Issue of Debentures A/c	10,000		
To Balance *c/d*	5,000		
	20,000		20,000