MODEL TEST PAPER 14 (Solution)

PART A

1. (*i*) Membership Subscription.

(*ii*) General Donations.

2. (*i*) When the partners decide to change the profit-sharing ratio.

(*ii*) When a new partner is admitted.

(*iii*) When a partner retires or dies.

3. Number of Years' purchase means the number of years during which the purchaser of goodwill expects that the profits due to goodwill are likely to be earned in future.

4. Profit and Loss Appropriation Account is prepared to show the distribution of Net Profit among the partners whereas Profit and Loss Adjustment Account (or Revaluation Account) is prepared to ascertain the Gain (Profit) or Loss on revaluation of assets and reassessment of liabilities at the time of reconstitution of partnership, *i.e.*, Change in Profit-sharing Ratio, Admission, Retirement or Death of a Partner.

5. Discount on Issue of Debentures = ₹ 1,00,000 × 6/100 = ₹ 6,000.

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

At the end of	Debentures Outstanding (₹)	Ratio	Discount to be Written off
1st Year	1,00,000	5	₹ 6,000 × 5/15 = ₹ 2,000
2nd Year	80,000	4	₹ 6,000 × 4/15 = ₹ 1,600
3rd Year	60,000	3	₹ 6,000 × 3/15 = ₹ 1,200
4th Year	40,000	2	₹ 6,000 × 2/15 = ₹ 800
5th Year	20,000	1	₹ 6,000 × 1/15 = ₹ 400
Total		15	₹ 6,000

6. *Calculation of Anju's Share in Profits:*

$$\text{Percentage of Profit to Sales (for the year 2017–18)} = \frac{\text{Profit}}{\text{Sales}} \times 100$$

$$= \frac{₹\ 90{,}000}{₹\ 6{,}00{,}000} \times 100 = 15\%$$

Estimated Profit till the date of Anju's death = 1,00,000 × 15% = ₹ 15,000

Anju's share in estimated Profit = ₹ 15,000 × 3/6 = ₹ 7,500.

7. First Method *(When Journal entry is not passed):*

Note to Accounts

Particulars	₹
1. Long-term Borrowings	
Loan from IDBI Bank	4,00,000
(Secured by issue of 5,000; 9% Debentures of ₹ 100 each as Collateral Security)	

Second Method *(When Journal entry is passed):*

Note to Accounts

Particulars		₹
1. Long-term Borrowings		
Loan from IDBI Bank		4,00,000
5,000; 9% Debentures of ₹ 100 each issued as Collateral Security	5,00,000	
Less: Debentures Suspense A/c	5,00,000	...
		4,00,000

8. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	A's Capital A/c	...Dr.		20,000	
	B's Capital A/c	...Dr.		12,000	
	C's Capital A/c	...Dr.		8,000	
	To Goodwill A/c				40,000
	(Being existing Goodwill written off)				
	B's Capital A/c	...Dr.		3,000	
	C's Capital A/c	...Dr.		12,000	
	To *A*'s Capital A/c				15,000
	(Being *A*'s sacrificed share of Goodwill debited to *B*'s and *C*'s Capital Accounts in their gaining ratio)				

Note: Gain/Sacrifice: *A*'s Sacrifice = $\frac{5}{30}$; *B*'s Gain = $\frac{1}{30}$; and *C*'s Gain = $\frac{4}{30}$. Gaining Ratio = 1 : 4.

9. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2017 March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		75,000	
	To Debentures Redemption Reserve A/c				75,000
	(Being the profit transferred to Debentures Redemption Reserve) (Note 2)				
2017 April 1	Debentures Redemption Investment A/c	...Dr.		1,50,000	
	To Bank A/c				1,50,000
	(Being the investment made equal to 15% of nominal (face) value of debentures to be redeemed)				
2018 March 31	Bank A/c	...Dr.		1,65,000	
	To Debentures Redemption Investment A/c				1,50,000
	To Interest Earned A/c				15,000
	(Being the investment encashed along with interest)				
	8% Debentures A/c	...Dr.		10,00,000	
	To Debentureholders' A/c				10,00,000
	(Being the amount due to debentureholders on redemption)				

	Particulars		L.F.	Dr.	Cr.
	Debentureholders' A/c	...Dr.		10,00,000	
	To Bank A/c				10,00,000
	(Being the payment made to debentureholders)				
	Debentures Redemption Reserve A/c	...Dr.		2,50,000	
	To General Reserve A/c				2,50,000
	(Being the Debentures Redemption Reserve transferred to General Reserve)				

Notes: 1. Interest on Debentures have been ignored.

	₹
2. *DRR required (25% of ₹ 10,00,000)	2,50,000
Less: Existing Balance	1,75,000
Transferred to DRR	75,000

10.

AN EXTRACT OF INCOME AND EXPENDITURE ACCOUNT

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

Expenditure	₹	Income	₹
		By Subscription	8,00,000

AN EXTRACT OF BALANCE SHEET

as at 31st March, 2018

Liabilities	₹	Assets		₹
Subscription Received in Advance (For 2018–19)	1,20,000	Subscription Outstanding:		
		for 2016–17 (₹ 1,20,000 – ₹ 1,00,000)	20,000	
		for 2017–18 (₹ 1,00,000 – ₹ 20,000)	80,000	1,00,000

Working Note:

Calculation of Subscription Income for 2017–18:

	₹
Subscription received during 2017–18 for 2017–18	6,00,000
Add: Subscription received during 2016–17 for 2017–18	1,20,000
(Subscription received in advance on 31st March, 2017)	
Subscription outstanding for 2017–18	80,000
	8,00,000

11.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2017					
April 1	*A*'s Capital A/c	...Dr.		25,600	
	B's Capital A/c	...Dr.		6,400	
	To Profit and Loss A/c				32,000
	(Being the loss distributed between old partners)				
	General Reserve A/c	...Dr.		1,00,000	
	To *A*'s Capital A/c				80,000
	To *B*'s Capital A/c				20,000
	(Being the General Reserve appropriated between old partners)				
	Cash/Bank A/c	...Dr.		60,000	
	To Premium for Goodwill A/c				60,000
	(Being the premium for goodwill brought in by new partner)				
	Premium for Goodwill A/c	...Dr.		60,000	
	B's Capital A/c	...Dr.		4,000	
	To *A*'s Capital A/c				64,000
	(Being the premium for goodwill along with *B*'s Share of gain credited to *A*)				

Values: (*i*) Apathy towards orphaned children, (*ii*) Meeting Social Responsibility.

Working Note:

	A	*B*	*C*
I. Old Share	4/5	1/5	—
II. New Share	4/9	2/9	3/9
III. Sacrifice/(Gain) (I – II)	16/45	–1/45	–3/9
	(Sacrifice)	(Gain)	(Gain)

C's Share of Goodwill for 3/9 share = ₹ 60,000

Firm's Goodwill = ₹ 1,80,000

A alone has sacrificed whereas *B* has gained. Thus, *B* and *C* will compensate *A* for their gained shares.

12. PROFIT AND LOSS APPROPRIATION ACCOUNT

for the year ended 31st March, 2018

Dr. *Cr.*

Particulars		₹	Particulars	₹
To Profit transferred to Capital A/cs:			By Profit and Loss A/c (Net Profit)	2,70,000
E	1,51,200			
Less: Deficiency of *G*'s Share	1,800	1,49,400		
F	64,800			
Less: Deficiency of *G*'s Share	4,200	60,600		
G	54,000			
Add: Transferred from *E*	1,800			
Transferred from *F*	4,200	60,000		
		2,70,000		2,70,000

Working Note:

Let the Total Share of Profit be 1

G's Share = $\frac{1}{5}$; Remaining Share = $\frac{4}{5}$, which will be shared by *E* and *F* in their old ratio, *i.e.*, 7 : 3.

$$E\text{'s New Share} = \frac{7}{10} \times \frac{4}{5} = \frac{28}{50}$$

$$F\text{'s New Share} = \frac{3}{10} \times \frac{4}{5} = \frac{12}{50}$$

$$G\text{'s Share} = \frac{1}{5} \text{ or } \frac{10}{50}$$

Thus, New Profit-sharing Ratio of *E*, *F* and *G* = $\frac{28}{50} : \frac{12}{50} : \frac{10}{50}$ = 28 : 12 : 10 or 14 : 6 : 5.

G's Actual Share of Profit = ₹ 2,70,000 × $\frac{5}{25}$ = ₹ 54,000

G's Guarantted Profit = ₹ 60,000

Deficiency in *G*'s Share of Profit = ₹ 6,000, which will be contributed by *E* and *F* in their agreed ratio, *i.e.*, 3 : 7.

Thus, *E* will contribute = $\frac{3}{10}$ of ₹ 6,000 = ₹ 1,800;

F will contribute = $\frac{7}{10}$ of ₹ 6,000 = ₹ 4,200.

13. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
Sept. 1	General Reserve A/c	...Dr.		28,000	
	To Rani's Capital A/c				14,000
	To Adi's Capital A/c				6,000
	To Manu's Capital A/c				8,000
	(Being the General Reserve distributed among all partners)				
	Manu's Capital A/c	...Dr.		40,000	
	To Loan to Manu A/c				40,000
	(Being the Loan to Manu debited to his Capital A/c)				
	Interest on Capital A/c	...Dr.		2,167	
	To Manu's Capital A/c				2,167
	(Being the interest on Manu's capital credited to his Capital A/c)				
	Rani's Capital A/c	...Dr.		28,000	
	Adi's Capital A/c	...Dr.		12,000	
	To Manu's Capital A/c				40,000
	(Being the Manu's share of goodwill adjusted)				
	Profit and Loss Suspense A/c	...Dr.		32,000	
	To Manu's Capital A/c				32,000
	(Being the Manu's share of profit credited to his Capital A/c)				
	Manu's Capital A/c	...Dr.		1,07,167	
	To Manu's Executors' A/c				1,07,167
	(Being the amount due to Manu's Executors)				

Dr. MANU'S CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Loan to Manu A/c	40,000	By Balance *b/d*	65,000
To Manu's Executors' A/c	1,07,167	By General Reserve A/c	8,000
(Balancing Figure)		By Interest on Capital A/c	2,167
		By Profit and Loss Suspense A/c	32,000
		By Rani's Capital A/c	28,000
		By Adi's Capital A/c	12,000
	1,47,167		1,47,167

Values: (*i*) Sympathy; (*ii*) Empathy; (*iii*) Charity.

Working Notes:

1. *Calculation and Adjustment of Goodwill:*

$$\text{Goodwill} = \text{Super Profit} \times \text{Number of Years' Purchase}$$

$$= ₹\,70{,}000 \times 2 = ₹\,1{,}40{,}000$$

Manu's Share of Goodwill $= \frac{4}{14}$ of ₹ 1,40,000 = ₹ 40,000, which will be contributed by Rani and Adi in their gaining ratio, *i.e.*, 7 : 3.

Thus, Rani's Contribution $= \frac{7}{10} \times ₹\,40{,}000 = ₹\,28{,}000$;

Adi's Contribution $= \frac{3}{10} \times ₹\,40{,}000 = ₹\,12{,}000$.

2. Manu's Share of Profit $= \frac{₹\,2{,}24{,}000}{₹\,8{,}00{,}000} \times ₹\,4{,}00{,}000 \times \frac{4}{14} = ₹\,32{,}000$.

14.

INCOME AND EXPENDITURE ACCOUNT

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

Expenditure		₹	Income		₹
To Salaries		12,000	By Subscriptions	61,100	
To Sports Equipment:			*Add:* Due (31st March, 2018)	560	
Opening (1st April, 2017)	21,800		Advance (1st April, 2017)	80	
Add: Purchases	46,785			61,740	
	68,585		*Less:* Due (1st April, 2017)	480	
Less: Closing (31st March, 2018)	29,700	38,885		61,260	
To Stationery		1,220	*Less:* Advance (31st March, 2018)	40	61,220
To Maintenance of Ground		6,000	By Admission Fees		350
To Prizes		1,060	By Interest on Investments		9,000
To Depreciation on Building		4,000			
To Surplus		7,405			
(*i.e.*, Excess of Income Over Expenditure)					
		70,570			70,570

BALANCE SHEET

as at 31st March, 2018

Liabilities		₹	Assets	₹
Subscription Received in Advance		40	Cash in Hand	380
Capital Fund	2,16,550		Cash at Bank	17,355
Add: Surplus	7,405	2,23,955	Investments*	1,00,000
			Subscription Due	560
			Sports Equipment	29,700
			Building	76,000
		2,23,995		2,23,995

*Interest on investments received ₹ 9,000 in 2017–18 indicates there must be investments in the beginning of 2017–18. The rate of interest is 9%.

So, the value of Investments = 100/9 × ₹ 9,000 = ₹ 1,00,000.

15.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets—Transfer:			By Creditors		50,000
Goodwill	30,000		By Bank A/c—Assets Realised:		
Land and Building	80,000		Goodwill	20,000	
Plant and Machinery	56,000		Land and Building	1,00,000	
Car	54,000		Plant and Machinery	50,000	
Debtors	48,000	2,68,000	Car	28,000	
To Bank A/c (Creditors Paid)		**50,000**	Debtors	24,000	2,22,000
To Bank A/c (Expenses)		**2,000**	By Loss on Realisation		
			transferred to:		
			A's Capital A/c **(2/4)**	**24,000**	
			B's Capital A/c **(1/4)**	**12,000**	
			C's Capital A/c **(1/4)**	**12,000**	**48,000**
		3,20,000			**3,20,000**

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Realisation A/c—Loss	**24,000**	**12,000**	**12,000**	By Balance *b/d*	80,000	80,000	60,000
To Bank A/c (Bal.Fig.)	56,000	68,000	48,000				
	80,000	80,000	60,000		80,000	80,000	60,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	2,000	By Realisation A/c—Creditors Paid	50,000
To **Realisation A/c (Assets Realised)**	**2,22,000**	By Realisation A/c—Expenses	2,000
		By *A*'s Capital A/c—Final Payment	56,000
		By *B*'s Capital A/c—Final Payment	68,000
		By *C*'s Capital A/c—Final Payment	48,000
	2,24,000		2,24,000

Notes:

1. After taking the value of payment to creditors (₹ 50,000) and Realisation Expenses (₹ 2,000) from the Bank Account, the balancing figure of ₹ 48,000 is the Realisation Loss, which is distributed among *A*, *B* and *C* in the ratio of 2 : 1 : 1.
2. Amount of assets realised is transferred from Realisation Account to Bank Account.

16.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Stock A/c	5,000	By Bad Debts Recovered A/c (Cash A/c)		4,000
To Furniture A/c	1,000	By Loss transferred to:		
To Machinery A/c	6,000	Ram's Capital A/c	9,000	
To Provision for Doubtful Debts A/c	3,000	Mohan's Capital A/c	6,000	15,000
To Cash A/c (Revaluation Expenses)	4,000			
	19,000			19,000

Dr. PARTNERS' CAPTIAL ACCOUNTS *Cr.*

Particulars	Ram (₹)	Mohan (₹)	Sohan (₹)	Particulars	Ram (₹)	Mohan (₹)	Sohan (₹)
To Goodwill A/c	6,000	4,000	...	By Balance *b/d*	1,35,000	1,25,000	...
To Revaluation A/c (Loss)	9,000	6,000	...	By Workmen Compensation Reserve A/c	6,000	4,000	...
To Balance *c/d*	1,62,000	1,43,000	1,52,500	By General Reserve A/c	18,000	12,000	...
				By Premium for Goodwill A/c	18,000	12,000	...
				By Cash A/c (WN)	...	...	1,52,500
	1,77,000	1,53,000	1,52,500		1,77,000	1,53,000	1,52,500

BALANCE SHEET *as at 1st April, 2018*

Liabilities		₹	Assets		₹
Capital A/cs:			Cash (WN 2)		2,82,500
Ram	1,62,000		Debtors	30,000	
Mohan	1,43,000		*Less:* Provision for Doubtful Debts	3,000	27,000
Sohan	1,52,500	4,57,500	Stock (₹ 50,000 – ₹ 5,000)		45,000
Creditors		30,000	10% Government Bonds		20,000
Bills Payable		10,000	Furniture		9,000
			Machinery		1,14,000
		4,97,500			4,97,500

Working Notes:

1. *Calculation of Sohan's Capital:*

	₹
Capital of Ram after all adjustments	1,62,000
Capital of Mohan after all adjustments	1,43,000
Combined Capital for 2/3rd Share	3,05,000

$$\text{Capital of New Firm} = ₹\,3,05,000 \times \frac{3}{2} = ₹\,4,57,500$$

$$\text{Sohan's Capital in New Firm} = \frac{1}{3} \text{ of } ₹\,4,57,500 = ₹\,1,52,500.$$

2. *Dr.* CASH ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,00,000	By Revaluation A/c	4,000
To Bad Debts Recovered A/c	4,000	By Balance *c/d*	2,82,500
To Premium for Goodwill A/c	30,000		
To Sohan's Capital A/c	1,52,500		
	2,86,500		2,86,500

Or

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Vehicles A/c		19,000	By Stock A/c	24,000
To Gain (Profit) transferred to:			By Building A/c	25,000
X's Capital A/c	15,000			
Y's Capital A/c	10,000			
Z's Capital A/c	5,000	30,000		
		49,000		49,000

Dr. PARTNERS' CAPTIAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To Profit and Loss A/c	22,500	15,000	7,500	By Balance *b/d*	2,40,000	2,00,000	1,60,000
To *Y*'s Capital A/c	15,000	...	35,000	By Revaluation A/c (Gain)	15,000	10,000	5,000
To *Y*'s Loan A/c	...	2,45,000	...	By *X*'s Capital A/c	...	15,000	...
To Balance *c/d*	3,60,000	...	2,40,000	By *Z*'s Capital A/c	...	35,000	...
				By Cash A/c (Bal. Fig.)	1,42,500	...	1,17,500
	3,97,500	2,60,000	2,82,500		3,97,500	2,60,000	2,82,500

BALANCE SHEET OF THE NEW FIRM *as at 1st April, 2018*

Liabilities		₹	Assets	₹
Capital A/cs:			Cash	2,75,000
X	3,60,000		Debtors	70,000
Z	2,40,000	6,00,000	Stock	2,54,000
Y's Loan		2,45,000	Vehicles	1,71,000
Bills Payable		80,000	Building	2,75,000
Creditors		1,20,000		
		10,45,000		10,45,000

Working Notes:

1. *Calculation of Gaining Ratio:*

	X	*Y*	*Z*
I. New Share	3/5	—	2/5
II. Old Share	3/6	2/6	1/6
III. Gain/(Sacrifice) (I – II)	3/30	–2/6	7/30

Thus, Gaining Ratio of *X* and *Z* = $\frac{3}{30}:\frac{7}{30} = 3:7$.

2. *Adjustment of Goodwill:*

Y's Share of Goodwill = $\frac{2}{6}$ × ₹ 1,50,000 = ₹ 50,000, which will be contributed by *X* and *Z* in their gaining ratio.

Thus, *X*'s Contribution = $\frac{3}{10}$ of ₹ 50,000 = ₹ 15,000;

Z's Contribution = $\frac{7}{10}$ of ₹ 50,000 = ₹ 35,000.

3. *Adjustment of Capital:*

Total Capital of New Firm = ₹ 6,00,000, which will be contributed by *X* and *Z* in their new ratio, *i.e.*, 3 : 2.

Thus, *X*'s Capital in New Firm = $\frac{3}{5}$ of ₹ 6,00,000 = ₹ 3,60,000;

Z's Capital in New Firm = $\frac{2}{5}$ of ₹ 6,00,000 = ₹ 2,40,000.

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

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		1,20,000	
	To Equity Shares Application A/c				1,20,000
	(Being the application money received for 60,000 shares)				
	Equity Shares Application A/c	...Dr.		1,20,000	
	To Equity Share Capital A/c				1,00,000
	To Equity Shares Allotment A/c				20,000
	(Being the application money adjusted)				
	Equity Shares Allotment A/c	...Dr.		2,50,000	
	To Equity Share Capital A/c				1,50,000
	To Securities Premium Reserve A/c				1,00,000
	(Being the allotment money due on 50,000 shares)				
	Bank A/c	...Dr.		2,27,700	
	To Equity Shares Allotment A/c				2,27,700
	Or				
	Bank A/c	...Dr.		2,27,700	
	Calls-in-Arrears A/c	...Dr.		2,300	
	To Equity Shares Allotment A/c				2,30,000
	(Being the allotment money received except on 500 shares)				
	Equity Shares First and Final Call A/c	...Dr.		2,50,000	
	To Equity Share Capital A/c				2,50,000
	(Being the first and final call due on 50,000 shares)				
	Bank A/c	...Dr.		2,37,500	
	To Equity Shares First and Final Call A/c				2,37,500
	Or				
	Bank A/c	...Dr.		2,37,500	
	Calls-in-Arrears A/c	...Dr.		12,500	
	To Equity Shares First and Final Call A/c				2,50,000
	(Being the first and final call received except on 2,500 shares)				

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Equity Share Capital A/c	...Dr.		25,000	
	Securities Premium Reserve A/c	...Dr.		1,000	
	To Forfeited Shares A/c (₹ 1,200 + ₹ 10,000)				11,200
	To Equity Shares Allotment A/c				2,300
	To Equity Shares First and Final Call A/c				12,500
	Or				
	Equity Share Capital A/c	...Dr.		25,000	
	Securities Premium Reserve A/c	...Dr.		1,000	
	To Forfeited Shares A/c				11,200
	To Calls-in-Arrears A/c				14,800
	(Being 2,500 shares forfeited for non-payment of allotment money on 500 shares and call on 2,500 shares)				
	Bank A/c	...Dr.		14,000	
	Forfeited Shares A/c	...Dr.		6,000	
	To Equity Share Capital A/c				20,000
	(Being 2,000 shares reissued @ ₹ 7 per share as fully paid)				
	Forfeited Shares A/c	...Dr.		4,000	
	To Capital Reserve A/c				4,000
	(Being the gain on 2,000 reissued shares transferred to Capital Reserve)				

Value: Equitable distribution of wealth.

Or

In the Books of Sunshine Ltd.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		30,00,000	
	To Equity Shares Application A/c				30,00,000
	(Being the application money received for 75,000 shares)				
	Equity Shares Application A/c	...Dr.		30,00,000	
	To Equity Share Capital A/c				9,00,000
	To Securities Premium Reserve A/c				3,00,000
	To Equity Shares Allotment A/c				12,00,000
	To Bank A/c (15,000 × ₹ 40)				6,00,000
	(Being the allotment money adjusted and refunded the application money on 15,000 shares)				
	Equity Shares Allotment A/c	...Dr.		15,00,000	
	To Equity Share Capital A/c				12,00,000
	To Securities Premium Reserve A/c				3,00,000
	(Being the allotment due on 30,000 shares)				
	Bank A/c	...Dr.		2,90,000	
	To Equity Shares Allotment A/c				2,90,000
	Or				
	Bank A/c	...Dr.		2,90,000	
	Calls-in-Arrears A/c	...Dr.		10,000	
	To Equity Shares Allotment A/c				3,00,000
	(Being the allotment money received except on 1,000 shares)				
	Equity Shares First and Final Call A/c	...Dr.		9,00,000	
	To Equity Share Capital A/c				9,00,000
	(Being the first and final call due on 30,000 shares)				

	Bank A/c ...Dr.		8,40,000	
	To Equity Shares First and Final Call A/c			8,40,000
	Or			
	Bank A/c ...Dr.		8,40,000	
	Calls-in-Arrears A/c ...Dr.		60,000	
	To Equity Shares First and Final Call A/c			9,00,000
	(Being the first and final call received except on 2,000 shares)			
	Equity Share Capital A/c ...Dr.		2,00,000	
	Securities Premium Reserve A/c ...Dr.		10,000	
	To Forfeited Shares A/c (₹ 70,000 + ₹ 70,000)			1,40,000
	To Equity Shares Allotment A/c			10,000
	To Equity Shares First and Final Call A/c			60,000
	(Being the forfeiture of 2,000 shares for non-payment of allotment money and call on 1,000 shares)			
	Bank A/c ...Dr.		3,20,000	
	To Equity Share Capital A/c			2,00,000
	To Securities Premium Reserve A/c			1,20,000
	(Being the reissue of 2,000 shares at ₹ 160 per share as fully paid)			
	Forfeited Shares A/c ...Dr.		1,40,000	
	To Capital Reserve A/c			1,40,000
	(Being the gain on reissue transferred to Capital Reserve)			

Value: '*Value of Equality*' has been ignored.

Working Notes:

1. *Calculation of Amount due on Allotment but not paid by A:*

Number of Shares allotted to $A = \frac{30,000}{60,000} \times 2,000 = 1,000$ shares.

	₹
Application Money paid by *A* (2,000 × ₹ 40)	80,000
Less: Application Money adjusted on application (1,000 × ₹ 40)	40,000
Excess Application Money to be adjusted on allotment	40,000

	Towards Share Capital ₹	*Towards Securities Premium Reserve* ₹
Amount Due on Allotment	40,000 (*i.e.*, ₹ 40 × 1,000)	10,000 (*i.e.*, ₹ 10 × 1,000)
Less: Excess Application Money to be adjusted on Allotment	40,000	...
Amount due on Allotment but not paid	...	10,000

2. *Calculation of total amount received on allotment:*

	₹	₹
Total allotment amount due (30,000 × ₹ 50)		15,00,000
Less: Excess Application Money adjusted on allotment	12,00,000	
Allotment money due but not paid by A	10,000	12,10,000
		2,90,000

PART B

18. No adjustment needs to be made because by definition of Operating Activity it is neither an Investing Activity nor a Financing Activity. Hence, it is an Operating Activity.

19. Current Investment is shown as Cash and Cash Equivalent in Cash Flow Statement.

20. (*a*) **Major Head:** Non-current Assets

Sub-head: Long-term Loans and Advances.

(*b*) It is shown under 'Shareholders' Funds'.

(*c*) 'Provision for Doubtful Debts' is deducted from the total amount of Trade Receivables.

(*d*) ***Values:*** Transparency, Honesty and Abiding by Law.

21. $$\text{Return on Investment} = \frac{\text{Net Profit before Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100$$

$$= \frac{₹\ 11,00,000}{₹\ 80,00,000} \times 100 = 13.75\%.$$

Working Note:

Calculation of Net Profit before Interest, Tax and Dividend:

Let Net Profit before Tax = ₹ 100; Tax = ₹ 40

Net Profit after Interest and Tax = ₹ 100 – ₹ 40 = ₹ 60

$$\text{Net Profit before Tax} = ₹\,6,00,000 \times \frac{₹\,100}{₹\,60} = ₹\ 10,00,000$$

$$\text{Net Profit before Interest and Tax} = ₹\ 10,00,000 + \left(₹\,10,00,000 \times \frac{10}{100}\right) = ₹\ 11,00,000$$

$$\text{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Equity (Shareholders' Funds)}}$$

$$= \frac{₹\ 10,00,000}{₹\ 70,00,000} = 0.143 : 1.$$

Debt = 10% Debentures = ₹ 10,00,000

Equity or Shareholders' Funds = Capital Employed – Debt

= ₹ 80,00,000 – ₹ 10,00,000 = ₹ 70,00,000.

22.

COMPARATIVE STATEMENT OF PROFIT AND LOSS

for the years ended 31st March, 2017 and 2018

Particulars	Note No.	31st March, 2017 ₹	31st March, 2018 ₹	Absolute Change (Increase/ Decrease) ₹	Percentage Change (Increase/ Decrease) %
		(A)	(B)	(C = B – A)	$\left(D = \frac{C}{A} \times 100\right)$
I. Revenue from Operations		24,00,000	36,00,000	12,00,000	50.00
II. Other Income (WN)		4,80,000	4,32,000	(48,000)	(10.00)
III. **Total Revenue (I + II)**		28,80,000	40,32,000	11,52,000	40.00
IV. **Expenses (WN)**		14,40,000	25,20,000	10,80,000	75.00
V. **Profit before Tax (III – IV)**		14,40,000	15,12,000	72,000	5.00
VI. *Less:* Tax		4,32,000	4,53,600	21,600	5.00
VII. **Profit after Tax (V – VI)**		10,08,000	10,58,400	50,400	5.00

Working Note:

Particulars	31st March, 2017 (₹)	31st March, 2018 (₹)
Other Income	₹ 24,00,000 × 20/100 = ₹ 4,80,000	₹ 36,00,000 ×12/100 = ₹ 4,32,000
Expenses	₹ 24,00,000 × 60/100 = ₹ 14,40,000	₹ 36,00,000 × 70/100 = ₹ 25,20,000

23.

CASH FLOW STATEMENT
for the year ended 31st March, 2018

Particulars		₹	₹
A. Cash Flow from Operating Activities			
Net Profit before Tax and Extraordinary Items (WN 1)		7,50,000	
Add: Depreciation on Fixed Assets		1,70,000	
Loss on Sale of Fixed Assets		20,000	
Interest on Debentures (WN 2)		88,000	
Operating Profit before Working Capital Changes		10,28,000	
Add: Decrease in Current Assets and Increase in Current Liabilities		...	
Less: Increase in Current Assets and Decrease in Current Liabilities			
Inventories	1,50,000		
Trade Receivables	50,000		
Trade Payables	1,50,000	3,50,000	
Cash Generated from Operating Activities		6,78,000	
Less: Tax Paid		1,00,000	
Cash Flow from Operating Activities			5,78,000
B. Cash Flow from Investing Activities			
Proceeds from Sale of Machinery (WN 3)		10,000	
Purchase of Machinery (WN 3)		(6,00,000)	
Proceeds from Sale of Non-current Investment		1,00,000	
Cash Used in Investing Activities			(4,90,000)
C. Cash Flow from Financing Activities			
Interim Dividend Paid		(1,00,000)	
Final Dividend Paid (2016–17)		(1,50,000)	
Bank Overdraft Raised		50,000	
Interest on Debentures		(88,000)	
Cash Proceeds from Long-term Borrowings		2,00,000	
Cash Used in Financing Activities			(88,000)
D. Net Increase/Decrease in Cash and Cash Equivalents (A + B + C)			NIL
E. *Add:* Opening Cash and Cash Equivalents (Cash and Bank Balances)			30,000
F. Closing Cash and Cash Equivalents (Cash and Bank Balances) (D + E)			30,000

Working Notes:

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

Particulars	₹
Profit for the Year (₹ 6,00,000 – ₹ 3,00,000)	3,00,000
Add: Interim Dividend Paid	1,00,000
Dividend Paid (Proposed Dividend for 2016–17)	1,50,000
Provision for Tax	2,00,000
Net Profit before Tax and Extraordinary Items	7,50,000

2. Interest on Debentures = (₹ 6,00,000 × 12/100 × 4/12) + (₹ 8,00,000 × 12/100 × 8/12)
= ₹ 24,000 + ₹ 64,000 = ₹ 88,000.

3. *Dr.* MACHINERY ACCOUNT *Cr.*

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

4. It is assumed that Proposed Dividend for the year 2016–17 had been approved by shareholders and paid.