MODEL TEST PAPER 15 (Solution)

PART A

1. Prizes awarded will be debited to Income and Expenditure Account.

2. Total Capital of the New Firm = New Partner's Capital × Reciprocal of his Share of Profit.

3. *Z*'s son cannot be admitted as a partner as all partners are not agreed. He can claim only for his father's capital and other claims as per Partnership Deed.

4. Interest on Debentures is paid before any dividend is paid to shareholders because it is charge against profits of the company.

5. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Realisation A/c ...Dr.		20,000	
	To Cash/Bank A/c			20,000
	(Being the balance of a creditor paid)			

6. Hidden Goodwill = (₹ 1,60,000 × 5/1) – (₹ 2,60,000 + ₹ 1,80,000 + ₹ 1,60,000)
= ₹ 2,00,000

Z's Share of Goodwill = ₹ 2,00,000 × 1/5 = ₹ 40,000.

7. PROFIT AND LOSS APPROPRIATION ACCOUNT
Dr. *for the year ended 31st March, 2018* *Cr.*

Particulars		₹	Particulars	₹
To Profit transferred to:			By Profit and Loss A/c (Net Profit) (Note)	15,050
Naman's Capital A/c	7,525			
Aman's Capital A/c	7,525	15,050		
		15,050		15,050

Notes:

(*i*) Interest on Naman's Loan = ₹ 10,000 × 6/100 × 3/12 = ₹ 150.
Interest on Partner's Loan is a charge against profit. Hence, it is debited to Profit and Loss Account. Thus, profit transferred to Profit and Loss Appropriation Account would be ₹ 15,050 (*i.e.*, ₹ 15,200 – ₹ 150).

(*ii*) Profit will be shared equally.

(*iii*) Interest on Capital will not be allowed.

Values: (*i*) Sensitivity towards promotion of sports in the society.
(*ii*) Promoting Sports with better quality of sports goods at reasonable prices in the society.

8. *Calculation of Subscription Income for the Year Ended 31st March, 2018:*

Particulars		₹
Subscription Received during the year 2017–18		8,00,000
Add: Subscription for 2017–18 received in 2016–17		20,000
		8,20,000
Less: (*i*) Subscription for 2016–17 received in 2017–18	50,000	
(*ii*) Subscription for 2018–19 received in 2017–18	40,000	90,000
Subscription income for the year 2017–18		7,30,000

Alternative Method: *Subscription income can be calculated by preparing Subscription Account as under:*

Dr. SUBSCRIPTION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Subscription in Arrears A/c (Opening)	50,000	By Subscription Received in Advance A/c —For 2017–18	20,000
To Income and Expenditure A/c —Subscription Income for 2017–18	7,30,000	By Bank A/c	8,00,000
To Subscription Received in Advance —For 2018–19	40,000		
	8,20,000		8,20,000

9. (*i*) JOURNAL OF *AB* LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 April 1	Bank A/c ...Dr.		4,00,000	
	To Debentures Application A/c			4,00,000
	(Being the application money received for 10,000 debentures)			
	Debentures Application A/c ...Dr.		4,00,000	
	To 10% Debentures A/c			4,00,000
	(Being the application money transferred to 10% Debentures A/c)			
	Debentures Allotment A/c ...Dr.		5,20,000	
	Loss on Issue of Debentures A/c ...Dr.		1,30,000	
	To 10% Debentures A/c			6,00,000
	To Premium on Redemption of Debentures A/c			50,000
	(Being the issue of 10,000; 10% Debentures of ₹ 100 each at 8% discount and redeemable at 5% premium)			
	Bank A/c ...Dr.		5,20,000	
	To Debentures Allotment A/c			5,20,000
	(Being the allotment money received)			

(*ii*)

Dr. 10% DEBENTURES ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2019 March 31	To Balance *c/d*	10,00,000	2018 April 1	By Debentures Application A/c	4,00,000
				By Loss on Issue of Debentures A/c	80,000
				By Debentures Allotment A/c	5,20,000
		10,00,000			10,00,000

10. JOURNAL OF ANUPAMA LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	On Creation of DRR			
	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		2,50,000	
	To Debentures Redemption Reserve A/c			2,50,000
	(Being the profit transferred to DRR to make the reserve equivalent to 25% of the value of Debentures)			

On 1st April of the Financial Year in which Redemption is Due Debentures Redemption Investment A/c ...Dr. To Bank A/c (Being the amount invested in specified securities equal to 15% of the amount of redeemable debentures)		1,50,000	 1,50,000
On Redemption Bank A/c ...Dr. To Debentures Redemption Investment A/c To Interest Earned A/c (Being the debentures redemption investment realised and interest received)		1,62,000	 1,50,000 12,000
9% Debentures A/c ...Dr. To Debentureholders' A/c (Being the amount due on redemption)		10,00,000	 10,00,000
Debentureholders' A/c ...Dr. To Bank A/c (Being payment made to debentureholders)		10,00,000	 10,00,000
Debentures Redemption Reserve A/c ...Dr. To General Reserve A/c (Being the amount in DRR A/c transferred to General Reserve)		2,50,000	 2,50,000

Note: As per Section 71(4) of the Companies Act, 2013 and Rule 18(7) (*b*) of the Companies (Share Capital and Debentures) Rules, 2014, an amount at least equal to 25% of the Nominal Value of Debentures issued is credited to Debentures Redemption Reserve Account and as per Rule 18(7) (*c*) of the Companies (Share Capital and Debentures) Rules, 2014 investment is made of amount equal to at least 15% of the nominal value of debentures to be redeemed in specified securities.

11.

PROFIT AND LOSS APPROPRIATION ACCOUNT

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

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Net Profit as per Profit and		
X (5% on ₹ 2,50,000)	12,500		Loss A/c	3,00,000	
Y (5% on ₹ 1,50,000)	7,500	20,000	*Less:* Interest on *Y*'s Loan	5,000	
To *X*'s Salary A/c (₹ 5,000 × 12)		60,000	(₹ 1,25,000 × 8/100 × 6/12)		
To *Y*'s Commission A/c (2% on ₹ 8,00,000)		16,000		2,95,000	
To Profit transferred to Capital A/cs:			*Less:* Rent paid to *X*	50,000	2,45,000
X (1/2)	75,625		By Interest on Drawings A/cs:		
Y (1/2)	75,625	1,51,250	*X* (₹ 50,000 × 5/100 × 6/12)	1,250	
			Y (₹ 40,000 × 5/100 × 6/12)	1,000	2,250
		2,47,250			2,47,250

Values: 1. Fullfilment of Social Responsibility.
2. Sensitivity towards promotion of better health facilities among weaker section of the society.

12.

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

Particulars	₹	Particulars	₹
To *Z*'s Executors' A/c (Balancing Figure)	1,51,000	By Balance *b/d*	75,000
		By Revaluation A/c (Gain)	5,000
		By Workmen Compensation Reserve A/c (₹ 1,55,000 × 2/10)	31,000
		By Profit and Loss Suspense A/c (₹ 75,000 × 4/12 × 2/10)	5,000
		BY *X*'s Capital A/c (WN 1 and 2)	21,875
		By *Y*'s Capital A/c (WN 1 and 2)	13,125
	1,51,000		1,51,000

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Machinery A/c		10,000	By Patents A/c	10,000
To Gain (Profit) transferred to:			By Land A/c	25,000
X's Capital A/c	12,500			
Y's Capital A/c	7,500			
Z's Capital A/c	5,000	25,000		
		35,000		35,000

Values: (*i*) Sympathy and Sensitivity, (*ii*) Women Empowerment.

Working Notes:

1. *Valuation of Goodwill:*

$$\text{Average Profit} = \frac{₹\ 87,500 + ₹\ 1,00,000 + ₹\ 75,000}{3} = ₹\ 87,500$$

Goodwill = Average Profit × No. of Years' Purchase

= ₹ 87,500 × 2 = ₹ 1,75,000.

2. *Adjustment of Goodwill:*

Goodwill of the firm = ₹ 1,75,000

Z's Share of Goodwill = 2/10 of ₹ 1,75,000 = ₹ 35,000, which will be contributed by *X* and *Y* in their gaining ratio, *i.e.*, 5 : 3. Thus,

X's Contribution = 5/8 of ₹ 35,000 = ₹ 21,875; and

Y's Contribution = 3/8 of ₹ 35,000 = ₹ 13,125.

13. **In the Books of the Firm**

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Furniture A/c		10,000	By Building A/c	1,00,000
To Gain (Profit) transferred to:			By Land A/c	90,000
A's Capital A/c	1,26,000		By Investment A/c (₹ 1,29,000 – 1,20,000)	9,000
B's Capital A/c	63,000	1,89,000		
		1,99,000		1,99,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	Particulars	*A* (₹)	*B* (₹)
To *A*'s Capital A/c	...	40,000	By Balance *b/d*	6,00,000	3,00,000
To Balance *c/d*	7,72,000	3,26,000	By Revaluation A/c (Profit)	1,26,000	63,000
			By Investment Fluctuation Reserve	6,000	3,000
			By *B*'s Capital A/c (WN 1 and 2)	40,000	...
	7,72,000	3,66,000		7,72,000	3,66,000

BALANCE SHEET OF *A* AND *B as at 1st April, 2018*

Liabilities		₹	Assets	₹
Creditors		78,500	Land	1,50,000
Capital A/cs:			Building	5,00,000
A	7,72,000		Furniture	27,500
B	3,26,000	10,98,000	Debtors	60,000
			Stock	2,50,000
			Investment	1,29,000
			Bank	45,000
			Cash	15,000
		11,76,500		11,76,500

Working Notes:

1. *Calculation of Gain/(Sacrifice) of Share:*

	New Share	Old Share	Difference
A	$\frac{1}{2}$	$\frac{2}{3}$	$\frac{1}{2}-\frac{2}{3}=\frac{3-4}{6}=\left(\frac{1}{6}\right)$ Sacrifice
B	$\frac{1}{2}$	$\frac{1}{3}$	$\frac{1}{2}-\frac{1}{3}=\frac{3-2}{6}=\frac{1}{6}$ Gain

2. *Adjustment of Goodwill:*
   A is sacrificing partner and *B* is Gaining partner. The Journal entry will be:

B's Capital A/c (₹ 2,40,000 × 1/6)	...Dr.	₹ 40,000	
To *A*'s Capital A/c			₹ 40,000

14.

In the Books of *X* and *Y*

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets—Transfer:			By Provision for Doubtful Debts A/c		2,000
Stock	10,000		By Creditors A/c		76,000
Debtors	40,000		By *X*'s Capital A/c (Stock)		**8,000**
Fixed Assets	80,000	1,30,000	By Bank A/c:		
To Bank A/c (Creditors)		**76,000**	Debtors	37,600	
To Gain (Profit) transferred to:			Fixed Assets	1,22,000	1,59,600
X's Capital A/c		**31,680**			
Y's Capital A/c		**7,920**			
		2,45,600			2,45,600

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	Particulars	*X* ₹	*Y* ₹
To Bank A/c (Realisation Expenses)	2,000	...	By Balance *b/d*	20,000	60,000
To Advertisement Expenditure A/c	**800**	200	By General Reserve A/c	16,000	**4,000**
To Realisation A/c (Stock)	8,000	...	By Realisation A/c (Gain)	31,680	**7,920**
To Bank A/c (Final Payment)	**56,880**	**71,720**			
	67,680	71,920		67,680	71,920

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	47,000	By Realisation A/c	76,000
To Realisation A/c	**1,59,600**	By *X*'s Capital A/c (Realisation Expenses)	**2,000**
		By *X*'s Capital A/c	56,880
		By *Y*'s Capital A/c	71,720
	2,06,600		2,06,600

Working Notes:

1. *Y*'s Share in profits is 1/5 and his share in General Reserve = ₹ 4,000.
   As, Total General Reserve = ₹ 4,000 × 5/1 = ₹ 20,000. *X*'s Share in General Reserve = ₹ 20,000 × 4/5 = ₹ 16,000.
2. *Y*'s share in profit is 1/5 and his share in Advertisement Expenditure = ₹ 200. So, total Advertisement Expenditure = ₹ 200 × 5/1 = ₹ 1,000.
   X's Share in Advertisement Expenditure = ₹ 1,000 × 4/5 = ₹ 800.

15.

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

Dr. Expenditure		₹	Income		₹ *Cr.*
To Rent		6,600	By Subscriptions	32,500	
To Electricity Charges		3,200	*Add:* Subscription Due	750	
To Lecturer's Fee		730		33,250	
To Office Expenses		1,480	*Less:* Subscription Advance	500	32,750
To Printing and Stationery		1,050	By Donations		2,500
To Legal Fee		1,870	By Surplus from Entertainment Event		7,250
To Expenses on Nukar Drama		1,300	By Interest		350
To Loss on Sale of Books		250			
To Depreciation on:					
Furniture	580				
Books	750				
Building	1,000	2,330			
To Surplus (*i.e.*, Excess of Income over Expenditure)		24,040			
		42,850			42,850

BALANCE SHEET *as at 31st March, 2018*

Liabilities		₹	Assets	₹
Subscription Received in Advance		500	Cash in Hand	8,040
Capital Fund			Cash at Bank	9,500
Opening Balance (WN)	27,270		Subscription Receivable	750
Add: Life Membership Fee	3,250		Building (₹ 20,000 – ₹ 1,000)	19,000
Surplus	24,040	54,560	Furniture (₹ 3,000 + ₹ 8,600 – ₹ 580 (Dep.))	11,020
			Books (₹ 2,000 + ₹ 6,500 – ₹ 1,000 – ₹ 750)	6,750
		55,060		55,060

Working Note: *Calculation of Capital Fund as on 1st April, 2017:*

BALANCE SHEET *as at 1st April, 2017*

Liabilities	₹	Assets	₹
Capital Fund (Balancing Figure)	27,270	Cash in Hand	1,000
		Cash at Bank	1,270
		Building	20,000
		Furniture	3,000
		Books	2,000
	27,270		27,270

16.

REVALUATION ACCOUNT

Dr. Particulars		₹	Particulars	₹ *Cr.*
To Provision for Doubtful Debts A/c		600	By Building A/c	10,000
To Machinery A/c		7,200	By Sundry Creditors A/c	1,800
To Provision for Outstanding Repairs A/c		3,000	By Prepaid Insurance A/c	2,000
To Gain (Profit) transferred to:				
X's Capital A/c	1,500			
Y's Capital A/c	1,000			
Z's Capital A/c	500	3,000		
		13,800		13,800

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To *Y*'s Capital A/c (Goodwill)	9,000	...	3,000	By Balance *b/d*	90,000	60,000	30,000
To Cash A/c	...	9,000	...	By Reserve A/c	3,000	2,000	1,000
To *Y*'s Loan A/c (Transferred)	...	66,000	...	By Revaluation A/c (Gain)	1,500	1,000	500
To Balance *c/d**	90,000	...	30,000	By *X*'s Capital A/c (WN)	...	9,000	...
				By *Z*'s Capital A/c (WN)	...	3,000	...
				By Cash A/c (Balancing Figure)	4,500	...	1,500
	99,000	75,000	33,000		99,000	75,000	33,000

*Total capital of ₹ 1,20,000 will be in new profit-sharing ratio, *i.e.*, 3 : 1. Thus,
X's Capital in new firm = 3/4 of ₹ 1,20,000 = ₹ 90,000;
Z's Capital in new firm = 1/4 of ₹ 1,20,000 = ₹ 30,000.

BALANCE SHEET OF THE NEW FIRM *as at 31st March, 2018*

Liabilities		₹	Assets		₹
Sundry Creditors		13,800	Cash (₹ 16,000 – ₹ 9,000 + ₹ 4,500 + ₹ 1,500)		13,000
Employees' Provident Fund		10,000	Prepaid Insurance		2,000
Provision for Outstanding Repairs		3,000	Debtors	20,000	
Y's Loan		66,000	*Less:* Provision for Doutful Debts	1,000	19,000
Capital A/cs			Stock		28,000
X	90,000		Machinery		40,800
Z	30,000	1,20,000	Building		1,10,000
		2,12,800			2,12,800

Value: Value of compensation and consideration is being reflected by giving credit to *Y* for the share sacrificed.

Working Note:

Firm's Goodwill = ₹ 36,000
Y's Share of Goodwill = 2/6 of ₹ 36,000 = ₹ 12,000, which will be contributed by *X* and *Z* in their gaining ratio, *i.e.*, 3 : 1.
Thus, *X*'s contribution = 3/4 of ₹ 12,000 = ₹ 9,000;
Z's contribution = 1/4 of ₹ 12,000 = ₹ 3,000.

Or

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Gain (Profit) transferred to:			By Machinery A/c	14,000
Annu's Capital A/c	18,480		By Provision for Doubtful Debts A/c	7,000
Mannu's Capital A/c	12,320	30,800	By Creditors A/c	9,800
		30,800		30,800

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Annu ₹	Mannu ₹	Sonu ₹	Particulars	Annu ₹	Mannu ₹	Sonu ₹
To Bank A/c (Balancing Figure)	41,080	85,720	...	By Balance *b/d*	1,19,000	1,12,000	...
To Balance *c/d* (WN 1)	1,12,000	56,000	56,000	By General Reserve A/c	6,000	4,000	...
				By Investment Fluctuation Reserve A/c	1,200	800	...
				By Revaluation A/c	18,480	12,320	...
				By Bank A/c	...	...	56,000
				By Premium for Goodwill A/c	8,400	12,600	...
	1,53,080	1,41,720	56,000		1,53,080	1,41,720	56,000

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

Liabilities		₹	Assets	₹
Creditors		46,200	Cash at Bank (WN 2)	27,200
Capital A/cs:			Debtors	42,000
Annu	1,12,000		Investments	19,000
Mannu	56,000		Building	98,000
Sonu	56,000	2,24,000	Machinery	84,000
		2,70,200		2,70,200

Value: Value of compensation and consideration is being reflected by giving credit to the sacrificing partners for the shares sacrificed by them.

Working Notes:

1. *Adjustment of Capital:*

Sonu's Capital for 1/4th Share = ₹ 56,000

Total capital of the New Firm = ₹ 2,24,000 (*i.e.*, ₹ 56,000 × 4/1), which will be contributed by Annu, Mannu and Sonu in their new profit-sharing ratio, *i.e.*, 2 : 1 : 1. Thus,

Annu's Capital in New Firm = 2/4 of ₹ 2,24,000 = ₹ 1,12,000;

Mannu's Capital in New Firm = 1/4 of ₹ 2,24,000 = ₹ 56,000.

2. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	77,000	By Annu's Capital A/c	41,080
To Sonu's Capital A/c	56,000	By Mannu's Capital A/c	85,720
To Premium for Goodwill A/c	21,000	By Balance *c/d*	27,200
	1,54,000		1,54,000

17. JOURNAL OF *XYZ* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		4,95,000	
	To Equity Shares Application A/c				4,95,000
	(Being the shares application money received for 1,10,000 shares)				
	Equity Shares Application A/c	...Dr.		4,95,000	
	To Equity Share Capital A/c				1,20,000
	To Securities Premium Reserve A/c				1,50,000
	To Equity Shares Allotment A/c				1,86,500
	To Bank A/c				38,500
	(Being the application money adjusted)				
	Equity Shares Allotment A/c	...Dr.		2,40,000	
	To Equity Share Capital A/c				2,40,000
	(Being the allotment money due on 60,000 shares @ ₹ 4 each)				
	Bank A/c	...Dr.		53,440	
	To Equity Shares Allotment A/c				53,440
	(Being the allotment money received except on 60 shares)				
	Equity Shares First and Final Call A/c	...Dr.		2,40,000	
	To Equity Share Capital A/c				2,40,000
	(Being the first and final call due on 60,000 shares @ ₹ 4 each)				
	Bank A/c	...Dr.		2,36,560	
	To Equity Shares First and Final Call A/c				2,36,560
	(Being the first and final call received except on 860 shares)				

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Equity Share Capital A/c	...Dr.		8,600	
	To Forfeited Shares A/c (₹ 300 + ₹ 4,800)				5,100
	To Equity Shares Allotment A/c				60
	To Equity Shares First and Final Call A/c				3,440
	(Being 60 shares forfeited for non-payment of allotment and call and 800 shares for non-payment of call)				
	Bank A/c (₹ 8 × 60 + ₹ 6 × 800)	...Dr.		5,280	
	Forfeited Shares A/c (₹ 2 × 60 + ₹ 4 × 800)	...Dr.		3,320	
	To Equity Share Capital A/c				8,600
	(Being 860 forfeited shares reissued)				
	Forfeited Shares A/c	...Dr.		1,780	
	To Capital Reserve A/c				1,780
	(Being the gain on reissue transferred to Capital Reserve)				

Notes:

1. **Table Showing Adjustment of Application Money**

Categories	Shares Applied	Shares Allotted	Application Money Received ₹	Appropriation of Application Money Received: Shares Application ₹	Shares Allotment ₹	Refund ₹
A	70,000	42,000	3,15,000 (@ ₹ 4.50)	1,89,000	1,26,000 (*i.e.*, ₹ 3,15,000 – ₹ 1,89,000)	...
B	35,000	14,000	1,57,500 (@ ₹ 4.50)	63,000	56,000 (*i.e.*, 14,000 × ₹ 4)	38,500
C	5,000	4,000	22,500 (@ ₹ 4.50)	18,000	4,500 (*i.e.*, 22,500 – ₹ 18,000)	...

2. Allotment money received: ₹ 53,440 [₹ 2,40,000 (Allotment money due) – ₹ 1,26,000 (*A*) – ₹ 56,000 (*B*) – ₹ 4,500 (*C*) – ₹ 60* (Not paid by Amar).]
3. Amount transferred to Capital Reserve: ₹ 1,780, *i.e.*, ₹ 5,100 (Forfeited Shares A/c) – ₹ 3,320 (Discount on Reissue).
4. Excess application money adjusted on Allotment (A + B + C) = ₹ 1,86,500.

*Shares allotted to Amar = $\frac{42,000}{70,000} \times 100 = 60$ shares.

Allotment money not paid by Amar = (60 × ₹ 4) – (Excess Application Money: 40 × ₹ 4.50) = ₹ 60.

Or

In the Books of *EP* Ltd.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2017					
June 1	Bank A/c	...Dr.		12,50,000	
	To Equity Shares Application A/c				12,50,000
	(Being the application money received for 2,50,000 shares @ ₹ 5 each)				
August 1	Equity Shares Application A/c	...Dr.		12,50,000	
	To Equity Share Capital A/c (2,00,000 × ₹ 5)				10,00,000
	To Equity Shares Allotment A/c (40,000 × ₹ 5)				2,00,000
	To Bank A/c (10,000 × ₹ 5)				50,000
	(Being the application money adjusted)				

August 1	Equity Shares Allotment A/c ...Dr.		6,00,000	
	To Equity Share Capital A/c			4,00,000
	To Securities Premium Reserve A/c			2,00,000
	(Being the allotment money due on 2,00,000 shares @ ₹ 3 each including premium of ₹ 1 per share)			
	Bank A/c ...Dr.		3,99,650	
	To Equity Shares Allotment A/c			3,99,650
	(Being the shares allotment money received except on 200 shares)			
Sept. 28	Equity Shares First and Final Call A/c ...Dr.		6,00,000	
	To Equity Share Capital A/c			6,00,000
	(Being the shares first and final call money due on 2,00,000 shares @ ₹ 3 each)			
Sept. 28	Bank A/c ...Dr.		5,99,400	
	To Equity Shares First and Final Call A/c			5,99,400
	(Being the shares first and final call received except on 200 shares)			
Sept. 28	Equity Share Capital A/c ...Dr.		2,000	
	Securities Premium Reserve A/c ...Dr.		200	
	To Forfeited Shares A/c			1,250
	To Equity Shares Allotment A/c			350
	To Equity Shares First and Final Call A/c			600
	(Being 200 shares forfeited for non-payment of allotment and call money)			
Nov. 30	Bank A/c ...Dr.		1,800	
	Forfeited Shares A/c ...Dr.		200	
	To Equity Share Capital A/c			2,000
	(Being 200 forfeited shares reissued at ₹ 9 per share as fully paid)			
Nov. 30	Forfeited Shares A/c ...Dr.		1,050	
	To Capital Reserve A/c			1,050
	(Being gain on reissue transferred to Capital Reserve)			

BALANCE SHEET *as at 31st March, 2018*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	20,00,000

Notes to Accounts

Particulars	₹
1. Share Capital	
Authorised Capital	
... Equity Shares of ₹ 10 each	...
Issued Capital	
2,00,000 Equity Shares of ₹ 10 each	20,00,000
Subscribed Capital	
Subscribed and Fully Paid-up	
2,00,000 Equity Shares of ₹ 10 each	20,00,000

PART B

18. Mutual Fund company is a finance company. Dividend received by it on the shares held in other companies is Revenue from Operations. Therefore, dividend received by this company is Cash Inflow from Operating activities.

19. (*i*) Cash receipts from the sale of goods;

(*ii*) Cash receipts from rendering of services, *e.g.*, Royalties, fee, commission.

20.

S. No.	Items	Main Head	Sub-head
(*i*)	Computer Software	Non-Current Assets	Fixed Assets—Intangible Assets
(*ii*)	Prepaid Expenses	Current Assets	Other Current Assets
(*iii*)	Stores and Spares	Current Assets	Inventories
(*iv*)	Capital Work-in-Progress	Non-Current Assets	Fixed Assets—Capital Work-in-Progress

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

$$= \frac{₹\ 75{,}000}{₹\ 4{,}00{,}000} \times 100 = 18.75\%.$$

Working Notes:

1. Net Profit before Interest = Net Profit after Interest and Tax + Tax + Interest on 10% Debentures
= ₹ 55,000 + ₹ 10,000 + ₹ 10,000 (*i.e.*, 10% of ₹ 1,00,000) = ₹ 75,000.

2. Capital Employed = Equity Share Capital + Preference Share Capital + Reserves and Surplus + 10% Debentures
= ₹ 1,50,000 + ₹ 80,000 + ₹ 70,000 + ₹ 1,00,000 = ₹ 4,00,000.

(*b*) Before we calculate Net Profit Ratio, we need to first calculate Total Revenue from Operations.

Let Revenue from Operations = x

It means, Cash Revenue from Operations = 20% of $x = 0.2x$

Credit Revenue from Operations = $x - 0.2x$

₹ 8,00,000 = $0.8x$

x or Revenue from Operations = ₹ 10,00,000

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Revenue from Operations}} \times 100 = \frac{₹\ 1{,}50{,}000}{₹\ 10{,}00{,}000} \times 100 = 15\%.$$

Note: Net Profit = Gross Profit – Indirect Expenses
= ₹ 3,00,000 (*i.e.*, 30% of ₹ 10,00,000) – ₹ 1,50,000 = ₹ 1,50,000.

22. (*a*) Common-size Income Statement is a Statement in which income and expenses are shown as percentage of Revenue from Operations which is taken as 100.

(*b*) COMMON-SIZE STATEMENT OF PROFIT AND LOSS *for the year ended 31st March, 2018*

Particulars	Note No.	Absolute Amount	Percentage of Revenue from Operations
		31st March, 2018 (₹)	31st March, 2018 (%)
I. Revenue from Operations		60,00,000	100
Total Revenue		**60,00,000**	**100**
II. **Expenses:**			
Employees Benefit Expenses		30,00,000	50
Other Expenses		6,00,000	10
Total Expenses		**36,00,000**	**60**
III. **Profit before Tax (I – II)**		24,00,000	40

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

Particulars		₹
I. Cash Flow from Operating Activities		
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)		35,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)		30,000
		5,000
Add: Transfer to General Reserve (₹ 33,000 – ₹ 20,000)		13,000
Provision for Tax (Tax paid)		15,000
Net Profit before Tax and Extraordinary Items		33,000
Add: Non-operating and Non-cash Items:		
Depreciation	25,000	
Interest on Debentures (12% of ₹ 80,000)	9,600	
Premium on Redemption of Debentures (₹ 20,000 × 5/100)	1,000	35,600
		68,600
Less: Gain (Profit) on Sale of Machinery		7,000
Operating Profit before Working Capital Changes		61,600
Add: Increase in Current Liabilities:		
Trade Payables		1,05,000
		1,66,600
Less: Increase in Current Assets:		
Inventories	22,000	
Trade Receivables	20,000	42,000
Cash Generated from Operations		1,24,600
Less: Tax Paid		15,000
Cash Flow from Operating Activities		1,09,600
II. Cash Flow from Investing Activities		
Purchase of Machinery	(1,40,000)	
Proceeds from Sale of Machinery	12,000	
Proceeds from Sale of Non-current Investments	12,000	
Cash Used in Investing Activities		(1,16,000)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Equity Shares (Including Premium)	55,000	
Share Issue Expenses	(5,000)	
Redemption of Debentures at Premium	(21,000)	
Payment of Interest on Debentures	(9,600)	
Repayment of Bank Loan	(10,000)	
Cash Flow from Financing Activities		9,400
IV. Net Increase in Cash and Cash Equivalents (I + II + III)		3,000
V. *Add:* Cash and Cash Equivalents in the beginning of the period		1,15,000
VI. Cash and Cash Equivalents at the end of the period (IV + V)		1,18,000

Working Notes:

1. *Dr.* MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	3,50,000	By Accumulated Depreciation A/c	15,000
To Gain (Profit) on Sale of Machinery A/c* (Statement of Profit and Loss)	7,000	By Bank A/c (Sales proceeds)	12,000
To Bank A/c (Bal. Fig.—Purchase)	1,40,000	By Balance *c/d*	4,70,000
	4,97,000		4,97,000

	₹
*Sale Proceeds	12,000
Less: Book Value on the date of sale (*i.e.,* ₹ 20,000 – ₹ 15,000)	5,000
Gain (Profit) on Sale of Machinery	7,000

2. *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 Statement of Profit and Loss (Bal. Fig.)	25,000
	75,000		75,000

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

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

**Calculation of 'Sale Value' and 'Profit on sale of Non-Current Investments (NCI):*

Book Value = Opening – Closing = ₹ 50,000 – ₹ 40,000 = ₹ 10,000.

Profit on Sale = 20% × ₹ 10,000 = ₹ 2,000.

Sale value of Non-Current Investments = Book value + Profit = ₹ 10,000 + ₹ 2,000 = ₹ 12,000.

As the profit of Non-Current Investments has been transferred to Capital Reserve and not to Statement of Profit and Loss, such profit will not be adjusted to calculate Operating Profit.

4. Share issue expenses have been written off from Securities Premium Reserve, therefore, these expenses are not considered while computing Operating Profit before Working Capital Changes.