MODEL TEST PAPER 16 (Solution)

PART A

1. Receipts and Payments Account records all receipts and payments whether they are of Capital nature or Revenue nature or whether they relate to previous, current or following accounting years.

2. Maximum partners allowed in a partnership firm are 50. It is provided in the Companies Act, 2013.

3. Reconstitution of a firm means change in existing agreement of partnership. As a result, the existing agreement among partners comes to an end and a new agreement comes into existence and the firm continues.

4. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	P's Capital A/c	...Dr.		24,000	
	Q's Capital A/c	...Dr.		6,000	
	To *R*'s Capital A/c				30,000
	(Being *R*'s share of goodwill adjusted to the Capital Accounts of *P* and *Q* in their gaining ratio, *i.e.*, 4 : 1)				

Notes: (*i*) *R*'s Share of Goodwill = ₹ 90,000 × 1/3 = ₹ 30,000.

(*ii*) Gain of Partner = New Share – Old Share

$$P\text{'s Gain} = \frac{3}{5}-\frac{1}{3}=\frac{9-5}{15}=\frac{4}{15};\quad Q\text{'s Gain} = \frac{2}{5}-\frac{1}{3}=\frac{6-5}{15}=\frac{1}{15}$$

Thus, Gaining Ratio of *P* and *Q* = 4 : 1.

5. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Investment Fluctuation Reserve A/c	...Dr.		40,000	
	To Investment A/c				10,000
	To *X*'s Capital A/c				15,000
	To *Y*'s Capital A/c				9,000
	To *Z*'s Capital A/c				6,000
	(Being the value of investment brought down to market value and surplus IFR transferred to Partners' Capital Accounts in their old profit-sharing ratio)				

6. Securities Premium Reserve Account is not debited with the amount relating to forfeited shares because Securities Premium once received cannot be applied for purposes other than those specified in Section 52(2) of the Companies Act, 2013.

7. AN EXTRACT OF BALANCE SHEET

as at 31st March, 2018

Liabilities		₹	Assets	₹
Capital Fund			Building in Progress	3,60,000
Opening Balance	10,80,000		10% Building Fund Investments	4,80,000
Add: Transfer from Building Fund	3,60,000	14,40,000		
Building Fund				
Opening Balance	4,80,000			
Add: Donation Received	6,00,000			
Interest Received on Building Fund Investments	48,000			
	11,28,000			
Less: Transfer to Capital Fund	3,60,000	7,68,000		

8. JOURNAL OF *X* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Bank A/c	...Dr.		10,00,000	
	To Debentures Application and Allotment A/c				10,00,000
	(Being the receipt of debentures application money for 10,000; 10% Debentures @ ₹ 100 each)				
	Debentures Application and Allotment A/c	...Dr.		10,00,000	
	To 10% Debentures A/c				10,00,000
	(Being the issue of 10,000; 10% Debentures of ₹ 100 each at par)				
(*ii*)	Bank A/c	...Dr.		10,00,000	
	To Debentures Application and Allotment A/c				10,00,000
	(Being the receipt of debentures application money for 10,000; 10% Debentures @ ₹ 100 each)				
	Debentures Application and Allotment A/c	...Dr.		10,00,000	
	Loss on Issue of Debentures A/c	...Dr.		1,00,000	
	To 10% Debentures A/c				10,00,000
	To Premium on Redemption of Debentures A/c				1,00,000
	(Being the issue of 10,000; 10% Debentures of ₹ 100 each at par but redeemable at 10% premium)				
(*iii*)	Machinery A/c	...Dr.		12,00,000	
	To Vendor's A/c				12,00,000
	(Being the purchase of Machinery)				
	Vendor's A/c	...Dr.		12,00,000	
	To 10% Debentures A/c				10,00,000
	To Securities Premium Reserve A/c				2,00,000
	(Being the issue of 10,000; 10% Debentures of ₹ 100 each at a premium of 20%)				

9. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018	**Bank A/c**	...Dr.		1,36,000	
April 1	To Able's Capital A/c				1,00,000
	To **Premium for Goodwill A/c**				36,000
	(Being the amount of premium for goodwill and capital brought in by Able)				
April 1	**Premium for Goodwill A/c**	...Dr.		**36,000**	
	To Strong's Capital A/c **(1/10 × ₹ 36,000)**				**3,600**
	To Weak's Capital A/c **(9/10 × ₹ 36,000)**				**32,400**
	(Being the premium for goodwill credited to old partners on the basis of their sacrificing ratio, *i.e.,* 1 : 9)				
April 1	**Strong's Capital A/c**	...Dr.		**3,600**	
	Weak's Capital A/c	...Dr.		**32,400**	
	To **Bank A/c**				**36,000**
	(Being the withdrawal of premium money by the partners)				

10. AN EXTRACT OF BALANCE SHEET OF LITTLE COMFORTS LTD.
as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	1,78,800

Note to Accounts

Particulars	₹
1. Share Capital	
Authorised Capital	
50,000 Equity Shares of ₹ 10 each	5,00,000
Issued Capital	
30,000 Equity Shares of ₹ 10 each	3,00,000
Subscribed Capital	
Subscribed but not fully paid-up	
29,700 Equity Shares of ₹ 10 each; ₹ 6 per share paid-up	1,78,200
Add: Forfeited Shares A/c (300 × ₹ 2)	600
	1,78,800

Values: Caring attitude for the people in distress and value for education.

11.

Dr. Y'S CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Goodwill A/c (written off) (₹ 20,000 × 3/10)	6,000	By Balance *b/d*	60,000
To *Y*'s Executors' A/c (Balancing Figure)	1,32,225	By Profit and Loss Suspense A/c (WN 2)	1,125
		By *X*'s Capital A/c (WN 3)	20,571
		By *Z*'s Capital A/c (WN 3)	51,429
		By Workmen Compensation Reserve A/c (₹ 12,000 × 3/10)	3,600
		By Interest on Capital A/c (₹ 60,000 × 10/100 × 3/12)	1,500
	1,38,225		1,38,225

Dr. Y'S EXECUTORS' ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *c/d*	1,32,225	By *Y*'s Capital A/c	1,32,225
	1,32,225		1,32,225

Value: Being considerate to the requirements of the firm.

Working Notes:

1. Profit-sharing Ratio of *X*, *Y* and *Z* = Capital Ratio = 2 : 3 : 5.
2. *Y*'s Share of Profit = ₹ 15,000 × $\frac{3}{12} \times \frac{3}{10}$ = ₹ 1,125.
3. *Y*'s Share of Goodwill = ₹ 2,40,000 × $\frac{3}{10}$ = ₹ 72,000, which is contributed by *X* and *Z* in their gaining ratio, *i.e.*, 2 : 5. Thus,

   X's Contribution = ₹ 72,000 × $\frac{2}{7}$ = ₹ 20,571;

   Z's Contribution = ₹ 72,000 × $\frac{5}{7}$ = ₹ 51,429.

12.

In the Books of Firm

ADJUSTMENT JOURNAL ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Z's Capital A/c ...Dr.		550	
	To *X*'s Capital A/c			550
	(Being the adjustment entry recorded due to omission of interest on Capital and Drawings)			

Working Notes:

1. CALCULATION OF OPENING CAPITAL AND INTEREST ON CAPITAL

Particulars	*X* ₹	*Y* ₹	*Z* ₹
A. Closing Capital	30,000	25,000	20,000
B. *Add:* Drawings	5,000	4,000	3,000
C. *Less:* Share of Profit already Credited	(8,000)	(8,000)	(8,000)
D. Opening Capital	27,000	21,000	15,000
E. Interest on capital @ 10% p.a.	2,700	2,100	1,500

2. *Calculation of Revised Profits:*

Revised Profits = Given Profits + Interest on Drawings* – Interest on Capitals

= ₹ 24,000 + (₹ 250 + ₹ 200 + ₹ 150) – (₹ 2,700 + ₹ 2,100 + ₹ 1,500) = ₹ 18,300

*Date of Drawings are not given so interest is to be charged at an agreed rate for 6 months.

Hence, Interest on Drawings: *X*—₹ 250; *Y*—₹ 200; *Z*—₹ 150.

3. STATEMENT SHOWING THE REQUIRED ADJUSTMENT

Particulars		*X* ₹	*Y* ₹	*Z* ₹
I. Amount already credited; now debited	**(Dr.)**	8,000	8,000	8,000
II. Net Amount which should have been credited:				
Interest on Capital (Cr.)		2,700	2,100	1,500
Share of Profit (₹ 18,300 in 1 : 1 : 1) (Cr.)		6,100	6,100	6,100
Interest on Drawings (Dr.)		(250)	(200)	(150)
	(Cr.)	8,550	8,000	7,450
III. Amount to be adjusted (I – II)		550 (Cr.)	...	550 (Dr.)

13. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Revaluation A/c	...Dr.		54,000	
	To Stock A/c (₹ 60,000 × 40/100)				24,000
	To Furniture A/c (₹ 50,000 × 60%)				30,000
	(Being the decrease in value of assets recorded)				
	Rita's Capital A/c	...Dr.		27,000	
	Geeta's Capital A/c	...Dr.		16,200	
	Ashish's Capital A/c	...Dr.		10,800	
	To Revaluation A/c				54,000
	(Being the Loss on Revaluation transferred to Partners' Capital Accounts in their old ratio)				

Important Note: Observe the difference between:

- 'Furniture (Book Value ₹ 50,000) Reduced by 40%—It means value is to be reduced by 40%. Decrease in value of Furniture = ₹ 50,000 × 40/100 = ₹ 20,000'.
- 'Furniture (Book Value ₹ 50,000) Reduced to 40%—It means value is to be reduced by 60%. Decrease in value of Furniture = ₹ 50,000 × 60/100 = ₹ 30,000'.

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
April 1	*A*'s Capital A/c (₹ 50,000 × 3/5)	...Dr		30,000	
	B's Capital A/c (₹ 50,000 × 2/5)	...Dr.		20,000	
	To Goodwill A/c				50,000
	(Being the existing goodwil written off in the old ratio)				
	Bank A/c (₹ 10,00,000 + 60% of ₹ 1,50,000)	...Dr.		10,90,000	
	To *C*'s Capital A/c				10,00,000
	To Premium for Goodwill A/c				90,000
	(Being the amount brought in by *C* for his share of goodwill and Capital)				
	Premium for Goodwill A/c	...Dr.		90,000	
	C's Current/Capital A/c	...Dr.		60,000	
	To *A*'s Capital A/c (₹ 1,50,000 × 2/5)				60,000
	To *B*'s Capital A/c (₹ 1,50,000 × 3/5)				90,000
	(Being *C*'s share of goodwill credited to *A* and *B* in their sacrificing ratio, *i.e.*, 2 : 3)				
	A's Capital A/c	...Dr.		30,000	
	B's Capital A/c	...Dr.		45,000	
	To Bank A/c				75,000
	(Being 50% of the amount of goodwill credited to *A* and *B* withdrawn by them)				

Note: Firm's Goodwill = (₹ 3,50,000 – ₹ 2,00,000) × 5 = ₹ 7,50,000
C's Share in Goodwill = ₹ 7,50,000 × 1/5 = ₹ 1,50,000.

14. AN EXTRACT OF INCOME AND EXPENDITURE ACCOUNT
for the year ending 31st March, 2018

Dr. *Cr.*

Expenditure	₹	Income	₹
To Salaries A/c (WN 2)	2,00,000	By Subscription (WN 1)	5,76,000
To Sports Material Consumed (WN 3 and 4)	2,52,000		

AN EXTRACT OF BALANCE SHEET
as at 31st March, 2018

Liabilities	₹	Assets	₹
Advance Subscription	20,800	Subscription Due	28,000
Creditors for Sports Materials	36,000	Advance for Sports Materials	12,000
Outstanding Salaries	36,000	Stock of Sports Materials	28,000
		Prepaid Salaries	12,000

Working Notes:

1. *Dr.* SUBSCRIPTION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Subscription Due A/c (in the beginning)	38,000	By Advance Subscription A/c (in the beginning)	11,200
To Income and Expenditure A/c (Bal. Fig.)	5,76,000	By Bank A/c	5,95,600
To Advance Subscription A/c (at the end)	20,800	By Subscription Due A/c (at the end)	28,000
	6,34,800		6,34,800

2. *Dr.* SALARIES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Prepaid Salaries A/c (in the beginning)	20,000	By Outstanding Salaries A/c (in the beginning)	60,000
To Bank A/c (Paid during the year)	2,16,000	By Income and Expenditure A/c (Balancing Figure)	2,00,000
To Outstanding Salaries A/c (at the end)	36,000	By Prepaid Salaries A/c (at the end)	12,000
	2,72,000		2,72,000

Alternatively:

CALCULATION OF SALARIES FOR THE CURRENT YEAR

Particulars		₹
Salaries Paid during the year		2,16,000
Add: Outstanding Salaries (31st March, 2018)	36,000	
Prepaid Salaries (1st April, 2017)	20,000	56,000
		2,72,000
Less: Outstanding Salaries (1st April, 2017)	60,000	
Prepaid Salaries (31st March, 2018)	12,000	72,000
Current Year's Salaries to be shown in the Income and Expenditure Account		2,00,000

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

Particulars	₹	Particulars	₹
To Balance *b/d* (Advance)	20,000	By Balance *b/d*	60,000
To Bank A/c	2,16,000	By Stock of Sports Materials A/c (Bal. Fig.) (Credit Purchases)	2,00,000
To Balance *c/d*	36,000	By Balance *c/d* (Advance)	12,000
	2,72,000		2,72,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	60,000	By Income and Expenditure A/c (Bal. Fig.) (Sports Materials Consumed)	2,52,000
To Creditors for Sports Materials A/c (Transfer)	2,00,000	By Balance *c/d*	28,000
To Bank A/c (10% of ₹ 2,00,000) (Cash Purchases: 10% of credit Purchases)	20,000		
	2,80,000		2,80,000

15. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Realisation A/c ...Dr.		20,000	
	To *A*'s Capital A/c			20,000
	(Being the liability of his wife's loan taken over by *A*)			
(*ii*)	Bank A/c ...Dr.		7,500	
	To Realisation A/c			7,500
	(Being the Bad Debts recovered)			
(*iii*) (*a*)	*B*'s Capital A/c ...Dr.		72,000	
	To Realisation A/c			72,000
	(Being some Sundry Assets taken over by *B*)			
(*b*)	*A*'s Capital A/c [(₹ 1,17,000 – ₹ 80,000) × 80/100] ...Dr.		29,600	
	To Realisation A/c			29,600
	(Being the remaining Sundry Assets taken over by *A*)			

(*iv*)	Realisation A/c ...Dr. To Bank A/c (Being the *C*'s loan discharged along with accrued interest)		10,200	10,200
(*v*)	Realisation A/c ...Dr. To *A*'s Capital A/c (Being the remuneration due to *A*)		3,000	3,000
(*vi*)	*A*'s Capital A/c ...Dr. *B*'s Capital A/c ...Dr. To Realisation A/c (Being the loss on realisation transferred to Partners' Capital Accounts)		5,640 3,760	9,400

16.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Fixed Assets A/c	2,500	By Creditors A/c	2,000
To Provision for Doubtful Debts A/c	5,000	By Unexpired Insurance A/c	10,000
To Stock A/c	10,000	By Loss transferred to:	
		X's Capital A/c (₹ 5,500 × 5/10)	2,750
		Y's Capital A/c (₹ 5,500 × 3/10)	1,650
		Z's Capital A/c (₹ 5,500 × 2/10)	1,100
	17,500		17,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	*Z* ₹	Particulars	*X* ₹	*Y* ₹	*Z* ₹
To Goodwill A/c	25,000	15,000	10,000	By Balance *b/d*	40,000	62,000	33,000
To Revaluation A/c (Loss)	2,750	1,650	1,100	By Workmen Compensation			
To *X*'s Capital A/c	...	8,000	32,000	Reserve A/c	25,000	15,000	10,000
(Adjustment of Goodwill)				By *Y*'s Capital A/c (Goodwill)	8,000	...	...
To Bank A/c (Bal. Fig.)	1,19,750	...	...	By *Z*'s Capital A/c (Goodwill)	32,000	...	...
To Balance *c/d* (WN 4)	...	79,000	1,18,500	By Profit and Loss A/c	42,500	25,500	17,000
				By Bank A/c (Bal. Fig.)	...	1,150	1,01,600
	1,47,500	1,03,650	1,61,600		1,47,500	1,03,650	1,61,600

BALANCE SHEET *as at 1st April, 2018*

Liabilities	₹	Assets		₹
Creditors	40,000	Bank		15,000
Employees' Provident Fund	10,000	₹ (40,000 – 8,000 + 1,150 + 1,01,600 – 1,19,750)		
Y's Capital A/c	79,000	Sundry Debtors	1,00,000	
Z's Capital A/c	1,18,500	*Less:* Provision for Doubtful Debts	5,000	95,000
		Stock		70,000
		Unexpired Insurance		10,000
		Fixed Assets		57,500
	2,47,500			2,47,500

Value: Value of education.

Working Notes:

1. Gain/(Sacrifice) = *New Share – Old Share*

   Y's Gain = $\frac{2}{5} - \frac{3}{10} = \frac{1}{10}$

   Z's Gain = $\frac{3}{5} - \frac{2}{10} = \frac{4}{10}$, Gaining Ratio = 1 : 4.

2. X's Share of Goodwill = ₹ 80,000 × $\frac{5}{10}$ = ₹ 40,000 to be contributed by Gaining Partners in their Gaining Ratio.

   Y's contribution = ₹ 40,000 × $\frac{1}{5}$ = ₹ 8,000;

   Z's contribution = ₹ 40,000 × $\frac{4}{5}$ = ₹ 32,000.

3. Total Capital of New Firm = Adjusted Capitals of All Partners – Cash Available for Payment

   = (₹ 1,19,750 + ₹ 77,850 + ₹ 16,900) – (₹ 40,000 – ₹ 8,000 – ₹ 15,000) = ₹ 1,97,500.

   Alternatively:

   Total Capital of New Firm = Adjusted Capital of Remaining Partners + Cash Payable to Outgoing Partner – Cash Available + Cash Required to Maintain

   = ₹ 77,850 + ₹ 16,900 + ₹ 1,19,750 – (₹ 40,000 – ₹ 8,000) + ₹ 15,000 = ₹ 1,97,500.

4. Y's New Capital = ₹ 1,97,500 × $\frac{2}{5}$ = ₹ 79,000, Z's New Capital = ₹ 1,97,500 × $\frac{3}{5}$ = ₹ 1,18,500.

Or

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Investment A/c (₹ 50,000 – ₹ 45,000)	5,000	By Accrued Income A/c		1,000
To Patents A/c	2,000	By Bad Debts Recovered A/c		4,000
		By Loss transferred to:		
		Madan's Capital A/c	1,200	
		Mohan's Capital A/c	800	2,000
	7,000			7,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Madan ₹	Mohan ₹	Gopal ₹	Particulars	Madan ₹	Mohan ₹	Gopal ₹
To Revaluation A/c (Loss)	1,200	800	...	By Balance *b/d*	60,000	40,000	...
				By General Reserve A/c	12,000	8,000	...
To Balance *c/d*	88,200	58,800	49,000	By Workmen Compensation Reserve A/c	5,400	3,600	...
				By Premium for Goodwill A/c	12,000	8,000	...
				By Bank A/c (WN 1)	...	...	49,000
	89,400	59,600	49,000		89,400	59,600	49,000

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

Liabilities		₹	Assets		₹
Creditors		28,000	Cash at Bank (WN 2)		83,000
Provision for Workmen Compensation Claim		3,000	Debtors	65,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	5,000	60,000
Madan	88,200		Stock		30,000
Mohan	58,800		Accrued Income		1,000
Gopal	49,000	1,96,000	Investment		45,000
			Patents		8,000
		2,27,000			2,27,000

Value: Sensitivity towards differently abled persons.

Working Notes:

1. *Calculation of Gopal's Capital:*

(*i*) Combined adjusted capital of Madan and Mohan for $\frac{3}{4}$th share = ₹ 88,200 + ₹ 58,800 = ₹ 1,47,000

(*ii*) Total Capital of the new firm = $\frac{\text{Adjusted Combined Capital of the Old Partners}}{\text{Combined Share of Profit of the Old Partners}}$

$$= \frac{₹\ 1{,}47{,}000}{3/4} = ₹\ 1{,}47{,}000 \times \frac{4}{3} = ₹\ 1{,}96{,}000$$

Gopal's Capital = ₹ 1,96,000 × $\frac{1}{4}$ = ₹ 49,000.

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

Particulars	₹	Particulars	₹
To Balance *b/d*	10,000	By Balance *c/d*	83,000
To Bad Debts Recovered A/c	4,000		
To Premium for Goodwill A/c	20,000		
To Gopal's Capital A/c	49,000		
	83,000		83,000

17. JOURNAL OF JYOTI LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		3,00,000	
	To Equity Shares Application A/c			3,00,000
	(Being the application money ₹ 2 per share received on 1,50,000 shares)			
	Equity Shares Application A/c ...Dr.		3,00,000	
	To Equity Share Capital A/c (50,000 × ₹ 2)			1,00,000
	To Equity Shares Allotment A/c			1,10,000
	To Bank A/c (45,000 × ₹ 2)			90,000
	(Being the application money adjusted and surplus refunded) (WN 1 and 2)			
	Equity Shares Allotment A/c ...Dr.		2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Being the share allotment money due)			

Particulars		L.F.	Dr. (₹)	Cr. (₹)
Bank A/c	...Dr.		88,900	
Calls-in-Arrears A/c	...Dr.		1,100	
To Equity Shares Allotment A/c				90,000
(Being the balance amount received on allotment except on 600 shares) (WN 3, 4 and 5)				
Equity Share Capital A/c (600 × ₹ 6)	...Dr.		3,600	
To Calls-in-Arrears A/c				1,100
To Forfeited Shares A/c				2,500
(Being 600 shares forfeited on which allotment money was not received)				
Equity Shares First and Final Call A/c (49,400 × ₹ 4)	...Dr.		1,97,600	
To Equity Share Capital A/c				1,97,600
(Being the first and final call money due)				
Bank A/c	...Dr.		1,97,600	
To Equity Shares First and Final Call A/c				1,97,600
(Being the first and final call money received)				
Bank A/c (600 × ₹ 11)	...Dr.		6,600	
To Equity Share Capital A/c				6,000
To Securities Premium Reserve A/c				600
(Being the forfeited shares reissued at ₹ 11 per share fully paid-up)				
Forfeited Shares A/c	...Dr.		2,500	
To Capital Reserve A/c				2,500
(Being the gain on reissue of forfeited shares transferred to Capital Reserve)				

Value: Value of Equitable Distribution of Wealth is affected by rejecting the applications of some of the applicants.

Working Notes:

1. Excess Application Money = [(1,50,000 × ₹ 2) – (50,000 × ₹ 2)] = ₹ 2,00,000.

2. TABLE SHOWING ADJUSTMENT OF SURPLUS APPLICATION MONEY

Particulars		Refund (₹)	Adjustment on Allotment (₹)
A. 30% share applications were rejected, hence refunded [(1,50,000 × 30/100) × ₹ 2]		90,000	
B. Money received from **Category I** shareholders: (80,000 × ₹ 2)	1,60,000		
Less: Adjusted on application (40,000 × ₹ 2)	80,000		
	80,000		
Less: Adjusted at the time of allotment	80,000		80,000
	0		
C. Money received from **Category II** sharesholders: (25,000 × ₹ 2)	50,000		
Less: Adjusted on application (10,000 × ₹ 2)	20,000		
	30,000		
Less: Adjusted at the time allotment	30,000		30,000
	0		
		90,000	1,10,000

3. Number of shares allotted to Deepak = 1,000 × 40,000/80,000 = 500 shares.

Excess application money (500 × ₹ 2)	₹ 1,000
Allotment Money due (500 × ₹ 4)	₹ 2,000
Less: Excess application money adjusted	₹ 1,000
Allotment money due but not paid by Deepak	₹ 1,000

4. Number of shares applied by Raju = 100 × 25,000/10,000 = 250 shares.

Excess application money (150 × ₹ 2)	₹ 300
Allotment money due (100 × ₹ 4)	₹ 400
Less: Excess application money adjusted	₹ 300
Allotment money due but not paid by Raju	₹ 100

5.

		₹
Total allotment money due (50,000 × ₹ 4)		2,00,000
Less: Excess application money adjusted		1,10,000
		90,000
Less: Allotment money due but not paid by Deepak (WN 3)	1,000	
Allotment money due but not paid by Raju (WN 4)	100	1,100
Allotment money received later on		88,900

Or

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Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		1,90,000	
	To Shares Application A/c				1,90,000
	(Being the application money received for 95,000 shares @ ₹ 2 each)				
	Shares Application A/c	...Dr.		1,90,000	
	To Share Capital A/c (60,000 × ₹ 2)				1,20,000
	To Shares Allotment A/c (30,000 × ₹ 2)				60,000
	To Bank A/c (5,000 × ₹ 2)				10,000
	(Being the application money adjusted and surplus refunded)				
	Shares Allotment A/c (60,000 × ₹ 3)	...Dr.		1,80,000	
	To Share Capital A/c				1,80,000
	(Being the allotment money due on 60,000 shares @ ₹ 3 each)				
	Bank A/c	...Dr.		1,08,000	
	To Shares Allotment A/c				1,08,000
	Or				
	Bank A/c	...Dr.		1,08,000	
	Calls-in-Arrears A/c	...Dr.		12,000	
	To Shares Allotment A/c				1,20,000
	(Being the allotment money received except on 4,000 shares (Note 1))				
	Shares First and Final Call A/c (60,000 × ₹ 5)	...Dr.		3,00,000	
	To Share Capital A/c				3,00,000
	(Being the first call money due on 60,000 shares @ ₹ 5 each)				
	Bank A/c	...Dr.		2,50,000	
	To Shares First and Final Call A/c				2,50,000
	Or				
	Bank A/c	...Dr.		2,50,000	
	Calls-in-Arrears A/c	...Dr.		50,000	
	To Shares First and Final Call A/c				3,00,000
	(Being the first call money received on 50,000 shares)				
	Share Capital A/c (4,000 × ₹ 10)	...Dr.		40,000	
	To Shares Allotment A/c (4,000 × ₹ 3)				12,000
	To Shares First and Final Call A/c (4,000 × ₹ 5)				20,000
	To Forfeited Shares A/c (4,000 × ₹ 2)				8,000
	Or				
	Share Capital A/c	...Dr.		40,000	
	To Calls-in-Arrears A/c				32,000
	To Forfeited Shares A/c				8,000
	(Being 4,000 shares forfeited for non-payment of allotment and first and final call money)				

	Bank A/c (4,000 × ₹ 3) ...Dr.			12,000	
	Forfeited Shares A/c (4,000 × ₹ 2) ...Dr.			8,000	
	To Share Capital A/c				20,000
	(Being 4,000 forfeited shares reissued to *Y* for ₹ 3 per share as ₹ 5 paid-up)				

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Shares Application A/c	1,90,000	By Shares Application A/c	10,000
To Share Allotment A/c	1,08,000	By Balance *c/d*	5,50,000
To Shares First and Final Call A/c	2,50,000		
To Share Capital A/c	12,000		
	5,60,000		5,60,000

BALANCE SHEET OF ...
as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	5,50,000

Note to Accounts

Particulars		₹
1. Share Capital		
Authorised Capital		
... Equity Shares of ₹ 10 each		...
Issued Capital		
60,000 Equity Shares of ₹ 10 each		6,00,000
Subscribed Capital		
Subscribed and fully paid-up		
50,000 Equity Shares of ₹ 10 each		5,00,000
Subscribed but not fully paid		
6,000 shares of ₹ 10 each	60,000	
Less: Calls-in-Arrears (6,000 × ₹ 5)	30,000	30,000
4,000 shares of ₹ 10 each; ₹ 5 Paid-up (Forfeited and Reissued)		20,000
		5,50,000

Value: Value of Equitable Distribution of Wealth is affected by full allotment to some of the applicants and by rejecting the applications of some of the applicants.

Notes: 1. Number of Shares Forfeited = $\frac{\text{Allotment Money Not Received}}{\text{Allotment Money Per Share}}$

$$= \frac{₹\,1,80,000 - ₹\,60,000 - ₹\,1,08,000}{₹\,3} = 4,000 \text{ shares.}$$

2. All the forfeited shares are from category to whom full allotment was made.
3. There is no gain on reissue of forfeited shares.

PART B

18. No, he is incorrect because proposed dividend for the current year is not to be accounted in the books of account but is to be shown in the Notes to Accounts as contingent liability.

19. Operating Activity is the principal revenue producing activity of the enterprise. Whereas, Investing Activity includes the acquisition and disposal of long-term assets and other investments not included in Cash and Cash Equivalents.

20. (*a*)

Items	Major Head	Sub-head
1. Debentures Redemption Reserve	Shareholders' Funds	Reserves and Surplus
2. Outstanding Expenses	Current Liabilities	Other Current Liabilities
3. Capital Advances	Non-current Assets	Long-term Loans and Advances

(*b*) To have steady income with higher return, an investor prefers to invest partly in the shares and partly in the debentures of a company.

21. (*a*) Capital Employed $= \dfrac{₹\ 20{,}00{,}000 \times 100}{20} = ₹\ 1{,}00{,}00{,}000.$

(*b*) Return on Investment (ROI).

(*c*) (*i*) Operating Ratio $= \dfrac{\text{Cost of Revenue from Operations} + \text{Operating Expenses}}{\text{Revenue from Operations}} \times 100$

$$= \frac{₹\ 13{,}20{,}000 + ₹\ 2{,}20{,}000}{₹\ 22{,}00{,}000} \times 100 = 70\%.$$

Note: Revenue from Operations = Cash Revenue from Operations + Credit Revenue from Operations
= ₹ 10,00,000 + ₹ 12,00,000 = ₹ 22,00,000

Gross Profit = 40% of ₹ 22,00,000 = ₹ 8,80,000

Cost of Revenue from Operations = Revenue from Operations – Gross Profit
= ₹ 22,00,000 – ₹ 8,80,000 = ₹ 13,20,000

Operating Expenses = 10% of ₹ 22,00,000 = ₹ 2,20,000.

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

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

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

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

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

$$= \frac{₹\ 6{,}00{,}000 \text{ (Share Capital)}}{₹\ 8{,}00{,}000} = 0.75 : 1 \text{ or } 75\%.$$

Note: Total Assets = Current Assets + Non-Current Assets (Fixed Assets)
= ₹ 3,00,000 + ₹ 5,00,000 = ₹ 8,00,000.

22.

COMPARATIVE STATEMENT OF PROFIT AND LOSS
for the years ended 31st March, 2017 and 2018

A Particulars	Note No.	*B* 31st March, 2017 (₹)	*C* 31st March, 2018 (₹)	*D = C – B* Absolute Change (₹)	*E = D/B* × 100 Percentage Change (%)
I. Revenue from Operations		6,00,000	9,00,000	3,00,000	50
II. Other Income		1,20,000	1,08,000	(12,000)	(10)
III. **Total Revenue (I + II)**		7,20,000	10,08,000	2,88,000	40
IV. **Expenses:**					
Cost of Materials Consumed		3,00,000	5,40,000	2,40,000	80
Other Expenses (Direct)		60,000	90,000	30,000	50
Total Expenses		3,60,000	6,30,000	2,70,000	75
V. **Profit before Tax (III – IV)**		3,60,000	3,78,000	18,000	5
VI. *Less:* Tax Expenses		1,44,000	1,51,200	7,200	5
VII. **Profit after Tax (V – VI)**		2,16,000	2,26,800	10,800	5

23.

CASH FLOW STATEMENT (*as per AS–3*)
for the year ended 31st March, 2018

Particulars	₹	₹
A. Cash Flow from Operating Activities		
Net Profit before Tax and Extraordinary Items:		
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	
Add: Depreciation on Machinery (WN 2)	1,10,000	
Loss on Sale of Machinery (WN 1)	6,000	
Interest on Debentures [(₹ 1,00,000 × 10/100 × 6/12) + (₹ 2,00,000 × 6/12 × 10/100)]	15,000	
Operating Profit before Working Capital Changes	2,21,000	
Add: Decrease in Current Assets and Increase in Current Liabilities:		
Inventories	30,000	
Trade Payables	60,000	
	3,11,000	
Less: Increase in Current Assets:		
Trade Receivables	50,000	
Cash Flow from Operating Activities		2,61,000
B. Cash Flow from Investing Activities		
Purchase of Machinery (WN 1)	(3,40,000)	
Purchase of Non-Current Investments	(20,000)	
Proceeds from Sale of Machinery (WN 1)	24,000	
Cash Used in Investing Activities		(3,36,000)
C. Cash Flow from Financing Activities		
Proceeds from Issue of Equity Shares [₹ 1,00,000 + ₹ 15,000 (Premium)]	1,15,000	
Proceeds from Issue of Debentures [₹ 1,00,000 – ₹ 10,000 (Discount)]	90,000	
Interim Dividend Paid	(25,000)	
Interest on Debentures Paid	(15,000)	
Cash Flow from Financing Activities		1,65,000
D. Net Increase in Cash and Cash Equivalents (Cash and Bank Balances) (A + B + C)		90,000
Add: Opening Balance of Cash and Cash Equivalents (Cash and Bank Balances)		1,30,000
E. Closing Balance of Cash and Cash Equivalents (Cash and Bank Balances)		2,20,000

Working Notes:

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

Particulars	₹	Particulars	₹
To Balance *b/d*	6,10,000	By Accumulated Depreciation A/c	70,000
To Bank A/c (Purchase)	3,40,000	By Bank A/c (Sale Proceeds)*	24,000
(Balancing Figure)		By Loss on Sale of Machinery A/c	6,000
		(Statement of Profit and Loss)	
		By Balance *c/d*	8,50,000
	9,50,000		9,50,000

	₹
*Book value of Machinery on the date of sale (₹ 1,00,000 – ₹ 70,000)	30,000
Less: Loss on Sale (20% of ₹ 30,000)	6,000
Sale Proceeds	24,000

2. *Dr.* ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Machinery A/c (Transfer)	70,000	By Balance *b/d*	1,10,000
To Balance *c/d*	1,50,000	By Statement of Profit and Loss	1,10,000
		(Depreciation Provided) (Balancing Figure)	
	2,20,000		2,20,000

3. Discount on issue of debentures has been adjusted 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 of ₹ 10,000.