MODEL TEST PAPER 17 (Solution)

PART A

1. Ravi is correct.

Reason: In the absence of Partnership Deed, a partner will not get interest on capital.

2. **Total amount required** = ₹ 72,300 (Amount Payable to *C*) + ₹ 20,000 (Required Cash in Hand) – ₹ 7,000 (Cash already in hand) = ₹ 85,300

A will bring = ₹ 51,180 (Given)

B will bring = ₹ 34,120 (2/5 of ₹ 85,300)

₹ 85,300

3.

Dr. PARTNER'S CURRENT ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Drawings A/c	6,20,000	By Balance *b/d*	27,000
To Balance *c/d* (Balancing Figure)	7,07,000	By Interest on Capital A/c	2,80,000
		By Salary A/c	1,50,000
		By Profit and Loss Appropriation A/c (Net Profit)	8,70,000
	13,27,000		13,27,000

4. From 1st January, 2018 to 31st March, 2018, the interest accrued but not due (*i.e.*, interest on debentures due but not payable is:

₹ 25,00,000 × 10/100 × 3/12 = ₹ 62,500.

Interest Accrued but not due is shown as Other Current Liability under the head Current Liabilities in the Equity and Liabilities part of the Balance Sheet.

5. **Yes**, Income and Expenditure Account records all Revenue Incomes (whether received or not) and Revenue Expenditures (whether paid or not) relating to current year only.

6. **Yes**, the accountant is correct. It is a case of purchased goodwill and AS-26, Intangible Assets prescribes recording of purchased goodwill in the books of account.

7.

Dr. SUBSCRIPTION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Outstanding Subscription A/c (31.3.2017)	52,000	By Advance Subscription A/c (31.3.2017)	30,000
To Income and Expenditure A/c (150 × ₹ 1,000)	1,50,000	By Bank A/c	1,60,000
To Advance Subscription A/c (31.3.2018)	20,000	By Outstanding Subscription A/c (31.3.2018: Balancing Figure)	32,000
	2,22,000		2,22,000

Outstanding Subscription for the year 2017–18 = ₹ 32,000 – ₹ 24,000 = ₹ 8,000.

Alternative Method: Outstanding Subscription for the year ended 31st March, 2018 can be calculated by preparing the following statement:

Particulars	₹
Subscription due for 2017–18 (150 × ₹ 1,000)	1,50,000
Less: Subscription Received for 2017–18 [₹ 1,60,000 – ₹ 20,000 (Advance) – ₹ 28,000* (2017)]	1,12,000
	38,000
Less: Subscription received in advance as at 31.3.2017	30,000
Outstanding Subscription for 2017–18	8,000

*₹ 52,000 (Subscription Outstanding as on 31.3.2017) – ₹ 24,000 (Still in Arrears) = ₹ 28,000.

8. (*a*) ADJUSTMENT ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Priyanka's Capital A/c	...Dr.		15,000	
	To Mona's Capital A/c				7,500
	To Nisha's Capital A/c				7,500
	(Being the adjustment for profit divided in wrong ratio)				

Working Note:

Profit for last three years = ₹ 15,000 + ₹ 25,000 + ₹ 50,000 = ₹ 90,000.

Priyanka has taken ₹ 45,000 whereas, she was entitled to ₹ 30,000 as agreed.

ADJUSTMENT TABLE

Particulars		Mona ₹	Nisha ₹	Priyanka ₹
Profit already Distributed (₹ 90,000 in 1 : 1 : 2)	(Dr.)	22,500	22,500	45,000
Profit ought to have been Distributed (₹ 90,000 in 1 : 1 : 1)	(Cr.)	30,000	30,000	30,000
Net Effect		7,500 (Cr.) *Short*	7,500 (Cr.) *Short*	15,000 (Dr.) *Excess*

(*b*) ***Value** not practiced by Priyanka:* Integrity and Honesty.

9. **In the Books of Bharat Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018 March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		1,20,000	
	To Debentures Redemption Reserve A/c				1,20,000
	(Being the transfer of profit to Debentures Redemption Reserve) (WN)				
April 30	Debentures Redemption Investment A/c	...Dr.		6,00,000	
	To Bank A/c				6,00,000
	(Being the investment made in specified securities @ 15% of the face value of the debentures)				
July 31	Bank A/c	...Dr.		6,15,000	
	To Debentures Redemption Investment A/c				6,00,000
	To Interest Earned A/c (₹ 6,00,000 × 10/100 × 3/12)				15,000
	(Being the investment bearing 10% p.a. interest encashed)				
July 31	9% Debentures A/c	...Dr.		40,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		4,00,000	
	To Debentureholders' A/c				44,00,000
	(Being the amount due to debentureholders)				
	Debentureholders' A/c	...Dr.		44,00,000	
	To Bank A/c				44,00,000
	(Being the payment made to debentureholders)				
	Debentures Redemption Reserve A/c	...Dr.		10,00,000	
	To General Reserve A/c				10,00,000
	(Being the transfer of Debentures Redemption Reserve to General Reserve)				

Values: (*i*) Adherence to Law, (*ii*) Accountability towards debentureholders.

Working Note: *Calculation of amount to be transferred to DRR:*

	₹
Debentures Redemption Reserve (DRR) Required (25% of ₹ 40,00,000)	10,00,000
Less: Existing Balance of DRR	8,80,000
Amount to be transferred to Debentures Redemption Reserve	1,20,000

10. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Equity Share Capital A/c (20 × ₹ 7) ...Dr.		140	
	To Calls-in-Arrears A/c **(20 × ₹ 2)**			**40**
	To Forfeited Shares A/c **(20 × ₹ 5)**			**100**
	(Being 20 equity shares forfeited for non-payment of first call of ₹ 2 per share)			
	Bank A/c ...Dr.		120	
	To Equity Share Capital A/c **(15 × ₹ 7)**			**105**
	To Securities Premium Reserve A/c			**15**
	(Being 15 equity shares reissued as ₹ 7 paid-up for ₹ 8 per share)			
	Forfeited Shares A/c (15 × ₹ 5) ...Dr.		**75**	
	To Capital Reserve A/c			**75**
	(Being the transfer of gain on reissue of 15 shares)			

11. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Q's Capital A/c ...Dr.		24,000	
	R's Capital A/c ...Dr.		12,000	
	To *P*'s Capital A/c (WN 1)			36,000
	(Being the *P*'s Share of Goodwill adjusted by debiting gaining partners in their gaining ratio, *i.e.*, 2 : 1)			
	Profit and Loss Suspense A/c ...Dr.		10,500	
	To *P*'s Capital A/c (WN 2)			10,500
	(Being the *P*'s share of profit till the date of his death transferred to his Capital Account)			

Value: Sensitivity towards Girls.

Working Notes:

1. *Calculation of P's Share of Goodwill:*

   P's Share of Goodwill = ₹ 90,000 × $\frac{2}{5}$ = ₹ 36,000.

   Since, the new profit-sharing ratio of the remaining partners is not given, gain to the remaining partners must be in old ratio.

   Thus, Gaining Ratio of *Q* and *R* = 2 : 1.

2. *Calculation of P's Share of Profit:*

   (*a*) Total Profit = ₹ (2,00,000 + 1,80,000 + 2,10,000 – 1,70,000) = ₹ 4,20,000

   (*b*) Average Profit = ₹ 4,20,000 ÷ 4 = ₹ 1,05,000

   (*c*) *P*'s Share of Profit = ₹ 1,05,000 × $\frac{3}{12} \times \frac{2}{5}$ = ₹ 10,500.

12. Calculation of Net Effect of Adjustment to be made:

		₹
(*i*)	Profit and Loss Account (Dr. Balance)	(24,000)
(*ii*)	General Reserve	1,44,000
(*iii*)	Value of Goodwill	1,80,000
(*iv*)	Decrease in amount of Creditors	2,400
(*v*)	Decrease in value of Machinery	(18,000)
(*vi*)	Unrecorded Investments	1,35,600
(*vii*)	Increase in value of Land	1,80,000
	Net Effect	6,00,000

CALCULATION OF GAIN/(SACRIFICE) OF SHARE

Partners	New Share	Old Share	Difference = New Share – Old Share
A	$\frac{3}{6}$	$\frac{2}{6}$	$\frac{3}{6}-\frac{2}{6}=\frac{1}{6}$ (Gain)
B	$\frac{2}{6}$	$\frac{3}{6}$	$\frac{2}{6}-\frac{3}{6}=\frac{-1}{6}$ (Sacrifice)
C	$\frac{1}{6}$	$\frac{1}{6}$	...

ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 April 1	*A*'s Capital A/c (₹ 6,00,000 × 1/6) ...Dr.		1,00,000	
	To *B*'s Capital A/c (₹ 6,00,000 × 1/6)			1,00,000
	(Being the adjustment made on account of change in profit-sharing ratio by debiting gaining partner and crediting sacrificing partner)			

13. (*a*) *A*'s Sacrifice $\left(\frac{1}{6}\text{th of his own share of } \frac{3}{5}\right) = \frac{1}{6}\times\frac{3}{5}=\frac{3}{30}$ or $\frac{1}{10}$

B's Sacrifice $\left(\frac{1}{8}\text{from his share}\right) = \frac{1}{8}$

Hence, Sacrificing Ratio of *A* and *B* = $\frac{1}{10}:\frac{1}{8}$ or $\frac{4}{40}:\frac{5}{40}$ or $4:5$.

A's New Share (Old Share – Sacrifice) = $\frac{3}{5}-\frac{1}{10}=\frac{5}{10}$ or $\frac{20}{40}$

B's New Share (Old Share – Sacrifice) = $\frac{2}{5}-\frac{1}{8}=\frac{11}{40}$

C's Share = $\frac{1}{10}+\frac{1}{8}=\frac{4+5}{40}=\frac{9}{40}$

Hence, New Profit-sharing Ratio of *A*, *B* and *C* = $\frac{20}{40}:\frac{11}{40}:\frac{9}{40}$ = 20 : 11 : 9.

(*b*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Arjun's Capital A/c ...Dr.		42,000	
	Bhim's Capital A/c ...Dr.		15,000	
	Nakul's Capital A/c ...Dr.		18,000	
	To Goodwill A/c			75,000
	(Being the existing goodwill written off)			
	Arjun's Capital A/c ...Dr.		10,000	
	To Bhim's Capital A/c (WN 3)			10,000
	(Being the amount of Bhim's Share of Goodwill adjusted by debiting Arjun's (gaining partner) Capital Account and crediting Bhim's (retiring partner) Capital Account)			
	Profit and Loss Appropriation A/c ...Dr.		1,00,000	
	To Arjun's Capital A/c			76,000
	To Nakul's Capital A/c			24,000
	(Being the profit distributed between Arjun and Nakul in their new profit-sharing ratio, *i.e.*, 19 : 6 (WN 1 and 2))			

Working Notes:

1. *New Profit-sharing Ratio of Arjun and Nakul:*

   Arjun's New Share = $\frac{14}{25}+\frac{5}{25}=\frac{19}{25}$; Nakul's Share = $\frac{6}{25}$

   Thus, New Profit-sharing Ratio of Arjun and Nakul = 19 : 6.

2. *Distribution of Profit:*

   $$\text{Arjun's Share} = ₹\ 1,00,000 \times \frac{19}{25} = ₹\ 76,000$$

   $$\text{Nakul's Share} = ₹\ 1,00,000 \times \frac{6}{25} = ₹\ 24,000.$$

3. *Valuation and Adjustment of Goodwill:*

   $$\text{Super Profit} = \text{Average Profit} - \text{Normal Profit}$$
   $$= ₹\left[\frac{50,000+55,000+60,000}{3}\right] - ₹\ 30,000$$
   $$= ₹\ 55,000 - ₹\ 30,000 = ₹\ 25,000$$
   $$\text{Goodwill} = \text{Super Profit} \times \text{Number of Years' Purchase}$$
   $$= ₹\ 25,000 \times 2 = ₹\ 50,000$$

   $$\text{Bhim's Share in Goodwill} = ₹\ 50,000 \times \frac{5}{25} = ₹\ 10,000$$

   Bhim retires and surrenders his $\frac{5}{25}$th share in favour of Arjun, who is the gaining partner.

14. **Delhi Football Club**

Dr. INCOME AND EXPENDITURE ACCOUNT *for the year ended 31st March, 2018* Cr.

Expenditure		₹	Income		₹
To Salaries	7,000		By Donations (10/100 × ₹ 50,000)		5,000
Add: Outstanding Salaries (31.3.2018)	500		By Subscription	5,200	
	7,500		*Add:* Subscription Due (WN 1)	300	5,500
Less: Outstanding Salaries (1.4.2017)	1,000	6,500	By Locker's Rent		400
To Insurance		350	By Profit on Sale of Furniture (₹ 10,000 – ₹ 8,000)		2,000
To Sundry Expenses		470			
To Match Expenses (WN 3) (₹ 9,000 – ₹ 8,000)		1,000	By Entrance Fees		5,000
To Surplus, *i.e.*, Excess of Income over Expenditure		10,780	By Interest on Investments	1,000	
			Add: Accrued Interest (WN 2)	200	1,200
		19,100			19,100

BALANCE SHEET *as at 31st March, 2018*

Liabilities		₹	Assets	₹
Outstanding Salaries		500	Cash at Bank	480
Building Fund:			Building in Progress	40,000
Donations (₹ 50,000 – ₹ 5,000)	45,000		Investments	16,000
Less: Transfer to Capital Fund	40,000	5,000	Furniture	4,100
Capital Fund:			Accrued Interest on Investments	200
Opening Balance	800		Subscription Receivable	300
Add: Surplus	10,780			
Life Membership Fee	4,000			
Transfer from Building Fund	40,000	55,580		
		61,080		61,080

Working Notes: ₹

1.	Subscription for 2017–18 [550 × ₹ 10]	5,500
	Less: Subscription received during the year	5,200
	Subscription Due (2017–18)	300
2.	Interest earned on Investments [₹ 16,000 × 10/100 × 9/12]	1,200
	Less: Interest received during the year	1,000
	Accrued Interest but not received	200

3. Match Fund is ₹ 8,000 whereas match expenses are ₹ 9,000, the difference is adjusted through Income and Expenditure Account.

15. **In the Books of *S* and *P***

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
March 31	Realisation A/c	...Dr.		9,50,000	
	To Land and Building A/c				4,00,000
	To Machinery A/c				1,50,000
	To Investments A/c				2,00,000
	To Debtors A/c				2,00,000
	(Being the assets transferred to Realisation Account)				
	Investments Fluctuation Reserve A/c	...Dr.		50,000	
	Sundry Creditors A/c	...Dr.		3,00,000	
	To Realisation A/c				3,50,000
	(Being the Investments Fluctuation Reserve and Sundry Creditors transferred to Realisation Account)				
	Cash A/c	...Dr.		6,00,000	
	To Realisation A/c				6,00,000
	(Being the Land and Building realised cash ₹ 6,00,000)				
	Cash A/c	...Dr.		1,60,000	
	To Realisation A/c				1,60,000
	(Being the investment sold to *P*)				
	Realisation A/c	...Dr.		1,60,000	
	To *S*'s Capital A/c				32,000
	To *P*'s Capital A/c				1,28,000
	(Being the gain transferred to Partners' Capital Accounts)				
	P's Loan A/c	...Dr.		1,50,000	
	To Cash A/c				1,50,000
	(Being the *P*'s loan paid)				
	S's Capital A/c	...Dr.		1,32,000	
	P's Capital A/c	...Dr.		5,28,000	
	To Cash A/c				6,60,000
	(Being the final payment made to partners (WN))				

Values: (*i*) Value of fair and good behaviour, (*ii*) Value of Discipline and Honesty.

Working Note:

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*S* (₹)	*P* (₹)	Particulars	*S* (₹)	*P* (₹)
To Cash A/c (Final Payment) (Balancing Figure)	1,32,000	5,28,000	By Balance *b/d*	1,00,000	4,00,000
			By Realisation A/c (Gain)	32,000	1,28,000
	1,32,000	5,28,000		1,32,000	5,28,000

16.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Provision for Doubtful Debts A/c (₹ 7,500 – ₹ 2,500)	5,000	By Sundry Creditors A/c		12,000
To Provision for Claim for Damages A/c	15,000	By Loss transferred to:		
To Outstanding Electric Charges A/c	13,000	*X*'s Capital A/c (2/3)	14,000	
		Y's Capital A/c (1/3)	7,000	21,000
	33,000			33,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To Profit and Loss A/c	60,000	30,000	...	By Balance *b/d*	2,70,000	1,80,000	...
To Revaluation A/c	14,000	7,000	...	By *Z*'s Loan A/c	...	...	1,50,000
To Bank A/c (Goodwill)	20,000	10,000	...	By Premium for Goodwill A/c	40,000	20,000	...
To Bank A/c (Bal. Fig.)	...	3,000	...	By Bank A/c (Bal. Fig.)	84,000	...	...
To Balance *c/d* (WN 2)	3,00,000	1,50,000	1,50,000				
	3,94,000	2,00,000	1,50,000		3,94,000	2,00,000	1,50,000

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

Liabilities		₹	Assets		₹
Sundry Creditors (₹ 5,90,000 – ₹ 12,000)		5,78,000	Cash at Bank (WN 3)		4,43,500
Outstanding Electric Charges		13,000	Debtors	1,50,000	
Provision for Claim for Damages		15,000	*Less:* Provision for Doubtful Debts	7,500	1,42,500
Capital A/cs:			Stock		3,20,000
X	3,00,000		Land and Building		3,00,000
Y	1,50,000				
Z	1,50,000	6,00,000			
		12,06,000			12,06,000

Working Notes:

1. *Calculation of New Profit-sharing Ratio:*

Let the Total Profit = 1

$$Z\text{'s Share} = \frac{1}{4}$$

$$\text{Share of } X \text{ and } Y = 1 - \frac{1}{4} = \frac{3}{4}$$

$$X\text{'s New Share} = \frac{3}{4} \times \frac{2}{3} = \frac{6}{12}$$

$$Y\text{'s New Share} = \frac{3}{4} \times \frac{1}{3} = \frac{3}{12}$$

$$Z\text{'s Share} = \frac{1}{4} \text{ or } \frac{3}{12}$$

Thus, New Profit-sharing Ratio of X, Y and $Z = \frac{6}{12} : \frac{3}{12} : \frac{3}{12} = 6:3:3$ or $2:1:1$.

2. *Adjustment of Capitals:*

$$\text{Total Capital of New Firm on the basis of New Partner's Capital} = \frac{\text{Capital of New Partner}}{\text{Share of Profit of the New Partner}}$$

$$= \frac{₹\,1{,}50{,}000 \times 4}{1} = ₹\,6{,}00{,}000$$

$$X\text{'s Capital in the New Firm} = ₹\,6{,}00{,}000 \times \frac{2}{4} = ₹\,3{,}00{,}000;$$

$$Y\text{'s Capital in the New Firm} = ₹\,6{,}00{,}000 \times \frac{1}{4} = ₹\,1{,}50{,}000;$$

$$Z\text{'s Capital in the New Firm} = ₹\,6{,}00{,}000 \times \frac{1}{4} = ₹\,1{,}50{,}000.$$

3. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	3,32,500	By *X*'s Capital A/c	20,000
To Premium for Goodwill A/c	60,000	By *Y*'s Capital A/c	10,000
To *X*'s Capital A/c	84,000	By *Y*'s Capital A/c	3,000
		By Balance *c/d*	4,43,500
	4,76,500		4,76,500

Or

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Outstanding Rent A/c	25,000	By Land and Building A/c		60,000
To Machinery A/c	60,000	By Stock A/c		25,000
To Bad Debts A/c (WN 1)	7,000	By Loss transferred to:		
		Aruna's Capital A/c	2,000	
		Karuna's Capital A/c	3,000	
		Varuna's Capital A/c	2,000	7,000
	92,000			92,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Aruna ₹	Karuna ₹	Varuna ₹	Particulars	Aruna ₹	Karuna ₹	Varuna ₹
To Revaluation A/c (Loss)	2,000	3,000	2,000	By Balance *b/d*	2,00,000	3,00,000	2,00,000
To Aruna's Capital A/c	...	20,000	20,000	By General Reserve A/c	10,000	15,000	10,000
To Bank A/c	50,000	...	...	By Workmen Compensation Reserve A/c	2,000	3,000	2,000
To Aruna's Loan A/c	2,00,000	...	...				
To Balance *c/d* (WN 3)	...	4,00,000	3,00,000	By Karuna's Capital A/c (Goodwill) (WN 2)	20,000	...	...
				By Varuna's Capital A/c (Goodwill) (WN 2)	20,000	...	...
				By Bank A/c (Bal. Fig.)	...	1,05,000	1,10,000
	2,52,000	4,23,000	3,22,000		2,52,000	4,23,000	3,22,000

BALANCE SHEET
(After Aruna's Retirement)
as at 31st March, 2018

Liabilities		₹	Assets	₹
Aruna's Loan A/c		2,00,000	Land and Building	2,60,000
Outstanding Rent		25,000	Machinery	2,40,000
Workmen Compensation Claim		8,000	Stock	1,25,000
Sundry Creditors		50,000	Sundry Debtors (₹ 1,10,000 – ₹ 17,000)	93,000
Capital A/cs:			Cash at Bank (WN 4)	2,65,000
Karuna	4,00,000			
Varuna	3,00,000	7,00,000		
		9,83,000		9,83,000

Working Notes:

1. *Accounting Entries for Bad Debts:*

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bad Debts A/c	...Dr.		17,000	
	To Sundry Debtors A/c				17,000
	Provision for Doubtful Debts A/c	...Dr.		10,000	
	Revaluation A/c	...Dr.		7,000	
	To Bad Debts A/c				17,000

2. *Adjustment of Goodwill:*

(*i*) Aruna's Share of Goodwill = ₹ 1,40,000 $\times \frac{2}{7}$ = ₹ 40,000, which is contributed by Karuna and Varuna in their gaining ratio. It is calculated as follows:

Karuna's Gain = $\frac{4}{7} - \frac{3}{7} = \frac{1}{7}$; Varuna's Gain = $\frac{3}{7} - \frac{2}{7} = \frac{1}{7}$

Thus, Gaining Ratio of Karuna and Varuna = $\frac{1}{7} : \frac{1}{7}$ or 1 : 1.

(*ii*) Karuna's contribution for Aruna's Goodwill = ₹ 40,000 $\times \frac{1}{2}$ = ₹ 20,000

Varuna's contribution for Aruna's Goodwill = ₹ 40,000 $\times \frac{1}{2}$ = ₹ 20,000.

3. *Calculation of Proportionate Capital of the remaining partners in the new firm:*

Total Capital of the firm before the retirement of Aruna = ₹ 7,00,000

Karuna's Capital in the new firm = ₹ 7,00,000 $\times \frac{4}{7}$ = ₹ 4,00,000

Varuna's Capital in the new firm = ₹ 7,00,000 $\times \frac{3}{7}$ = ₹ 3,00,000.

4. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,00,000	By Aruna's Capital A/c	50,000
To Karuna's Capital A/c	1,05,000	By Balance *c/d*	2,65,000
To Varuna's Capital A/c	1,10,000		
	3,15,000		3,15,000

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

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		2,70,000	
	To Equity Shares Application A/c			2,70,000
	(Being the shares application money @ ₹ 10 per share received on 27,000 shares)			
	Equity Shares Application A/c ...Dr.		2,70,000	
	To Equity Share Capital A/c			54,000
	To Securities Premium Reserve A/c			2,16,000
	(Being the application money adjusted)			
	Equity Shares Allotment A/c ...Dr.		3,24,000	
	To Equity Share Capital A/c			81,000
	To Securities Premium Reserve A/c			2,43,000
	(Being the allotment money due on 27,000 shares @ ₹ 12 per share)			
	Bank A/c ...Dr.		2,88,000	
	To Equity Shares Allotment A/c			2,88,000
	Or			
	Bank A/c ...Dr.		2,88,000	
	Calls-in-Arrears A/c ...Dr.		36,000	
	To Equity Shares Allotment A/c			3,24,000
	(Being the allotment money received except on 3,000 shares)			
	Equity Shares First and Final Call A/c ...Dr.		4,86,000	
	To Equity Share Capital A/c			1,35,000
	To Securities Premium Reserve A/c			3,51,000
	(Being the amount of first and final call due on 27,000 shares)			
	Bank A/c ...Dr.		3,96,000	
	To Equity Shares First and Final Call A/c			3,96,000
	Or			
	Bank A/c ...Dr.		3,96,000	
	Calls-in-Arrears A/c ...Dr.		90,000	
	To Equity Shares First and Final Call A/c			4,86,000
	(Being the first call money received except on 5,000 shares)			
	Equity Share Capital A/c ...Dr.		50,000	
	Securities Premium Reserve A/c ...Dr.		92,000	
	To Forfeited Shares A/c (₹ 6,000 + ₹ 10,000)			16,000
	To Equity Shares Allotment A/c			36,000
	To Equity Shares First and Final Call A/c			90,000
	Or			
	Equity Share Capital A/c ...Dr.		50,000	
	Securities Premium Reserve A/c ...Dr.		92,000	
	To Forfeited Shares A/c			16,000
	To Calls-in-Arrears A/c			1,26,000
	(Being 5,000 shares forfeited for non-payment of allotment and first and final call on 3,000 shares and 2,000 shares respectively)			
	Bank A/c ...Dr.		68,000	
	To Equity Share Capital A/c			40,000
	To Securities Premium Reserve A/c			28,000
	(Being 4,000 forfeited shares reissued @ ₹ 17 per share as fully paid-up)			
	Forfeited Shares A/c ...Dr.		14,000	
	To Capital Reserve A/c (WN)			14,000
	(Being the gain on reissue of 4,000 forfeited shares transferred to Capital Reserve)			

Working Note:

Calculation of Gain on reissue to be transferred to Capital Reserve:

	₹
Amount forfeited on Shiva's 2,000 Shares $\left(₹\ 6{,}000 \times \frac{2{,}000}{3{,}000}\right)$	4,000
Amount forfeited on 2,000 shares of Girdhar	10,000
Gain on reissue transferred to Capital Reserve	14,000

Or

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		3,20,000	
	To Equity Shares Application A/c			3,20,000
	(Being the shares application money @ ₹ 4 each received on 80,000 shares)			
	Equity Shares Application A/c ...Dr.		3,20,000	
	To Equity Share Capital A/c (70,000 × ₹ 4)			2,80,000
	To Equity Shares Allotment A/c (5,000 × ₹ 4)			20,000
	To Bank A/c (5,000 × ₹ 4)			20,000
	(Being the application money adjusted on allotted shares)			
	Equity Shares Allotment A/c (70,000 × ₹ 4) ...Dr.		2,80,000	
	To Equity Share Capital A/c			2,80,000
	(Being the allotment money due on 70,000 shares)			
	Bank A/c (WN 2) ...Dr.		2,54,800	
	To Equity Shares Allotment A/c			2,54,800
	Or			
	Bank A/c ...Dr.		2,54,800	
	Calls-in-Arrears A/c (WN 1) ...Dr.		5,200	
	To Equity Shares Allotment A/c			2,60,000
	(Being the allotment money received except on 1,400 shares)			
	Equity Share Capital A/c (1,400 × ₹ 8) ...Dr.		11,200	
	To Forfeited Shares A/c (1,500 × ₹ 4)			6,000
	To Equity Shares Allotment A/c/Calls-in-Arrears A/c			5,200
	(Being 1,400 shares forfeited for non-payment of allotment money)			
	Equity Shares First and Final Call A/c ...Dr.		1,37,200	
	To Equity Share Capital A/c			1,37,200
	(Being the first and final call money due on 68,600 shares)			
	Bank A/c ...Dr.		1,35,800	
	To Equity Shares First and Final Call A/c			1,35,800
	Or			
	Bank A/c ...Dr.		1,35,800	
	Calls-in-Arrears A/c ...Dr.		1,400	
	To Equity Shares First and Final Call A/c			1,37,200
	(Being the first and final call money received except on 700 shares)			

	Equity Share Capital A/c (700 × ₹ 10) ...Dr.		7,000	
	To Forfeited Shares A/c			5,600
	To Equity Shares First and Final Call A/c			1,400
	Or			
	Equity Share Capital A/c ...Dr.		7,000	
	To Forfeited Shares A/c			5,600
	To Calls-in-Arrears A/c			1,400
	(Being 700 shares forfeited for non-payment of call money)			
	Bank A/c ...Dr.		19,500	
	To Equity Share Capital A/c (1,500 × ₹ 10)			15,000
	To Securities Premium Reserve A/c (1,500 × ₹ 3)			4,500
	(Being 1,500 forfeited shares reissued at ₹ 3 premium)			
	Forfeited Shares A/c ...Dr.		6,800	
	To Capital Reserve A/c (WN 3)			6,800
	(Being the gain on reissue of 1,500 forfeited shares transferred to Capital Reserve)			

Working Notes:

1. *Calculation of Allotment Money not paid by Jonney:*

(*i*) Number of shares alloted to Jonney = $\frac{70,000}{75,000} \times 1,500 = 1,400$ shares

(*ii*) Application money received from Jonney = 1,500 × ₹ 4 = ₹ 6,000

(*iii*) Application money required = 1,400 × ₹ 4 = ₹ 5,600

(*iv*) Excess application money to be adjusted on Allotment = ₹ 6,000 – ₹ 5,600 = ₹ 400	₹
(*v*) Amount due on Allotment (1,400 × ₹ 4)	5,600
Less: Excess application money to be adjusted on Allotment	400
Amount not paid on Allotment	5,200

2. *Calculation of Total Amount Received on Allotment:*	₹
Total Allotment Money Due	2,80,000
Less: Excess application money adjusted on allotment	20,000
	2,60,000
Less: Allotment money not paid by Jonney (WN 1)	5,200
Amount received on allotment	2,54,800

3. *Calculation of Gain on reissue of Shares:*	₹
Amount forfeited on 1,400 shares of Jonney	6,000
Amount forfeited on 100 shares of Rommy	800
Gain on reissue transferred to Capital Reserve	6,800

PART B

18. Operating Activities are the principal revenue producing activities of the enterprise and other activities that are not Investing or Financing Activities.

19. *No Flow.* **Reason:** Depreciation on machinery is a non-cash expense.

20. (*a*) **Non-Current Liabilities:**

- Long-term Borrowings
- Other Long-term Liabilities
- Deferred Tax Liabilities (Net)
- Long-term Provisions

(*b*) (*i*) *Financial Statements ignore the qualitative elements* like quality of labour, public relations.

(*ii*) *Financial Statements prepared on historical cost basis ignore the price level changes* since they are prepared on historical cost basis and not current cost basis.

21. (*a*) Alpha Co. has got better Debt-Equity Ratio because 100% safety margin is available for lenders since Owner's equity is considered as a margin of safety by lenders whereas as only 50% safety margin is available for lenders in case of Salpha Co.

$$\text{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} = \frac{₹\,3,00,000}{₹\,1,00,000} = 3:1.$$

Notes: 1. Debt = Long-term Borrowings + Long-term Provisions
= ₹ 2,00,000 + ₹ 1,00,000 = ₹ 3,00,000.

2. Equity = Current Assets + Non-Current Assets – Debt – Current Liabilities
= ₹ 90,000 + ₹ 3,60,000 – ₹ 3,00,000 – ₹ 50,000 = ₹ 1,00,000.

(*b*) EFFECT ON CURRENT RATIO

Change	Reason
(*i*) Improve	Both the total Current Assets and total Current Liabilities are decreased by the same amount.
(*ii*) No Change	Payment to Vendors of machinery by way of issuing equity shares would neither change Current Assets nor Current Liabilities.

22. COMPARATIVE STATEMENT OF PROFIT AND LOSS OF ROSE PRODUCTS LTD.
for the years ended 31st March, 2017 and 2018

Particulars	Note No.	31st March, 2017 (₹)	31st March, 2018 (₹)	Absolute Change (₹)	Percentage Change (%)
I. Revenue from Operations		11,00,000	14,00,000	3,00,000	27.27
II. *Add:* Other Incomes		3,00,000	4,00,000	1,00,000	33.33
III. **Total Revenue (I + II)**		14,00,000	18,00,000	4,00,000	28.57
IV. *Less:* Expenses		12,00,000	11,00,000	(1,00,000)	(8.33)
V. **Profit before Tax (III – IV)**		2,00,000	7,00,000	5,00,000	250.00
VI. *Less:* Tax @ 50%		1,00,000	3,50,000	2,50,000	250.00
VII. **Profit after Tax (V – VI)**		1,00,000	3,50,000	2,50,000	250.00

$$\text{Net Profit Ratio} = \frac{\text{Net Profit after Tax}}{\text{Revenue from Operations}} \times 100 = \frac{₹\,3,50,000}{₹\,14,00,000} \times 100 = 25\%.$$

23. CASH FLOW STATEMENT

for the year ended 31st March, 2018

Particulars	₹	₹
I. Cash Flow from Operating Activities		
Closing Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	6,00,000	
Less: Opening Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	5,00,000	
Profit for the year	1,00,000	
Add: Transfer to General Reserve	50,000	
Dividend paid (Proposed Dividend for 2016–17)* during the Year	1,20,000	
Provision for Tax	2,00,000	
Net Profit before Tax and Extraordinary Items		4,70,000
Adjustment for Non-Cash and Non-Operating Items:		
Depreciation on Fixed Assets	50,000	
Interest on Debentures (10% of ₹ 2,00,000)	20,000	
Interest on Bank Loan (10% of ₹ 1,00,000)	10,000	80,000
Operating Profit before Working Capital Changes		5,50,000
Change in Current Assets and Current Liabilities:		
Decrease in Trade Receivables	80,000	
Increase in Inventories	(3,30,000)	
Decrease in Creditors	(50,000)	
Increase in Bills Payable	1,00,000	(2,00,000)
Cash Generated from Operations		3,50,000
Less: Tax Paid (WN 1)		1,00,000
Cash Flow from Operating Activities		2,50,000
II. Cash Flow from Investing Activities		
Fixed Assets Purchased (WN 2)	(1,50,000)	
Sale of Non-current Investments	50,000	
Cash Used in Investing Activities		(1,00,000)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Shares	2,50,000	
Proceeds from Issue of 10% Debentures	2,00,000	
Increase in Short-term Borrowings (Bank Loan)	50,000	
Dividend Paid*	(1,20,000)	
Interest paid on Debentures	(20,000)	
Interest paid on Bank Loan	(10,000)	
Cash Flow from Financing Activities		3,50,000
IV. Net Increase in Cash and Cash Equivalents (I + II + III)		5,00,000
V. Cash and Cash Equivalents in the beginning of the year		5,00,000
VI. Cash and Cash Equivalents at the end of the year (IV + V)		10,00,000

Proposed Dividend is the dividend proposed by the Board of Directors of the Company but it is paid only after it is approved, i.e., declared by the shareholders. In effect, declaration of final dividend is contingent on approval by the shareholders. As per Revised* ***Accounting Standard-4**, Proposed Dividend should not be provided in the books of account but should be shown in the* ***Notes to Accounts****. Proposed Dividend for the Current Year will be approved by the shareholders in the Next Year and thereafter it will be paid. Whereas, Proposed Dividend for the previous year will be approved by the shareholders in the Current Year and will be paid in the Current Year.*

Working Notes:

1. *Dr.* PROVISION FOR TAX ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Bal. Fig.) (Tax Paid)	1,00,000	By Balance *b/d*	1,50,000
To Balance *c/d*	2,50,000	By Statement of Profit and Loss (Prov. Made)	2,00,000
	3,50,000		3,50,000

2. *Dr.* FIXED ASSETS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	2,00,000	By Depreciation A/c	50,000
To Bank A/c (Bal. Fig.) (Purchase)	1,50,000	By Balance *c/d*	3,00,000
	3,50,000		3,50,000