MODEL TEST PAPER 18 (Solution)

PART A

1.

	₹
Z's Annual Salary (₹ 8,000 × 12)	96,000
Add: Z's Commission [$\frac{5}{105}$ (₹ 13,56,000 – ₹ 96,000)]	60,000
Total Remuneration of Z	1,56,000

2.

Basis	*Dissolution of Partnership*	*Dissolution of Firm*
Termination of Business	The business of the firm is not terminated.	The business of the firm is closed.

3. Donation is shown in the liabilities side of the Balance Sheet when it is received for a specific purpose.

4. (*i*) No. of Subscribed Shares = $\frac{₹\ 1,60,00,000}{₹\ 100}$ = 1,60,000 shares.

(*ii*) Calls-in-Arrears (per share) = $\frac{₹\ 1,25,000}{5,000}$ = ₹ 25.

(*iii*) Final Call on Shares = ₹ 25 per share.

5. It is known as *'Gaining Ratio'* as it is the ratio in which X and Y have gained the share of outgoing partner, *i.e.*, Z.

6.

JOURNAL

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

7.

Dr. SUBSCRIPTION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Outstanding Subscription A/c (Opening)	15,000	By Advance Subscription A/c (Opening)	60,000
To Income and Expenditure A/c (Bal. Fig.)	2,55,000	By Bank A/c (₹ 10,000 + ₹ 1,90,000 + ₹ 20,000)	2,20,000
To Advance Subscription A/c (Closing) (₹ 20,000 + ₹ 35,000)	55,000	By Outstanding Subscription A/c:	
		2016–17 (₹ 15,000 – ₹ 10,000)	5,000
		2017–18	40,000
	3,25,000		3,25,000

Alternative Method: Amount of subscription to be credited to Income and Expenditure Account can be calculated in the following manner:

Particulars	₹
Subscription received during the year for 2017–18	1,90,000
Add: Subscription received in advance for 2017–18 (previous year)	25,000
	2,15,000
Add: Subscription outstanding for 2017–18	40,000
Subscription to be credited to Income and Expenditure A/c	2,55,000

8. JOURNAL OF *Z* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c	...Dr.		2,03,000	
	To *K* Ltd. (Note)				2,03,000
	(Being machinery purchased from *K* Ltd.)				
	K Ltd.	...Dr.		2,03,000	
	Discount on Issue of Debentures A/c	...Dr.		10,000	
	To Equity Share Capital A/c				50,000
	To 8% Debentures A/c				1,00,000
	To Bills Payable A/c				48,000
	To Securities Premium Reserve A/c (₹ 50,000 × 30/100)				15,000
	(Being payment made to *K* Ltd.)				

Note: Purchase consideration = ₹ 65,000 + ₹ 90,000 + ₹ 48,000 = ₹ 2,03,000.

9. ADJUSTMENT JOURNAL ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Z's Current A/c	...Dr.		20,000	
	To *X*'s Current A/c				10,000
	To *Y*'s Current A/c				10,000
	(Being the rectification for adjustment of profits as per the provisions of Indian Partnership Act, 1932)				

Working Note: STATEMENT SHOWING THE REQUIRED ADJUSTMENT

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
I. Amount Already Recorded:			
Interest on Capital (Cr.)	50,000	1,00,000	1,50,000
Interest on Drawings (Dr.)	(30,000)	(50,000)	(80,000)
Commission (Cr.)	...	40,000	...
Salary (Cr.)	1,20,000	...	...
Share of Profit (₹ 3,00,000 in the ratio of 1 : 2 : 3) (Cr.)	50,000	1,00,000	1,50,000
Amount already recorded, now written Back (Dr.)	1,90,000	1,90,000	2,20,000
II. Amount which should have been Credited:			
Share of Profit (*i.e.*, ₹ 6,00,000* in 1 : 1 : 1 ratio) (Cr.) **(4)**	2,00,000	2,00,000	2,00,000
III. Difference (I – II) or Net Effect	10,000 (Cr.)	10,000 (Cr.)	20,000 (Dr.)

*Revised Profit = ₹ 3,00,000 + (₹ 50,000 + ₹ 1,00,000 + ₹ 1,50,000: Interest on Capital **(1)**)
– (₹ 30,000 + ₹ 50,000 + ₹ 80,000: Interest on Drawings **(2)**)
+ ₹ 40,000 (Commission **(3)**) + ₹ 1,20,000 (Salary **(3)**) = ₹ 6,00,000.

As Partnership Deed is silent, the following provisions of the Indian Partnership Act, 1932 are to be applied:

1. No interest is payable to any partner in respect of capital.
2. No interest on drawings is to be charged.
3. No salary or commission is to be paid to any partner.
4. Profits/losses are to be shared equally.

10. JOURNAL OF RAMA LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018				
Mar. 31	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 equivalent to 25% of the value of Debentures outstanding)			
April 1	Debentures Redemption Investment A/c ...Dr.		1,50,000	
	To Bank A/c			1,50,000
	(Being the amount invested in specified securities equal to 15% of the amount of redeemable debentures)			
Sept. 30	Bank A/c ...Dr.		1,56,000	
	To Debentures Redemption Investment A/c			1,50,000
	To Interest Earned A/c			6,000
	(Being the debentures redemption investment realised and interest received)			
Oct. 1	9% Debentures A/c ...Dr.		10,00,000	
	To Debentureholders' A/c			10,00,000
	(Being the amount due to debentureholders on redemption)			
	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 amount in DRR A/c transferred to General Reserve)			

Value: Compliance of Law.

Note: An amount at least equal to 25% of the Nominal Value of Debentures Outstanding is credited to Debentures Redemption Reserve Account. Investment is made in specified securities of an amount equal to at least 15% of the nominal value of debentures to be redeemed.

11. (*i*) Goodwill of the Firm = Average Profit of last 5 years × No. of Years' Purchase

Year Ended	Profit (₹)
31st March, 2014	40,000
31st March, 2015	50,000
31st March, 2016	60,000
31st March, 2017	70,000
31st March, 2018	(70,000)
Total Profit	1,50,000

$$\text{Average Profit} = \frac{₹\,1,50,000}{5} = ₹\,30,000$$

Goodwill of the Firm = ₹ 30,000 × 3 = ₹ 90,000

Ram's Share of Goodwill = ₹ 90,000 × $\frac{5}{10}$ = ₹ 45,000, which is contributed by Mohan and Sohan in their gaining ratio of 3 : 2. Thus,

Mohan's Contribution = ₹ 45,000 × $\frac{3}{5}$ = ₹ 27,000, and

Sohan's Contribution = ₹ 45,000 × $\frac{2}{5}$ = ₹ 18,000.

(*ii*) *Ram's Share of Profit/(Loss) till the date of his death:*

Profit-sharing Ratio of Ram, Mohan and Sohan = 5 : 3 : 2.

Ram's Date of Death = 30th June, 2018

Time period from 1st April, 2018 to 30th June, 2018 = 3 months

Ram's Share of Profit/(Loss) = Last Year's Profit × Ram's Share × Time Period

$$= (₹\ 70{,}000) \times \frac{5}{10} \times \frac{3}{12} = ₹\ 8{,}750 \text{ (Loss)}.$$

(*iii*) ***Value:*** Sensitivity towards old age persons.

(*iv*)

Dr. RAM'S CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Profit and Loss A/c (₹ 70,000 × 5/10)	35,000	By Balance *b/d*	40,000
To Profit and Loss Suspense A/c (Loss)	8,750	By General Reserve A/c (₹ 70,000 × 5/10)	35,000
To Ram's Executors' A/c (Balancing Figure)	81,250	By Workmen Compensation Reserve A/c [5/10(₹ 18,000 – ₹ 8,000)]	5,000
		By Mohan's Capital A/c (Goodwill)	27,000
		By Sohan's Capital A/c (Goodwill)	18,000
	1,25,000		1,25,000

12. (*a*) *Calculation of Interest on X's Drawings:*

A Date	*B* Amount (₹)	*C* Number of Months up to 31st March, 2018	*D* = *B* × *C* Product
1st April	20,000	12	2,40,000
1st June	18,000	10	1,80,000
1st November	28,000	5	1,40,000
1st December	10,000	4	40,000
			6,00,000

$$\text{Interest on } X\text{'s Drawings} = ₹\ 6{,}00{,}000 \times \frac{6}{100} \times \frac{1}{12} = ₹\ 3{,}000.$$

Calculation of Interest on Y's Drawings:

Total Drawings during the Year = ₹ 30,000 × 4 = ₹ 1,20,000

$$\text{Interest on } Y\text{'s Drawings} = \text{Total Drawings} \times \frac{\text{Rate of Interest}}{100} \times \frac{7.5^*}{12}$$

$$= ₹\ 1{,}20{,}000 \times \frac{6}{100} \times \frac{7.5}{12} = ₹\ 4{,}500.$$

*When drawings of equal amounts are made at regular quarterly intervals on the first day of every quarter, interest should be charged on the whole amount for average period, *i.e.*, 7.5 months.

Accounting Treatment of Interest on Drawings: As interest on drawings is a gain to the firm, it is credited to the Profit and Loss Appropriation Account and debited to Partners' Capital Accounts (or Partners' Current Accounts in case of Fixed Capitals).

(*i*) *Adjustment Entry to charge Interest on Drawings:*

Partners' Capital/Current A/cs ...Dr.
To Interest on Drawings A/c
(Being the interest charged on partners' drawings)

(*ii*) *Closing Entry to close the Interest on Drawings Account:*

Interest on Drawings A/c ...Dr.
To Profit and Loss Appropriation A/c
(Being the interest on drawings transferred to Profit and Loss Appropriation A/c)

(*b*) Rent paid to *Y* is debited to Profit and Loss Account since it is *a charge against the profit and not an appropriation of profit.*

13. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018	General Reserve A/c	...Dr.		26,000	
April 1	Profit and Loss A/c	...Dr.		24,000	
	To *X*'s Capital A/c				25,000
	To *Y*'s Capital A/c				15,000
	To *Z*'s Capital A/c				10,000
	(Being the transfer of General Reserve and undistributed profits to old partners in their old ratio)				
	X's Capital A/c	...Dr.		10,000	
	Y's Capital A/c	...Dr.		6,000	
	Z's Capital A/c	...Dr.		4,000	
	To Advertisement Suspense A/c				20,000
	(Being the transfer of balance of Advertisement Suspense to old partners in their old ratio)				

(*b*) (*i*) **Goodwill by Capitalisation of Super Profit Method**

$$= \text{Super Profit} \times \frac{100}{\text{Normal Rate of Return}} = ₹\ 72{,}000 \times \frac{100}{10} = ₹\ 7{,}20{,}000.$$

(*ii*) **Goodwill by Super Profit Method**

$$= \text{Super Profit} \times \text{No. of Years' Purchase} = ₹\ 72{,}000 \times 3 = ₹\ 2{,}16{,}000.$$

(*iii*) **Goodwill by Capitalisation of Average Profit Method**

$$\text{Total Capitalised Value of the Firm} = \frac{\text{Average Profit}}{\text{Normal Rate of Return}} \times 100$$

$$= \frac{₹\ 4{,}00{,}000}{10} \times 100 = ₹\ 40{,}00{,}000$$

$$\text{Goodwill} = \text{Total Capitalised Value of the Firm} - \text{Net Assets}$$
$$= ₹\ 40{,}00{,}000 - ₹\ 32{,}80{,}000 = ₹\ 7{,}20{,}000.$$

Working Notes:

1. Normal Profit = Capital Employed* × Normal Rate of Return

$$= (₹\ 40{,}00{,}000 - ₹\ 7{,}20{,}000) \times \frac{10}{100} = ₹\ 3{,}28{,}000.$$

*Capital Employed = Net Assets, *i.e.*, Assets – External Liabilities

2. Super Profit = Average Profit – Normal Profit

$$= ₹\ 4{,}00{,}000 - ₹\ 3{,}28{,}000 = ₹\ 72{,}000.$$

14.

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

Dr. Expenditure		₹	Income		₹ Cr.
To Salaries		3,00,000	By Donations		10,000
To Depreciation on Furniture		10,000	By Interest on Investments	40,000	
To Rent	8,500		*Add:* Accrued Interest	5,000	45,000
Add: Unpaid Rent	2,000	10,500	By Subscriptions	3,00,000	
To Postage		11,500	*Less:* For 2016–17	2,000	
To Honorarium to Manager		10,000		2,98,000	
To Surplus		1,65,000	*Less:* For 2018–19	1,000	
(*i.e.*, Excess of Income over Expenditure)				2,97,000	
			Add: Outstanding For 2017–18	5,000	3,02,000
			By Entrance Fees		1,50,000
		5,07,000			5,07,000

BALANCE SHEET
as at 31st March, 2018

Liabilities		₹	Assets		₹
Subscription Received in Advance		1,000	Cash in Hand		20,000
Unpaid Rent		2,000	Cash at Bank		1,00,000
Capital Fund	2,02,000		Furniture	50,000	
Add: Surplus	1,65,000	3,67,000	*Less:* Depreciation	10,000	40,000
			Investments		2,00,000
			Accrued Interest on Investments		5,000
			Subscription in Arrear		5,000
		3,70,000			3,70,000

15.

REALISATION ACCOUNT

Dr. Particulars	₹	Particulars		₹ Cr.
To Sundry Assets A/c	1,45,730	By Sundry Creditors A/c		23,150
To Bank A/c—Creditors Paid **(Note 1)**	**23,150**	By Bank A/c—Assets Realised		1,24,910
To Bank A/c—Expenses Paid	1,860	By Loss transferred to:		
		A's Capital A/c **(4/7)**	**12,960**	
		B's Capital A/c **(3/7) (Note 2)**	**9,720**	**22,680**
	1,70,740			1,70,740

PARTNERS' CAPITAL ACCOUNTS

Dr. Particulars	*A* (₹)	*B* (₹)	Particulars	*A* (₹)	*B* (₹) Cr.
To Realisation A/c—Loss	12,960	9,720	By **Balance *b/d* (Note 3)**	**1,25,030**	**2,070**
To Bank A/c—Final Payment	1,12,070		By Bank A/c—Cash brought in		7,650
	1,25,030	**9,720**		1,25,030	9,720

BANK ACCOUNT

Dr. Particulars	₹	Particulars	₹ Cr.
To **Balance *b/d* (Note 4)**	**4,520**	By **Realisation A/c—(Creditors Paid) (Note 1)**	**23,150**
To Realisation A/c (Assets Realised)	1,24,910	By Realisation A/c—Expenses	1,860
To B's Capital A/c (Cash brought in)	7,650	By *A's* Capital A/c—Final Payment	1,12,070
	1,37,080		1,37,080

Notes:

1. The amount of ₹ 23,150 paid to creditors is calculated as the balancing figure on debit side of Realisation Account. It is also credited to Bank Account.
2. The balancing figure on credit side of Realisation Account is ₹ 22,680, which represents the loss on realisation. It is also transferred to the Partners' Capital Accounts in their profit-sharing ratio.
3. After transferring the Realisation Loss and final payment to *A* and cash brought in by *B (*from Bank Account) in Partners' Capital Accounts, we get opening balances of their Capital Accounts as balancing figure.
4. Opening Bank Balance of ₹ 4,520 is calculated as the Balancing Figure.

16. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
April 1	Building A/c	...Dr.		1,00,000	
	Stock A/c	...Dr.		40,000	
	To Revaluation A/c				1,40,000
	(Being the increase in value of assets recorded)				
	Revaluation A/c	...Dr.		1,40,000	
	To Mohan's Capital A/c				84,000
	To Mahesh's Capital A/c				56,000
	(Being the transfer of gain (profit) on revaluation to Old Partners' Capital Accounts in their old ratio)				
	Workmen Compensation Reserve A/c	...Dr.		2,50,000	
	To Workmen Compensation Claim A/c				2,30,000
	To Mohan's Capital A/c				12,000
	To Mahesh's Capital A/c				8,000
	(Being the liability provided and the excess Workmen Compensation Reserve divided among old partners in their old profit-sharing ratio)				
	General Reserve A/c	...Dr.		1,60,000	
	To Mohan's Capital A/c				96,000
	To Mahesh's Capital A/c				64,000
	(Being the General Reserve distributed among old partners)				
	Bank A/c	...Dr.		2,20,000	
	To Nusrat's Capital A/c (WN 3)				1,20,000
	To Premium for Goodwill A/c				1,00,000
	(Being the capital and premium for goodwill brought in cash)				
	Premium for Goodwill A/c	...Dr.		1,00,000	
	To Mohan's Capital A/c				1,00,000
	(Being the premium for goodwill credited to sacrificing Partner's Capital Account)				

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

Liabilities		₹	Assets	₹
Creditors		2,10,000	Cash at Bank (WN 4)	3,60,000
Workmen Compensation Claim		2,30,000	Debtors	1,60,000
Capital A/cs:			Stock	1,60,000
Mohan	3,92,000		Machinery	1,00,000
Mahesh	2,08,000		Building	3,80,000
Nusrat	1,20,000	7,20,000		
		11,60,000		11,60,000

Values: (*i*) Sensitivity towards specially abled people, (*ii*) Women Empowerment.

Working Notes:

1. *Dr.* REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Gain (Profit) on Revaluation transferred to:			By Building A/c	1,00,000
Mohan's Capital A/c	84,000		By Stock A/c	40,000
Mahesh's Capital A/c	56,000	1,40,000		
		1,40,000		1,40,000

2. *Dr.* PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Mohan ₹	Mahesh ₹	Nusrat ₹	Particulars	Mohan ₹	Mahesh ₹	Nusrat ₹
To Balance *c/d*	3,92,000	2,08,000	1,20,000	By Balance *b/d*	1,00,000	80,000	...
				By Revaluation A/c (Gain)	84,000	56,000	...
				By General Reserve A/c	96,000	64,000	...
				By Workmen Compensation Reserve A/c	12,000	8,000	...
				By Premium for Goodwill A/c	1,00,000*	...	...
				By Bank (WN 3)	...	...	1,20,000
	3,92,000	2,08,000	1,20,000		3,92,000	2,08,000	1,20,000

*Premium for Goodwill has been credited to Mohan's Capital Account because only he has sacrificed his share of profit in favour of Nusrat.

3. *Calculation of Nusrat's Capital in the New Firm:*

Combined Capital of Mohan and Mahesh = ₹ 3,92,000 + ₹ 2,08,000 = ₹ 6,00,000

$$\text{Nusrat's Capital} = ₹\,6,00,000 \times \frac{20}{100} = ₹\,1,20,000.$$

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

Particulars	₹	Particulars	₹
To Balance *b/d*	1,40,000	By Balance *c/d*	3,60,000
To Nusrat's Capital A/c	1,20,000		
To Premium for Goodwill A/c	1,00,000		
	3,60,000		3,60,000

Or

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Building A/c	1,00,000	By Land A/c		1,20,000
To Furniture A/c	20,000	By Loss transferred to:		
To Provision for Doubtful Debts A/c	5,000	Kushal's Capital A/c	3,000	
		Kumar's Capital A/c	1,000	
		Kavita's Capital A/c	1,000	5,000
	1,25,000			1,25,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Kushal ₹	Kumar ₹	Kavita ₹	Particulars	Kushal ₹	Kumar ₹	Kavita ₹
To Advertisement Expenditure A/c	12,000	4,000	4,000	By Balance *b/d*	3,00,000	2,80,000	3,00,000
To Revaluation A/c (Loss)	3,000	1,000	1,000	By General Reserve A/c	84,000	28,000	28,000
To Kavita's Capital A/c (Goodwill)	6,000	2,000	...	By Kushal's Capital A/c (Goodwill)	...	...	6,000
To Cash A/c (10%)	...	...	33,100	By Kumar's Capital A/c (Goodwill)	...	...	2,000
To Kavita's Loan A/c (90%) (Transfer)	...	...	2,97,900	By Kushal's Current A/c (Balancing Figure)	1,35,000	...	...
To Kumar's Current A/c (Balancing Figure)	...	1,35,000	...				
To Balance *c/d* (WN 1) (Adjusted Capital)	4,98,000	1,66,000	...				
	5,19,000	3,08,000	3,36,000		5,19,000	3,08,000	3,36,000

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

Liabilities		₹	Assets		₹
Creditors		1,20,000	Cash (WN 2)		36,900
Bills Payable		1,80,000	Debtors	2,00,000	
Kavita's Loan A/c		2,97,900	*Less:* Provision for Doubtful Debts	15,000	1,85,000
Capital A/cs:			Stock		2,20,000
Kushal	4,98,000		Furniture		1,00,000
Kumar	1,66,000	6,64,000	Building		2,00,000
Kumar's Current A/c		1,35,000	Land		5,20,000
			Kushal's Current A/c		1,35,000
		13,96,900			13,96,900

Value: Value of Education.

Working Notes:

1. *Calculation of Adjusted Capital of Remaining Partners in the New Firm:*

Kushal's Capital after all adjustments [₹ 3,00,000 + ₹ 84,000 – ₹ 12,000 – ₹ 3,000 – ₹ 6,000	₹ 3,63,000
Kumar's Capital after all adjustments [₹ 2,80,000 + ₹ 28,000 – ₹ 4,000 – ₹ 1,000 – ₹ 2,000]	₹ 3,01,000
Total Capital of the New Firm	₹ 6,64,000

$$\text{Adjusted Capital of Kushal} = ₹\,6{,}64{,}000 \times \frac{3}{4} = ₹\,4{,}98{,}000$$

$$\text{Adjusted Capital of Kumar} = ₹\,6{,}64{,}000 \times \frac{1}{4} = ₹\,1{,}66{,}000.$$

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

Particulars	₹	Particulars	₹
To Balance *b/d*	70,000	By Kavita's Capital A/c	33,100
		By Balance *c/d*	36,900
	70,000		70,000

17. JOURNAL ENTRIES OF H.P. LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		41,25,000	
	To Shares Application A/c				41,25,000
	(Being the application money received for 82,500 shares)				
	Shares Application A/c	...Dr.		41,25,000	
	To Share Capital A/c (50,000 × ₹ 50)				25,00,000
	To Bank A/c (20,000 × ₹ 50)				10,00,000
	To Shares Allotment A/c (12,500 × ₹ 50)				6,25,000
	(Being the application money adjusted)				
	Shares Allotment A/c (50,000 × ₹ 35)	...Dr.		17,50,000	
	To Share Capital A/c (50,000 × ₹ 25)				12,50,000
	To Securities Premium Reserve A/c (50,000 × ₹ 10)				5,00,000
	(Being the allotment money due)				
	Bank A/c	...Dr.		11,02,500	
	To Shares Allotment A/c				11,02,500
	(Being the balance allotment money received except on 1,000 shares (WN 1 and 2))				
	Shares First and Final Call A/c (50,000 × ₹ 25)	...Dr.		12,50,000	
	To Share Capital A/c				12,50,000
	(Being the first and final call money due)				
	Bank A/c	...Dr.		12,25,000	
	To Shares First and Final Call A/c				12,25,000
	(Being the first and final call money received except on 1,000 shares)				
	Share Capital A/c (1,000 × ₹ 100)	...Dr.		1,00,000	
	Securities Premium Reserve A/c	...Dr.		10,000	
	To Forfeited Shares A/c				62,500
	To Shares Allotment A/c				22,500
	To Shares First and Final Call A/c				25,000
	(Being 1,000 shares forfeited for non-payment of allotment and call money)				
	Bank A/c (500 × ₹ 105)	...Dr.		52,500	
	To Share Capital A/c (500 × ₹ 100)				50,000
	To Securities Premium Reserve A/c				2,500
	(Being 500 shares reissued at ₹ 105 per share fully paid-up)				
	Forfeited Shares A/c	...Dr.		31,250	
	To Capital Reserve A/c				31,250
	(Being the gain on reissue of 500 shares transferred to Capital Reserve)				

BALANCE SHEET OF H.P. LTD. *as at ...*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	49,81,250

Note to Accounts

Particulars	₹	₹
1. Share Capital		
Authorised Capital		
... Equity Shares of ₹ 100 each		...
Issued Capital		
50,000 Equity Shares of ₹ 100 each		50,00,000
Subscribed Capital		
Subscribed and fully paid-up		
49,500 Equity Shares of ₹ 100 each	49,50,000	
Add: Forfeited Shares A/c	31,250	49,81,250

Value: Value of equitable distribution of wealth is affected by rejecting the applications for 20,000 shares.

Working Notes:

1. *Calculation of Amount not paid on Allotment by Sahil:*

		₹
(*a*)	Number of shares allotted to Sahil = $\frac{50,000}{62,500} \times 1,250 = 1,000$ shares	
(*b*)	Amount paid on application (1,250 × ₹ 50)	62,500
	Less: Amount adjusted with application (1,000 × ₹ 50)	50,000
	Excess application money adjusted on allotment	12,500
(*c*)	Amount due on allotment (1,000 × ₹ 35)	35,000
	Less: Excess application money adjusted [WN 1(*b*)]	12,500
	Amount not paid on allotment	22,500

2. Amount *received on allotment:*

Total amount due on allotment	17,50,000
Less: Excess application money adjusted	6,25,000
	11,25,000
Less: Amount not received on allotment [WN 1(*c*)]	22,500
Amount received on allotment	11,02,500

Or

In the Books of Himalayas Ltd.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		6,75,000	
	To Equity Shares Application A/c			6,75,000
	(Being the application money received on 2,25,000 shares)			
	Equity Shares Application A/c ...Dr.		6,75,000	
	To Equity Share Capital A/c (1,00,000 × ₹ 3)			3,00,000
	To Equity Shares Allotment A/c			1,60,000
	To Equity Shares First and Final Call A/c			1,40,000
	To Bank A/c (25,000 × ₹ 3)			75,000
	(Being the application money adjusted)			
	Equity Shares Allotment A/c ...Dr.		2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Being the allotment money due)			

	Bank A/c ...Dr. To Equity Shares Allotment A/c (Being the allotment money received)		40,000	40,000
	Equity Shares First and Final Call A/c ...Dr. To Equity Share Capital A/c (Being the call money due on 1,00,000 shares)		5,00,000	5,00,000
	Bank A/c ...Dr. To Equity Shares First and Final Call A/c (WN 4) (Being the receipt of first and final call money except on 600 shares)		3,58,200	3,58,200
	Equity Share Capital A/c ...Dr. To Equity Shares First and Final Call A/c To Forfeited Shares A/c (Being 600 shares forfeited due to non-payment of call money)		6,000	1,800 4,200
	Bank A/c (600 × ₹ 9) ...Dr. Forfeited Shares A/c (600 × ₹ 1) ...Dr. To Equity Share Capital A/c (Being 600 forfeited shares reissued for ₹ 9 per share fully paid-up)		5,400 600	6,000
	Forfeited Shares A/c ...Dr. To Capital Reserve A/c (Being the gain (profit) on reissue transferred to Capital Reserve)		3,600	3,600

BALANCE SHEET OF HIMALAYAS LTD.
as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	10,00,000

Notes to Accounts

Particulars	₹
1. Share Capital	
Authorised Capital	
... Equity Shares of ₹ 10 each	...
Issued Capital	
1,00,000 Equity Shares of ₹ 10 each	10,00,000
Subscribed Capital	
Subscribed and fully paid-up	
1,00,000 Equity Shares of ₹ 10 each	10,00,000

Value: Value of equitable distribution of wealth is affected.

Working Notes:

1. Total No. of Shares applied by an applicant who has not paid call money (Defaulter shareholder):

$$= \frac{1,40,000*}{60,000*} \times 600 = 1,400 \text{ Shares}$$

**Category*	*Shares Applied*	*Shares Allotted*
Rejected	25,000	...
(i) Raman	40,000	20,000
(ii) Akbar	20,000	20,000
(iii) *Pro rata* basis	1,40,000	60,000
	2,25,000	1,00,000

	₹
2. Application money received from defaulter shareholder (1,400 × ₹ 3)	4,200
Less: Application money adjusted (600 × ₹ 3)	1,800
Surplus application money	2,400
Less: Surplus application money adjusted on allotment (600 × ₹ 2)	1,200
Surplus application money to be adjusted on first and final call	1,200
3. *Calculation of call money not paid by defaulter shareholder:*	
First and final call money due (600 × ₹ 5)	3,000
Less: Surplus application money to be adjusted on first and final call (WN 2)	1,200
Amount due but not paid on first and final call	1,800
4. *Calculation of call money received later:*	
Total call money due	5,00,000
Less: Surplus application money adjusted	1,40,000
	3,60,000
Less: Amount due but not received (WN 3)	1,800
	3,58,200

PART B

18. Cash Flow Statement is historical in nature because it is prepared on the basis of financial statements, which are historical in nature.

19. CALCULATION OF CASH FLOW FROM FINANCING ACTIVITIES

Particulars	₹
Proceeds from Issue of Shares (Including Premium)	2,20,000
Interest paid on 10% Debentures	(20,000)
Redemption of 10% Debentures	(1,00,000)
Cash Flow from Financing Activities	1,00,000

20. (*a*)

Items	Major Head	Sub-head
(*i*) Goodwill	Non-current Assets	Fixed Assets—Intangible Assets
(*ii*) Debentures	Non-current Liabilities	Long-term Borrowings
(*iii*) Licences and Franchise	Non-current Assets	Fixed Assets—Intangible Assets

(*b*) Intra-firm Analysis is a comparision of Financial Statements of an enterprise for two or more accounting periods whereas, Inter-firm Analysis is a comparison of Financial Statements of two or more enterprises for the same accounting period.

21. (*a*) **Calculation of Credit Revenue from Operations**

Let Total Revenue from Operations be X

Total Revenue from Operations = Cost of Revenue from Operations + Gross Profit

$$X = ₹\ 3{,}20{,}000 + 20\% \text{ of } X \left(\text{or } \frac{1}{5}X\right)$$

$$X - \frac{1}{5}X = ₹\ 3{,}20{,}000$$

$$\frac{4}{5}X = ₹\ 3{,}20{,}000$$

$$X = ₹\ 3{,}20{,}000 \times \frac{5}{4} = ₹\ 4{,}00{,}000 \text{ (Total Revenue from Operations)}$$

Let Credit Revenue from Operations be x

Credit Revenue from Operations = Total Revenue from Operations – Cash Revenue from Operations

$$x = ₹\ 4{,}00{,}000 - \frac{1}{3}x$$

$$x + \frac{1}{3}x = ₹\ 4{,}00{,}000$$

$$\frac{4}{3}x = ₹\ 4{,}00{,}000$$

$$x = ₹\ 4{,}00{,}000 \times \frac{3}{4} = ₹\ 3{,}00{,}000 \text{ (Credit Revenue from Operations)}$$

Calculation of Opening Trade Receivables and Closing Trade Receivables:

$$\text{Trade Receivables Turnover Ratio} = \frac{\text{Credit Revenue from Operations}}{\text{Average Trade Receivables}}$$

$$\text{Average Trade Receivables} = \frac{₹\ 3{,}00{,}000}{4} = ₹\ 75{,}000$$

Average Trade Receivables

$$= \frac{\text{Opening Trade Receivables + Closing Trade Receivables}}{2}$$

Let the Opening Trade Receivables = $\boldsymbol{y}$;

Closing Trade Receivables = $\boldsymbol{y}$ + ₹ 10,000

$$₹\ 75{,}000 = \frac{\boldsymbol{y} + \boldsymbol{y} + ₹\ 10{,}000}{2}$$

$$\boldsymbol{y} + \boldsymbol{y} + ₹\ 10{,}000 = ₹\ 1{,}50{,}000$$

$$2y = ₹\ 1,50,000 - ₹\ 10,000$$

$$y = \frac{₹\ 1,40,000}{2} = ₹\ 70,000 \text{ (Opening Trade Receivables)}$$

Closing Trade Receivables = ₹ 70,000 + ₹ 10,000 = ₹ 80,000.

(*b*) The objective of computing Trade Receivables Turnover Ratio is to determine the efficiency with which the trade receivables are managed and collected.

22. (*a*) COMPARATIVE STATEMENT OF PROFIT AND LOSS OF SRCC LTD.

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) %
I. **Revenue from Operations (Sales)**		12,00,000	16,00,000	4,00,000	33.33
II. **Expenses**					
(*a*) Purchases of Stock-in-Trade		7,00,000	9,00,000	2,00,000	28.57
(*b*) Change in Inventories of Stock-in-Trade		40,000	50,000	10,000	25.00
(*c*) Employees Benefit Expenses (Indirect)		1,48,000	1,71,000	23,000	15.54
Total Expenses		8,88,000	11,21,000	2,33,000	26.24
III. **Profit before Tax (I – II)**		3,12,000	4,79,000	1,67,000	53.53
IV. *Less:* Tax @ 50%		1,56,000	2,39,500	83,500	53.53
V. **Profit after Tax**		1,56,000	2,39,500	83,500	53.53

Note: Cost of Revenue from Operations = Purchases of Stock-in-Trade + Change in Inventories of Stock-in-Trade

For the year ended 31st March, 2017 = ₹ 7,00,000 + ₹ 40,000 = ₹ 7,40,000

For the year ended 31st March, 2018 = ₹ 9,00,000 + ₹ 50,000 = ₹ 9,50,000

Thus, Employees Benefit Expenses (% of Cost of Revenue from Operations):

For the year ended 31st March, 2017 = 20% of ₹ 7,40,000 = ₹ 1,48,000

For the year ended 31st March, 2018 = 18% of ₹ 9,50,000 = ₹ 1,71,000.

(*b*) Gross Profit = Revenue from Operations – Cost of Revenue from Operations

Gross Profit (2016–17) = ₹ 12,00,000 – ₹ 7,40,000 = ₹ 4,60,000

Gross Profit (2017–18) = ₹ 16,00,000 – ₹ 9,50,000 = ₹ 6,50,000

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$$

$$\text{Gross Profit Ratio (2016–17)} = \frac{₹\ 4,60,000}{₹\ 12,00,000} \times 100 = 38.33\%$$

$$\text{Gross Profit Ratio (2017–18)} = \frac{₹\ 6,50,000}{₹\ 16,00,000} \times 100 = 40.63\%.$$

23. (*a*) CASH FLOW FROM OPERATING ACTIVITIES

Particulars	₹	₹
Profit before Tax		2,50,000
Add: Non-Cash and Non-operating Expenses:		
Depreciation and Amortisation Expenses	60,000	
Loss on Sale of Furniture	6,000	66,000
		3,16,000
Less: Non-Operating Incomes:		
Rent	60,000	
Profit on Sale of Machinery	10,000	
Interest on Debentures held as Investments	8,000	78,000
Operating Profit before Working Capital Changes		2,38,000
Add: Increase in Current Liabilities:		
Outstanding Expenses		12,000
		2,50,000
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Inventories	60,000	
Trade Receivables	20,000	
Prepaid Expenses	6,000	
Trade Payables	10,000	96,000
Cash Flow from Operating Activities		1,54,000

(*b*) CASH FLOW FROM INVESTING ACTIVITIES

Particulars	₹
Proceeds from Sale of Plant and Machinery	40,000
Proceeds from Sale of Land (WN 1)	1,60,000
Purchase of Plant and Machinery (WN 2)	(2,60,000)
Purchase of Non-Current Investments (₹ 1,00,000 – ₹ 40,000)	(60,000)
Cash Used in Investing Activities	(1,20,000)

Working Notes:

1. *Dr.* LAND ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	2,00,000	By Bank A/c (Balancing Figure)—Sale Proceeds	1,60,000
To Gain (Profit) on Sale of Land A/c (Statement of Profit and Loss)	60,000	By Balance *c/d*	1,00,000
	2,60,000		2,60,000

2. *Dr.* PLANT AND MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	8,50,000	By Depreciation A/c	50,000
To Bank A/c (Balancing Figure)—Purchase	2,60,000	By Bank A/c—Sale Proceeds	40,000
		By Loss on Sale of Plant and Machinery A/c (Statement of Profit and Loss)	20,000
		By Balance *c/d*	10,00,000
	11,10,000		11,10,000