MODEL TEST PAPER 20 (Solution)

PART A

1. AN EXTRACT OF INCOME AND EXPENDITURE ACCOUNT

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

Expenditure	₹	Income	₹
To Prizes Awarded	20,000		

Reason: There does not exist any Prize Fund. So, the amount of Prizes awarded would be debited to Income and Expenditure Account. It is the case of expenses independent of any specific fund.

2. (*a*) Partners' Capital Accounts.
(*b*) Partners' Current Accounts.

3. *Y* is correct as Section 48 of Indian Partnership Act, 1932 provides that loan by a partner to the firm is paid before capital is repaid.

4. (*i*) Secularism; (*ii*) Value of social justice; (*iii*) Reward for hard work.

5. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	General Reserve A/c ...Dr.		40,000	
	To Provision for Doubtful Debts A/c (₹ 40,000 × 20/100)			8,000
	To *X*'s Capital A/c			16,000
	To *Y*'s Capital A/c			16,000
	(Being 20% of General Reserve transferred to Provision and balance to partners in their old profit-sharing ratio)			

6. CALCULATION OF AMOUNT TO BE TRANSFERRED TO DEBENTURES REDEMPTION RESERVE

Particulars	₹
Debentures Redemption Reserve Required (100% of ₹ 80,00,000)	80,00,000
Less: Existing Balance of Debentures Redemption Reserve	4,00,000
Amount to be transferred to Debentures Redemption Reserve	76,00,000

7. (*i*) Average Profit (after partners' remuneration)

= ₹ 5,50,000 – ₹ 2,50,000 (Partners' Remuneration)

= ₹ 3,00,000

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

$$= \frac{₹\ 3,00,000}{15} \times 100 = ₹\ 20,00,000$$

Goodwill (Capitalisation of Average Profit)

= Capitalised Value of the Firm – Capital Employed

= ₹ 20,00,000 – ₹ 10,00,000 = ₹ 10,00,000.

(*ii*) Super Profit = Average Profit – Normal Profit

= ₹ 3,00,000 – ₹ 1,50,000 (*i.e.*, ₹ 10,00,000 × 15/100)

= ₹ 1,50,000

Goodwill (Capitalisation of Super Profit)

$$= \text{Super Profit} \times \frac{100}{\text{Normal Rate of Return}}$$

$$= ₹\ 1,50,000 \times \frac{100}{15} = ₹\ 10,00,000.$$

8. Out of total applications of 80,000 shares, allotment was made as follows:

Category	Shares Applied	Shares Allotted
(*a*)	20,000	Nil
(*b*)	20,000	20,000
(*c*)	40,000	30,000

Calculation of Total Amount Received on Allotment (including Calls-in-Advance):

Particulars		₹
Total allotment money due (50,000 shares × ₹ 3 per share)		1,50,000
Less: Excess application money adjusted on allotment [(40,000 – 30,000) × ₹ 2)]	20,000	
Amount due but not paid by Mohan (20,000 × ₹ 3)	60,000	80,000
Amount received on allotment		70,000
Add: Calls-in-Advance received from Sohan (3,000 × ₹ 5)		15,000
Total Amount received on allotment including Calls-in-Advance		85,000

Value: *Value of equitable distribution of wealth* has been ignored by the company as it rejected applications of applicants who had applied for 20,000 shares and instead allotted shares in full to Mohan, a single applicant of 20,000 shares.

9. BALANCE SHEET OF RADHIKA TEXTILES LTD. (An Extract)
as at 31st March, 2017

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	9,70,000

Note to Accounts

Particulars		₹
1. Share Capital		
Authorised Capital		
2,50,000 Equity Shares of ₹ 10 each		25,00,000
Issued Capital		
2,00,000 Equity Shares of ₹ 10 each		20,00,000
Subscribed Capital		
Subscribed but not fully Paid-up		
2,00,000 Equity Shares of 10 each; ₹ 5 Called-up	10,00,000	
Less: Calls-in-Arrears (15,000 × ₹ 2)	30,000	9,70,000

10. **Zulu Sports Club**

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

Expenditure	₹	Income	₹
		By Interest on General Fund Investments	80,000

BALANCE SHEET *as at 31st March, 2018*

Liabilities		₹	Assets	₹
Sports Fund:			Sports Fund Investments	3,50,000
Balance on 1st April, 2017	3,50,000		General Fund Investments	8,00,000
Add: Interest on Sports Fund Invt.	40,000			
Donations for Sports Fund	1,50,000			
	5,40,000			
Less: Sports Prizes Awarded	1,00,000			
Expenses on Sports Events	40,000	4,00,000		
General Fund		8,00,000		

11.

Dr. SURESH'S CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Drawings A/c	27,500	By Balance *b/d*	2,00,000
To Suresh's Executors' A/c (Balancing Figure)	2,35,500	By Interest on Capital A/c (₹ 2,00,000 × 10/100 × 4/12)	6,667
		By Profit and Loss Suspense A/c (Profit)	11,333
		By Mahesh's Capital A/c (₹ 45,000 × 3/5)	27,000
		By Naresh's Capital A/c (₹ 45,000 × 2/5)	18,000
	2,63,000		2,63,000

Value: Sensitivity towards old age persons.

Working Notes:

1. *Calculation of Suresh's Share of Profit:*

$$\text{Suresh's Share of Profit} = \text{Estimated Current Year's Profit} \times \frac{\text{Time till Death}}{12} \times \text{Suresh's Share of Profit}$$

Estimated Current Year's Profit = Previous Year's Profit + 20% = ₹ 1,70,000 + ₹ 34,000 = ₹ 2,04,000

$$\text{Thus, Suresh's Share of Profit} = ₹\ 2{,}04{,}000 \times \frac{1}{6} \times \frac{4}{12} = ₹\ 11{,}333.$$

2. *Adjustment of Suresh's Share of Goodwill:*

$$\text{Average Profit} = \frac{₹\ 75{,}000 + ₹\ 1{,}40{,}000 - ₹\ 25{,}000 + ₹\ 1{,}70{,}000}{4} = ₹\ 90{,}000$$

Value of Firm's Goodwill = ₹ 90,000 × 3 = ₹ 2,70,000

Suresh's Share of Goodwill = ₹ 2,70,000 × $\frac{1}{6}$ = ₹ 45,000, which is to be contributed by Mahesh and Naresh in their gaining ratio of 3 : 2.

12.

PROFIT AND LOSS APPROPRIATION ACCOUNT
for the year ended 31st March, 2018

Dr. Particulars		₹	Particulars	Cr. ₹
To Interest on Capital A/cs:			By Profit and Loss A/c (Net Profit)	1,15,900
X (₹ 90,000 × 6/100)	5,400		By Interest on Drawings A/c:	
Y (₹ 60,000 × 6/100)	3,600		*Z* (₹ 6,000 × 5/100) (WN)	300
Z (₹ 30,000 × 6/100)	1,800	10,800	By Interest on Current A/c:	
To Interest on Current A/cs:			*Y* (₹ 10,000 × 5/100)	500
X (₹ 20,000 × 5/100)	1,000			
Z (₹ 12,000 × 5/100)	600	1,600		
To Partners' Salary A/cs:				
Y	6,000			
Z	8,000	14,000		
To Profit transferred to:				
X's Current A/c	54,180			
Y's Current A/c	27,090			
Z's Current A/c	9,030	90,300		
		1,16,700		1,16,700

Working Note: ASCERTAINMENT OF INTEREST ON DRAWINGS TO BE CHARGED

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
Drawings including Salaries	40,000	31,000	23,000
Less: Salaries	...	6,000	8,000
Drawings excluding Salaries	40,000	25,000	15,000
Share of Profit of ₹ 90,000* (6 : 3 : 1)	54,000	27,000	9,000
Excess or Short Drawings	14,000 (Short)	2,000 (Short)	6,000 Excess
Interest to be Charged @ 5%			300

* ₹ 1,15,900 (Profit) – ₹ 14,000 (Salary of *Y* and *Z*) – ₹ 10,800 (Interest on Capitals of *X*, *Y* and *Z*) – ₹ 1,600 (Interest on Current A/cs of *X* and *Z*) + ₹ 500 (Interest on *Y*'s Current A/c) = ₹ 90,000.

13.

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

Dr. Expenditure		₹	Income		Cr. ₹
To Salary	90,000		By Subscriptions	2,20,000	
Add: Outstanding Salary	40,000	1,30,000	*Add:* Outstanding for 2017–18	25,000*	2,45,000
To Newspapers and Magazines		20,000	By Sale of Old Newspapers and Magazines		15,000
To Rent	70,000		By Government Grants		2,00,000
Add: Outstanding Rent	10,000	80,000	By Surplus from Entertainment		20,000
To Loss on Sale of Furniture (₹ 90,000 – ₹ 60,000)		30,000	By Accrued Interest on Fixed Deposit (₹ 2,50,000 × 12/100)		30,000
To Surplus (*i.e.*, excess of Income over Expenditure)		2,50,000			
		5,10,000			5,10,000

	₹
*Subscription Outstanding as on 31st March, 2017	20,000
Less: Subscription Received during the year for 2016–17	15,000
Subscription still outstanding for 2016–17	5,000
Subscription Outstanding as on 31st March, 2018	30,000
Less: Subscription still Outstanding for 2016–17	5,000
Subscription Outstanding for 2017–18	25,000

Calculation of Capital Fund on 31st March, 2017:

BALANCE SHEET
as on 31st March, 2017

Liabilities	₹	Assets	₹
Capital Fund (Balancing Figure)	4,50,000	Cash in Hand	50,000
		Outstanding Subscriptions	20,000
		Furniture	2,00,000
		Books	1,80,000
	4,50,000		4,50,000

14.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets—Transfer:			By Provision for Doubtful Debts A/c		2,000
Sundry Debtors	22,000		By Employees' Provident Fund A/c		8,000
Stock	12,000		By Sundry Creditors A/c		10,000
Plant and Machinery	30,000		By Investment Fluctuation Reserve A/c		4,000
Land and Building	45,000		By *X*'s Capital A/c—Plant and Machinery		16,000
Investments	35,000	1,44,000	By Bank A/c—Assets Realised:		
To Bank A/c (Employees' Provident Fund)		8,000	Machineries (Remaining)	9,000	
To Bank A/c (Sundry Creditors)		7,200	Land and Building	42,000	
			Sundry Debtors (WN)	18,900	69,900
			By *Y*'s Capital A/c (Investments taken)		28,000
			By Loss transferred to:		
			X's Capital A/c	10,650	
			Y's Capital A/c	6,390	
			Z's Capital A/c	4,260	21,300
		1,59,200			1,59,200

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To *Z*'s Current A/c	...	...	5,000	By Balance *b/d*	60,000	40,000	30,000
To Advt. Suspense A/c	1,500	900	600	By Patners' Current A/cs	8,000	10,000	...
To Realisation A/c (Plant and Machinery)	16,000	...	...				
To Realisation A/c (Invt.)	...	28,000	...				
To Realisation A/c (Loss)	10,650	6,390	4,260				
To Bank A/c (Final Payment)	39,850	14,710	20,140				
	68,000	50,000	30,000		68,000	50,000	30,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	20,000	By Realisation A/c (Sundry Creditors)	7,200
To Realisation A/c (Assets Realised)	69,900	By Realisation A/c (Employees' Provident Fund)	8,000
		By *X*'s Capital A/c (Final Payment)	39,850
		By *Y*'s Capital A/c (Final Payment)	14,710
		By *Z*'s Capital A/c (Final Payment)	20,140
	89,900		89,900

Working Note:

1. *Calculation of Amount Realised from Debtors:*

	₹
Sundry Debtors	22,000
Less: Bad Debts	1,000
	21,000
Less: Cash Discount	2,100
Cash Realised from Debtors (Remaining)	18,900

2. No entry will be passed for retaining stock by *X* as his remuneration.

15.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018				
April 1	*X*'s Capital A/c (1/6 of ₹ 2,40,000) ...Dr.		40,000	
	To *Z*'s Capital A/c (1/6 of ₹ 2,40,000)			40,000
	(Being the adjustment made on account of change in profit-sharing ratio by debiting gaining partner and crediting sacrificing partner)			

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	*Z* ₹	Particulars	*X* ₹	*Y* ₹	*Z* ₹
To *Z*'s Capital A/c	40,000	...	...	By Balance *b/d*	2,50,000	2,00,000	1,50,000
To Balance *c/d*	2,10,000	2,00,000	1,90,000	By *X*'s Capital A/c	...	...	40,000
	2,50,000	2,00,000	1,90,000		2,50,000	2,00,000	1,90,000

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

Liabilities		₹	Assets	₹
Bills Payable		40,000	Building	2,00,000
Sundry Creditors		1,00,000	Machinery	1,00,000
General Reserve		60,000	Patents and Copyrights	1,50,000
Capital A/cs:			Closing Stock	1,25,000
X	2,10,000		Sundry Debtors	1,50,000
Y	2,00,000		Cash at Bank	75,000
Z	1,90,000	6,00,000		
		8,00,000		8,00,000

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

Working Notes:

(*i*) Sacrifice/(Gain) = Old Share – New Share

$X = \frac{1}{3} - \frac{3}{6} = \left(\frac{1}{6}\right)$ gain; $Y = \frac{1}{3} - \frac{2}{6} = \frac{0}{6}$; $Z = \frac{1}{3} - \frac{1}{6} = \frac{1}{6}$ sacrifice.

(*ii*) *Calculation of Net Effect of Adjustment to be made:*

	₹
• Increase in value of Assets, *i.e.*, ₹ 75,000 (Building) + ₹ 75,000 (Closing Stock) + ₹ 5,000 (Prepaid Insurance)	1,55,000
• Decrease in value of Assets, *i.e.*, ₹ 10,000 (Machinery) + ₹ 17,500 (Patents and Copyrights) + ₹ 7,500 (Sundry Debtors)	(35,000)
Gain (Profit) on Revaluation of Assets	1,20,000
Adjustment for General Reserve	60,000
Adjustment for Goodwill	60,000
Net Effect of Adjustment to be made	2,40,000

16. **In the Books of the Firm**

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Provision for Doubtful Debts A/c (WN 2)	8,500	By Advertisement Expenditure A/c		6,000
To *A*'s Capital A/c (Revaluation Expenses)	10,100	By *B*'s Capital A/c		10,000
To Furniture A/c (WN 4)	40,000	By Loss transferred to:		
		A's Capital A/c	21,300	
		B's Capital A/c	14,200	
		C's Capital A/c	7,100	42,600
	58,600			58,600

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	*D* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)	*D* (₹)
To Revaluation A/c	...	10,000	...	...	By Balance *b/d*	3,00,000	3,00,000	2,00,000	...
To Revaluation A/c (Loss)	21,300	14,200	7,100	...	By Creditors A/c	...	...	...	50,000
					By Bank A/c	...	...	...	2,00,000
To Balance *c/d*	3,83,300	3,38,800	2,24,400	2,50,000	By Premium for Goodwill A/c	94,500	63,000	31,500	...
					By Revaluation A/c	10,100	...	...	...
	4,04,600	3,63,000	2,31,500	2,50,000		4,04,600	3,63,000	2,31,500	2,50,000

BALANCE SHEET *(After D's Admission)*
as at 31st March, 2018

Liabilities		₹	Assets		₹
Capital A/cs:			Building		2,50,000
A	3,83,300		Machinery		2,00,000
B	3,38,800		Furniture (₹ 1,50,000 – ₹ 40,000)		1,10,000
C	2,24,400		Stock		1,00,000
D	2,50,000	11,96,500	Debtors (₹ 1,50,000 + ₹ 20,000)	1,70,000	
Creditors		1,00,000	*Less:* Provision for Doubtful Debts	8,500	1,61,500
Bills Payable		50,000	Bills Receivable		1,00,000
			Bank ₹ (50,000 + 2,00,000 + 1,89,000 – 20,000: Dishonour of Bills Receivable)		4,19,000
			Advertisement Expenditure A/c		6,000
		13,46,500			13,46,500

Working Notes:

1. Contingent liability for bills discounted ₹ 60,000.
2. Debtors after adjustment of bills dishonoured = ₹ 1,70,000.
   Provision for doubtful debts is to be created @ 5% of ₹ 1,70,000 = ₹ 8,500.

   Accounting Entry for Dishonour of Bill:

		₹	₹
Debtor's A/c	...Dr.	20,000	
To Bank A/c			20,000

3. Capital brought in cash (₹ 2,50,000 – ₹ 50,000) = ₹ 2,00,000.
4. For sale of furniture, the actual rectifying entry will be:

Sales A/c	...Dr.	25,000	
Loss on Sale of Furniture A/c	...Dr.	15,000	
To Furniture A/c			40,000

As all the Nominal Accounts (*i.e.*, Revenue and Expenses Accounts) have been closed at the time of preparing Final Accounts for 2017–18, the rectifying entry is passed through Revaluation Account. Thus, entry will be as under:

		₹	₹
Revaluation A/c	...Dr.	40,000	
To Furniture A/c			40,000

Alternatively,

		₹	₹
A's Capital A/c	...Dr.	20,000	
B's Capital A/c	...Dr.	13,333	
C's Capital A/c	...Dr.	6,667	
To Furniture A/c			40,000

Or

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Stock A/c		2,500	By Office Equipments A/c (WN 1)	1,900
To Furniture A/c		2,000	By Building A/c	25,000
To Investments A/c		500	By Provision for Doubtful Debts A/c	750
To Gain (Profit) transferred to:			(₹ 1,500 – 5% of ₹ 15,000)	
A's Capital A/c	11,325			
B's Capital A/c	7,550			
C's Capital A/c	3,775	22,650		
		27,650		27,650

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* ₹	*B* ₹	*C* ₹	Particulars	*A* ₹	*B* ₹	*C* ₹
To *B*'s Capital A/c (WN 2)	3,000	...	3,000	By Balance *b/d*	40,000	21,000	20,000
To *B*'s Loan A/c	...	20,550	...	By General Reserve A/c	9,000	6,000	3,000
To Bank A/c (Bal. Fig.)	...	20,000	...	By *A*'s Capital A/c (WN 2)	...	3,000	...
To Bank A/c (WN 3)	3,258	...	...	By *C*'s Capital A/c (WN 2)	...	3,000	...
To Balance *c/d* (WN 3)	54,067	...	27,033	By Revaluation A/c (Profit)	11,325	7,550	3,775
				By Bank A/c (WN 3)	...	...	3,258
	60,325	40,550	30,033		60,325	40,550	30,033

BALANCE SHEET *(After B's Retirement) as at 1st April, 2018*

Liabilities		₹	Assets		₹
Sundry Creditors		12,500	Cash at Bank		1,500
Employees' Provident Fund		20,000	Sundry Debtors	15,000	
B's Loan		20,550	*Less:* Provision for Doubtful Debts	750	14,250
Capital A/cs:			Stock		10,000
A	54,067		Investments		7,500
C	27,033	81,100	Office Equipments (₹ 14,000 + ₹ 1,900)		15,900
			Furniture		10,000
			Building		75,000
		1,34,150			1,34,150

Working Notes:

1. The typewriter purchased was wrongly debited to Office Expenses Account, but should have been debited to Office Equipments Account. In effect, depreciation for 6 months (from 1st October, 2017 and 31st March, 2018) has not been provided. Therefore, ₹ 2,000 (cost of Typewriter) – ₹ 100 (depreciation for 6 months) = ₹ 1,900 should be debited (added) to Office Equipments Account and also credited to Revaluation Account.

2. *Adjustment of Goodwill:*

(*i*) *Calculation of Gaining Ratio:*

Gain of a Partner = New Share – Old Share

$$A\text{'s Gain} = \frac{2}{3}-\frac{3}{6}=\frac{4-3}{6}=\frac{1}{6};\ C\text{'s Gain} = \frac{1}{3}-\frac{1}{6}=\frac{2-1}{6}=\frac{1}{6};$$

Thus, Gaining Ratio of *A* and *C* = $\frac{1}{6}:\frac{1}{6}=1:1.$

(*ii*) Firm's Goodwill = ₹ 18,000

B's Share of Goodwill = ₹ 18,000 × 2/6 = ₹ 6,000, which is to be contributed by *A* and *C* in their gaining ratio, *i.e.*, 1 : 1.

Thus, *A*'s Contribution= ₹ 6,000 × 1/2 = ₹ 3,000; and *C*'s Contribution = ₹ 6,000 × 1/2 = ₹ 3,000.

3. *Ascertainment of required Closing Capital:*

Adjusted capitals of *A* and *C* after *B*'s retirement are:	₹
A (₹ 40,000 + ₹ 9,000 + ₹ 11,325 – ₹ 3,000)	57,325
C (₹ 20,000 + ₹ 3,000 + ₹ 3,775 – ₹ 3,000)	23,775
Total capital of the new firm	81,100

Thus, ₹ 81,100 will be shared by *A* and *C* in their new profit-sharing ratio, *i.e.*, 2 : 1

A's New Capital = ₹ 54,067; and *C*'s New Capital = ₹ 27,033.

In effect, *A* will withdraw ₹ 3,258 (*i.e.*, ₹ 57,325 – ₹ 54,067) and *C* will bring ₹ 3,258 (*i.e.*, ₹ 27,033 – ₹ 23,775).

17. (*a*) **In the Books of Strong Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2014				
April 1	Sundry Assets A/c ...Dr.		8,00,000	
	Goodwill A/c (Balancing Figure) ...Dr.		20,000	
	To Sundry Liabilities A/c			2,70,000
	To Star Ltd.			5,50,000
	(Being the purchase of business of Star Ltd.)			
April 1	Star Ltd. ...Dr.		5,50,000	
	Loss on Issue of Debentures A/c ...Dr.		25,000	
	To 10% Debentures A/c			5,00,000
	To Securities Premium Reserve A/c			50,000
	To Premium on Redemption of Debentures A/c			25,000
	(Being 5,000; 10% Debentures issued at 10% premium and redeemable at 5% premium) (Note)			
2017				
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		1,25,000	
	To Debentures Redemption Reserve A/c (₹ 5,00,000 × 25/100)			1,25,000
	(Being the transfer of Profit to Debentures Redemption Reserve)			
April 30	Debentures Redemption Investment A/c ...Dr.		75,000	
	To Bank A/c			75,000
	(Being the investment made @ 15% of the face value of debentures to be redeemed)			
2018				
March 31	Bank A/c ...Dr.		75,000	
	To Debentures Redemption Investment A/c			75,000
	(Being the investment encashed)			

March 31	10% Debentures A/c ...Dr. Premium on Redemption of Debentures A/c ...Dr. To Debentureholders' A/c (Being the amount due to debentureholders on redemption)		5,00,000 25,000	 5,25,000
March 31	Debentureholders' A/c ...Dr. To Bank A/c (Being the payment made to debentureholders)		5,25,000	 5,25,000
March 31	Debentures Redemption Reserve A/c ...Dr. To General Reserve A/c (Being the transfer of DRR on the redemption of all debentures)		1,25,000	 1,25,000

Note:

Number of Debentures to be issued = Purchase Price/Issue Price = ₹ 5,50,000/₹ 110 = **5,000 Debentures.**

(*b*)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Share Capital A/c ...Dr. To **Forfeited Shares A/c (20 × ₹ 5)** To **Shares First Call A/c (20 × ₹ 2)** (Being 20 shares forfeited for non-payment of first call of ₹ 2)		140	 **100** **40**
	Bank A/c (15 × ₹ 8) ...Dr. To **Share Capital A/c (15 × ₹ 7)** To **Securities Premium Reserve A/c (15 × ₹ 1)** (Being 15 forfeited shares reissued as ₹ 7 per share paid-up for ₹ 8 per share)		**120**	 **105** **15**
	Forfeited Shares A/c ...Dr. To **Capital Reserve A/c** (Being transfer of gain (profit) on reissue)		**75**	 **75**

Working Note:

Gain (Profit) on 15 reissued shares = ₹ 100/20 × 15 = ₹ 75.

Or

(*a*)

Dr. SHARES ALLOTMENT ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Share Capital A/c (10,000 × ₹ 2)	20,000	By Shares Application A/c (Note 1)	8,000
To Securities Premium Reserve A/c (10,000 × ₹ 3)	30,000	By Bank A/c (Note 3)	37,800
		By Calls-in-Arrears A/c (Note 2)	4,200
	50,000		50,000

Dr. SECURITIES PREMIUM RESERVE ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Calls-in-Arrears A/c (1,000 × ₹ 3)	3,000	By Shares Allotment A/c (10,000 × ₹ 3)	30,000
To Balance *c/d*	27,000		
	30,000		30,000

Dr. SHARES FORFEITURE ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Share Capital A/c (Discount on reissue of 800 shares)	2,400	By Share Capital A/c (1,200 × ₹ 4)	4,800
To Capital Reserve A/c (Note 4)	1,440		
To Balance *c/d* (₹ 4,800/1,000 × 200)	960		
	4,800		4,800

Dr. CALLS-IN ARREARS ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Shares Allotment A/c	4,200	By Share Capital A/c	3,200
To Shares First Call A/c	2,000	By Securities Premium Reserve A/c	3,000
	6,200		6,200

Notes:

1. Excess application money adjusted on allotment = (12,000 – 10,000) × ₹ 4 = ₹ 8,000.
2. Amount not received from defaulter shareholders (Calls-in-Arrears):

   (*i*) Shares allotted to him = $\frac{10,000}{12,000} \times 1,200 = 1,000$

   (*ii*) Application money received = 1,200 × ₹ 4 = ₹ 4,800

   (*iii*) Application money due on shares allotted = 1,000 × ₹ 4 = ₹ 4,000

   (*iv*) Excess Application money to be adjusted on allotment = ₹ 4,800 – ₹ 4,000 = ₹ 800

   (*v*) Allotment money due on shares allotted = 1,000 × ₹ 5 = ₹ 5,000

   (*vi*) Allotment money due but not received (Calls-in-Arrears) = ₹ 5,000 – ₹ 800 = ₹ 4,200.

3. *Calculation of amount received on allotment later:*

	₹
Total allotment money due (10,000 × ₹ 5)	50,000
Less: Excess application money adjusted on allotment (Note 1)	8,000
	42,000
Less: Allotment money due but not received (Note 2)	4,200
Amount received on Allotment	37,800

4. *Calculation of amount transferred to Capital Reserve:*

Amount forfeited on reissued shares (₹ 4,800/1,000 × 800)	3,840
Less: Reissue Discount (800 × ₹ 3)	2,400
Gain on reissue transferred to Capital Reserve	1,440

(*b*) All India Financial Institutions are exempt from transfer of profits to Debentures Redemption Reserve (DRR). Therefore, Debentures Redemption Reserve will not be created.

In the Books of Export-Import Bank of India

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018 March 31	10% Debentures A/c	...Dr.		50,00,000	
	To Debentureholders' A/c				50,00,000
	(Being the amount due to debentureholders on redemption)				
March 31	Debentureholders' A/c	...Dr.		50,00,000	
	To Bank A/c				50,00,000
	(Being the amount due to debentureholders paid)				

PART B

18. *No Flow.* **Reason:** Because writing off the furniture is a non-cash transaction.

19. Investing Activities are the acquisition and disposal of Long-term Assets and other investments not included in cash equivalents whereas Financing Activities are activities that result in change in size and composition of the Owners' Capital (including Preference Share Capital in the case of a company) and Borrowings of the enterprise.

20. (*a*) Analysis of Financial Statements is useful to Finance Manager for taking financial decisions for the business. Financial Analysis can throw light on the financial position and the financial performance of the enterprise.

(*b*)

S. No.	Items	Mojor Heads	Sub-heads
(*i*)	Employees' earned leave payable on retirement	Non-current Liabilities	Long-term Provisions
(*ii*)	Computer Software	Non-current Assets	Fixed Assets—Intangible Assets
(*iii*)	Building under Construction	Non-current Assets	Fixed Assets—Capital Work-in-Progress
(*iv*)	Capital Advance	Non-current Assets	Long-term Loans and Advances: Capital Advances
(*v*)	Long-term Debt which has now become payable within 12 months	Current Liabilities	Other Current Liabilities: Current maturities of long-term debts
(*vi*)	Calls-in-Advance	Current Liabilities	Other Current Liabilities

21.

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

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		31st March, 2017 (₹)	31st March, 2018 (₹)	31st March, 2017 (%)	31st March, 2018 (%)
I. Revenue from Operations		6,00,000	8,40,000	100	100
Total Revenue		**6,00,000**	**8,40,000**	**100**	**100**
II. **Expenses:**					
Cost of Materials Consumed		3,00,000	6,72,000	50	80
Other Expenses		60,000	84,000	10	10
Total Expenses		**3,60,000**	**7,56,000**	**60**	**90**
III. **Profit before Tax (I – II)**		2,40,000	84,000	40	10
IV. **Tax Expenses @ 30%**		72,000	25,200	12	3
V. **Profit for the Year (III – IV)**		1,68,000	58,800	28	7

22. (*a*) Let the Current Assets after acquisition of Inventories be *X*.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\frac{2}{1} = \frac{X}{₹\,90{,}000 + ₹\,10{,}000}$$

$X = ₹\ 1,00,000 \times 2 = ₹\ 2,00,000$

Working Capital (*i.e.*, CA – CL) after acquisition = ₹ 2,00,000 – ₹ 1,00,000 = ₹ 1,00,000

Current Assets before acquisition = Current Assets After acquisition – Purchase of Stock on credit

= ₹ 2,00,000 – ₹ 10,000 = ₹ 1,90,000

Working Capital before acquisition = ₹ 1,90,000 – ₹ 90,000 = ₹ 1,00,000

(*b*) Cost of Revenue from Operations = Operating Cost – Operating Expenses

= ₹ 27,20,000 – ₹ 3,20,000 = ₹ 24,00,000

Let Revenue from Operations be ₹ 100, Gross Profit = ₹ 25, Cost = ₹ 75,

If Cost is ₹ 75, then Revenue from Operations = ₹ 100

If Cost is ₹ 24,00,000 then Revenue from Operations

= ₹ 24,00,000 × ₹ 100/₹ 75 = ₹ 32,00,000.

$$\text{Operating Ratio} = \frac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{₹\ 27,20,000}{₹\ 32,00,000} \times 100 = 85\%.$$

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

Particulars	₹	₹
Surplus, *i.e.*, Balance in the Statement of Profit and Loss as on 31st March, 2018		71,000
Less: Surplus, *i.e.*, Balance in the Statement of Profit and Loss as on 31st March, 2017		89,000
Net Loss during the year		(18,000)
Add: Dividend Paid	36,000	
Tax paid	23,000	59,000
Net Profit before Tax and Extraordinay Items		41,000
Add: Non-cash and Non-operating items:		
Depreciation on Machinery	18,000	
Loss on Sale of Machinery (₹ 50,000 – ₹ 20,000 – ₹ 10,000)	20,000	38,000
Operating Profit before Working Capital Changes		79,000
Add: Increase in Current Liabilities:		
Outstanding Expenses (₹ 14,600 – ₹ 10,000)		4,600
		83,600
Less: Increase in Current Assets:		
Inventory (₹ 12,000 – ₹ 4,000)	8,000	
Trade Receivables (₹ 58,000 – ₹ 45,000)	13,000	21,000
Cash Flow from Operating Activities before Tax		62,600
Less: Tax paid		23,000
Cash Flow from Operating Activities		39,600

Note: As the Gain (Profit) on sale of Non-current Investment ₹ 2,000 has not been transferred to Statement of Profit and Loss but to Capital Reserve, it will not be adjusted while computing Operating Profit before Working Capital Changes.

(*b*) CASH FLOW FROM INVESTING ACTIVITIES

Particulars	₹
Purchase of Machinery (WN 1)	(2,40,000)
Sale of Machinery	36,000
Cash Used in Investing Activities	(2,04,000)

Working Notes:

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

Particulars	₹	Particulars	₹
To Balance *b/d*	2,50,000	By Bank A/c (Sale Proceeds)*	36,000
To Gain (Profit) on Sale of Machinery A/c (Statement of Profit and Loss)	6,000	By Accumulated Depreciation A/c	50,000
To Bank A/c (Purchase)—Balancing Figure	2,40,000	By Balance *c/d*	4,10,000
	4,96,000		4,96,000

	₹
*Book Value of Machinery on the date of Sale (₹ 80,000 – ₹ 50,000)	30,000
Add: Gain (Profit) on Sale of Machinery (20% of ₹ 30,000)	6,000
Sale Proceeds	36,000

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

Particulars	₹	Particulars	₹
To Machinery A/c—Transfer	50,000	By Balance *b/d*	60,000
To Balance *c/d*	90,000	By Statement of Profit and Loss (Depreciation Current Year) (Balancing Figure)	80,000
	1,40,000		1,40,000