MODEL TEST PAPER 13 (Solution)

SECTION A

PART I

1. (*i*) Goodwill is regarded as an intangible asset.

In addition to the stated circumstances, the need for the valuation of goodwill in partnership may arise in the following circumstances:

(*a*) Change in profit-sharing Ratio among the existing partners.

(*b*) Amalgamation of Partnership firms.

(*ii*) Number of Years' purchase means the number of Years during which the purchaser of Goodwill expects that the profits due to goodwill are likely to be available in future.

(*iii*) **Difference between Authorised Capital and Issued Capital**

Basis of Difference	*Authorised Capital*	*Issued Capital*
1. **Disclosure in Memorandum of Association**	It is the amount stated in the company's Memorandum of Association. It is the maximum amount that a company can issue under each class of share capital.	It is not stated in the Memorandum of Association of the company.
2. **Limits**	It is higher than or equal to the issued and subscribed capital.	It cannot exceed authorised capital.

(*iv*) Revaluation Account in a **nominal account**. Assets are revalued because the profit or loss due to their revaluation belongs to old partners only, not to a new partner.

(*v*) **Difference between Share and Debenture**

Basis	*Share*	*Debenture*
1. **Capital or Loan**	Share is a part of share capital.	Debenture is an acknowledgement of debt.
2. **Holder**	The holders of shares are owners of the company.	The holders of debentures are lenders of the company.

(*vi*) When company purchases its own debentures through stock exchange for the purpose of cancellation such an act of purchasing and cancelling the debentures constitutes redemption of debentures by purchase in the open market.

PART II

2. (*a*)

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

Dr. | *Cr.*

Particulars		₹	Particulars	₹
To Partners' Salaries:			By Profit and Loss A/c (Net Profit) (WN 1)	2,18,700
Y	1,20,000			
Z	96,000	2,16,000		
To Profit transferred to Capital A/cs:				
X	1,200			
Y	900			
Z	600	2,700		
		2,18,700		2,18,700

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To Drawings A/c	80,000	1,70,000	1,26,000	By Balance *b/d*	7,20,000	4,50,000	2,70,000
To Balance *c/d*	7,70,800	4,81,900	2,89,200	By Interest on Capital A/c	1,29,600	81,000	48,600
				By Partners' Salaries A/c	...	1,20,000	96,000
				By Profit and Loss App. A/c	1,200	900	600
	8,50,800	6,51,900	4,15,200		8,50,800	6,51,900	4,15,200

Working Notes:

1. PROFIT AND LOSS ACCOUNT

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

Particulars		₹	Particulars	₹
To Interest on *Z*'s Loan A/c		4,500	By Net Profit (Given)	4,82,400
(₹ 1,50,000 × 6/100 × 6/12)				
To Interest on Capital A/cs:				
X	1,29,600			
Y	81,000			
Z	48,600	2,59,200		
To Net Profit transferred to Profit and Loss Appropriation A/c		2,18,700		
		4,82,400		4,82,400

2. Interest on capital is taken as charge on profit because it is allowed in all cases as given. Hence, it is debited to Profit and Loss Account instead of debiting to Profit and Loss Appropriation Account.

(*b*) ADJUSTMENT ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Karim's Current A/c	...Dr.		150	
	To Krishna's Current A/c				150
	(Being the adjustment made for crediting interest on capitals to partners in excess)				

Working Note:

TABLE SHOWING ADJUSTMENT

Particulars	Krishna's Current A/c		Sandeep's Current A/c		Karim's Current A/c	
	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹
Interest on Capital, wrongly credited 1% in excess, now written back	1,200	...	900	...	600	...
Share of Profit ₹ 2,700 (*i.e.*, ₹ 1,200 + ₹ 900 + ₹ 600) in ratio of 3 : 2 : 1	...	1,350	...	900	...	450
	1,200	1,350	900	900	600	450
Net Effect	150 (Cr.)		...		150 (Dr.)	

(*c*) (*i*) PROFIT AND LOSS APPROPRIATION ACCOUNT

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

Particulars		₹	Particulars	₹
To Profit transferred to Current A/cs:			By Profit and Loss A/c (Net Profit)	1,26,000
Priya	78,750			
Kajal	47,250	1,26,000		
		1,26,000		1,26,000

(*ii*) PROFIT AND LOSS APPROPRIATION ACCOUNT

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

Particulars		₹	Particulars	₹
To Interest on Capital A/cs (Note):			By Profit and Loss A/c (Net Profit)	1,26,000
Priya's Current A/c	54,000			
Kajal's Current A/c	72,000	1,26,000		
		1,26,000		1,26,000

Note: Interest on Priya's Capital = ₹ 6,00,000 × $\frac{12}{100}$ = ₹ 72,000;

Interest on Kajal's Capital = ₹ 8,00,000 × $\frac{12}{100}$ = ₹ 96,000;

Total Appropriation = ₹ 72,000 + ₹ 96,000 = ₹ 1,68,000, which is more than the available profit. Hence, the available profit is distributed in the ratio of appropriations to be made, *i.e.*, ₹ 72,000 : ₹ 96,000 or 3 : 4.

3. (*a*) ADJUSTMENT ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
April 1	*Y*'s Capital A/c (3/42 × ₹ 84,000)	...Dr.		6,000	
	Z's Capital A/c (7/42 × ₹ 84,000)	...Dr.		14,000	
	To *X*'s Capital A/c (10/42 × ₹ 84,000)				20,000
	(Being the adjustment made for accumulated profits, losses and reserves)				

Working Notes:

1. *Calculation of Net Effect of Accumulated Profits, Losses and Reserves:*

	₹
General Reserve	53,000
Investment Fluctuation Reserve	10,000
Workmen Compensation Reserve	15,000
Contingency Reserve	25,000
Profit and Loss A/c (Dr.)	(14,500)
Advertisement Suspense A/c	(4,500)
Net Effect	84,000

2. *Calculation of Sacrifice/(Gain) of each Partner:*

	X	*Y*	*Z*
I. Old Share	4/7	3/7	...
II. New Share	2/6	3/6	1/6
III. Sacrifice/(Gain) [I – II]	10/42 (Sacrifice)	–3/42 (Gain)	–1/6 (Gain)

(*b*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Machinery A/c		4,000	By Building A/c	10,000
To Gain (Profit) on Revaluation transferred to:				
P's Capital A/c	3,600			
Q's Capital A/c	2,400	6,000		
		10,000		10,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*P* ₹	*Q* ₹	*R* ₹	Particulars	*P* ₹	*Q* ₹	*R* ₹
To Cash A/c (Bal. Fig.)	19,200	16,800	...	By Balance *b/d*	96,000	68,000	...
To Balance *c/d* (WN 3)	1,08,000	72,000	60,000	By General Reserve A/c	9,600	6,400	...
				By Revaluation A/c	3,600	2,400	...
				By Cash A/c	...	...	60,000
				By Premium for Goodwill A/c	18,000	12,000	...
	1,27,200	88,800	60,000		1,27,200	88,800	60,000

BALANCE SHEET OF *P*, *Q* AND *R*
as at 1st April, 2018

Liabilities		₹	Assets	₹
Creditors		20,000	Cash	74,000
Capital A/cs:			Debtors	18,000
P	1,08,000		Stock	20,000
Q	72,000		Furniture	12,000
R	60,000	2,40,000	Machinery	36,000
			Building	1,00,000
		2,60,000		2,60,000

Working Notes:

1. Unless agreed otherwise, sacrificing ratio of old partners will be same as their old profit-sharing ratio.
2. *Calculation of New Profit-sharing Ratio of P, Q and R:*

   Let total share of profit be 1; *R*'s Share = $\frac{1}{4}$ or $\frac{5}{20}$;

   Remaining Share = $1-\frac{1}{4}=\frac{3}{4}$, which will be distributed among *P* and *Q* in their old profit-sharing ratio, *i.e.*, 3 : 2. Thus,

   P's New Share = $\frac{3}{5}\times\frac{3}{4}=\frac{9}{20}$; *Q*'s New Share = $\frac{2}{5}\times\frac{3}{4}=\frac{6}{20}$

   Hence, New Profit-sharing Ratio of *P*, *Q* and *R* = $\frac{9}{20}:\frac{6}{20}:\frac{5}{20}$ = 9 : 6 : 5.

3. *Adjustment of Capitals:*

R's Capital for 1/4th Share = ₹ 60,000

Total Capital of the New Firm = 4 × ₹ 60,000 = ₹ 2,40,000, which will be contributed by P, Q and R in their new profit-sharing ratio. Thus,

$$P\text{'s Capital in the New Firm} = ₹\ 2,40,000 \times \frac{9}{20} = ₹\ 1,08,000;$$

$$Q\text{'s Capital in the New Firm} = ₹\ 2,40,000 \times \frac{6}{20} = ₹\ 72,000.$$

4. (*a*)

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 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
	7,500		7,500

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 OF NEW FIRM
as at 1st April, 2018

Liabilities	₹	Assets		₹
Creditors	40,000	Bank ₹ (40,000 – 8,000 + 1,150		
Employees' Provident Fund	10,000	+ 1,01,600 – 1,19,750)		15,000
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		80,000
		Fixed Assets		57,500
	2,47,500			2,47,500

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.

(*b*)

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

Particulars	₹	Particulars	₹
To *Y*'s Executors' A/c (Balancing Figure)	12,800	By Balance *b/d*	6,000
		By Reserve A/c (2/5 of ₹ 3,000)	1,200
		By Profit and Loss Suspense A/c (WN 1)	560
		By *X*'s Capital A/c (Goodwill) (WN 2)	5,040
	12,800		12,800

Working Notes:

1. *Calculation of Y's Share of Profit (from 1st April, 2018 to 1st August, 2018):*

   $$\text{Average Profit} = \frac{₹\,4,500 + ₹\,3,900 + ₹\,4,200}{3} = ₹\,4,200$$

   $$Y\text{'s Share of Profit} = \frac{2}{5} \times ₹\,4,200 \times \frac{4}{12} = ₹\,560.$$

2. *Adjustment of Goodwill:*

   $$Y\text{'s Share of Profit for Last 3 Years} = \frac{2}{5} \text{ of } (₹\,4,200 + ₹\,3,900 + ₹\,4,500)$$

   $$= \frac{2}{5} \text{ of } ₹\,12,600 = ₹\,5,040.$$

   Thus, *Y*'s share of goodwill is ₹ 5,040, which will be contributed by *X*.

5. **In the Books of Shakti Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		6,60,000	
	To Equity Shares Application A/c				6,60,000
	(Being the application money received on 2,20,000 shares)				
	Equity Shares Application A/c	...Dr.		6,60,000	
	To Equity Share Capital A/c (1,00,000 × ₹ 3)				3,00,000
	To Equity Shares Allotment A/c				1,60,000
	To Calls-in-Advance A/c				1,40,000
	To Bank A/c (20,000 × ₹ 3)				60,000
	(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.		40,000	
	To Equity Shares Allotment A/c				40,000
	(Being the allotment money received)				
	Equity Shares First and Final Call A/c	...Dr.		5,00,000	
	To Equity Share Capital A/c				5,00,000
	(Being the call money due on 1,00,000 shares)				
	Bank A/c	...Dr.		3,58,200	
	Calls-in-Arrears A/c	...Dr.		1,800	
	Calls-in-Advance A/c	...Dr.		1,40,000	
	To Equity Shares First and Final Call A/c (WN 4)				5,00,000
	(Being the receipt of first and final call money except on 600 shares and Calls-in-Advance adjusted)				
	Equity Share Capital A/c	...Dr.		6,000	
	To Calls-in-Arrears A/c				1,800
	To Forfeited Shares A/c				4,200
	(Being 600 shares forfeited due to non-payment of call money)				
	Bank A/c (600 × ₹ 9)	...Dr.		5,400	
	Forfeited Shares A/c (600 × ₹ 1)	...Dr.		600	
	To Equity Share Capital A/c				6,000
	(Being 600 forfeited shares reissued for ₹ 9 per share fully paid-up)				
	Forfeited Shares A/c	...Dr.		3,600	
	To Capital Reserve A/c				3,600
	(Being the gain (profit) on reissue transferred to Capital Reserve)				

BALANCE SHEET OF SHAKTI LTD.. *as at* ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
(*a*) Share Capital	1	10,00,000
(*b*) Reserves and Surplus	2	3,600
Total		10,03,600
II. ASSETS		
Current Assets		
Cash and Cash Equivalents	3	10,03,600

Notes to Accounts

		₹
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
2.	**Reserves and Surplus**	
	Capital Reserve	3,600
3.	**Cash and Cash Equivalents**	
	Cash at Bank	10,03,600

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	20,000	...
(i) Raman	40,000	20,000
(ii) Akbar	20,000	20,000
(iii) *Pro rata* basis	1,40,000	60,000
	2,20,000	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 adjusted (WN 2)	1,200
	Amount due but not paid on first and final call (Calls-in-Arrears)	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: Not received [as per WN 3]	1,800
		3,58,200

6. (*a*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Bank A/c ...Dr.		4,32,000	
	To Debentures Application and Allotment A/c			4,32,000
	(Being the application money for 4,000; 9% Debentures received)			
	Debentures Application and Allotment A/c ...Dr.		4,32,000	
	Loss on Issue of Debentures A/c ...Dr.		40,000	
	To 9% Debentures A/c			4,00,000
	To Securities Premium Reserve A/c			32,000
	To Premium on Redemption of Debentures A/c			40,000
	(Being 4,000; 9% Debentures of ₹ 100 each issued at 8% premium and redeemable at 10% premium)			
(*ii*)	Bank A/c ...Dr.		6,00,000	
	To Debentures Application and Allotment A/c			6,00,000
	(Being the application money received for 6,000; 9% Debentures)			
	Debentures Application and Allotment A/c ...Dr.		6,00,000	
	Loss on Issue of Debentures A/c ...Dr.		60,000	
	To 9% Debentures A/c			6,00,000
	To Premium on Redemption of Debentures A/c			60,000
	(Being 6,000; 9% Debentures of ₹ 100 each issued at par and redeemable at 10% premium)			
(*iii*)	Bank A/c ...Dr.		10,50,000	
	To Debentures Application and Allotment A/c			10,50,000
	(Being the application money received for 10,000; 9% Debentures)			
	Debentures Application and Allotment A/c ...Dr.		10,50,000	
	To 9% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			50,000
	(Being 10,000; 9% Debentures of ₹ 100 each issued at 5% premium)			

(*b*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018				
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		6,25,000	
	To Debentures Redemption Reserve A/c			6,25,000
	(Being the DRR created for 25% of nominal value of outstanding debentures)			
April 1	Debentures Redemption Investment A/c ...Dr.		3,75,000	
	To Bank A/c			3,75,000
	(Being the investment made in Securities equal to 15% of nominal (face) value of debentures redeemable by 31st March, 2019)			
Dec. 31	Bank A/c ...Dr.		3,75,000	
	To Debentures Redemption Investment A/c			3,75,000
	(Being the debentures redemption Investment realised)			
	10% Debentures A/c ...Dr.		25,00,000	
	Premium on Redemption of Debentures A/c ...Dr.		2,50,000	
	To Debentureholders' A/c			27,50,000
	(Being the amount due on redemption of 25,000; 10% Debentures at 10% premium)			

	Debentureholders' A/c ...Dr.		27,50,000	
	To Bank A/c			27,50,000
	(Being the due amount paid)			
	Debentures Redemption Reserve A/c ...Dr.		6,25,000	
	To General Reserve A/c			6,25,000
	(Being the amount of DRR transferred to General Reserve)			

7.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Sundry Liabilities (Transfer):		
Stock A/c	5,000		Sundry Creditors A/c	30,000	
Investments A/c	10,000		Bills Payable A/c	8,000	
Debtors A/c	20,000		Loan from Mrs. *X* A/c	5,000	
Fixed Assets A/c	38,000	73,000	Loan from Mrs. *Y* A/c	10,000	
To *X*'s Capital A/c:			Provision for Doubtful Debts	2,000	55,000
Mrs. *X*'s Loan	5,000		By *X*'s Capital A/c (Stock)		4,000
Remuneration for Dissolution Process	1,000	6,000	By *Y*'s Capital A/c (Assets Taken Over):		
To Bank A/c (Liabilities Paid):			Investments	4,500	
Sundry Creditors ₹ (30,000 – 150)	29,850		Furniture	300	4,800
Bills Payable ₹ (8,000 – 40)	7,960		By Bank A/c (Assets Realised):		
Mrs. *Y*'s Loan	10,000	47,810	Debtors ₹ (20,000 – 1,000)	19,000	
To Gain (Profit) transferred to Capital A/cs:			Fixed Assets	71,000	
X	15,745		Remaining Investments	4,500	94,500
Y	15,745	31,490			
		1,58,300			1,58,300

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	Particulars	*X* ₹	*Y* ₹
To Advertisement Suspense A/c	1,750	1,750	By Balance *b/d*	10,000	10,000
To Realisation A/c (Stock taken over)	4,000	...	By Workmen Compensation		
To Realisation A/c (Assets taken over)	...	4,800	Reserve A/c	5,000	5,000
To Bank A/c (Bal. Fig.)	30,995	24,195	By Realisation A/c	6,000	...
(Final Payment)			(Liabilities taken over)		
			By Realisation A/c (Gain)	15,745	15,745
	36,745	30,745		36,745	30,745

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	8,500	By Realisation A/c (Liabilities Paid)	47,810
To Realisation A/c (Assets Realised)	94,500	By *X*'s Capital A/c (Final Payment)	30,995
		By *Y*'s Capital A/c (Final Payment)	24,195
	1,03,000		1,03,000

Working Note: *Calculation of Discount on:*

(*i*) Debtors = ₹ 20,000 × $\frac{6}{100} \times \frac{10}{12}$ = ₹ 1,000;

(*ii*) Sundry Creditors = ₹ 30,000 × $\frac{6}{100} \times \frac{1}{12}$ = ₹ 150;

(*iii*) Bills Payable = ₹ 8,000 × $\frac{6}{100} \times \frac{1}{12}$ = ₹ 40.

8. (*a*) (*i*) Current Liabilities—Other Current Liabilities;
(*ii*) As Contingent Liability in the Notes to Accounts;
(*iii*) Current Assets—Cash and Cash Equivalents;
(*iv*) Non-Current Assets—Non-Current Investments;
(*v*) Current Assets—Current Investments;
(*vi*) Current Liabilities—Short-term Provisions.

(*b*) **Jiyaji Ltd.**
BALANCE SHEET
as at 31st March, 2018

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		3,90,000
(*b*) Reserves and Surplus		90,000
2. Share Application Money Pending Allotment		10,000
3. Non-Current Liabilities		
Long-term Borrowings		5,00,000
4. Current Liabilities		
(*a*) Trade Payables		20,000
(*b*) Short-term Provisions	1	10,000
Total		10,20,000
II. ASSETS		
1. Non-Current Assets		
(*a*) *Fixed Assets*—Tangible Assets		6,00,000
(*b*) Non-Current Investments		2,00,000
2. Current Assets		
(*a*) Inventories		20,000
(*b*) Trade Receivables		80,000
(*c*) Cash and Cash Equivalents		1,20,000
Total		10,20,000

Note to Accounts

Particulars	₹
1. Short-term Provisions	
Provision for Tax	10,000

SECTION B

9. **Shuchi Diamonds Ltd.**

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

Particulars		₹
A. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		(2,00,000)
Add: Non-cash and Non-operating Items:		
Depreciation on Tangible Assets	2,00,000	
Interest on 9% Debentures	36,000	
Loss on Sale of Machinery	10,000	2,46,000
Operating Profit before Working Capital Changes		46,000
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Trade Payables	1,00,000	
Inventories	2,00,000	
Trade Receivables	1,00,000	4,00,000
		(3,54,000)
Add: Increase in Current Liabilities:		
Outstanding Expenses		20,000
Cash Used in Operating Activities		(3,34,000)
B. Cash Flow from Investing Activities		
Purchase of Tangible Assets	(20,000)	
Proceeds for Sale of Machinery	10,000	
Proceeds for Sale of Non-current Investments	1,20,000	
Purchase of Goodwill	(2,00,000)	
Cash Used in Investing Activities		(90,000)
C. Cash Flow from Financing Activities		
Proceeds from Issue of Shares	4,00,000	
Proceeds from Issue of 9% Debentures	2,00,000	
Payment of Interest on 9% Debentures	(36,000)	
Cash Flow from Financing Activities		5,64,000
D. Net Increase in Cash and Cash Equivalents (A + B + C)		1,40,000
E. *Add:* Cash and Cash Equivalents in the beginning of the Period		8,80,000
F. Cash and Cash Equivalents at the end of the Period		10,20,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)	6,00,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)	8,00,000
	(2,00,000)

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

Particulars	₹	Particulars	₹
To Balance *b/d*	5,00,000	By Bank A/c (Sale Proceeds) (Bal. Fig.)	1,20,000
To Capital Reserve A/c (Profit on Sale)	20,000	By Balance *c/d*	4,00,000
	5,20,000		5,20,000

3. *Dr.* TANGIBLE ASSETS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	18,00,000	By Bank A/c	10,000
To Bank A/c (Bal. Fig.) (Purchase)	20,000	By Loss on Sale of Machinery A/c (Statement of Profit and Loss)	10,000
		By Depreciation A/c	2,00,000
		By Balance *c/d*	16,00,000
	18,20,000		18,20,000

10. (*a*) *Advantages of Comparative Balance Sheet:*

(*i*) In a Balance Sheet the emphasis is on status, whereas in Comparative Balance Sheet the emphasis is on change. Hence, it may be used in studying trends in enterprise.

(*ii*) It shows the effects of business operations on its assets, equity and liabilities.

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

$$= \frac{₹\ 2,00,000}{₹\ 40,000} = 5 \text{ Times.}$$

Cost of Revenue from Operations = Revenue from Operations – Gross Profit

= ₹ 2,50,000 – ₹ 50,000 = ₹ 2,00,000.

$$\text{Average Inventory} = \frac{\text{Opening Inventory + Closing Inventory}}{2}$$

$$= \frac{₹\ 70,000 + ₹\ 10,000}{2} = ₹\ 40,000.$$

(*c*) (*i*) *No Flow.* **Reason:** Charging of Depreciation on Furniture would result in No flow of cash because it is a non-cash expense.

(*ii*) Investing Activities are acquisition and disposal of long-term assets and other investments not included in Cash and Cash Equivalents.

(*d*) COMMON-SIZE BALANCE SHEET OF RADHA LTD. *as at 31st March, 2018 and 2017*

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31st March, 2018 (₹)	31st March, 2017 (₹)	31st March, 2018 (%)	31st March, 2017 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(*a*) Share Capital		15,00,000	10,00,000	39.47	40.00
(*b*) Reserves and Surplus		10,00,000	10,00,000	26.32	40.00
2. Non-Current Liabilities					
Long-term Borrowings (Secured Loans)		8,00,000	2,00,000	21.05	8.00
3. Current Liabilities					
Trade Payables		5,00,000	3,00,000	13.16	12.00
Total		38,00,000	25,00,000	100.00	100.00
II. ASSETS					
1. Non-Current Assets					
Fixed Assets: Tangible		30,00,000	20,00,000	78.95	80.00
2. Current Assets					
Cash and Cash Equivalents		8,00,000	5,00,000	21.05	20.00
Total		38,00,000	25,00,000	100.00	100.00

11. (*a*) (*i*) $$\text{Operating Ratio} = \frac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{₹\ 30,80,000}{₹\ 44,00,000} \times 100 = 70\%.$$

Revenue from Operations = Cash Revenue from Operations
+ Credit Revenue from Operations
= ₹ 20,00,000 + 120% of ₹ 20,00,000
= ₹ 20,00,000 + ₹ 24,00,000 = ₹ 44,00,000

Operating Cost = Cost of Revenue from Operations*
+ Operating Expenses**
= ₹ 26,40,000 + ₹ 4,40,000 = ₹ 30,80,000.

*Cost of Revenue from Operations = Revenue from Operations – Gross Profit
= ₹ 44,00,000 – (40% of ₹ 44,00,000)
= ₹ 44,00,000 – ₹ 17,60,000 = ₹ 26,40,000

**Operating Expenses = 10% of Total Revenue from Operations
= 10% of ₹ 44,00,000 = ₹ 4,40,000.

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

$$= \frac{₹\ 26,40,000}{₹\ 3,20,000} = 8.25\ \text{Times.}$$

$$\text{Average Inventory} = \frac{\text{Opening Inventory + Closing Inventory}}{2}$$

$$= \frac{₹\ 3,00,000 + ₹\ 3,40,000}{2} = ₹\ 3,20,000.$$

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

$$= \frac{₹\ 12,00,000}{₹\ 16,00,000} = 0.75 : 1 \text{ or } 75\%.$$

Shareholders' Funds/Equity = Share Capital = ₹ 12,00,000

Total Assets = Fixed Assets + Current Assets
= ₹ 10,00,000 + ₹ 6,00,000 = ₹ 16,00,000.

(*b*) (*i*) $$\text{Trade Receivables Turnover Ratio} = \frac{\text{Credit Revenue from Operations}}{\text{Average Trade Receivables}}$$

$$= \frac{₹\ 3,25,000}{₹\ 70,000} = 4.64\ \text{Times.}$$

Credit Revenue from Operations = $\frac{₹\ 100}{₹\ 160} \times ₹\ 5,20,000$ = ₹ 3,25,000

(Let Credit Revenue from Operations be ₹ 100; Cash Revenue from Operations ₹ 60; Total Revenue from Operations ₹ 160).

Average Trade Receivables

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

$$= \frac{3/4 \ \textit{of}\ ₹\ 80,000 + ₹\ 80,000}{2} = \frac{₹\ 60,000 + ₹\ 80,000}{2} = ₹\ 70,000.$$

(*ii*) Yes, if Non-Operating Incomes exceed Non-Operating Expenses.