MODEL TEST PAPER 14 (Solution)

SECTION A

PART I

1. (*i*) In the absence of an agreement to the contrary, the following shall apply:
- Salary is not allowed (paid) to partners.
- Interest on capital is not allowed (paid).
- Profits and losses are shared equally by partners.
- Interest @ 6% p.a. is allowed (paid) on loans advanced by partners to the firm.

(*ii*) Profit and Loss Appropriation Account differs from Profit and Loss Account as follows:

Profit and Loss Appropriation Account	*Profit and Loss Account*
1. It shows appropriation of net profit.	It shows profit earned or loss incurred.
2. It deals with personal entitlements of the partners from the business.	It deals with general trading activities, *i.e.*, revenue and expenses of the business.
3. It starts with the net profit as disclosed by the Profit and Loss Account.	It starts with the gross profit as disclosed by the Trading Account.

(*iii*) **Difference between Calls-in-Arrears and Calls-in-Advance**

Basis	*Calls-in-Arrears*	*Calls-in-Advance*
1. **Meaning**	Calls-in-Arrears is the amount called-up by the company, but not paid by the shareholders.	Calls-in-Advance is the amount not called-up by the company but paid by the shareholders.
2. **Interest**	Interest is *charged* on Calls-in-Arrears.	Interest is *allowed* on Calls-in-Advance.
3. **Rate of Interest**	10% p.a.—as per *Table F*.	12% p.a.—as per *Table F*.

(*iv*) **Distinction between Debentureholders and Shareholders**

Debentureholders	*Shareholders*
1. Debentureholders are the lenders of the company.	Shareholders are the owners of the company.
2. A debentureholder gets interest on his investment at the stated rate whether the company earns profit or not.	A shareholder gets dividend on his investment.

(*v*) Debentures issued as a collateral security can be dealt with in the books in two ways:
- ***First Method:*** Journal entry is not passed in the books of account at the time of issue of debentures as collateral security. However, it is disclosed by way of information below debentures, which are shown as Long-term Borrowings under Non-Current Liabilities (When Debentures issued as Collateral Security for Long-term Loan) or as Short-term Borrowings under Current Liabilities (When Debentures issued as Collateral Security for Short-term Loan).
- ***Second Method:*** Debentures issued as collateral security may be recorded in the books of account. The Journal entry passed is:

  Debentures Suspense A/c ...Dr.
  To ...% Debentures A/c

  When the loan is paid to the lender, the above entry is cancelled by passing a reverse entry.

(*vi*) Loss on Issue of Debentures arises when debentures are issued at par or at premium or at a discount but are redeemable at premium.

Accounting Treatment:

Loss on issue of debentures is written off in the year it occurs from:

(*i*) Securities Premium Reserve, if it has a balance; and/or

(*ii*) Statement of Profit and Loss.

PART II

2. (*a*) PROFIT AND LOSS APPROPRIATION ACCOUNT

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

Particulars		₹	Particulars	₹
To Partners' Commission A/cs (WN):			By Profit and Loss A/c (Net Profit)	1,80,000
A	6,000			
B	9,000			
C	6,000			
D	9,000	30,000		
To Profit transferred to Capital A/cs:				
A	60,000			
B	45,000			
C	30,000			
D	15,000	1,50,000		
		1,80,000		1,80,000

Working Note: *Calculation of Partners' Commission:*

Partners' Commission = $\frac{20}{120} \times ₹\,1,80,000 = ₹\,30,000$, which will be shared by *A*, *B*, *C* and *D* in ratio of 2 : 3 : 2 : 3. Thus, *A* gets ₹ 6,000, *B* gets ₹ 9,000, *C* gets ₹ 6,000 and *D* gets ₹ 9,000.

(*b*) ADJUSTMENT JOURNAL ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Jain's Current A/c ...Dr.		5,000	
	To Gupta's Current A/c			5,000
	(Being the adjustment entry for the omission of interest on partners' capitals)			

Working Note:

TABLE SHOWING ADJUSTMENT TO BE MADE

Particulars	Jain (₹)	Gupta (₹)
I. Amount of Interest on Capital which should have been credited	10,000 (Cr.)	15,000 (Cr.)
II. Amount of Loss ₹ 25,000 (*i.e.*, ₹ 10,000 + ₹ 15,000) in 3 : 2	15,000 (Dr.)	10,000 (Cr.)
	5,000 (Dr.)	5,000 (Cr.)

(*c*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2016					
March 31	Profit and Loss Appropriation A/c	...Dr.		2,00,000	
	To *X*'s Capital A/c				96,000
	To *Y*'s Capital A/c				64,000
	To *Z*'s Capital A/c				40,000
	(Being the profit for the year appropriated among partners in their profit-sharing ratio)				
	X's Capital A/c	...Dr.		6,000	
	Y's Capital A/c	...Dr.		4,000	
	To *Z*'s Capital A/c				10,000
	(Being the deficiency of *Z*'s share borne by *X* and *Y* in their profit-sharing ratio, *i.e.*, 12 : 8 or 3 : 2)				
2017					
March 31	Profit and Loss Appropriation A/c	...Dr.		3,00,000	
	To *X*'s Capital A/c				1,44,000
	To *Y*'s Capital A/c				96,000
	To *Z*'s Capital A/c				60,000
	(Being the profit for the year appropriated among partners in their profit-sharing ratio)				
2018					
March 31	*X*'s Capital A/c	...Dr.		96,000	
	Y's Capital A/c	...Dr.		64,000	
	Z's Capital A/c	...Dr.		40,000	
	To Profit and Loss A/c				2,00,000
	(Being the loss for the year debited to partners)				
	X's Capital A/c	...Dr.		54,000	
	Y's Capital A/c	...Dr.		36,000	
	To *Z*'s Capital A/c				90,000
	(Being *Z*'s share of deficiency borne by *X* and *Y* in their profit-sharing ratio, *i.e.*, 12 : 8 or 3 : 2) (Note)				

Note: For 2017–18, there is a loss of ₹ 2,00,000, out of which ₹ 40,000 will be debited to *Z*'s Capital Account, whereas, his share of profit guaranteed is ₹ 50,000. Thus, his share of deficiency will be ₹ 90,000.

3.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Provision for Doubtful Debts A/c	600	By Accrued Income A/c		4,500
To Outstanding Rent A/c	15,000	By Loss on Revaluation transferred to:		
To Investments A/c	6,000	*X*'s Current A/c	10,260	
		Y's Current A/c	6,840	17,100
	21,600			21,600

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To Balance *c/d*	1,80,000	90,000	60,000	By Balance *b/d*	1,80,000	90,000	...
				By Bank A/c	...	...	60,000
	1,80,000	90,000	60,000		1,80,000	90,000	60,000

Dr. PARTNERS' CURRENT ACCOUNTS *Cr.*

Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To Revaluation A/c (Loss)	10,260	6,840	...	By Balance *b/d*	30,000	6,000	...
To Goodwill A/c	18,000	12,000	...	By Premium for Goodwill A/c	25,200	10,800	...
To Bank A/c (Withdrawn)	12,600	5,400	...	By General Reserve A/c	21,600	14,400	...
To Investments A/c	18,000	...	...				
To Balance *c/d*	17,940	6,960	...				
	76,800	31,200	...		76,800	31,200	...

BALANCE SHEET OF NEW FIRM

as at 1st April, 2018

Liabilities		₹	Assets		₹
Creditors		45,000	Cash at Bank (WN 3)		93,000
Outstanding Rent		15,000	Debtors	60,000	
Current A/cs:			*Less:* Provision for Doubtful Debts	3,000	57,000
X	17,940		Accrued Income		4,500
Y	6,960	24,900	Patents		44,400
Capital A/cs:			Fixed Assets		2,16,000
X	1,80,000				
Y	90,000				
Z	60,000	3,30,000			
		4,14,900			4,14,900

Working Notes:

1. *Calculation of Firm's Goodwill and Z's Share of Goodwill:*

$$\text{Average Profit} = \frac{₹\,90,000 + ₹\,78,000 + ₹\,75,000}{3} = ₹\,81,000$$

Firm's Goodwill = 2 × Average Profit = 2 × ₹ 81,000 = ₹ 1,62,000

Z's Share of Goodwill = $\frac{2}{9}$ of ₹ 1,62,000 = ₹ 36,000, which will be distributed among sacrificing partners *X* and *Y* in their Sacrificing Ratio, *i.e.*, 7 : 3.

2. *Calculation of Sacrificing Ratio:*

		X	*Y*	*Z*
I.	Old Share	3/5	2/5	—
II.	New Share	4/9	3/9	2/9
III.	Sacrifice/(Gain) [I – II]	7/45	3/45	(2/9)
		Sacrifice	Sacrifice	Gain

3. Cash at Bank = ₹ 15,000 + ₹ 60,000 + ₹ 36,000 – ₹ 12,600 – ₹ 5,400 = ₹ 93,000.

(*b*) (*i*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Workmen Compensation Reserve A/c	...Dr.		72,000	
	To Workmen Compensation Claim A/c				48,000
	To *X*'s Capital A/c				12,000
	To *Y*'s Capital A/c				12,000
	(Being the excess balance of Workmen Compensation Reserve distributed among partners after adjusting claim)				

(*ii*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Investment Fluctuation Reserve A/c	...Dr.		24,000	
	To Investment A/c				10,000
	To *X*'s Capital A/c				7,000
	To *Y*'s Capital A/c				7,000
	(Being the fall in value of investment adjusted and excess balance of Investment Fluctuation Reserve transferred to partners)				

4. (*a*) (*A*) *Calculation of Goodwill of the firm and N's Share of Goodwill:*

$$\text{Average Profit} = \frac{₹\ 50,000 + ₹\ 80,000 + ₹\ 1,10,000 + ₹\ 2,20,000 - ₹\ 1,60,000}{5}$$

$$= ₹\ 60,000.$$

$$\text{Firm's Goodwill} = \text{Average Profit} \times \text{Number of Years' Purchase}$$

$$= ₹\ 60,000 \times 2 = ₹\ 1,20,000$$

$$N\text{'s Share of Goodwill} = \frac{2}{5} \text{ of } ₹\ 1,20,000 = ₹\ 48,000.$$

(*B*) *N's Share in Profit or Loss of the firm till the date of his death:*

Loss for the year ended 31st March, 2018 = ₹ 1,60,000

$$N\text{'s Share of Loss till his date of death} = ₹\ 1,60,000 \times \frac{2}{5} \times \frac{3}{12} = ₹\ 16,000.$$

(*C*)

Dr. *N*'S CAPITAL ACCOUNT Cr.

Particulars	₹	Particulars	₹
To Profit and Loss A/c (Loss)	64,000	By Balance *b/d*	3,00,000
To Profit and Loss Suspense A/c (Loss)	16,000	By General Reserve A/c	12,000
To *N*'s Executors' A/c (Bal. Fig.)	2,80,000	By *M*'s Capital A/c (₹ 48,000 × 2/3)	32,000
		By *O*'s Capital A/c (₹ 48,000 × 1/3)	16,000
	3,60,000		3,60,000

Note: Unless agreed otherwise, gaining ratio of the continuing partners will be same as their existing ratio. Thus, *N*'s share of Goodwill will be contributed by *M* and *O* in their existing ratio, *i.e.,* 2 : 1.

(*b*) *Calculation of X's Share in Profit:*

Profit for the year 2016–17 = ₹ 90,000;

Sales for the year 2016–17 = ₹ 6,00,000

$$\therefore \text{ Rate of Profit (\%)} = \frac{₹\ 90,000}{₹\ 6,00,000} \times 100 = 15\%$$

$$X\text{'s Share in Profit till 31st July, 2017} = \frac{15}{100} \times ₹\ 1,00,000 \times \frac{3}{6} = ₹\ 7,500.$$

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017				
July 31	Profit and Loss Suspense A/c ...Dr.		7,500	
	To *X*'s Capital A/c			7,500
	(Being *X*'s Share in profit on basis of sales credited to his Capital Account)			

5. JOURNAL OF *X* LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		2,10,000	
	To Equity Shares Application A/c			2,10,000
	(Being the application money received on 70,000 shares @ ₹ 3 each)			
	Equity Shares Application A/c ...Dr.		2,10,000	
	To Equity Share Capital A/c			1,50,000
	To Equity Shares Allotment A/c			30,000
	To Bank A/c (10,000 × ₹ 3)			30,000
	(Being the shares allotted and amount transferred to Equity Share Capital A/c)			
	Equity Shares Allotment A/c ...Dr.		2,50,000	
	To Equity Share Capital A/c			1,50,000
	To Securities Premium Reserve A/c			1,00,000
	(Being the allotment money due on 50,000 shares @ ₹ 5 each including premium of ₹ 2 per share)			

	Bank A/c ...Dr.		2,17,800	
	Calls-in-Arrears A/c ...Dr.		2,200	
	To Equity Shares Allotment A/c			2,20,000
	(Being the allotment money received except on 500 shares)			
	Equity Shares First Call A/c ...Dr.		1,00,000	
	To Equity Share Capital A/c			1,00,000
	(Being the first call money due on 50,000 shares @ ₹ 2 each)			
	Bank A/c ...Dr.		97,400	
	Calls-in-Arrears A/c ...Dr.		2,600	
	To Equity Shares First Call A/c			1,00,000
	(Being the first call money received except on 1,300 shares)			
	Equity Share Capital A/c ...Dr.		4,000	
	Securities Premium Reserve A/c ...Dr.		1,000	
	To Forfeited Shares A/c			1,800
	To Calls-in-Arrears A/c			3,200
	(Being 500 shares forfeited due to non-payment of allotment and first call money)			
	Equity Shares Second and Final Call A/c ...Dr.		99,000	
	To Equity Share Capital A/c			99,000
	(Being the second and final call money due on 49,500 shares @ ₹ 2 each)			
	Bank A/c ...Dr.		97,400	
	Calls-in-Arrears A/c ...Dr.		1,600	
	To Equity Shares Second and Final Call A/c			99,000
	(Being second and final call received except on 800 shares)			
	Equity Share Capital A/c ...Dr.		8,000	
	To Forfeited Shares A/c			4,800
	To Calls-in-Arrears A/c			3,200
	(Being 800 shares forfeited for non-payment of both the calls)			
	Bank A/c ...Dr.		9,000	
	Forfeited Shares A/c ...Dr.		1,000	
	To Equity Share Capital A/c			10,000
	(Being 1,000 forfeited shares reissued @ ₹ 9 each as fully paid)			
	Forfeited Shares A/c ...Dr.		4,520	
	To Capital Reserve A/c			4,520
	(Being the gain on reissue of 1,000 shares transferred to Capital Reserve)			

Dr. FORFEITED SHARES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Equity Share Capital A/c	1,000	By Equity Share Capital A/c	1,800
To Capital Reserve A/c	4,520	By Equity Share Capital A/c	4,800
To Balance *c/d*	1,080		
	6,600		6,600

Dr. CAPITAL RESERVE ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *c/d*	4,520	By Forfeited Shares A/c	4,520

Dr. CALLS-IN-ARREARS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Equity Shares Allotment A/c	2,200	By Equity Share Capital A/c	2,200
To Equity Shares First Call A/c	2,600	By Securities Premium Reserve A/c	1,000
To Equity Shares Second and Final Call A/c	1,600	By Equity Share Capital A/c	3,200
	6,400		6,400

6. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2012	**On Issue of Debentures**			
March 31	Bank A/c ...Dr.		12,00,000	
	To Debentures Application and Allotment A/c			12,00,000
	(Being the application money received for 12,000 debentures)			
	Debentures Application and Allotment A/c ...Dr.		12,00,000	
	To 10% Debentures A/c			12,00,000
	(Being 12,000; 10% Debentures of ₹ 100 each allotted)			
2015	**On Creation of DRR**			
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		1,00,000	
	To Debentures Redemption Reserve A/c			1,00,000
	(Being 1/3rd of 25% of ₹ 12,00,000 transferred to DRR)			
2016				
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		1,00,000	
	To Debentures Redemption Reserve A/c			1,00,000
	(Being 1/3rd of 25% of ₹ 12,00,000 transferred to DRR)			
2017				
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		1,00,000	
	To Debentures Redemption Reserve A/c			1,00,000
	(Being 1/3rd of 25% of ₹ 12,00,000 transferred to DRR)			
	On Making DRI			
April 1	Debentures Redemption Investment A/c ...Dr.		1,80,000	
	To Bank A/c			1,80,000
	(Being 15% of nominal (face) value of debentures to be redeemed by 31st March, 2018 invested)			
	On Encashment of DRI			
Sept. 30	Bank A/c ...Dr.		1,80,000	
	To Debentures Redemption Investment A/c			1,80,000
	(Being the debentures redemption Investment realised)			

	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	On Redemption of Debentures				
	10% Debentures A/c	...Dr.		12,00,000	
	To Debentureholders' A/c				12,00,000
	(Being the amount due on redemption of 12,000; 10% Debentures)				
	Debentureholders' A/c	...Dr.		12,00,000	
	To Bank A/c				12,00,000
	(Being the payment made to debentureholders)				
	Debentures Redemption Reserve A/c	...Dr.		3,00,000	
	To General Reserve A/c				3,00,000
	(Being the balance of DRR transferred to General Reserve after redemption of debentures)				

7.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets A/c		2,36,000	By Creditors A/c		40,000
To Bank A/c (Liabilities Paid):			By Bank A/c (Assets Realised)		2,00,000
Creditors	40,000		By Loss on Realisation transferred to:		
Realisation Expenses	6,000	46,000	*X*'s Capital A/c	25,200	
			Y's Capital A/c	16,800	42,000
		2,82,000			2,82,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Date	Particulars	*X* ₹	*Y* ₹	Date	Particulars	*X* ₹	*Y* ₹
2018				2018			
March 31	To Realisation A/c (Loss)	25,200	16,800	March 31	By Balance *b/d* (WN 1)	1,24,000	72,000
	To Bank A/c (Final Payment) (Balancing Figure)	98,800	55,200				
		1,24,000	72,000			1,24,000	72,000

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Realisation A/c (Assets Realised)	2,00,000	By Realisation A/c (Liabilities Paid)	46,000
		By *X*'s Capital A/c (Final Payment)	98,800
		By *Y*'s Capital A/c (Final Payment)	55,200
	2,00,000		2,00,000

Working Notes: 1. *Calculation of partners' capitals as on 31st March, 2018:*

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Date	Particulars	*X* ₹	*Y* ₹	Date	Particulars	*X* ₹	*Y* ₹
2017				2016			
March 31	To Drawings A/c	16,000	16,000	April 1	By Bank A/c	1,20,000	80,000
March 31	To Balance *c/d*	1,64,000	1,04,000	2017			
				March 31	By Profit and Loss Appr. A/c	60,000	40,000
		1,80,000	1,20,000			1,80,000	1,20,000
2018				2017			
March 31	To Drawings A/c	16,000	16,000	April 1	By Balance *b/d*	1,64,000	1,04,000
	To Profit and Loss A/c	24,000	16,000				
	To Balance *c/d*	1,24,000	72,000				
		1,64,000	1,04,000			1,64,000	1,04,000

2. MEMORANDUM BALANCE SHEET

as at 31st March, 2018

Liabilities		₹	Assets	₹
Capital A/cs: (WN 1)			Sundry Assets (Balancing Figure)	2,36,000
X	1,24,000			
Y	72,000	1,96,000		
Creditors		40,000		
		2,36,000		2,36,000

8. (*a*)

***XYZ* Ltd.**

BALANCE SHEET

as at 31st March, 2018

(₹ in '000)

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		195
(*b*) Reserves and Surplus		45
2. Share Application Money Pending Allotment		15
3. Non-Current Liabilities		
(*a*) Long-term Borrowings		150
(*b*) Long-term Provisions		45
4. Current Liabilities		
(*a*) Short-term Borrowings		45
(*b*) Trade Payables		20
(*c*) Other Current Liabilities	1	5
Total		520

II. ASSETS		
1. Non-Current Assets		
(*a*) *Fixed Assets*—Tangible Assets		300
(*b*) Non-Current Investments		115
2. Current Assets		
(*a*) Inventories		10
(*b*) Trade Receivables		40
(*c*) Cash and Cash Equivalents		40
(*d*) Other Current Assets	2	15
Total		520

Notes to Accounts (₹ in '000)

Particulars	₹
1. Other Current Liabilities	
Outstanding Expenses	5
2. Other Current Assets	
Prepaid Expenses	15

(*b*) **Sunflower Ltd.**

BALANCE SHEET *as at ...*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	2,79,600

Note to Accounts

1. Share Capital		₹
Authorised Capital		
50,000 Equity Shares of ₹ 10 each		5,00,000
Issued Capital		
30,000 Equity Shares of ₹ 10 each		3,00,000
Subscribed Capital		
Subscribed and fully paid-up		
27,800 Equity Shares of ₹ 10 each		2,78,000
Subscribed but not fully paid-up		
200 Equity Shares of ₹ 10 each	2,000	
Less: Calls-in-Arrears (200 × ₹ 2)	400	1,600
		2,79,600

SECTION B

9. (*a*) (*i*) Debt to Equity Ratio $= \dfrac{\text{Debt}}{\text{Shareholders' Funds/Equity}} = \dfrac{₹\ 20,000}{₹\ 65,000} = 0.31 : 1.$

Debt = 9% Debentures = ₹ 20,000

Equity = Equity Share Capital + Balance in Statement of Profit and Loss
= ₹ 50,000 + ₹ 15,000 = ₹ 65,000.

(*ii*) Working Capital Turnover Ratio $= \dfrac{\text{Revenue from Operations}}{\text{Working Capital}}$

$= \dfrac{₹\ 1,50,000}{₹\ 5,000} = 30$ Times.

Revenue from Operations = ₹ 1,50,000

Working Capital = Current Assets – Current Liabilities
= (Trade Receivables + Cash and Cash Equivalents) – (Trade Payables)
= (₹ 14,500 + ₹ 5,500) – ₹ 15,000 = ₹ 5,000.

(*iii*) Return on Investment $= \dfrac{\text{Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$

$= \dfrac{₹\ 31,800}{₹\ 85,000} \times 100 = 37.41\%.$

Profit before Interest and Tax $= ₹\ 15,000 \times \dfrac{100}{50} + 9\%$ of ₹ 20,000
= ₹ 30,000 + ₹ 1,800 = ₹ 31,800

Capital Employed = Debt + Equity = ₹ 20,000 + ₹ 65,000 = ₹ 85,000.

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

$4 = \dfrac{₹\ 1,80,000}{\text{Average Trade Receivables}}$

Average Trade Receivables $= \dfrac{₹\ 1,80,000}{4} = ₹\ 45,000$

$\dfrac{\text{Opening Trade Receivables + Closing Trade Receivables}}{2} = ₹\ 45,000$

Opening Trade Receivables + Closing Trade Receivables = ₹ 90,000

Let the Opening Trade Receivables = x

Closing Trade Receivable will be = $2x$

$x + 2x = ₹\ 90,000$

$3x = ₹\ 90,000$

$x = \dfrac{₹\ 90,000}{3} = ₹\ 30,000$

(Opening Trade Receivable)

Closing Trade Receivables = ₹ 30,000 × 2 = ₹ 60,000.

(*c*) $\text{Liquid Ratio} = \dfrac{\text{Quick Assets or Liquid Assets}}{\text{Current Liabilities}}$

$$\Rightarrow \quad \frac{1.5}{1} = \frac{\text{Quick Assets}}{₹\,3,20,000}$$

$$\therefore \quad \text{Quick Assets} = ₹\,4,80,000$$

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

$$\Rightarrow \quad \frac{2.5}{1} = \frac{\text{Current Assets}}{₹\,3,20,000}$$

$$\text{Current Assets} = ₹\,8,00,000.$$

10. **Varun Ltd.**

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

Particulars		₹
A. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		47,000
Add: Non-cash and Non-operating Items:		
Depreciation on Fixed Assets		5,000
		52,000
Less: Gain on Sale of Non-current Investments		10,000
Operating Profit before Working Capital Changes		42,000
Add: Increase in Current Liabilities and Decrease in Current Assets:		
Trade Payables	5,000	
Trade Receivables	8,000	13,000
		55,000
Less: Increase in Current Assets:		
Inventories		33,000
Cash Generated from Operating Activities		22,000
Less: Tax Paid (WN 2)		10,000
Cash Flow from Operating Activities		12,000
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets (WN 3)	(15,000)	
Proceeds from Sale of Non-current Investments (WN 4)	15,000	
Cash Flow from Investing Activities		Nil
C. Cash Flow from Financing Activities		
Bank Overdraft Raised	5,000	
Raised Bank Loan	20,000	
Proceeds from Issue of Shares	25,000	
Payment of Interim Dividend	(12,000)	
Cash Flow from Financing Activities		38,000
D. Net Increase in Cash and Cash Equivalents (A + B + C)		50,000
Add: Cash and Cash Equivalents in the beginning of the Period		50,000
E. Cash and Cash Equivalents at the end of the Period		1,00,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)	60,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)	50,000
	10,000
Add: Transferred to General Reserve	5,000
Provision for Tax	20,000
Interim Dividend	12,000
Net Profit before Tax	47,000

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

Particulars	₹	Particulars	₹
To Bank A/c (Tax Paid—Bal. Fig.)	10,000	By Balance *b/d*	15,000
To Balance *c/d*	25,000	By Statement of Profit and Loss	20,000
	35,000		35,000

3. *Dr.* FIXED ASSETS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	20,000	By Depreciation A/c	5,000
To Bank A/c (Purchase—Bal. Fig.)	15,000	By Balance c/*d*	30,000
	35,000		35,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	15,000	By Bank A/c (Sale—Bal. Fig.)	15,000
To Gain on Sale of Non-current Investments A/c	10,000	By Balance c/*d*	10,000
	25,000		25,000

11. (*a*) Common-size Financial Statement is the *vertical analysis* of Financial Statement expressed as percentage of some common base (such as Revenue from Operations for Income Statement and Total Assets or Total of Equity and Liabilities for Balance Sheet) which is taken as 100.

(*b*)

Dr. COMMON-SIZE INCOME STATEMENT *for the year ended 31st March, 2018* *Cr.*

Particulars	Note No.	Amount (₹)	Percentage of Revenue from Operations (%)
I. Revenue from Operations		2,00,000	100.00
II. Other Income		15,000	7.50
III. Total Revenue (I + II)		2,15,000	107.50
IV. *Expenses:*			
Cost of Materials Consumed		1,10,000	55.00
Other Expenses		5,000	2.50
Total Expenses		1,15,000	57.50
V. Profit before Tax (III – IV)		1,00,000	50.00
VI. Tax		40,000	20.00
VII. Profit after Tax (V – VI)		60,000	30.00

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

$$= \frac{₹\,1{,}29{,}000}{₹\,3{,}00{,}000} \times 100 = 43\%.$$

Operating Cost = Cost of Revenue from Operations* + Operating Expenses**

= ₹ 1,15,000 + ₹ 14,000 = ₹ 1,29,000

Revenue from Operations = ₹ 3,00,000.

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

= ₹ 3,00,000 – ₹ 1,85,000 = ₹ 1,15,000.

**Operating Expenses = Employees Benefit Expenses + Depreciation

= ₹ 6,000 + ₹ 8,000 = ₹ 14,000.

(*d*) (*i*) *No Flow*. **Reason:** It is a non-cash transaction.

(*ii*) Financing Activity.