MODEL TEST PAPER 15 (Solution)

SECTION A

PART I

1. (*i*) When the partners decide to record the net effect of accumulated profits, losses and reserves without affecting the old figures of accumulated profits, losses and reserves, single adjustment entry involving Capital/Current Accounts of gaining partners and sacrificing partners is passed. The Journal entry will be:

In Case of Profits:

Gaining Partners' Capital/Current A/cs ...Dr.
  To Sacrificing Partners' Capital/Current A/cs

In Case of Losses:

Sacrificing Partners' Capital/Current A/cs ...Dr.
  To Gaining Partners' Capital/Current A/cs

(*ii*) The outgoing (deceased) partner's share in the profit may be adjusted in the books in either of the following ways:

(*a*) *Through Profit and Loss Suspense Account:* The outgoing partner's share of profit or loss from the date of last Balance Sheet till the date of his death, should be credited or debited to outgoing Partner's Capital Account through Profit and Loss Suspense Account, by passing the following accounting entry:

In Case of Profit:

Profit and Loss Suspense A/c ...Dr.
  To Outgoing Partner's Capital A/c

In Case of Loss:

Outgoing Partner's Capital A/c ...Dr.
  To Profit and Loss Suspense A/c

This treatment is appropriate only when there is no change in the profit-sharing ratio of remaining (continuing) partners.

(*b*) *Through Gaining Partners' Capital/Current Accounts:* The outgoing partner's share of profit or loss may be adjusted through the Capital/Current Accounts of the Gaining Partners in their gaining ratio by passing the following Journal entry:

In Case of Profit:

Gaining Partners' Capital/Current A/cs ...Dr.
  To Outgoing Partner's Capital A/c

In Case of Loss:

Reverse of the above entry is passed.

In case of change in profit-sharing ratio of remaining (continuing) partners, outgoing partner's share of profit must be adjusted through Gaining Partners' Capital/Current Accounts.

(*iii*) Calls-in-Advance is shown under Current Liabilities and Sub-head 'Other Current Liabilities' in the Equity and Liabilities part of the company's Balance Sheet.

The amount of Calls-in-Arrears is shown by way of deduction from the amount of Subscribed but not fully paid-up capital under Subscribed Capital in the Note to Accounts on Share Capital.

(*iv*) These shares can be reissued up to a discount of ₹ 7 per share or ₹ 700 (*i.e.*, amount credited to the Forfeited Shares Account).

Balance left in Forfeited Shares Account after the reissue of forfeited shares represents a capital profit, which is transferred to Capital Reserve.

(*v*) **Difference between Tangible Fixed Assets and Intangible Fixed Assets**

Basis of Distinction	*Tangible Fixed Assets*	*Intangible Fixed Assets*
1. **Physical Existence**	These assets have physical existence.	These assets do not have physical existence.
2. **Depreciation or Amortisation**	Tangible Fixed Assets are depreciated.	Intangible Fixed Assets are amortised.

(*vi*) *Contingent Liabilities:* These are liabilities which may or may not arise as they depend on happening of a future incident.

Contingent Liabilities are shown in the Notes to Accounts and not in the Balance Sheet of the company.

PART II

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

for the year ended 31st March, 2018

Dr. *Cr.*

Particulars		₹	Particulars		₹
To Interest on Capital:			By Profit and Loss A/c (Net Profit) (WN 2)		9,95,500
Sanjay's Current A/c	50,000		By Interest on Drawings:		
Manoj's Current A/c	80,000	1,30,000	Sanjay's Current A/c	3,600	
To Interest on Current A/cs:			Manoj's Current A/c	3,600	7,200
Sanjay's Current A/c	10,000				
Manoj's Current A/c	20,000	30,000			
To General Reserve A/c (10% of ₹ 9,95,500)		99,550			
To Profit transferred to Current A/cs:					
Sanjay	4,45,890				
Manoj	2,97,260	7,43,150			
		10,02,700			10,02,700

(*ii*)

PARTNERS' CAPITAL ACCOUNTS

Dr. *Cr.*

Date	Particulars	Sanjay ₹	Manoj ₹	Date	Particulars	Sanjay ₹	Manoj ₹
2018				2017			
March 31	To Balance *c/d*	8,00,000	8,00,000	April 1	By Balance *b/d*	4,00,000	8,00,000
				2018			
				Jan. 1	By Bank A/c	4,00,000	...
		8,00,000	8,00,000			8,00,000	8,00,000

(*iii*)

Dr. PARTNERS' CURRENT ACCOUNTS *Cr.*

Date	Particulars	Sanjay ₹	Manoj ₹	Date	Particulars	Sanjay ₹	Manoj ₹
2018				2017			
March 31	To Drawings A/c	48,000	48,000	April 1	By Balance *b/d*	1,00,000	2,00,000
	To Interest on Drawings A/c	3,600	3,600	2018			
	To Balance *c/d*	5,54,290	5,45,660	March 31	By Interest on Capital A/c	50,000	80,000
					By Interest on Current A/c	10,000	20,000
					By Profit and Loss Appropriation A/c (Profit)	4,45,890	2,97,260
		6,05,890	5,97,260			6,05,890	5,97,260

(*iv*)

Dr. MANOJ'S LOAN ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2018			2018		
March 31	To Balance *c/d*	3,04,500	Jan. 1	By Bank A/c	3,00,000
			March 31	By Interest on Manoj's Loan A/c (₹ 3,00,000 × 6/100 × 3/12)	4,500
		3,04,500			3,04,500

Working Notes:

1. When the Partnership Deed is silent, interest on Partner's Loan is to be allowed @ 6% p.a. as per Indian Partnership Act, 1932.
2. Interest on Manoj's Loan = ₹ 3,00,000 × $\frac{6}{100} \times \frac{3}{12}$ = ₹ 4,500 will be debited to Profit and Loss Account as it is charge against the Profit. Thus, Amount of Profit transferred to Profit and Loss Appropriation Account will be ₹ 9,95,500 (*i.e.*, ₹ 10,00,000 – ₹ 4,500).
3. Interest on Sanjay's Capital = ₹ 4,00,000 × $\frac{10}{100}$ + ₹ 4,00,000 × $\frac{10}{100} \times \frac{3}{12}$ = ₹ 40,000 + ₹ 10,000 = ₹ 50,000;

   Interest on Manoj's Capital = (₹ 8,00,000 × $\frac{10}{100}$) = ₹ 80,000.

(*b*)

CALCULATION OF AVERAGE PROFIT

Based on Past 3 Years' Profits		₹	Based on Past 4 Years' Profits		₹
Profit for the Year 2017–18		32,600	Profit for the Year 2017–18		32,600
Profit for the Year 2016–17		42,000	Profit for the Year 2016–17		42,000
Profit for the Year 2015–16		3,70,000	Profit the Year 2015–16		3,70,000
			Profit for the year 2014–15		2,90,000
Total	(*A*)	4,44,600	Total	(*A*)	7,34,600
Number of Years	(*B*)	3	Number of Years	(*B*)	4
Average Profit	(*A* ÷ *B*)	1,48,200	Average Profit	(*A* ÷ *B*)	1,83,650

Value of Goodwill = 60% of Average Profit

= 60% of ₹ 1,83,650 = ₹ 1,10,190.

3.

Dr.	REALISATION ACCOUNT				Cr.
Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Provision for Doubtful Debts A/c		10,000
Investments A/c	60,000		By Mrs. *A*'s Loan A/c		50,000
Furniture A/c	50,000		By Sundry Creditors A/c		70,000
Machinery A/c	1,50,000		By Bank A/c (Assets Realised):		
Debtors A/c	1,00,000	3,60,000	Debtors	95,000	
To *A*'s Capital A/c (Liabilities taken over):			Machinery	1,30,000	
Mrs. *A*'s Loan	50,000		Investments (B.V. ₹ 24,000)	29,000	2,54,000
Outstanding Salaries	24,000	74,000	By *A*'s Capital A/c (Assets Taken over):		
To Bank A/c (Liabilities Paid):			Investments	28,800	
Sundry Creditors (₹ 10,000 + ₹ 31,500)	41,500		Car	24,000	52,800
Workmen Compensation Claim	10,000	51,500	By Loss on Realisation transferred to:		
To *B*'s Capital A/c (Dissolution Expenses)		5,000	*A*'s Capital A/c	32,220	
			B's Capital A/c	21,480	53,700
		4,90,500			4,90,500

Dr.	PARTNERS' CAPITAL ACCOUNTS				Cr.
Particulars	*A* ₹	*B* ₹	Particulars	*A* ₹	*B* ₹
To Profit and Loss A/c	12,000	8,000	By Balance *b/d*	2,00,000	1,00,000
To Advertisement Suspense A/c	6,000	4,000	By General Reserve A/c	18,000	12,000
To Realisation A/c (Assets taken over)	52,800	...	By Realisation A/c (Liabilities taken over)	74,000	...
To Realisation A/c (Loss)	32,220	21,480	By Realisation A/c (Diss. Expenses)	...	5,000
To Bank A/c (Final Payment) (Bal. Fig.)	1,88,980	83,520			
	2,92,000	1,17,000		2,92,000	1,17,000

Dr.	BANK ACCOUNT		Cr.
Particulars	₹	Particulars	₹
To Balance *b/d*	70,000	By Realisation A/c (Liabilities Paid)	51,500
To Realisation A/c (Assets Realised)	2,54,000	By *A*'s Capital A/c (Final Payment)	1,88,980
		By *B*'s Capital A/c (Final Payment)	83,520
	3,24,000		3,24,000

4. (*a*)

Dr.	REVALUATION ACCOUNT			Cr.
Particulars	₹	Particulars		₹
To Stock A/c (40% of ₹ 50,000)	20,000	By Loss on Revaluation transferred to:		
To Furniture A/c (60% of ₹ 30,000)	18,000	*X*'s Capital A/c	26,600	
		Y's Capital A/c	11,400	38,000
	38,000			38,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	*Z* ₹	Particulars	*X* ₹	*Y* ₹	*Z* ₹
To Revaluation A/c (Loss)	26,600	11,400	...	By Balance *b/d*	1,00,000	80,000	...
To Cash A/c (Bal. Fig.)	...	20,600	...	By Reserve A/c	7,000	3,000	...
To Balance *c/d* (WN 3)	1,26,000	54,000	60,000	By Cash A/c	...	...	60,000
				By Premium for Goodwil A/c	7,000	3,000	...
				By Cash A/c (Bal. Fig.)	38,600	...	...
	1,52,600	86,000	60,000		1,52,600	86,000	60,000

Dr. CASH ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	36,000	By *Y*'s Capital A/c (Excess Capital withdrawn)	20,600
To *Z*'s Capital A/c	60,000	By Balance *c/d*	1,24,000
To Premium for Goodwill A/c	10,000		
To *X*'s Capital A/c (Shortage in Capital brought in)	38,600		
	1,44,600		1,44,600

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:*

   Let the total share of Profit be 1

   Z's Share = $\frac{1}{4}$; Remaining Share = $1-\frac{1}{4}=\frac{3}{4}$, which will be shared by *X* and *Y* in their old profit-sharing ratio, *i.e.*, 7 : 3. Thus,

   $$X\text{'s New Share} = \frac{7}{10}\times\frac{3}{4}=\frac{21}{40}$$

   $$Y\text{'s New Share} = \frac{3}{10}\times\frac{3}{4}=\frac{9}{40}$$

   $$Z\text{'s Share} = \frac{1}{4}\text{ or }\frac{10}{40}$$

   Hence, New Profit-sharing Ratio of *X*, *Y* and *Z* = $\frac{21}{40}:\frac{9}{40}:\frac{10}{40}=21:9:10.$
3. *Adjustment of Capital:*

   Z's Capital for $\frac{1}{4}$th share = ₹ 60,000

   Total Capital of the New Firm = ₹ 60,000 × $\frac{4}{1}$ = ₹ 2,40,000, which will be contributed by *X*, *Y* and *Z* in their New Profit-sharing Ratio, *i.e.*, 21 : 9 : 10. Thus,

   $$X\text{'s Capital in New Firm} = \frac{21}{40}\text{ of ₹ 2,40,000 = ₹ 1,26,000;}$$

   $$Y\text{'s Capital in New Firm} = \frac{9}{40}\text{ of ₹ 2,40,000 = ₹ 54,000;}$$

   $$Z\text{'s Capital in New Firm} = \frac{10}{40}\text{ of ₹ 2,40,000 = ₹ 60,000.}$$

(*b*) (*i*) *Calculation of New Profit-sharing Ratio of X, Y and Z:*

	X	*Y*	*Z*
I. Old Share	3/5	2/5	—
II. Sacrifice/(Gain)	1/10	1/10	(2/10)
III. New Share (I – II)	5/10	3/10	2/10

Hence, New Profit-sharing Ratio of *X*, *Y* and *Z* = $\frac{5}{10}:\frac{3}{10}:\frac{2}{10}$ = 5 : 3 : 2.

(*ii*) *Calculation of amount of capital to be brought in by Z:*

	X (₹)	*Y* (₹)
Capital before Adjustments	69,000	51,000
Loss on Revalution (₹ 5,000 in 3 : 2)	(3,000)	(2,000)
Share of Goodwill (₹ 10,000 in 1 : 1)	5,000	5,000
General Reserve (₹ 15,000 in 3 : 2)	9,000	6,000
Capital after Adjustments	80,000	60,000

Combined Capital of *X* and *Y* for $\frac{4}{5}$th Share = ₹ 80,000 + ₹ 60,000 = ₹ 1,40,000

$\therefore$ *Z*'s Share of Capital = $\frac{1}{5}\times\frac{5}{4}\times$ ₹ 1,40,000 = ₹ 35,000.

5. (*a*) JOURNAL OF *A* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Plant A/c	...Dr.		40,000	
	Building A/c	...Dr.		40,000	
	Debtors A/c	...Dr.		30,000	
	Stock A/c	...Dr.		50,000	
	Furniture A/c	...Dr.		20,000	
	To Creditors A/c				20,000
	To *B* Ltd.				1,50,000
	To Capital Reserve A/c (Balancing Figure)				10,000
	(Being the business purchased of *B* Ltd.)				
	B Ltd.	...Dr.		1,50,000	
	To Equity Share Capital A/c (10,000 × ₹ 10)				1,00,000
	To Securities Premium Reserve A/c (10,000 × ₹ 2)				20,000
	To Cash/Bank A/c				30,000
	(Being the issue of 10,000 equity shares of ₹ 10 each at a premium of ₹ 2 to *B* Ltd. along with cash of ₹ 30,000 against purchase price)				

(*b*) JOURNAL OF KING LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Incorporation Cost or Goodwill A/c	...Dr.		30,000	
	To Share Capital A/c				30,000
	(Being the issue of 3,000 shares of ₹ 10 each as fully paid to promoters)				
	Underwriting Commission A/c	...Dr.		40,000	
	To Underwriters' A/c				40,000
	(Being the underwriting commission payable)				
	Underwriters' A/c	...Dr.		40,000	
	To Share Capital A/c				40,000
	(Being 4,000 shares issued to underwriters for their commission)				

(*c*) JOURNAL OF *XYZ* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Building A/c	...Dr.		3,00,000	
	Machinery A/c	...Dr.		2,00,000	
	Sundry Debtors A/c	...Dr.		1,00,000	
	Goodwill A/c (Balancing Figure)	...Dr.		50,000	
	To Sundry Creditors A/c				1,50,000
	To *Y* Ltd.				5,00,000
	(Being the business purchased of *Y* Ltd.)				
	Y Ltd.	...Dr.		5,00,000	
	To Equity Share Capital A/c				4,00,000
	To Securities Premium Reserve A/c				1,00,000
	(Being the issue of 4,000 Equity Shares of ₹ 100 each at 25% premium against purchase price)				

Working Note:

$$\text{Number of Equity Shares to be Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price of a Share}} = \frac{₹\,5{,}00{,}000}{₹\,125} = 4{,}000 \text{ Shares.}$$

(*d*) JOURNAL OF *Z* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Share Capital A/c (50 × ₹ 80)	...Dr.		4,000	
	Securities Premium Reserve A/c (50 × ₹ 10)	...Dr.		500	
	To Forfeited Shares A/c (50 × ₹ 30)				1,500
	To Calls-in-Arrears A/c (50 × ₹ 60)				3,000
	(Being 50 shares forfeited for non-payment of allotment and first call)				
	Bank A/c (₹ 70 × 20)	...Dr.		1,400	
	Forfeited Shares A/c (₹ 10 × 20)	...Dr.		200	
	To Share Capital A/c (20 × ₹ 80)				1,600
	(Being 20 forfeited shares reissued at ₹ 70 per share as ₹ 80 paid-up)				
	Forfeited Shares A/c (20 × ₹ 20)	...Dr.		400	
	To Capital Reserve A/c				400
	(Being the gain on reissue transferred to Capital Reserve)				

Dr. FORFEITED SHARES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Share Capital A/c (20 × ₹ 10)	200	By Share Capital A/c	1,500
To Capital Reserve A/c (20 × ₹ 20)	400		
To Balance *c/d*	900		
	1,500		1,500

6. (*a*) **Jaypee Construction Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2017					
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		75,000	
	To Debentures Redemption Reserve A/c				75,000
	(Being the amount transferred to DRR)				
April 1	Debentures Redemption Investment A/c	...Dr.		1,50,000	
	To Bank A/c				1,50,000
	(Being 15% of the value of debentures invested in DRI)				
2018					
March 31	Bank A/c	...Dr.		1,65,000	
	To Debentures Redemption Investment A/c				1,50,000
	To Interest Earned A/c				15,000
	(Being the Debentures Redemption Investment encashed with interest)				
	8% Debentures A/c	...Dr.		10,00,000	
	To Debentureholders' A/c				10,00,000
	(Being the amount due on redemption of 10,000; 8% Debentures)				
	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 DRR transferred to General Reserve after redemption)				

Working Note:

Amount transferred to DRR = ₹ 2,50,000 (*i.e.*, 25% of ₹ 10,00,000) – ₹ 1,75,000 = ₹ 75,000.

(*b*) JOURNAL OF *Z* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Building A/c	...Dr.		3,00,000	
	Plant and Machinery A/c	...Dr.		1,00,000	
	Stock A/c	...Dr.		2,00,000	
	Sundry Debtors A/c	...Dr.		1,00,000	
	To Sundry Creditors A/c				80,000
	To *Y* Ltd.				6,00,000
	To Capital Reserve A/c (Balancing Figure)				20,000
	(Being the business purchased of *Y* Ltd.)				

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Y Ltd. ...Dr.		6,00,000	
	To Bank A/c (10% of ₹ 6,00,000)			60,000
	To 10% Debentures A/c			4,50,000
	To Securities Premium Reserve A/c			90,000
	(Being 4,500; 10% Debentures of ₹ 100 each issued at 20% premium along with cheque of ₹ 60,000 against purchase consideration)			

Working Note:

$$\text{Number of Debentures to be Issued} = \frac{\text{Purchase Consideration} - \text{Part Payment}}{\text{Issue Price of a Debenture}}$$

$$= \frac{₹\,6{,}00{,}000 - ₹\,60{,}000}{₹\,120} = 4{,}500 \text{ Debentures.}$$

(*c*) JOURNAL OF ALOK LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017 Oct. 1	Own Debentures A/c (300 × ₹ 93) ...Dr.		27,900	
	To Bank A/c			27,900
	(Being 300 own Debentures purchased @ ₹ 93 each)			
	12% Debentures A/c ...Dr.		30,000	
	To Own Debentures A/c			27,900
	To Gain on Cancellation of Own Debentures A/c			2,100
	(Being 300 Own Debentures cancelled)			
	Gain on Cancellation of Own Debentures A/c ...Dr.		2,100	
	To Capital Reserve A/c			2,100
	(Being the gain on cancellation of Own Debentures transferred)			
2018 March 31	Interest on Debentures A/c ...Dr.		4,200	
	To Debentureholders' A/c			4,200
	(Being the interest due on 700; 12% Debentures for 6 months)			
	Debentureholders' A/c ...Dr.		4,200	
	To Bank A/c			4,200
	(Being the payment made to debentureholders)			
	Statement of Profit and Loss (Finance Cost) ...Dr.		10,200	
	To Interest on Debentures A/c			10,200
	(Being the interest on Debentures for the year transferred to Statement of Profit and Loss)			

Note: Debentures (300) purchased on 1st October, 2017 were cancelled. Hence, interest is payable on 700 Debentures: ₹ 70,000 @ 12% p.a. for 6 months.

7. (*a*)

S. No.	Main Head	Sub-head
(*i*)	Current Liabilities	Other Current Liabilities
(*ii*)	Shareholders' Funds	Reserves and Surplus
(*iii*)	Current Liabilities	Short-term Borrowings
(*iv*)	Current Liabilities	Other Current Liabilities
(*v*)	Non-Current Liabilities	Deferred Tax Liability (Net)
(*vi*)	Non-Current Liabilities	Long-term Provisions

(*b*)

Satya Ltd.

BALANCE SHEET

as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	31,50,000

Note to Accounts

	₹
1. Share Capital	
Authorised Capital	
1,00,000 Equity Shares of ₹ 50 each	50,00,000
Issued Capital	
90,000 Equity Shares of ₹ 50 each	45,00,000
Subscribed Capital	
Subscribed but not fully paid-up	
90,000 Equity Shares of ₹ 50 each; ₹ 35 paid-up	31,50,000

(*c*)

Star Ltd.

BALANCE SHEET (AN EXTRACT)

as at 31st March, 2018

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Non-Current Liabilities		
Long-term Borrowings	1	27,50,000
2. Current Liabilities		
Other Current Liabilities	2	5,70,000

Notes to Accounts

Particulars	₹
1. Long-term Borrowings	
7,500; 10% Debentures of ₹ 100 (Redeemable after 31st March, 2019)	7,50,000
11% Bank Loan from SBI (Repayable after 5 Years)	20,00,000
	27,50,000
2. Other Current Liabilities	
(*a*) Current Maturities of Long-term Debts	
2,500; 10% Debentures of ₹ 100 each (Redeemable up to 31st March, 2019)	2,50,000
(*b*) *Interest Accrued and Due on Borrowings:*	
Interest on 10% Debentures of ₹ 100 each	1,00,000
Interest on 11% Bank Loan from SBI	2,20,000
	5,70,000

8. (*a*)

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

Particulars	₹	Particulars	₹
To *B*'s Executors' A/c (Bal. Fig.)	3,47,000	By Balance *b/d*	1,20,000
		By Workmen Compensation Reserve A/c	40,000
		By Interest on Capital A/c (₹ 1,20,000 × 10/100 × 3/12)	3,000
		By Profit and Loss Suspense A/c (WN 1)	40,000
		By *A*'s Capital A/c (Goodwill) (WN 2)	1,08,000
		By *C*'s Capital A/c (Goodwill) (WN 2)	36,000
	3,47,000		3,47,000

Dr. *B*'S EXECUTORS' ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c	3,47,000	By *B*'s Capital A/c	3,47,000

Working Notes:

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

Sales for the Period = ₹ 12,00,000

Rate of Net Profit on Sales = 10%

Net Profit for the Period = 10% of ₹ 12,00,000 = ₹ 1,20,000

B's Share of Net Profit = $\frac{2}{6}$ of ₹ 1,20,000 = ₹ 40,000.

2. *Adjustment of Goodwill:*

Value of Goodwill = 2 (₹ 82,000 + ₹ 90,000 + ₹ 98,000) *Less* 20%

= ₹ 5,40,000 – 20% of ₹ 5,40,000 = ₹ 4,32,000

∴ *B*'s Share of Goodwill = $\frac{2}{6}$ of ₹ 4,32,000 = ₹ 1,44,000, which will be contributed by *A* and *C* in their gaining ratio, *i.e.*, 3 : 1. Thus, *A*'s contribution will be ₹ 1,08,000 and *C*'s contribution will be ₹ 36,000.

(*b*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Profit and Loss Adjustment A/c ...Dr.		73,000	
	To *X*'s Capital A/c			41,000
	To *Y*'s Capital A/c			32,000
	(Being the adjustment made for omitted interest on capital)			
	X's Capital A/c ...Dr.		2,250	
	Y's Capital A/c ...Dr.		1,125	
	To Profit and Loss Adjustment A/c			3,375
	(Being the adjustment made for omitted interest on drawings)			
	X's Capital A/c ...Dr.		41,775	
	Y's Capital A/c ...Dr.		27,850	
	To Profit and Loss Adjustment A/c			69,625
	(Being the loss on adjustment transferred to Partners' Capital Accounts)			

SECTION B

9. (*a*) (*i*) Debt to Equity Ratio $= \dfrac{\text{Debt}}{\text{Shareholders' Funds/Equity}}$

$$= \frac{₹\ 4,00,000}{₹\ 14,00,000} = 0.29 : 1.$$

Debt = 12% Debentures = ₹ 4,00,000

Shareholders' Funds/Equity = Equity Share Capital + General Reserve + Statement of Profit and Loss after Interest and Tax

= ₹ 10,00,000 + ₹ 1,00,000 + ₹ 3,00,000

= ₹ 14,00,000.

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

$$= \frac{₹\ 30,00,000}{₹\ 1,00,000} = 30 \text{ Times.}$$

Revenue from Operations = ₹ 30,00,000

Working Capital = Current Assets – Current Liabilities

= Trade Receivables + Cash and Cash Equivalents – Trade Payables

= ₹ 2,90,000 + ₹ 1,10,000 – ₹ 3,00,000

= ₹ 1,00,000.

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

$$= \frac{₹\ 6,48,000}{₹\ 18,00,000} \times 100 = 36\%.$$

Working Notes:

1. *Calculation of Net Profit before Interest and Tax:*

	₹
Statement of Profit and Loss after Interest and Tax	3,00,000
Add: Tax	3,00,000
Interest on Debentures (12% of ₹ 4,00,000)	48,000
Net Profit before Interest and Tax	6,48,000

2. Capital Employed = Debt + Equity/Shareholders' Funds

= ₹ 4,00,000 + ₹ 14,00,000 = ₹ 18,00,000.

(*b*) Interest Coverage Ratio $= \dfrac{\text{Net Profit before Interest and Tax}}{\text{Interest}}$

$$= \frac{₹\ 6{,}50{,}000}{₹\ 50{,}000} = 13 \text{ Times.}$$

Working Notes:

1. Interest = Fixed Interest Charges = ₹ 50,000.
2. *Calculation of Profit before Interest and Tax:*

	₹
Net Profit before Tax (after Interest)*	6,00,000
Add: Interest	50,000
Net Profit before Interest and Tax	6,50,000

**Calculation of Net Profit before Tax (after Interest):*

Rate of Tax = 50%

Let Net Profit before Tax (after Interest) be ₹ 100; Tax = ₹ 50

Net Profit after Interest and Tax = ₹ 100 – ₹ 50 = ₹ 50

Profit after Interest and Tax = ₹ 3,00,000 (Given)

$\therefore$ Net Profit before Tax (after Interest) $= \dfrac{₹\,100}{₹\,50} \times ₹\,3{,}00{,}000 = ₹\,6{,}00{,}000.$

(*c*) Debt to Total Assets Ratio $= \dfrac{\text{Debt}}{\text{Total Assets}}$

$$= \frac{₹\ 6{,}00{,}000}{₹\ 14{,}40{,}000} = 0.42 : 1.$$

Working Notes:

1. Debt = Total Debt – Current Liabilities

   = ₹ 10,80,000 – ₹ 4,80,000 = ₹ 6,00,000.

2. Total Assets = Total Debt + Shareholders' Funds/Equity

   = ₹ 10,80,000 + ₹ 3,60,000* = ₹ 14,40,000.

   *Shareholders' Funds/Equity = Preference Share Capital + Equity Shareholders' Funds

   = ₹ 1,20,000 + ₹ 2,40,000 = ₹ 3,60,000.

10.

H.P. LTD.

CASH FLOW STATEMENT

for the year ended 31st March, 2018

Particulars		₹	₹
I. Cash Flow from Operating Activities			
Net Profit before Tax (WN 1)		6,40,000	
Add: Non-cash and Non-operating Items:			
Provision for Doubtful Debts	50,000		
Depreciation on Machinery	2,00,000		
Goodwill Amortised	50,000		
Interest on Bank Loan (₹ 6,00,000 × 10/100 + ₹ 3,00,000 × 10/100 × 3/12)	67,500	3,67,500	
		10,07,500	
Less: Non-operating Income:			
Gain (Profit) on Sale of Machinery (WN 3)		30,000	
Operating Profit before Working Capital Changes		9,77,500	
Add: Increase in Current Liabilities and Decrease in Current Assets:			
Trade Payables	30,000		
Inventories	20,000		
Trade Receivables (Debtors)	3,50,000	4,00,000	
Cash Generated from Operations		13,77,500	
Less: Tax Paid		1,50,000	
Cash Flow from Operating Activities			12,27,500
II. Cash Flow from Investing Activities			
Proceeds from Sale of Machinery		1,50,000	
Payment for Purchase of Machinery (WN 3)		(17,20,000)	
Payment for Purchase of Non-current Investments		(2,00,000)	
Cash Used in Investing Activities			(17,70,000)
III. Cash Flow from Financing Activities			
Receipts from Issue of Shares		10,00,000	
Proceeds from 10% Bank Loan		3,00,000	
Payment of Dividend (Proposed Dividend for 2016–17)		(2,50,000)	
Payment of Interest on Bank Loan (₹ 67,500 – ₹ 50,000)		(17,500)	
Raised Short-term Borrowings		20,000	
Cash Flow from Financing Activities			10,52,500
IV. Net Increase in Cash and Cash Equivalents (I + II + III)			5,10,000
Add: Cash and Cash Equivalents in the beginning of the Period			1,50,000
V. Cash and Cash Equivalents at the end of the Period			6,60,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Closing Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	7,00,000
Less: Opening Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	5,00,000
	2,00,000
Add: Dividend Paid (Proposed Dividend for 2016–17)	2,50,000
Provision for Tax (WN 2)	1,90,000
Net Profit before Tax	6,40,000

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

Particulars	₹	Particulars	₹
To Bank A/c	1,50,000	By Balance *b/d*	1,10,000
To Balance *c/d*	1,50,000	By Statement of Profit and Loss (Bal. Fig.)	1,90,000
	3,00,000		3,00,000

3. *Dr.* MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	16,00,000	By Bank A/c	1,50,000
To Gain (Profit) on Sale of Machinery A/c* (Statement of Profit and Loss)	30,000	By Depreciation A/c	2,00,000
		By Balance *c/d*	30,00,000
To Bank A/c (Bal. Fig.) (Purchase)	17,20,000		
	33,50,000		33,50,000

*Gain (Profit) on Sale of Machinery = 25% of Book Value of Machinery on Date of Sale

$$= \frac{25}{100} [₹\ 3,00,000 - ₹\ 1,80,000] = ₹\ 30,000.$$

11. (*a*)

Sun Ltd.

COMPARATIVE STATEMENT OF PROFIT AND LOSS

for the years ended 31st March, 2018 and 2017

Particulars	Note No.	31st March, 2018 ₹ (*A*)	31st March, 2017 ₹ (*B*)	Absolute Change (Increase/ Decrease (₹) (*C* = *A* – *B*)	Percentage Change (Increase/ Decrease) (%) $\left(D = \frac{C}{B} \times 100\right)$
I. Revenue from Operations		25,00,000	20,00,000	5,00,000	25.00
II. *Add:* Other Income		1,00,000	5,00,000	(4,00,000)	(80.00)
III. Total Revenue (I + II)		26,00,000	25,00,000	1,00,000	4.00
IV. Expenses					
(*a*) Employee Benefit Expenses		15,60,000	12,50,000	3,10,000	24.80
(*b*) Other Expenses		1,56,000	2,50,000	(94,000)	(37.60)
Total Expenses		17,16,000	15,00,000	2,16,000	14.40
V. Profit before Tax (III – IV)		8,84,000	10,00,000	(1,16,000)	(11.60)
VI. *Less:* Tax		4,42,000	4,00,000	42,000	10.50
VII. Profit after Tax (V – VI)		4,42,000	6,00,000	(1,58,000)	(26.33)

Working Note:

Particulars	31st March, 2018 (₹)	31st March, 2017 (₹)
Total Revenue	26,00,000	25,00,000
Employee Benefit Expenses (% of Total Revenue)	$₹\ 26,00,000 \times \frac{60}{100} = ₹\ 15,60,000$	$₹\ 25,00,000 \times \frac{50}{100} = ₹\ 12,50,000$
Other Expenses (% of Employee Benefit Expenses)	$₹\ 15,60,000 \times \frac{10}{100} = ₹\ 1,56,000$	$₹\ 12,50,000 \times \frac{20}{100} = ₹\ 2,50,000$

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

$$8 = \frac{\text{Cost of Revenue from Operations}}{₹\ 80{,}000^*}$$

Cost of Revenue from Operations = ₹ 6,40,000

$$\left[\begin{aligned} {}^*\text{Average Inventory} &= \frac{\text{Opening Stock} + \text{Closing Stock}}{2} \\ &= \frac{₹\ 60{,}000 + ₹\ 1{,}00{,}000}{2} = ₹\ 80{,}000 \end{aligned}\right]$$

As, Selling Price = 25% above Cost

It means, Revenue from Operations = 125% of ₹ 6,40,000

$$= \frac{125}{100} \times ₹\ 6{,}40{,}000 = ₹\ 8{,}00{,}000$$

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

= ₹ 8,00,000 – ₹ 6,40,000 = ₹ 1,60,000

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

$$= \frac{₹\ 1{,}60{,}000}{₹\ 8{,}00{,}000} \times 100 = 20\%.$$

(*c*) (*i*) Investing Activity;

(*ii*) ₹ 10,000 (Source of Cash).