MODEL TEST PAPER 16 (Solution)

SECTION A

PART I

1. (*i*) Hidden Goodwill means that the value of goodwill is not given but is inferred on the basis of the net worth of the business. *Hidden Goodwill is the excess of desired total capital of the firm over the actual combined capital of all partners.*

For example, *A* and *B* are partners with a capital of ₹ 5,000 each. They admit *C* as a partner with 1/4th share in the profits of the firm. *C* brings ₹ 8,000 as his capital. The Profit and Loss Account showed a credit balance of ₹ 4,000 as on the date of admission of *C*. On the basis of *C*'s capital, total capital of the firm should be ₹ 32,000 (*i.e.*, ₹ 8,000 × 4/1). But the actual capital of the firm is ₹ 22,000 [*i.e.*, ₹ 5,000 (*A*'s Capital) + ₹ 5,000 (*B*'s Capital) + ₹ 4,000 (Profit and Loss Account) + ₹ 8,000 (*C*'s Capital)].

Hence, the Hidden Goodwill will be ₹ 10,000 (*i.e.*, ₹ 32,000 – ₹ 22,000).

(*ii*) **Distinction between Sacrificing Ratio and Gaining Ratio**

Basis	*Sacrificing Ratio*	*Gaining Ratio*
1. **Meaning**	Sacrificing ratio is the ratio in which the old partners make sacrifice of their shares in favour of incoming partner.	Gaining ratio is the ratio in which the partners gain share at the time of reconstitution of the firm.
2. **How to Calculate**	Sacrificing Ratio = Old Ratio – New Ratio	Gaining Ratio = New Ratio – Old Ratio.

(*iii*) (*a*) To write off Discount/Loss on Issue of Debentures.

(*b*) To provide for the premium payable on the redemption of Preference Shares or of debentures of the company.

(*iv*) **Amount of Profit required to be transferred to DRR**

= (₹ 20,00,000 × 25/100) – ₹ 1,00,000 = ₹ 4,00,000.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		4,00,000	
	To Debentures Redemption Reserve A/c			4,00,000
	(Being the amount transferred to DRR)			

(*v*) (*a*) When an amount equal to 100% of nominal (face) value of total redeemable debentures is transferred to Debentures Redemption Reserve out of surplus available for payment of dividend for the purpose of redemption of debentures, it is termed as redemption of debentures out of profits.

(*b*) If purchase consideration given is more than the net assets acquired, then the difference is debited to **Goodwill Account**.

(*vi*) *'Subscribed Capital' means such part of the capital which is for the time being subscribed by the members of a company.*

Shares subscribed but not fully paid up are that part of the issued capital on which the company has not received total nominal (face) value.

Shares are shown as Subscribed but not fully paid up:

(*a*) When the company has called-up entire nominal value of the share but few shareholders have not paid the called-up amount.

(*b*) When the company has not called-up the entire nominal value of the share.

PART II

2. (*a*)

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)		3,60,000
Ajay	20,000		By Interest on Drawings A/cs:		
Vijay	10,000	30,000	Ajay (₹ 12,000 × 6/100 × 6.5/12)	390	
To Ajay's Salary A/c		30,000	Vijay (₹ 24,000 × 6/100 × 5.5/12)	660	1,050
To Vijay's Commission A/c [10/110 × (₹ 3,60,000 – ₹ 30,000)]		30,000			
To General Reserve A/c*		54,210			
To Profit transferred to:					
Ajay's Capital A/c	1,44,560				
Vijay's Capital A/c	72,280	2,16,840			
		3,61,050			3,61,050

*Amount transferred to General Reserve
= 20% of Distributable Profit
= 20% [₹ 3,60,000 + ₹ 1,050 – ₹ 30,000 – ₹ 30,000 – ₹ 30,000]
= 20% of ₹ 2,71,050 = ₹ 54,210.

PARTNERS' CAPITAL ACCOUNTS

Dr. Date	Particulars	Ajay ₹	Vijay ₹	Date	Particulars	Ajay ₹	Cr. Vijay ₹
2018				2017			
March 31	To Drawings A/c	12,000	24,000	April 1	By Bank A/c	2,00,000	1,00,000
March 31	To Interest on Drawings A/c	390	660	2018			
March 31	To Balance *c/d*	3,82,170	1,87,620	March 31	By Interest on Capital A/c	20,000	10,000
				March 31	By Ajay's Salary A/c	30,000	...
				March 31	By Vijay's Commission A/c	...	30,000
				March 31	By Profit and Loss Appropriation A/c (Profit)	1,44,560	72,280
		3,94,560	2,12,280			3,94,560	2,12,280

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
March 31	*X*'s Capital A/c	...Dr.		60,000	
	Y's Capital A/c	...Dr.		40,000	
	Z's Capital A/c	...Dr.		20,000	
	To Profit and Loss A/c				1,20,000
	(Being the distribution of loss as there is no guarantee)				
	X's Capital A/c	...Dr.		48,000	
	Y's Capital A/c	...Dr.		32,000	
	To *Z*'s Capital A/c				80,000
	(Being the deficiency borne by guaranteeing partners)				

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To Profit and Loss A/c (Loss)	60,000	40,000	20,000	By Balance *b/d*	6,00,000	4,00,000	2,00,000
To *Z*'s Capital A/c	48,000	32,000	...	By *X*'s Capital A/c	...	...	48,000
To Balance *c/d*	4,92,000	3,28,000	2,60,000	By *Y*'s Capital A/c	...	...	32,000
	6,00,000	4,00,000	2,80,000		6,00,000	4,00,000	2,80,000

Note: *Z* is guaranteed minimum profit of ₹ 60,000 p.a. However, the firm has incurred loss. Out of the total loss, *Z*'s Capital A/c is debited by ₹ 20,000. It means *Z* is entitled for ₹ 80,000 (*i.e.*, ₹ 20,000 + ₹ 60,000). This amount will be credited to *Z*'s Capital A/c. *X* and *Y* will share this deficiency in the ratio of 3 : 2. Thus, *X*'s Capital A/c will be debited by ₹ 48,000 (*i.e.*, ₹ 80,000 × 3/5) and *Y*'s Capital A/c will be debited by ₹ 32,000 (*i.e.*, ₹ 80,000 × 2/5).

3. (*a*) (*i*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	General Reserve A/c	...Dr.		36,000	
	To Naresh's Capital A/c				12,000
	To Raj's Capital A/c				12,000
	To Bishwajeet's Capital A/c				12,000
	(Being the General Reserve distributed among Partners on Raj's retirement)				
	Naresh's Capital A/c	...Dr.		5,000	
	Raj's Capital A/c	...Dr.		5,000	
	Bishwajeet's Capital A/c	...Dr.		5,000	
	To Profit and Loss A/c				15,000
	(Being the accumulated Loss transferred to Partners on Raj's retirement)				

(*ii*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Naresh's Capital A/c	...Dr.		3,500	
	Bishwajeet's Capital A/c	...Dr.		3,500	
	To Raj's Capital A/c (₹ 21,000 × 1/3)				7,000
	(Being the Raj's Share in accumulated profits and losses adjusted between gaining partners in their gaining ratio, *i.e.*, 1 : 1)				

Note: As profit-sharing ratio of continuing partners does not change, their gaining ratio will be same as their profit-sharing ratio.

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
March 31	Building A/c	...Dr.		20,000	
	Investments A/c	...Dr.		5,000	
	To Revaluation A/c				25,000
	(Being the increase in the values of Building and Investments recorded)				
	Revaluation A/c	...Dr.		7,000	
	To Plant and Machinery A/c				4,000
	To Stock A/c				2,000
	To Provision for Doubtful Debts A/c				1,000
	(Being the decrease in the values of Plant and Machinery and stock recorded and provision for doubtful debts created)				
	Revaluation A/c	...Dr.		18,000	
	To Himanshu's Capital A/c				9,000
	To Gagan's Capital A/c				6,000
	To Naman's Capital A/c				3,000
	(Being the gain (profit) on revaluation credited to all Partners' Capital Accounts in their profit-sharing ratio)				

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Plant and Machinery A/c		4,000	By Building A/c	20,000
To Stock A/c		2,000	By Investments A/c	5,000
To Provision for Doubtful Debts A/c		1,000		
To Gain (Profit) transferred to:				
Himanshu's Capital Ac	9,000			
Gagan's Capital A/c	6,000			
Naman's Capital A/c	3,000	18,000		
		25,000		25,000

(*c*)

Dr. *Z*'S LOAN ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2015			2015		
Jan. 1	To Cash A/c	23,300	Jan. 1	By *Z*'s Capital A/c	1,13,300
March 31	To Balance *c/d*	92,250	March 31	By Interest A/c	2,250
		1,15,550			1,15,550
2016			2015		
March 31	To Cash A/c (₹ 30,000 + ₹ 11,250)	41,250	April 1	By Balance *b/d*	92,250
March 31	To Balance *c/d*	60,000	2016		
			March 31	By Interest A/c	9,000
		1,01,250			1,01,250
2017			2016		
March 31	To Cash A/c (₹ 30,000 + ₹ 6,000)	36,000	April 1	By Balance *b/d*	60,000
March 31	To Balance *c/d*	30,000	2017		
			March 31	By Interest A/c	6,000
		66,000			66,000
2018			2017		
March 31	To Cash A/c (₹ 30,000 + ₹ 3,000)	33,000	April 1	By Balance *b/d*	30,000
			2018		
			March 31	By Interest A/c	3,000
		33,000			33,000

4.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets—Transfer:			By Trade Creditors		1,20,000
Machinery	80,000		By Bills Payable		10,000
Furniture	45,000		By *X*'s Capital A/c (Machinery)		45,000
Motor Car	25,000		By Bank A/c (Assets Realised):		
Stock	30,000		Remaining Machinery	50,000	
Debtors	71,000	2,51,000	Furniture	40,000	
To Bank A/c (Liabilities Paid):			Debtors (WN 1)	62,820	
Bills Payable	10,000		Remaining Stock (WN 2)	30,000	
Trade Creditors (WN 3)	1,00,300		Unrecorded Assets	2,500	1,85,320
Unrecorded Liability	2,500	1,12,800	By *Y*'s Capital A/c (Motor Car)		30,000

To Bank A/c (Realisation Expenses)		5,000	By *Z*'s Capital A/c (Stock)	5,200
To Gain (Profit) transferred to:				
X's Capital A/c	13,360			
Y's Capital A/c	8,016			
Z's Capital A/c	5,344	26,720		
		3,95,520		3,95,520

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	*Z* ₹	Particulars	*X* ₹	*Y* ₹	*Z* ₹
To *Z*'s Current A/c	...	...	3,000	By Balance *b/d*	60,000	40,000	30,000
To Realisation A/c (Assets taken over)	45,000	30,000	5,200	By Partners' Current A/cs	8,000	10,000	...
				By Realisation A/c (Gain)	13,360	8,016	5,344
To Bank A/c (Bal. Fig.) (Final Payment)	36,360	28,016	27,144				
	81,360	58,016	35,344		81,360	58,016	35,344

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	24,000	By Realisation A/c (Liabilities Paid)	1,12,800
To Realisation A/c (Assets Realised)	1,85,320	By Realisation A/c (Realisation Expenses)	5,000
		By *X*'s Capital A/c (Final Payment)	36,360
		By *Y*'s Capital A/c (Final Payment)	28,016
		By *Z*'s Capital A/c (Final Payment)	27,144
	2,09,320		2,09,320

Working Notes:

1. Amount Realised from Debtors = 90% of (₹ 71,000 – ₹ 1,200) = ₹ 62,820.
2. Amount Realised from Remaining $\left(\frac{5}{6}\text{th}\right)$ Stock = ₹ 30,000 × $\frac{5}{6} \times \frac{120}{100}$ = ₹ 30,000.
3. Amount Paid to Trade Creditors = 85% of (₹ 1,20,000 – ₹ 2,000) = ₹ 1,00,300.
4. As per ISC Guidelines, Balances of Partners' Current Accounts are transferred to their Capital Accounts.

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

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c	...Dr.		2,00,000	
	Goodwill A/c (Note)	...Dr.		10,000	
	To Sundry Liabilities A/c				50,000
	To *Y* Ltd.				1,60,000
	(Being the purchase of business of *Y* Ltd.)				
	Y Ltd.	...Dr.		1,60,000	
	To 12% Debentures A/c				1,60,000
	(Being 1,600 (*i.e.*, ₹ 1,60,000 ÷ ₹ 100); 12% Debentures of ₹ 100 each issued at par against purchase consideration)				

Note: The excess of purchase price (₹ 1,60,000) over net assets [₹ 1,50,000 (*i.e.*, ₹ 2,00,000 – ₹ 50,000)] has been debited to Goodwill Account.

(*b*) JOURNAL OF SKY LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c ...Dr. To Sundry Liabilities A/c To Mars Ltd. To Capital Reserve A/c (Note) (Being the purchase of business of Mars Ltd.)		4,00,000	 70,000 3,24,000 6,000
	Mars Ltd. ...Dr. Discount on Issue of Debentures A/c ...Dr. To 11% Debentures A/c (Being 3,600 (*i.e.*, ₹ 3,24,000 ÷ ₹ 90); 11% Debentures of ₹ 100 each issued at 10% discount against purchase consideration)		3,24,000 36,000	 3,60,000

Note: The excess of Net Assets [₹ 3,30,000 (*i.e.*, ₹ 4,00,000 – ₹ 70,000)] over purchase price (₹ 3,24,000) has been credited to Capital Reserve Account.

(*c*) **In the Books of AB Ltd.**
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017 April 1	Bank A/c ...Dr. To Debentures Application A/c (Being the application money received for 10,000; 10% Debentures @ ₹ 40 each)		4,00,000	 4,00,000
	Debentures Application A/c ...Dr. To 10% Debentures A/c (Being 10,000; 10% Debentures of ₹ 100 each allotted)		4,00,000	 4,00,000
	Debentures Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 10% Debentures A/c To Premium on Redemption of Debentures A/c (Being the allotment money due on 10,000; 10% Debentures issued at 8% discount and redeemable at 5% premium)		5,20,000 1,30,000	 6,00,000 50,000
	Bank A/c ...Dr. To Debentures Allotment A/c (Being the allotment money received)		5,20,000	 5,20,000
2018 March 31	Debentures' Interest A/c ...Dr. To Debentureholders' A/c (Being the interest payable on 10% Debentures for the year)		1,00,000	 1,00,000
	Debentureholders' A/c ...Dr. To Bank A/c (Being the interest paid to debentureholders)		1,00,000	 1,00,000
	Statement of Profit and Loss (Finance Cost) ...Dr. To Debentures' Interest A/c (Being the transfer of Debentures' Interest to Statement of Profit and Loss)		1,00,000	 1,00,000
	Statement of Profit and Loss (Finance Cost) ...Dr. To Loss on Issue of Debentures A/c (Being the Loss on Issue of Debentures written off)		1,30,000	 1,30,000

Dr. 10% DEBENTURES ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
2018 March 31	To Balance *c/d*	10,00,000	2017 April 1	By Debentures Application A/c	4,00,000
				By Debentures Allotment A/c	5,20,000
				By Loss on Issue of Debentures A/c	80,000
		10,00,000			10,00,000
			2018 April 1	By Balance *b/d*	10,00,000

6. (*a*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 April 1	Building A/c ...Dr.		3,00,000	
	Machinery A/c ...Dr.		1,40,000	
	To *Z*'s Capital A/c			3,20,000
	To Premium for Goodwill A/c (₹ 4,80,000 × 2/8)			1,20,000
	(Being the building and machinery brought in by *Z* for his share of capital and goodwill)			
	Premium for Goodwill A/c ...Dr.		1,20,000	
	To *X*'s Capital A/c			12,000
	To *Y*'s Capital A/c			1,08,000
	(Being the premium for goodwill distributed between old partners in their sacrificing ratio, *i.e.*, 1 : 9)			

Working Note: *Calculation of Sacrificing Ratio:*

	X	*Y*
(*a*) Old Share	2/5	3/5
(*b*) New Share	3/8	3/8
(*c*) Sacrifice/(Gain) [(*a*) – (*b*)]	1/40	9/40

Thus, Sacrificing Ratio of *X* and *Y* = $\frac{1}{40} : \frac{9}{40} = 1 : 9$.

(*b*) *Calculation of New Profit-sharing Ratio:*

	Ashok	Ram	Vijay
(*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

Thus, New Profit-sharing Ratio of Ashok, Ram and Vijay = 5 : 3 : 2.

Valuation of Goodwill:

		₹
A.	Net worth of the new firm on the basis of capital brought by Vijay (₹ 60,000 × 5/1)	3,00,000
B.	Net worth (Excluding Goodwill) of the New Firm (Adjusted Capitals of Old Partners + Capital of New Partner) (₹ 80,000 + ₹ 60,000 + ₹ 60,000)	2,00,000
C.	Value of Firm's Goodwill **(A – B)**	1,00,000

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
Jan. 1	Cash/Bank A/c	...Dr.		60,000	
	To Vijay's Capital A/c				60,000
	(Being the amount of capital brought by new partner)				
	Vijay's Current A/c (₹ 1,00,000 × 2/10)	...Dr.		20,000	
	To Ashok's Capital A/c				10,000
	To Ram's Capital A/c				10,000
	(Being Vijay's share of goodwill adjusted between old partners in their sacrificing ratio, *i.e.*, 1 : 1)				

(*c*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	X's Capital A/c	...Dr.		1,20,000	
	Y's Capital A/c	...Dr.		80,000	
	To Goodwill A/c				2,00,000
	(Being the existing goodwill written off)				
	Bank A/c	...Dr.		5,37,500	
	To *Z*'s Capital A/c				5,00,000
	To Premium for Goodwill A/c				37,500
	(Being the amount brought in by *Z* for his capital and a part of his share of goodwill)				
	Z's Current A/c	...Dr.		12,500	
	Premium for Goodwill A/c	...Dr.		37,500	
	To *X*'s Capital A/c				20,000
	To *Y*'s Capital A/c				30,000
	(Being *Z*'s share of goodwill credited to *X* and *Y* in their sacrificing ratio, *i.e.*, 2 : 3)				
	X's Capital A/c	...Dr.		10,000	
	Y's Capital A/c	...Dr.		15,000	
	To Bank A/c				25,000
	(Being 50% amount credited for goodwill withdrawn by partners)				
	Profit and Loss Appropriation A/c	...Dr.		2,50,000	
	To *X*'s Capital A/c				1,30,000
	To *Y*'s Capital A/c				70,000
	To *Z*'s Capital A/c				50,000
	(Being the profit for the year distributed among partners)				

Working Note:

Calculation of New Profit-sharing Ratio and Sacrificing Ratio:

Let total share of profit be 1

Z's share = 1/5; Remaining share = 4/5 (*i.e.*, 1 – 1/5)

This remaining share will be taken by *X* and *Y* in their agreed ratio, *i.e.*, 13 : 7.

Thus, *X*'s new share = 13/20 × 4/5 = 13/25; *Y*'s new share = 7/20 × 4/5 = 7/25; *Z*'s share = 1/5 or 5/25

Hence, New Profit-sharing Ratio of *X*, *Y* and *Z* = 13 : 7 : 5.

X sacrifices = Old share – New share = 3/5 – 13/25 = 2/25;

Y sacrifices = Old share – New share = 2/5 – 7/25 = 3/25; Thus, sacrificing ratio of *X* and *Y* = 2 : 3.

7. **In the Books of Sargam Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		24,00,000	
	To Equity Shares Application A/c				24,00,000
	(Being the application money received on 1,20,000 shares @ ₹ 20 per share)				
	Equity Shares Application A/c	...Dr.		24,00,000	
	To Equity Share Capital A/c				16,00,000
	To Equity Shares Allotment A/c				8,00,000
	(Being the application money on 80,000 allotted shares transferred to Equity Share Capital Account and excess money to allotment for adjustment)				
	Equity Shares Allotment A/c (80,000 × ₹ 60)	...Dr.		48,00,000	
	To Equity Share Capital A/c (80,000 × ₹ 40)				32,00,000
	To Securities Premium Reserve A/c (80,000 × ₹ 20)				16,00,000
	(Being the allotment money due on 80,000 shares @ ₹ 60 per share)				
	Bank A/c	...Dr.		38,00,000	
	Calls-in-Arrears A/c	...Dr.		2,00,000	
	To Equity Shares Allotment A/c				40,00,000
	(Being the allotment money received except on 4,000 shares) (WN 1 and 2)				
	Equity Shares First and Final Call A/c	...Dr.		32,00,000	
	To Equity Share Capital A/c				32,00,000
	(Being the call money due on 80,000 shares @ ₹ 40 per share)				
	Bank A/c	...Dr.		30,08,000	
	Calls-in-Arrears A/c	...Dr.		1,92,000	
	To Equity Shares First and Final Call A/c				32,00,000
	(Being the first and final call money received except on 4,800 shares)				
	Equity Share Capital A/c (4,800 × ₹ 100)	...Dr.		4,80,000	
	Securities Premium Reserve A/c (4,000 × ₹ 20)	...Dr.		80,000	
	To Forfeited Shares A/c [(6,000 × ₹ 20) + (800 × ₹ 60)]				1,68,000
	To Calls-in-Arrears A/c				3,92,000
	(Being 4,800 shares forfeited for non-payment of allotment and call money)				
	Bank A/c	...Dr.		4,20,000	
	To Equity Share Capital A/c				4,20,000
	(Being 4,200 forfeited shares reissued @ ₹ 100 per share)				
	Forfeited Shares A/c	...Dr.		1,50,000	
	To Capital Reserve A/c				1,50,000
	(Being the gain on reissue of shares transferred to Capital Reserve) (WN 3)				

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

Particulars	₹	Particulars	₹
To Equity Shares Allotment A/c	2,00,000	By Equity Share Capital A/c (₹ 1,20,000 + ₹ 1,92,000)	3,12,000
To Equity Shares First and Final A/c	1,92,000	By Securities Premium Reserve A/c	80,000
	3,92,000		3,92,000

Dr. FORFEITED SHARES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Capital Reserve A/c	1,50,000	By Equity Share Capital A/c	1,68,000
To Balance *c/d*	18,000		
	1,68,000		1,68,000

Working Notes:

1. *Calculation of allotment money not paid by Aditya:*

   (*a*) Calculation of number of shares allotted to Aditya = $\frac{80,000}{1,20,000} \times 6,000$ = 4,000 shares.

   (*b*) *Calculation of allotment money not paid by Aditya:*

	₹
Amount due on allotment (4,000 shares × ₹ 60 per share)	2,40,000
Less: Excess Application Money adjusted on allotment [(6,000 – 4,000) × ₹ 20]	40,000
Amount not paid on allotment	2,00,000

2. *Calculation of total amount received on allotment:*

	₹
Total allotment money due	48,00,000
Less: Excess application money adjusted on allotment	8,00,000
	40,00,000
Less: Allotment money not paid by Aditya (WN 1)	2,00,000
Amount received on allotment	38,00,000

3. In the given case 4,200 shares (including all the forfeited shares of Harnam) are reissued at par. So, the entire amount forfeited on such shares, *i.e.*, ₹ 1,02,000 (*i.e.*, ₹ 1,20,000 × 3,400/4,000) of Aditya shares + ₹ 48,000 Harnam's shares = ₹ 1,50,000 will be transferred to Capital Reserve.

8. **Goyal Ltd.**

BALANCE SHEET *as at 31st March, 2018*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital	1	10,00,000
(*b*) Reserves and Surplus		4,88,500
2. Non-Current Liabilities		
Long-term Borrowings	2	2,00,000
3. Current Liabilities		
(*a*) Trade Payables		3,40,000
(*b*) Other Current Liabilities	3	12,000
(*c*) Short-term Provisions	4	2,40,000
Total		22,80,500
II. ASSETS		
1. Non-Current Assets		
Fixed Assets—Tangible	5	15,00,000
2. Current Assets		
(*a*) Inventories		2,00,000
(*b*) Trade Receivables		4,90,000
(*c*) Cash and Cash Equivalents	6	55,500
(*d*) Short-term Loans and Advances		35,000
Total		22,80,500

Notes to Accounts

Particulars		₹
1. Share Capital		
Authorised Capital		
1,20,000 Equity Shares of ₹ 10 each		12,00,000
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. Long-term Borrowings		
12% Bank Loan		2,00,000
3. Other Current Liabilities		
Interest Accrued on Bank Loan		12,000
4. Short-term Provisions		
Provision for Tax		2,40,000
5. Fixed Assets—Tangible		
Building (Cost)	5,00,000	
Less: Accumulated Depreciation (₹ 80,000 + ₹ 25,000)	1,05,000	3,95,000
Plant and Machinery (Cost) (₹ 15,00,000 + ₹ 50,000: Purchase)	15,50,000	
Less: Accumulated Depreciation (₹ 2,90,000 + ₹ 1,55,000)	4,45,000	11,05,000
		15,00,000
6. Cash and Cash Equivalents		
Cash and Bank Balances		55,500

SECTION B

9. (*a*) (*i*) $$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{₹\,30{,}000}{₹\,1{,}50{,}000} \times 100 = 20\%.$$

$$\text{Gross Profit} = \text{Revenue from Operations} - \text{Cost of Revenue from Operations}$$
$$= ₹\,1{,}50{,}000 - ₹\,1{,}20{,}000 = ₹\,30{,}000.$$

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

$$= \frac{₹\,1{,}20{,}000}{₹\,30{,}000} = 4 \text{ Times.}$$

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

$$= \frac{₹\,29{,}000 + ₹\,31{,}000}{2} = ₹\,30{,}000.$$

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

$$= \frac{₹\,1{,}36{,}000}{₹\,1{,}50{,}000} \times 100 = 90.67\%.$$

$$\text{Operating Cost} = \text{Cost of Revenue from Operations} + \text{Operating Expenses}$$
$$= ₹\,1{,}20{,}000 + ₹\,16{,}000 = ₹\,1{,}36{,}000.$$

(*b*) Current Ratio = $\dfrac{\text{Current Assets}^*}{\text{Current Liabilities}} = \dfrac{₹\,1{,}15{,}500}{₹\,48{,}000}$ = 2.41 : 1.

**Calculation of Current Assets:*

Revenue from Operations = ₹ 3,60,000

Gross Profit Ratio = 25%

Gross Profit = 25/100 × ₹ 3,60,000 = ₹ 90,000

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

= ₹ 3,60,000 – ₹ 90,000 = ₹ 2,70,000

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

[Let opening inventory = x; closing inventory = x + ₹ 24,000]

$$4 = \frac{₹\,2{,}70{,}000}{\dfrac{x + x + ₹\,24{,}000}{2}}$$

$$\begin{aligned} 4x + 4x + ₹\,96{,}000 &= ₹\,5{,}40{,}000 \\ 8x &= ₹\,4{,}44{,}000 \\ x &= ₹\,55{,}500 \text{ (Opening Inventory)} \\ \therefore \text{Closing Inventory} &= x + ₹\,24{,}000 = ₹\,55{,}500 + ₹\,24{,}000 = ₹\,79{,}500 \\ \text{Quick Assets} &= 0.75 \times \text{Current Liabilities} \\ &= 0.75 \times ₹\,48{,}000 \\ &= ₹\,36{,}000 \\ \text{Current Assets} &= \text{Quick Assets} + \text{Inventory (Closing)} \\ &= ₹\,36{,}000 + ₹\,79{,}500 \\ &= ₹\,1{,}15{,}500. \end{aligned}$$

10 (*a*) Let Current Liabilities be x

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

$$\frac{4.5}{1} = \frac{\text{Current Assets}}{x} \qquad \Rightarrow \text{Current Assets} = 4.5x$$

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

$$\frac{3}{1} = \frac{4.5x - ₹\,72{,}000}{x}$$

$$\begin{aligned} 3x &= 4.5x - ₹\,72{,}000 \\ 1.5x &= ₹\,72{,}000 \\ x &= ₹\,48{,}000 \text{ (Current Liabilities)} \end{aligned}$$

Thus, Current Assets = 4.5 × ₹ 48,000 = ₹ 2,16,000.

(*b*) COMMON-SIZE STATEMENT OF PROFIT AND LOSS

for the years ended 31st March, 2018 and 2017

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations	
		31st March, 2018 (₹)	31st March, 2017 (₹)	31st March, 2018 (%)	31st March, 2017 (%)
I. Revenue from Operations		15,00,000	10,00,000	100.00	100.00
II. Other Income		1,80,000	2,00,000	12.00	20.00
III. Total Revenue (I + II)		16,80,000	12,00,000	112.00	120.00
IV. Expenses					
(*a*) Cost of Materials Consumed		9,00,000	5,00,000	60.00	50.00
(*b*) Other Expenses		1,50,000	1,00,000	10.00	10.00
Total Expenses		10,50,000	6,00,000	70.00	60.00
V. Profit before Tax (III – IV)		6,30,000	6,00,000	42.00	60.00
VI. *Less:* Tax		1,89,000	1,80,000	12.60	18.00
VII. Profit after Tax (V – VI)		4,41,000	4,20,000	29.40	42.00

(*c*) (*i*) Operating Activity; (*ii*) Financing Activity.

11. **Grow More Ltd.**

CASH FLOW STATEMENT

for the year ended 31st March, 2018

Particulars		₹	₹
I. Cash Flow from Operating Activities			
Net Profit before Tax (WN 1)		2,63,000	
Add: Non-cash and Non-operating Expenses:			
Depreciation	90,000		
Loss on Sale of Machinery	8,000		
Debentures' Interest (₹ 2,00,000 × 8/100 × 6/12 + ₹ 1,25,000 × 8/100 × 6/12)	13,000	1,11,000	
Operating Profit before Working Capital Changes		3,74,000	
Add: Decrease in Current Assets:			
Inventories		22,000	
		3,96,000	
Less: Increase in Current Assets and Decrease in Current Liabilities:			
Trade Payables	68,000		
Current Investments	3,000		
Trade Receivables	3,000	74,000	
Cash Generated from Operations		3,22,000	
Less: Tax paid		16,000	
Cash Flow from Operating Activities			3,06,000
II. Cash Flow from Investing Activities			
Purchase of Machinery		(3,50,000)	
Proceeds from Sale of Machinery		2,000	
Payment for purchase of Patents		(20,000)	
Cash Used in Investing Activities			(3,68,000)

III. Cash Flow from Financing Activities		
Receipts from Issue of Shares	1,00,000	
Proceeds from Issue of Debentures	75,000	
Payment of Debentures' Interest	(13,000)	
Bank Overdraft raised	2,000	
Payment of Dividend	(1,00,000)	
Cash Flow from Financing Activities		64,000
IV. Net Increase in Cash and Cash Equivalents (I + II + III)		2,000
V. *Add:* Cash and Cash Equivalents in the beginning of the year		12,000
VI. Cash and Cash Equivalents at the end of the year		14,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Closing Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	2,50,000
Less: Opening Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,10,000
	1,40,000
Add: Provision for Tax (Provision made) (WN 2)	23,000
Dividend paid (Proposed Dividend for 2016–17)	1,00,000
Net Profit before Tax	2,63,000

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

Particulars	₹	Particulars	₹
To Bank A/c (Tax paid)	16,000	By Balance *b/d*	11,000
To Balance *c/d*	18,000	By Statement of Profit and Loss (Bal. Fig.) (Provision made)	23,000
	34,000		34,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	17,00,000	By Bank A/c	2,000
To Bank A/c (Balancing Figure)—Purchase	3,50,000	By Accumulated Depreciation A/c	40,000
		By Loss on Sale of Machinery A/c (Statement of Profit and Loss)	8,000
		By Balance *c/d*	20,00,000
	20,50,000		20,50,000

4. *Dr.* ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Machinery A/c (on sold machinery)	40,000	By Balance *b/d*	90,000
To Balance *c/d*	1,40,000	By Statement of Profit and Loss (Bal. Fig.—Depreciation Provided)	90,000
	1,80,000		1,80,000