# MODEL TEST PAPER 18 (Solution)

## SECTION A

### PART I

**1.** (*i*) Two instances in which the fixed capital of a partner may change are:

(*a*) When additional capital is introduced by the partner.

(*b*) When a part of the capital is permanently withdrawn by the partner.

(*ii*) The provisions that shall apply in case of firm's debts and partners' private debts are:

(*a*) Firm's property is applied first towards the payment of firm's debts, then the surplus, if any, is applied towards the payment of partner's private debts to the extent the concerned partner is entitled to share in the surplus, and

(*b*) Partner's private property is applied first in payment of his private debts and the surplus, if any, in payment of firm's debts if the firm's liabilities exceed the firm's assets.

(*iii*) Maximum amount of discount which can be allowed on reissue is the forfeited amount of those shares credited to Forfeited Shares Account at the time of forfeiture.

(*iv*) Long-term Borrowings are those borrowings of a company which on the date of borrowing are payable after 12 months or after Operating Cycle period from the date of Balance Sheet.

They are shown under the head Non-current Liabilities as Long-term Borrowings.

(*v*) If the debentures are redeemed without utilising any amount of the divisible profits of the company, it is termed as redemption out of capital.

The Companies Act, 2013 has indirectly placed restriction on this method of redemption by requiring every company to create a Debentures Redemption Reserve equivalent to at least 25% of the amount of debentures outstanding before the commencement of redemption.

(*vi*) According to Section 2(30) of the Companies Act 2013, debenture includes debenture stock, bonds and any other instrument of the company *evidencing a debt* whether constituting a charge on the assets of the company or not.

*Characteristics of Debentures are:*

(*a*) They are issued by the company;

(*b*) A loan (borrowing) has been received by it against the issued document.

## PART II

**2.** (*a*)

*Dr.* PROFIT AND LOSS APPROPRIATION ACCOUNT *for the year ended 31st March, 2018* *Cr.*

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Interest on Capital A/cs: | | | By Profit and Loss A/c (Net Profit) | 11,30,000 |
| Ram (₹ 3,00,000 × 10/100) | | 30,000 | | |
| Shyam (₹ 2,00,000 × 10/100) | | 20,000 | | |
| Hari (₹ 1,50,000 × 10/100) | | 15,000 | | |
| Krishna (₹ 50,000 × 10/100) | | 5,000 | | |
| To Hari's Capital A/c (Salary) | | 60,000 | | |
| To Profit transferred to Capital A/cs (WN): | | | | |
| Ram | 3,45,000 | | | |
| Shyam | 3,70,000 | | | |
| Hari | 1,80,000 | | | |
| Krishna | 1,05,000 | 10,00,000 | | |
| | | 11,30,000 | | 11,30,000 |

***Working Note:***

*Calculation of Share of Profit:*

Distributable Profit = ₹ 11,30,000 – ₹ 70,000 (Interest on Capital) – ₹ 60,000 (Salary)
= ₹ 10,00,000, which will be shared by them in their agreed ratio, *i.e.*, 4 : 3 : 2 : 1. Thus,

Ram's share of profit = ₹ 4,00,000
Shyam's share of profit = ₹ 3,00,000
Hari's share of profit = ₹ 2,00,000
Krishna's share of profit = ₹ 1,00,000

There is deficiency of ₹ 70,000 in Shyam's share of profit. This deficiency will be borne by Ram, Hari and Krishna in 4 : 2 : 1 ratio. Therefore, Ram will bear ₹ 40,000, Hari will bear ₹ 20,000 and Krishna will bear ₹ 10,000.

Now Krishna's share of profit = ₹ 1,00,000 – ₹ 10,000 + ₹ 5,000 (Interest on Capital)
= ₹ 95,000

As per guarantee by Ram, there is deficiency of ₹ 15,000 in Krishna's share of profit. It will be borne by Ram only. Thus, final shares of profit:

Ram = ₹ 4,00,000 – ₹ 40,000 – ₹ 15,000 = ₹ 3,45,000
Shyam = ₹ 3,00,000 + ₹ 70,000 = ₹ 3,70,000
Hari = ₹ 2,00,000 – ₹ 20,000 = ₹ 1,80,000
Krishna = ₹ 1,00,000 – ₹ 10,000 + ₹ 15,000 = ₹ 1,05,000.

(*b*) (*i*) *Calculation of Interest on Drawings:*

Nusrat = ₹ 20,000 × 10/100 × 6/12 = ₹ 1,000
Sonu = ₹ 15,000 × 10/100 × 6/12 = ₹ 750
Himesh= ₹ 10,000 × 10/100 × 6/12 = ₹ 500.

(*ii*) TABLE SHOWING ADJUSTMENT

| Particulars | Nusrat's Capital A/c | | Sonu's Capital A/c | | Himesh's Capital A/c | | Firm | |
|---|---|---|---|---|---|---|---|---|
| | Dr. (₹) | Cr. (₹) | Dr. (₹) | Cr. (₹) | Dr. (₹) | Cr. (₹) | Dr. (₹) | Cr. (₹) |
| I. Interest on Drawings (Dr.) | 1,000 | ... | 750 | ... | 500 | ... | ... | 2,250 |
| II. Gain of ₹ 2,250 to be credited in 5 : 3 : 2 (Cr.) | ... | 1,125 | ... | 675 | ... | 450 | 2,250 | ... |
| | 1,000 | 1,125 | 750 | 675 | 500 | 450 | 2,250 | 2,250 |
| III. Net Effect | 125 (Cr.) | | 75 (Dr.) | | 50 (Dr.) | | ... | |

(*iii*) ADJUSTING ENTRY

| Date | Particulars | | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|---|
| | Sonu's Capital A/c | ...Dr. | | 75 | |
| | Himesh's Capital A/c | ...Dr. | | 50 | |
| | To Nusrat's Capital A/c | | | | 125 |
| | (Being the adjustment for interest on drawings) | | | | |

(*c*) (*i*) *Calculation of Adjusted Profit:*

| Year | Actual Profit ₹ | Adjustment ₹ | Adjusted Profit ₹ |
|---|---|---|---|
| 2013–14 | 1,00,000 | ... | 1,00,000 |
| 2014–15 | 1,50,000 | –10,000 (Abnormal Gain) | 1,40,000 |
| 2015–16 | 40,000 | +10,000 (Abnormal Loss) | 50,000 |
| 2016–17 | 50,000 (Loss) | ... | 50,000 (Loss) |
| 2017–18 | 60,000 | ... | 60,000 |

$$\text{Average Profit} = \frac{₹\,1,00,000 + ₹\,1,40,000 + ₹\,50,000 - ₹\,50,000 + ₹\,60,000}{5}$$

$$= \frac{₹\,3,00,000}{5} = ₹\,60,000$$

Goodwill = Average Profit × No. of Years' Purchase

= ₹ 60,000 × 3 = ₹ 1,80,000.

(*ii*) Capital Employed = ₹ 1,00,000

Normal Rate of Return = 8%

Normal Profit = Capital Employed × Normal Rate of Return/100

= ₹ 1,00,000 × 8/100 = ₹ 8,000

Average Profit = ₹ 12,000

Super Profit = Average Profit – Normal Profit

= ₹ 12,000 – ₹ 8,000 = ₹ 4,000

Goodwill = Super Profit × No. of Years' Purchase

= ₹ 4,000 × 3 = ₹ 12,000.

(*iii*) Average Profit = ₹ 30,000 (Given)

Normal Profit = ₹ 2,00,000 × 10/100

= ₹ 20,000

Super Profit = ₹ 30,000 – ₹ 20,000

= ₹ 10,000

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

= ₹ 10,000 × 100/10 = ₹ 1,00,000.

**3.**

Dr. REVALUATION ACCOUNT Cr.

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Machinery A/c | | 70,000 | By Building A/c | 1,90,000 |
| To Provision for Doubtful Debts A/c | | 4,000 | By Investments A/c | 90,000 |
| To Outstanding Rent A/c | | 8,000 | By Accrued Income A/c | 2,000 |
| To Gain (Profit) transferred to: | | | By Bad Debts Recovered A/c | 6,000 |
| Usha's Capital A/c | 82,400 | | | |
| Asha's Capital A/c | 1,23,600 | 2,06,000 | | |
| | | 2,88,000 | | 2,88,000 |

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

| Particulars | Usha ₹ | Asha ₹ | Neelam ₹ | Particulars | Usha ₹ | Asha ₹ | Neelam ₹ |
|---|---|---|---|---|---|---|---|
| To Advt. Suspense A/c | 4,000 | 6,000 | ... | By Balance *b/d* | 3,75,000 | 1,25,000 | ... |
| To Usha's Current A/c | 3,59,400 | ... | ... | By Bank A/c | ... | ... | 5,00,000 |
| To Asha's Current A/c | ... | 1,01,600 | ... | By General Reserve A/c | 24,000 | 36,000 | ... |
| To Balance *c/d* (WN 3) | 2,00,000 | 3,00,000 | 5,00,000 | By Workmen Comp. Reserve A/c | 12,000 | 18,000 | ... |
| | | | | By Premium for Goodwill A/c | 70,000 | 1,05,000 | ... |
| | | | | By Revaluation A/c | 82,400 | 1,23,600 | ... |
| | 5,63,400 | 4,07,600 | 5,00,000 | | 5,63,400 | 4,07,600 | 5,00,000 |

Dr. PARTNERS' CURRENT ACCOUNTS Cr.

| Particulars | Usha (₹) | Asha (₹) | Particulars | Usha (₹) | Asha (₹) |
|---|---|---|---|---|---|
| To Balance *c/d* | 3,59,400 | 1,01,600 | By Usha's Capital A/c | 3,59,400 | ... |
| | | | By Asha's Capital A/c | ... | 1,01,600 |
| | 3,59,400 | 1,01,600 | | 3,59,400 | 1,01,600 |

BALANCE SHEET OF THE NEW FIRM
*as at 31st March, 2018*

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Creditors | | 1,20,000 | Cash at Bank | | 7,21,000 |
| Bills Payable | | 1,00,000 | (₹ 40,000 + ₹ 5,00,000 + ₹ 1,75,000 + ₹ 6,000) | | |
| Employees' Provident Fund | | 60,000 | Sundry Debtors | 2,00,000 | |
| Outstanding Rent | | 8,000 | *Less:* Provision for Doubtful Debts | 4,000 | 1,96,000 |
| Capital A/cs: | | | Investments | | 1,90,000 |
| Usha | 2,00,000 | | Furniture | | 1,00,000 |
| Asha | 3,00,000 | | Machinery | | 2,40,000 |
| Neelam | 5,00,000 | 10,00,000 | Building | | 3,00,000 |
| Current A/cs: | | | Accrued Income | | 2,000 |
| Usha | 3,59,400 | | | | |
| Asha | 1,01,600 | 4,61,000 | | | |
| | | 17,49,000 | | | 17,49,000 |

***Working Notes:***

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

   Neelam's share = 1/2; Remaining share = 1 – 1/2 = 1/2

   It will be shared by Usha and Asha in 2 : 3.

   Usha's new share = 1/2 × 2/5 = 2/10

   Asha's new share = 1/2 × 3/5 = 3/10

   Neelam's share = 1/2 or 5/10

   Thus, New Profit-sharing Ratio of Usha, Asha and Neelam = 2 : 3 : 5.
3. *Adjustment of Capital:*

   Neelam's capital for 1/2 share = ₹ 5,00,000

   Total capital of new firm = ₹ 5,00,000 × 2/1 = ₹ 10,00,000

   It is to be contributed by partners in new ratio, *i.e.*, 2 : 3 : 5. Therefore,

   Usha's capital in new firm = ₹ 10,00,000 × 2/10 = ₹ 2,00,000

   Asha's capital in new firm = ₹ 10,00,000 × 3/10 = ₹ 3,00,000

   Neelam's capital = ₹ 5,00,000.

   Usha's capital after all adjustments = ₹ 5,59,400

   Asha's capital after all adjustments = ₹ 4,01,600

   Excess capital to be transferred to Current Accounts:

   Usha's Current Account = ₹ 5,59,400 – ₹ 2,00,000 = ₹ 3,59,400 (Cr.)

   Asha's Current Account = ₹ 4,01,600 – ₹ 3,00,000 = ₹ 1,01,600 (Cr.).

**4.**

*Dr.* REVALUATION ACCOUNT *Cr.*

| Particulars | | ₹ | Particulars | ₹ |
|---|---|---|---|---|
| To Provision for Doubtful Debts A/c | | 4,000 | By Building A/c | 40,000 |
| To Machinery A/c | | 20,000 | | |
| To Gain (Profit) transferred to Capital A/cs: | | | | |
| Keshav | 8,000 | | | |
| Nirmal | 4,000 | | | |
| Pankaj | 4,000 | 16,000 | | |
| | | 40,000 | | 40,000 |

*Dr.* PARTNERS' CAPITAL ACCOUNTS *Cr.*

| Particulars | Keshav ₹ | Nirmal ₹ | Pankaj ₹ | Particulars | Keshav ₹ | Nirmal ₹ | Pankaj ₹ |
|---|---|---|---|---|---|---|---|
| To Nirmal's Capital A/c | 24,000 | ... | 12,000 | By Balance *b/d* | 1,60,000 | 80,000 | 80,000 |
| To Bank A/c (Bal. Fig.) | 4,000 | 1,30,000 | 2,000 | By General Reserve A/c | 20,000 | 10,000 | 10,000 |
| To Balance *c/d* (WN 2) | 1,60,000 | ... | 80,000 | By Revaluation A/c | 8,000 | 4,000 | 4,000 |
| | | | | By Keshav's Capital A/c | ... | 24,000 | ... |
| | | | | By Pankaj's Capital A/c | ... | 12,000 | ... |
| | 1,88,000 | 1,30,000 | 94,000 | | 1,88,000 | 1,30,000 | 94,000 |

*Dr.* BANK ACCOUNT *Cr.*

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance *b/d* | 28,000 | By Nirmal's Capital A/c | 1,30,000 |
| To Balance *c/d* (Bank Overdraft) | 1,08,000 | By Keshav's Capital A/c | 4,000 |
| | | By Pankaj's Capital A/c | 2,000 |
| | 1,36,000 | | 1,36,000 |

BALANCE SHEET (AFTER RETIREMENT) *as at 31st March, 2018*

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital A/cs: | | | Building | | 2,40,000 |
| Keshav | 1,60,000 | | Machinery | | 80,000 |
| Pankaj | 80,000 | 2,40,000 | Stock | | 36,000 |
| Bank Overdraft | | 1,08,000 | Debtors | 40,000 | |
| Creditors | | 42,000 | *Less:* Provision for Doubtful Debts | 6,000 | 34,000 |
| | | 3,90,000 | | | 3,90,000 |

***Working Notes:***

1. *Adjustment of Nirmal's Share of Goodwill:*
   Goodwill = ₹ 1,44,000
   Nirmal's share of Goodwill = ₹ 1,44,000 × 1/4 = ₹ 36,000, which will be contributed by Keshav and Pankaj in their gaining ratio, *i.e.*, 2 : 1.
2. *Adjustment of Capital:*
   Total capital of the new firm = ₹ 2,40,000, it is to be contributed by Keshav and Pankaj in their new ratio, *i.e.*, 2 : 1. Therefore,
   Keshav's capital in new firm = ₹ 2,40,000 × 2/3 = ₹ 1,60,000
   Pankaj's capital in new firm = ₹ 2,40,000 × 1/3 = ₹ 80,000
   Keshav's present capital (after all adjustments) = ₹ 1,64,000
   Therefore, he will withdraw ₹ 4,000, *i.e.*, ₹ 1,64,000 – ₹ 1,60,000
   Pankaj's present capital (after all adjustments) = ₹ 82,000
   Therefore, he will withdraw ₹ 2,000, *i.e.*, ₹ 82,000 – ₹ 80,000.

**5.** JOURNAL

| Date | Particulars | | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|---|
| 2018 | | | | | |
| April 1 (*a*) | Bank A/c | ...Dr. | | 1,40,000 | |
| | To Realisation A/c | | | | 1,40,000 |
| | (Being the excess value of machinery taken by creditor received) | | | | |
| (*b*) | No Entry | | | | |
| (*c*) | Realisation A/c | ...Dr. | | 45,000 | |
| | To Bank A/c | | | | 45,000 |
| | (Being the payment made to creditor in addition to investments) | | | | |
| (*d*) | Bank A/c | ...Dr. | | 99,360 | |
| | To Realisation A/c | | | | 99,360 |
| | (Being the amount realised from debtors) (Note) | | | | |
| (*e*) | Lal's Capital A/c | ...Dr. | | 4,500 | |
| | Pal's Capital A/c | ...Dr. | | 10,500 | |
| | To Realisation A/c | | | | 15,000 |
| | (Being the loss on dissolution transferred to partners) | | | | |

**Note:** *Calculation of Amount Realised from Debtors:*

| Particulars | ₹ |
|---|---|
| (*i*) 60% of Debtors realised at 90% (₹ 1,20,000 × 60/100 × 90/100) | 64,800 |
| (*ii*) 40% of Debtors sold for 80% *less* 10% [(₹ 1,20,000 × 40/100 × 80/100 = ₹ 38,400) – 10% of ₹ 38,400] | 34,560 |
| | 99,360 |

**6.** (*a*) JOURNAL OF KAILASH LTD.

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| | Land and Building A/c ...Dr.<br>To M/s. Jain Brothers<br>(Being the Land and Building purchased from M/s. Jain Brothers) | | 20,00,000 | <br>20,00,000 |
| | M/s. Jain Brothers ...Dr.<br>To Equity Share Capital A/c<br>To Securities Premium Reserve A/c<br>(Being the issue of 1,00,000 equity shares of ₹ 10 each at 100% premium against payment of purchase of Land and Building) | | 20,00,000 | <br>10,00,000<br>10,00,000 |
| | Incorporation Expenses A/c ...Dr.<br>To Equity Share Capital A/c<br>(Being the issue of 10,000 equity shares of ₹ 10 each at par to promoters against their remuneration) | | 1,00,000 | <br>1,00,000 |
| | Bank A/c ...Dr.<br>To Equity Shares Application and Allotment A/c<br>To Preference Shares Application and Allotment A/c<br>(Being the application money received for 2,00,000 equity shares @ ₹ 20 each and for 50,000, 12% Preference Shares @ ₹ 10 each) | | 45,00,000 | <br>40,00,000<br>5,00,000 |
| | Equity Shares Application and Allotment A/c ...Dr.<br>To Equity Share Capital A/c<br>To Securities Premium Reserve A/c<br>(Being the allotment of 2,00,000 equity shares of ₹ 10 each at 100% premium) | | 40,00,000 | <br>20,00,000<br>20,00,000 |
| | Preference Shares Application and Allotment A/c ...Dr.<br>To 12% Preference Share Capital A/c<br>(Being the allotment of 50,000, 12% Preference Shares of ₹ 10 each at par) | | 5,00,000 | <br>5,00,000 |
| | Underwriting Commission A/c ...Dr.<br>To M/s. Gupta Brothers<br>(Being the underwriting commission payable) | | 90,000 | <br>90,000 |
| | M/s. Gupta Brothers ...Dr.<br>To Equity Share Capital A/c<br>(Being the issue of 9,000 (*i.e.*, ₹ 90,000 ÷ ₹ 10) equity shares of ₹ 10 each at par against payment of underwriting commission) | | 90,000 | <br>90,000 |
| | Securities Premium Reserve A/c ...Dr.<br>To Underwriting Commission A/c<br>(Being the underwriting commission written off from Securities Premium Reserve) | | 90,000 | <br>90,000 |

(*b*) (*i*) *Calculation of Allotment Money not Paid by Mohan:*

Applied shares by Mohan = 6,000

Allotted shares to Mohan = $6,000 \times \frac{30,000}{40,000}$ = 4,500 shares

| | ₹ |
|---|---|
| Application money paid on 6,000 shares | 2,40,000 |
| *Less:* Application money due on 4,500 shares | 1,80,000 |
| Excess money to be adjusted against allotment | 60,000 |
| Allotment money due on 4,500 shares @ ₹ 30 each | 1,35,000 |
| *Less:* Excess money already adjusted | 60,000 |
| Allotment money not paid by Mohan | 75,000 |

(*ii*) *Calculation of Allotment Money Received:*

| | ₹ |
|---|---|
| Total allotment money due on 30,000 shares @ ₹ 30 each | 9,00,000 |
| *Less:* Excess money adjusted (10,000 shares × ₹ 40) | 4,00,000 |
| | 5,00,000 |
| *Less:* Allotment Money not paid by Mohan | 75,000 |
| Allotment money received | 4,25,000 |

**7.** (*a*) JOURNAL OF NEW VENTURES LTD.

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| 2018 | | | | |
| April 1 | Sundry Assets A/c ...Dr. | | 2,80,000 | |
| | To Creditors A/c | | | 50,000 |
| | To Verma Ltd. | | | 2,30,000 |
| | (Being the purchase of business of Verma Ltd.) | | | |
| April 3 | Verma Ltd. ...Dr. | | 50,000 | |
| | To Bank A/c | | | 50,000 |
| | (Being the part payment made to Verma Ltd.) | | | |
| April 5 | Verma Ltd. ...Dr. | | 1,80,000 | |
| | To 8% Debentures A/c | | | 1,50,000 |
| | To Securities Premium Reserve A/c | | | 30,000 |
| | (Being 1,500 (*i.e.*, ₹ 1,80,000 ÷ ₹ 120), 8% Debentures of ₹ 100 each issued at 20% premium for the balance payment) | | | |

(*b*) AN EXTRACT OF BALANCE SHEET OF CAUVERY SOFTWARE LTD.

*as at...*

| Particulars | Note No. | ₹ |
|---|---|---|
| **I. EQUITY AND LIABILITIES** | | |
| **1. Non-current Liabilities** | | |
| Long-term Borrowings | 1 | 5,00,000 |
| **2. Current Liabilities** | | |
| Short-term Borrowings | 2 | 2,00,000 |

**Notes to Accounts**

| Particulars | ₹ | ₹ |
|---|---|---|
| **1. Long-term Borrowings** | | |
| 5,000; 10% Debentures of ₹ 100 each | | 5,00,000 |
| **2. Short-term Borrowings** | | |
| Loan from Bank of Baroda | | 2,00,000 |
| 2,500; 10% Debentures of ₹ 100 each issued as Collateral Security | 2,50,000 | |
| *Less:* Debentures Suspense A/c | 2,50,000 | ... |
| | | 2,00,000 |

(*c*) JOURNAL OF VIJAY LAXMI LTD.

| Date | Particulars | | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|---|
| | Bank A/c | ...Dr. | | 22,95,000 | |
| | To Debentures Application and Allotment A/c | | | | 22,95,000 |
| | (Being the application money received for 13,500 debentures @ ₹ 170 each) | | | | |
| | Debentures Application and Allotment A/c | ...Dr. | | 22,95,000 | |
| | To 12% Debentures A/c | | | | 10,00,000 |
| | To Securities Premium Reserve A/c | | | | 7,00,000 |
| | To Bank A/c | | | | 5,95,000 |
| | (Being the allotment of 10,000; 12% Debentures of ₹ 100 each at premium of ₹ 70 each and balance refunded) | | | | |

8. (*a*) JOURNAL OF STRONG LTD.

| Date | Particulars | | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|---|
| 2013 | | | | | |
| April 1 | Sundry Assets A/c | ...Dr. | | 6,00,000 | |
| | Goodwill A/c (Balancing Figure) | ...Dr. | | 20,000 | |
| | To Liabilities A/c | | | | 70,000 |
| | To P & Co. | | | | 5,50,000 |
| | (Being the purchase of business of P & Co. for ₹ 5,50,000) | | | | |
| | P & Co. | ...Dr. | | 5,50,000 | |
| | Loss on Issue of Debentures A/c | ...Dr. | | 25,000 | |
| | To 12% Debentures A/c | | | | 5,00,000 |
| | To Securities Premium Reserve A/c | | | | 50,000 |
| | To Premium on Redemption of Debentures A/c | | | | 25,000 |
| | (Being the purchase price paid by issue of 5,000; 12% Debentures of ₹ 100 each at 10% premium payable at 5% premium) | | | | |
| 2014 | | | | | |
| March 31 | Securities Premium Reserve A/c | ...Dr. | | 25,000 | |
| | To Loss on Issue of Debentures A/c | | | | 25,000 |
| | (Being the loss on issue of debentures written off from Securities Premium Reserve) | | | | |
| 2017 | | | | | |
| March 31 | Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c | ...Dr. | | 1,25,000* | |
| | To Debentures Redemption Reserve A/c | | | | 1,25,000 |
| | (Being the amount of 25% face value of outstanding debentures transferred to DRR) | | | | |

| | | | | |
|---|---|---|---|---|
| April 1 | Debentures Redemption Investment A/c ...Dr. | | 75,000** | |
| | To Bank A/c | | | 75,000 |
| | (Being the investment made @ 15% of face value of debentures) | | | |
| 2018 | | | | |
| March 31 | Bank A/c ...Dr. | | 75,000 | |
| | To Debentures Redemption Investment A/c | | | 75,000 |
| | (Being the investment encashed for redemption) | | | |
| March 31 | 12% Debentures A/c ...Dr. | | 5,00,000 | |
| | Premium on Redemption of Debentures A/c ...Dr. | | 25,000 | |
| | To Debentureholders' A/c | | | 5,25,000 |
| | (Being the amount due on redemption) | | | |
| March 31 | Debentureholders' A/c ...Dr. | | 5,25,000 | |
| | To Bank A/c | | | 5,25,000 |
| | (Being the payment made to debentureholders) | | | |
| March 31 | Debentureholder's A/c ...Dr. | | 1,25,000 | |
| | To General Reserve A/c | | | 1,25,000 |
| | (Being DRR transferred to General Reserve after the redemption of all debentures) | | | |

* DRR = 25% of ₹ 5,00,000 = ₹ 1,25,000;

** DRI = 15% of ₹ 5,00,000 = ₹ 75,000.

(*b*)

| S.No. | Particulars | Main Head | Sub-head |
|---|---|---|---|
| 1. | Capital Advances | Non-current Assets | Long-term Loans and Advances |
| 2. | Work-in-Progress | Current Assets | Inventories |
| 3. | Unpaid/Unclaimed Dividend | Current Liabilities | Other Current Liabilities |
| 4. | Provision for Warranties | Non-current Liabilities | Long-term Provisions |

## SECTION B

**Young India Ltd.**

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

| Particulars | | ₹ |
|---|---|---|
| **I. Cash Flow from Operating Activities** | | |
| Net Profit before Tax (WN 1) | | 9,00,000 |
| *Adjustments for Non-cash and Non-operating Items:* | | |
| (*i*) Depreciation | 1,70,000 | |
| (*ii*) Interest on Debentures (WN 2) | 44,000 | |
| (*iii*) Loss on Sale of Machinery | 20,000 | 2,34,000 |
| Operating Profit before Working Capital Changes | | 11,34,000 |
| *Add:* *Increase in Current Liabilities:* | | |
| Trade Payables | | 50,000 |
| *Less:* *Increase in Current Assets and Decrease in Current Liabilities:* | | 11,84,000 |
| Inventories | 1,50,000 | |
| Trade Receivables | 50,000 | |
| Outstanding Expenses | 1,70,000 | 3,70,000 |
| Cash Generated from Operating Activities | | 8,14,000 |
| *Less:* Tax Paid | | 2,50,000 |
| *Cash Flow from Operating Activities* | | 5,64,000 |

| | |
|---|---|
| **II. Cash Flow from Investing Activities** | |
| Proceeds from Sale of Machinery | 10,000 |
| Proceeds from Non-current Investments | 1,00,000 |
| Purchase of Fixed Assets (WN 3) | (6,00,000) |
| *Cash Used in Investing Activities* | (4,90,000) |
| **III. Cash Flow from Financing Activities** | |
| Proceeds from Issue of Debentures | 2,00,000 |
| Interest on debentures paid | (44,000) |
| Dividend paid (WN 4) | (2,30,000) |
| Interim dividend paid | (1,00,000) |
| *Cash Used in Financing Activities* | (1,74,000) |
| **IV. Net Decrease in Cash and Cash Equivalents (I + II + III)** | (1,00,000) |
| *Add:* Cash and Bank Balance (Opening) | 2,00,000 |
| **V. Cash and Bank Balance (Closing)** | 1,00,000 |

***Working Notes:***

1. *Calculation of Net Profit before Tax:*

| | ₹ |
|---|---|
| Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing) | 4,00,000 |
| *Less:* Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening) | 2,00,000 |
| Profit during the year | 2,00,000 |
| *Add:* Transfer to General Reserve | 1,00,000 |
| Interim Dividend Paid | 1,00,000 |
| Dividend Paid (Proposed Dividend for the year ended 31st March, 2017) | 2,50,000 |
| Provision for Tax | 2,50,000 |
| Net Profit before Tax | 9,00,000 |

2. *Calculation of Interest on Debentures:*

| | ₹ |
|---|---|
| (*i*) ₹ $6,00,000 \times 6/100 \times 4/12$ | 12,000 |
| (*ii*) ₹ $8,00,000 \times 6/100 \times 8/12$ | 32,000 |
| Total | 44,000 |

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

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance *b/d* | 15,00,000 | By Bank A/c | 10,000 |
| To Bank A/c (Balancing Figure)—Purchase | 6,00,000 | By Loss on Sale of Machinery A/c | 20,000 |
| | | By Depreciation A/c | 1,70,000 |
| | | By Balance *c/d* | 19,00,000 |
| | 21,00,000 | | 21,00,000 |

4. *Dr.* DIVIDEND PAYABLE ACCOUNT *Cr.*

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Bank A/c (Dividend Paid) | 2,30,000 | By Balance *b/d* | 50,000 |
| To Balance *c/d* | 70,000 | By Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c | 2,50,000 |
| | 3,00,000 | | 3,00,000 |

**10.** (*a*) (*i*) To analyse change in individual items of Statement of Profit and Loss.

(*ii*) To study the trend in different items of Revenue and Expenses.

(*b*) $$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{2.5}{1}$$

If Current Liability is 1, Current Assets = 2.5

Working Capital = 2.5 – 1 = 1.5

If Working Capital is 1.5, Current Assets = 2.5

If Working Capital is 1, Current Assets = 2.5/1.5

If Working Capital is ₹ 60,000, Current Assets = 2.5/1.5 × ₹ 60,000 = ₹ 1,00,000.

Current Liabilities = Current Assets – Working Capital

= ₹ 1,00,000 – ₹ 60,000 = ₹ 40,000.

(*c*) COMMON-SIZE BALANCE SHEET *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 | | 24,00,000 | 18,00,000 | 66.67 | 60.00 |
| (*b*) Reserves and Surplus | | 3,60,000 | 2,40,000 | 10.00 | 8.00 |
| **2. Non-Current Liabilities** | | | | | |
| Long-term Borrowings | | 7,20,000 | 6,00,000 | 20.00 | 20.00 |
| **3. Current Liabilities** | | | | | |
| Short-term Borrowings | | 1,20,000 | 3,60,000 | 3.33 | 12.00 |
| **Total** | | 36,00,000 | 30,00,000 | 100.00 | 100.00 |
| **II. ASSETS** | | | | | |
| **1. Non-Current Assets** | | | | | |
| *Fixed Assets:* | | | | | |
| (*i*) Tangible Assets | | 24,00,000 | 18,00,000 | 66.67 | 60.00 |
| (*ii*) Intangible Assets | | 1,20,000 | 3,60,000 | 3.33 | 12.00 |
| **2. Current Assets** | | | | | |
| (*a*) Inventories | | 3,24,000 | 2,70,000 | 9.00 | 9.00 |
| (*b*) Trade Receivables | | 3,96,000 | 3,30,000 | 11.00 | 11.00 |
| (*c*) Cash and Cash Equivalents | | 3,60,000 | 2,40,000 | 10.00 | 8.00 |
| **Total** | | 36,00,000 | 30,00,000 | 100.00 | 100.00 |

**11.** (*a*) (*i*) $$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{₹\,2,30,000}{₹\,1,55,000} = 1.48 : 1.$$

Current Assets = Cash + Bank + Inventory + Trade Receivables

= ₹ 50,000 + ₹ 70,000 + ₹ 30,000 + ₹ 80,000

= ₹ 2,30,000.

Current Liabilities = Trade Payables + Short-term Loan from Bank

= ₹ 65,000 + ₹ 90,000 = ₹ 1,55,000.

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

$$= \frac{₹\ 3,00,000}{₹\ 32,500} = 9.23 \text{ Times.}$$

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

$$= \frac{₹\ 35,000 + ₹\ 30,000}{2} = ₹\ 32,500.$$

(*b*) (*i*) Liquid Ratio $= \dfrac{\text{Liquid Assets}}{\text{Current Liabilities}}$

$$= \frac{₹\ 2,70,000}{₹\ 1,50,000} = 1.8 : 1.$$

Liquid Assets = Total Current Assets – Prepaid Insurance – Closing Inventory
= ₹ 3,00,000 – ₹ 5,000 – ₹ 25,000
= ₹ 2,70,000.

(*ii*) Proprietary Ratio $= \dfrac{\text{Shareholders' Funds}}{\text{Total Assets}}$

$$= \frac{₹\ 4,50,000}{₹\ 9,00,000} = 0.50 : 1 \text{ or } 50\%.$$

Shareholders' Funds = Share Capital + Reserves and Surplus
= ₹ 4,00,000 + ₹ 50,000 = ₹ 4,50,000

Total Assets = Current Assets + Non-current Assets
= ₹ 3,00,000 + ₹ 6,00,000 = ₹ 9,00,000.

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

$$= \frac{₹\ 5,00,000}{₹\ 1,50,000} = 3.33 \text{ Times.}$$

Working Capital = Current Assets – Current Liabilities
= ₹ 3,00,000 – ₹ 1,50,000
= ₹ 1,50,000.