# MODEL TEST PAPER 19 (Solution)

## SECTION A
### PART I

**1.** (*i*) In the absence of Partnership Deed, no partner is entitled to get any interest on capital. So, interest on capital will not be allowed to *T*.

(*ii*) When one business is taken over by another business, the excess of purchase consideration over its net value (*i.e.*, assets – liabilities) is referred to as *Purchased Goodwill*.

Following are the important features of Purchased Goodwill:

(*a*) It arises on purchase of a business.

(*b*) It is recorded in the books of account.

(*c*) It is shown in the Balance Sheet as an asset.

(*iii*) Securities Premium Reserve can only be used for the purposes stated in Section 52(2) of the Companies Act, 2013. Since it does not prescribe the use of Securities Premium Reserve for payment of dividend, it cannot be distributed as dividend.

(*iv*) Glory Ltd. should invest ₹ 75,000 in specified securities on or before 30th April, 2018.

(*v*) **Difference between Securities Premium Reserve and Premium on Redemption of Debentures**

| *Securities Premium Reserve* | *Premium on Redemption of Debentures* |
|---|---|
| 1. It is a capital profit and can be used in writing off the capital losses. | It is a capital loss. |
| 2. The balance of Securities Premium Reserve is shown on the Equity and Liabilities part of the Balance Sheet, under the main head Shareholders' Funds and sub-head Reserves and Surplus. | It is a liability and appears under the main head 'Non-Current Liabilities' and sub-head 'Long-term Borrowings' till the redemption of debentures. |

(*vi*) *Current Maturities of Long-term Debts* is that part of long-term borrowings which is due for payment within 12 months of the date of Balance Sheet or within the period of Operating Cycle from the date of Balance Sheet. For example, Debentures issued on 1st April, 2015 for ₹ 5,00,000 redeemable in five equal yearly instalments starting from 31st March, 2019. ₹ 1,00,000 redeemable within 12 months from the date of Balance Sheet, *i.e.*, by 31st March, 2019 (assuming Operating Cycle is of 12 months or less) will be shown as 'Current Maturities of Long-term Debts' and balance ₹ 4,00,000 will be shown as 'Long-term Borrowings' in the Balance Sheet as at 31st March, 2018.

**2.** (*a*) CALCULATION OF WEIGHTED PROFIT

| Particulars | 31st March, 2016 (₹) | 31st March, 2017 (₹) | 31st March, 2018 (₹) |
|---|---|---|---|
| Given Profits | 2,00,000 | 2,30,000 | 2,50,000 |
| *Less:* Remuneration to partners | 50,000 | 50,000 | 50,000 |
| | 1,50,000 | 1,80,000 | 2,00,000 |
| *Add:* Undervaluation of Closing Inventory | ... | 10,000 | 24,000 |
| | 1,50,000 | 1,90,000 | 2,24,000 |
| *Less:* Undervaluation of Opening Inventory | ... | ... | 10,000 |
| | 1,50,000 | 1,90,000 | 2,14,000 |
| *Less:* Bad Debts | ... | 4,000 | ... |
| | 1,50,000 | 1,86,000 | 2,14,000 |
| *Less:* Unrecorded Expenses | ... | ... | 8,000 |
| Adjusted Profits | 1,50,000 | 1,86,000 | 2,06,000 |
| Weights | 1 | 2 | 3 |
| Weighted Profit | 1,50,000 | 3,72,000 | 6,18,000 |

$$\text{Weighted Average Profit} = \frac{\text{Total of Weighted Profit}}{\text{Total of Weights}}$$

$$= \frac{₹\,11,40,000}{6} = ₹\ 1,90,000$$

$$\text{Goodwill} = \text{Weighted Average Profit} \times \text{No. of Years' Purchase}$$

$$= ₹\ 1,90,000 \times 4 = ₹\ 7,60,000.$$

(*b*)

*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) | 1,00,000 |
| *X* | 9,600 | | | |
| *Y* | 14,400 | | | |
| *Z* | 4,000 | 28,000 | | |
| To Profit transferred to: | | | | |
| *X*'s Capital A/c | 24,400 | | | |
| *Y*'s Capital A/c | 31,600 | | | |
| *Z*'s Capital A/c | 16,000 | 72,000 | | |
| | | 1,00,000 | | 1,00,000 |

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

| Particulars | *X* ₹ | *Y* ₹ | *Z* ₹ | Particulars | *X* ₹ | *Y* ₹ | *Z* ₹ |
|---|---|---|---|---|---|---|---|
| To Balance *c/d* | 1,14,000 | 1,66,000 | 70,000 | By Balance *b/d* | 80,000 | 1,20,000 | ... |
| | | | | By Cash/Bank A/c | ... | ... | 50,000 |
| | | | | By Interest on Capital A/c | 9,600 | 14,400 | 4,000 |
| | | | | By Profit and Loss App. A/c | 24,400 | 31,600 | 16,000 |
| | 1,14,000 | 1,66,000 | 70,000 | | 1,14,000 | 1,66,000 | 70,000 |

***Working Notes:***

1. *Calculation of New Ratio:*

   *Z*'s share = 1/5, Remaining share = 1 – 1/5 = 4/5, which will be shared by *X* and *Y* in their old ratio, *i.e.*, 2 : 3. Thus,

   *X*'s new share = 4/5 × 2/5 = 8/25

   *Y*'s new share = 4/5 × 3/5 = 12/25

   *Z*'s new share = 1/5 or 5/25

   New Ratio = 8 : 12 : 5.

2. *Calculation of share in profit of partners:*

   Profit of ₹ 25,000 belongs to first four months which will be shared by *X* and *Y* in their old ratio, as follows:

   *X* = ₹ 3,200 (interest on capital) + ₹ 6,800 (share in profit) = ₹ 10,000.

   *Y* = ₹ 4,800 (interest on capital) + ₹ 10,200 (share in profit) = ₹ 15,000.

   Profit of ₹ 75,000 belongs to next eight months which will be shared by *X*, *Y* and *Z* in new ratio, as follows:

   *X* = ₹ 6,400 (Interest on Capital) + ₹ 17,600 (share in profit) = ₹ 24,000

   *Y* = ₹ 9,600 (Interest on Capital) + ₹ 26,400 (share in profit) – ₹ 5,000 (deficiency of *Z*)

   *Z* = ₹ 4,000 (Interest on Capital) + ₹ 11,000 (share in profit) + ₹ 5,000 (recovered from *Y*) = ₹ 20,000.

**3.** (*a*)

*Dr.* REVALUATION ACCOUNT *Cr.*

| Particulars | ₹ | Particulars | | ₹ |
|---|---|---|---|---|
| To Machinery A/c | 1,80,000 | By Land and Building A/c | | 1,20,000 |
| To Bad Debts A/c | 15,000 | By Loss transferred to: | | |
| (₹ 35,000 – ₹ 20,000: Provision for Doubtful Debts) | | *X*'s Capital A/c | 21,429 | |
| | | *Y*'s Capital A/c | 32,142 | |
| | | *Z*'s Capital A/c | 21,429 | 75,000 |
| | 1,95,000 | | | 1,95,000 |

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

| Particulars | *X* (₹) | *Y* (₹) | *Z* (₹) | Particulars | *X* (₹) | *Y* (₹) | *Z* (₹) |
|---|---|---|---|---|---|---|---|
| To Revaluation A/c (Loss) | 21,429 | 32,142 | 21,429 | By Balance *b/d* | 4,00,000 | 6,00,000 | 4,00,000 |
| To *X*'s Capital A/c | ... | ... | 80,000 | By Workmen Compensation | | | |
| To Bank A/c | 1,00,000 | ... | ... | Reserve A/c | 4,286 | 6,428 | 4,286 |
| To *X*'s Loan A/c | 3,62,857 | ... | ... | By *Z*'s Capital A/c (WN 2) | 80,000 | ... | ... |
| To Balance *c/d* (WN 3) | ... | 6,00,000 | 8,00,000 | By Bank A/c (Bal. Fig.) | ... | 25,714 | 4,97,143 |
| | 4,84,286 | 6,32,142 | 9,01,429 | | 4,84,286 | 6,32,142 | 9,01,429 |

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

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Capital A/cs: | | | Land and Building | | 5,20,000 |
| *Y* | 6,00,000 | | Machinery | | 4,20,000 |
| *Z* | 8,00,000 | 14,00,000 | Closing Stock | | 2,00,000 |
| *X*'s Loan A/c | | 3,62,857 | Debtors | 2,20,000 | |
| Employees' Provident Fund | | 70,000 | *Less:* Bad Debts | 35,000 | 1,85,000 |
| Provision for Workmen Compensation Claim | | 15,000 | Cash at Bank (WN 4) | | 6,22,857 |
| Sundry Creditors | | 2,00,000 | Cash in Hand | | 1,00,000 |
| | | 20,47,857 | | | 20,47,857 |

***Working Notes:***

1. *Calculation of Gaining Ratio:*

   Gain = New share – Old share

   *Y*'s Gain = 3/7 – 3/7 = 0

   *Z*'s Gain = 4/7 – 2/7 = 2/7

   Therefore, only *Z* gains and he alone contributes for *X*'s share of goodwill.

2. *Adjustment of Goodwill:*

   *X*'s share of goodwill = ₹ 2,80,000 × 2/7 = ₹ 80,000

   As *Z* alone gains on retirement of *X*, he will contribute ₹ 80,000.

3. *Calculation of Capital:*

   Total capital of new firm, *i.e.*, of *Y* and *Z* = ₹ 14,00,000 which will be contributed by *Y* and *Z* in 3 : 4 ratio, Therefore,

   *Y*'s capital in new firm = ₹ 14,00,000 × 3/7 = ₹ 6,00,000;

   *Z*'s capital in new firm = ₹ 14,00,000 × 4/7 = ₹ 8,00,000.

4. Cash at Bank = ₹ 2,00,000 + ₹ 25,714 + ₹ 4,97,143 – ₹ 1,00,000 (Paid to *X*) = ₹ 6,22,857.

**3.** (*b*) (*i*) *Calculation of Net Effect of Accumulated Profits, Losses and Reserves:*

| | ₹ |
|---|---|
| General Reserve | 30,000 |
| Contingency Reserve | 5,000 |
| Profit and Loss A/c (Cr.) | 15,000 |
| Advertisement Suspense A/c | (20,000) |
| Net Effect | 30,000 |

(*ii*) *Calculation of Sacrifice/Gain:*

$$X\text{'s Gain} = 3/5 - 3/6 = \frac{18-15}{30} = 3/30$$

$$Z\text{'s Gain} = 2/5 - 1/6 = \frac{12-5}{30} = 7/30$$

Gaining ratio = 3 : 7

*Y*'s share = ₹ 30,000 × 2/6 = ₹ 10,000.

(*iii*) ADJUSTMENT ENTRY

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| 2018 | | | | |
| April 1 | *X*'s Capital/Current A/c ...Dr. | | 3,000 | |
| | *Z*'s Capital/Current A/c ...Dr. | | 7,000 | |
| | To *Y*'s Capital/Current A/c | | | 10,000 |
| | (Being *Y*'s share of accumulated profits, losses and reserves adjusted in gaining ratio) | | | |

**4.**

*Dr.* REALISATION ACCOUNT *Cr.*

| Particulars | | ₹ | Particulars | | ₹ |
|---|---|---|---|---|---|
| To Debtors | | 1,70,000 | By Provision for Doubtful Debts | | 20,000 |
| To Stock | | 1,50,000 | By Creditors | | 80,000 |
| To Investments | | 2,50,000 | By *X*'s Brother's Loan | | 80,000 |
| To Building | | 2,50,000 | By Investment Fluctuation Fund | | 50,000 |
| To Goodwill | | 1,00,000 | By *Y*'s Capital A/c (Stock—Book value ₹ 50,000) | | 40,000 |
| To *X*'s Capital A/c (*X*'s Brother's Loan) | | 80,000 | By Bank A/c (Assets Realised): | | |
| To Bank A/c (Liabilities paid): | | | Debtors | 1,20,000 | |
| Realisation Expenses | 20,000 | | Investments | 2,00,000 | |
| Creditors | 60,000 | 80,000 | Goodwill | 60,000 | |
| | | | Building* | 2,90,000 | |
| | | | Stock (Remaining) | 50,000 | 7,20,000 |
| | | | By Loss transferred to: | | |
| | | | *X*'s Capital A/c | 72,000 | |
| | | | *Y*'s Capital A/c | 18,000 | 90,000 |
| | | 10,80,000 | | | 10,80,000 |

*Building Realised = ₹ 3,00,000 – ₹ 10,000 (Auctioneer's Commission) = ₹ 2,90,000.

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

| Particulars | *X* (₹) | *Y* (₹) | Particulars | *X* (₹) | *Y* (₹) |
|---|---|---|---|---|---|
| To Realisation A/c | ... | 40,000 | By Balance *b/d* | 5,00,000 | 4,00,000 |
| To Realisation A/c (Loss) | 72,000 | 18,000 | By Realisation A/c | 80,000 | ... |
| To Profit and Loss A/c | 80,000 | 20,000 | | | |
| To Bank A/c (Final Payment) (Bal. Fig.) | 4,28,000 | 3,22,000 | | | |
| | 5,80,000 | 4,00,000 | | 5,80,000 | 4,00,000 |

*Dr.* BANK ACCOUNT *Cr.*

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance *b/d* | 2,00,000 | By Bank Overdraft | 60,000 |
| To Realisation A/c (Assets Realised) | 7,20,000 | By *Y*'s Loan A/c | 30,000 |
| | | By Realisation A/c (Liabilities Paid) | 80,000 |
| | | By *X*'s Capital A/c (Final Payment) | 4,28,000 |
| | | By *Y*'s Capital A/c (Final Payment) | 3,22,000 |
| | 9,20,000 | | 9,20,000 |

**Notes:**

1. Bank overdraft is to be taken to Bank/Cash Account and not to be transferred to Realisation Account.
2. If an asset (recorded or unrecorded) is given in payment of a liability (recorded or unrecorded) then No Entry is passed for such payment.
3. Book value of stock taken by *Y* = ₹ 40,000 × 100/80 = ₹ 50,000;
   Book value of remaining stock = ₹ 1,50,000 – ₹ 50,000 = ₹ 1,00,000;
   Realised value of remaining stock = ₹ 1,00,000 × 50/100 = ₹ 50,000.

**5.** JOURNAL

| Date | Particulars | | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|---|
| | Bank A/c | ...Dr. | | 4,00,000 | |
| | To Equity Shares Application A/c | | | | 4,00,000 |
| | (Being the application money received for 1,00,000 shares @ ₹ 4 each) | | | | |
| | Equity Shares Application A/c | ...Dr. | | 4,00,000 | |
| | To Equity Share Capital A/c | | | | 3,00,000 |
| | To Equity Shares Allotment A/c | | | | 1,00,000 |
| | (Being the application money adjusted) | | | | |
| | Equity Shares Allotment A/c | ...Dr. | | 2,25,000 | |
| | To Equity Share Capital A/c | | | | 2,25,000 |
| | (Being the allotment money due) | | | | |
| | Bank A/c | ...Dr. | | 1,23,750 | |
| | Calls-in-Arrears A/c | ...Dr. | | 1,250 | |
| | To Equity Shares Allotment A/c | | | | 1,25,000 |
| | (Being the allotment money received except on 750 shares) | | | | |
| | Equity Share Capital A/c | ...Dr. | | 5,250 | |
| | To Calls-in-Arrears A/c | | | | 1,250 |
| | To Forfeited Shares A/c | | | | 4,000 |
| | (Being 750 shares of Vibha forfeited for non-payment of allotment money) | | | | |
| | Equity Shares First and Final Call A/c | ...Dr. | | 2,22,750 | |
| | To Equity Share Capital A/c | | | | 2,22,750 |
| | (Being the call made on 74,250 shares) | | | | |
| | Bank A/c | ...Dr. | | 2,20,500 | |
| | Calls-in-Arrears A/c | ...Dr. | | 2,250 | |
| | To Equity Shares First and Final Call A/c | | | | 2,22,750 |
| | (Being the call money received except on 750 shares) | | | | |
| | Equity Share Capital A/c | ...Dr. | | 7,500 | |
| | To Calls-in-Arrears A/c | | | | 2,250 |
| | To Forfeited Shares A/c | | | | 5,250 |
| | (Being 750 shares of Monika forfeited for non-payment of first and final call money) | | | | |
| | Bank A/c | ...Dr. | | 9,000 | |
| | Forfeited Shares A/c | ...Dr. | | 6,000 | |
| | To Equity Share Capital A/c | | | | 15,000 |
| | (Being the reissue of 1,500 forfeited shares as fully paid-up) | | | | |
| | Forfeited Shares A/c | ...Dr. | | 3,250 | |
| | To Capital Reserve A/c | | | | 3,250 |
| | (Being the balance of Forfeited Shares Account transferred) | | | | |

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

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Equity Shares Allotment A/c | 1,250 | By Equity Share Capital A/c | 1,250 |
| To Equity Shares First and Final Call A/c | 2,250 | By Equity Share Capital A/c | 2,250 |
| | 3,500 | | 3,500 |

*Dr.* FORFEITED SHARES ACCOUNT *Cr.*

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Equity Share Capital A/c | 6,000 | By Equity Share Capital A/c | 4,000 |
| To Capital Reserve A/c (₹ 4,000 + ₹ 5,250 – ₹ 6,000) | 3,250 | By Equity Share Capital A/c | 5,250 |
| | 9,250 | | 9,250 |

***Working Notes:***

1. Number of shares applied by Vibha = $\frac{1,00,000}{75,000} \times 750$ = 1,000 shares.

   Amount due on Allotment from Vibha = 750 × ₹ 3 = ₹ 2,250
   Excess Application money received from Vibha = (1,000 – 750) × ₹ 4 = ₹ 1,000
   Amount unpaid on Allotment from Vibha = ₹ (2,250 – 1,000) = ₹ 1,250
   Total Amount received on Allotment = ₹ (2,25,000 – 1,00,000 – 1,250) = ₹ 1,23,750.

2. Number of shares allotted to Monika = $\frac{75,000}{1,00,000} \times 1,000$ = 750 shares.

**6.** (*a*) JOURNAL

| Date | Particulars | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|
| *Case* (*i*) | Bank A/c ...Dr. | | 27,50,000 | |
| | To Debentures Application and Allotment A/c | | | 27,50,000 |
| | (Being the application and allotment money received) | | | |
| | Debentures Application and Allotment A/c ...Dr. | | 27,50,000 | |
| | To 9% Debentures A/c | | | 25,00,000 |
| | To Securities Premium Reserve A/c | | | 2,50,000 |
| | (Being the 9% Debentures issued at premium) | | | |
| *Case* (*ii*) | Bank A/c ...Dr. | | 25,00,000 | |
| | To Debentures Application and Allotment A/c | | | 25,00,000 |
| | (Being the application and allotment money received) | | | |
| | Debentures Application and Allotment A/c ...Dr. | | 25,00,000 | |
| | Loss on Issue of Debentures A/c ...Dr. | | 2,50,000 | |
| | To 9% Debentures A/c | | | 25,00,000 |
| | To Premium on Redemption of Debentures A/c | | | 2,50,000 |
| | (Being 9% Debentures allotted at par redeemable at 10% premium) | | | |
| *Case* (*iii*) | Bank A/c ...Dr. | | 26,25,000 | |
| | To Debentures Application and Allotment A/c | | | 26,25,000 |
| | (Being the application and allotment money received) | | | |
| | Debentures Application and Allotment A/c ...Dr. | | 26,25,000 | |
| | Loss on Issue of Debentures A/c ...Dr. | | 2,50,000 | |
| | To 9% Debentures A/c | | | 25,00,000 |
| | To Securities Premium Reserve A/c | | | 1,25,000 |
| | To Premium on Redemption of Debentures A/c | | | 2,50,000 |
| | (Being 9% Debentures allotted being issued at premium and redeemable at premium) | | | |
| *Case* (*iv*) | Machinery A/c ...Dr. | | 31,25,000 | |
| | To Vendor's A/c | | | 31,25,000 |
| | (Being the machinery purchased) | | | |
| | Vendor's A/c ...Dr. | | 31,25,000 | |
| | To 9% Debentures A/c | | | 25,00,000 |
| | To Securities Premium Reserve A/c | | | 6,25,000 |
| | (Being 9% Debentures issued at Premium to the Vendor) | | | |

**Note:** *Case* (*iv*): No. of Debentures issued = ₹ 31,25,000/₹ 1,250 = 2,500 Debentures.

(*b*) JOURNAL OF WALTER LTD.

| Date | Particulars | | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|---|
| | Bank A/c | ...Dr. | | 90,000 | |
| | To Debentures Redemption Investment A/c | | | | 90,000 |
| | (Being the investment encashed before redemption) | | | | |
| | Own Debentures A/c | ...Dr. | | 5,70,000 | |
| | To Bank A/c | | | | 5,70,000 |
| | (Being own 6,000; 8% Debentures purchased @ ₹ 95 each for immediate cancellation) | | | | |
| | 8% Debentures A/c | ...Dr. | | 6,00,000 | |
| | To Own Debentures A/c | | | | 5,70,000 |
| | To Gain on Cancellation of Own Debentures A/c | | | | 30,000 |
| | (Being own 6,000; 8% Debentures cancelled and gain accounted) | | | | |
| | Gain on Cancellation of Own Debentures A/c | ...Dr. | | 30,000 | |
| | To Capital Reserve A/c | | | | 30,000 |
| | (Being the gain on cancellation transferred) | | | | |
| | Debentures Redemption Reserve A/c | ...Dr. | | 1,50,000 | |
| | To General Reserve A/c | | | | 1,50,000 |
| | (Being DRR transferred to General Reserve after redemption) | | | | |

**Notes:**

1. Walter Ltd. must have invested in specified securities equivalent to 15% of the nominal (face) value of the debentures to be redeemed during the year, *i.e.*, 15% of ₹ 6,00,000.
2. Walter Ltd. must have created Debentures Redemption Reserve equivalent to 25% of the nominal value of the debentures to be redeemed, *i.e.*, 25% of ₹ 6,00,000. This amount is transferred to General Reserve after redemption (cancellation) of the debentures.

**7.** (*a*) JOURNAL OF GREEN LTD.

| Date | Particulars | | L.F. | Dr. (₹) | Cr. (₹) |
|---|---|---|---|---|---|
| 2015 | | | | | |
| April 1 | Bank A/c | ...Dr. | | 42,00,000 | |
| | To Debentures Application and Allotment A/c | | | | 42,00,000 |
| | (Being the application money received) | | | | |
| | Debentures Application and Allotment A/c | ...Dr. | | 42,00,000 | |
| | Loss on Issue of Debentures A/c | ...Dr. | | 4,00,000 | |
| | To 10% Debentures A/c | | | | 40,00,000 |
| | To Securities Premium Reserve A/c | | | | 2,00,000 |
| | To Premium on Redemption of Debentures A/c | | | | 4,00,000 |
| | (Being the allotment of 40,000; 10% Debentures at 5% premium and redeemable at 10% premium) | | | | |
| 2017 | | | | | |
| March 31 | Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c | ...Dr. | | 10,00,000 | |
| | To Debentures Redemption Reserve A/c | | | | 10,00,000 |
| | (Being 25% of face value of outstanding debentures transferred to DRR) | | | | |
| April 1 | Debentures Redemption Investment A/c | ...Dr. | | 3,00,000 | |
| | To Bank A/c | | | | 3,00,000 |
| | (Being 15% of the value of redeemable debentures invested) | | | | |
| Sept. 30 | Bank A/c | ...Dr. | | 3,00,000 | |
| | To Debentures Redemption Investment A/c | | | | 3,00,000 |
| | (Being the investment realised) | | | | |

| | | | | |
|---|---|---|---|---|
| Sept. 30 | 10% Debentures A/c ...Dr. | | 20,00,000 | |
| | Premium on Redemption of Debentures A/c ...Dr. | | 2,00,000 | |
| | To Debentureholders' A/c | | | 22,00,000 |
| | (Being the amount due on redemption of 20,000; 10% Debentures) | | | |
| | Debentureholders' A/c ...Dr. | | 22,00,000 | |
| | To Bank A/c | | | 22,00,000 |
| | (Being the payment made to debentureholders) | | | |
| | Debentures Redemption Reserve A/c ...Dr. | | 5,00,000 | |
| | To General Reserve A/c | | | 5,00,000 |
| | (Being the proportionate amount of DRR transferred) | | | |
| 2018 April 1 | Debentures Redemption Investment A/c ...Dr. | | 3,00,000 | |
| | To Bank A/c | | | 3,00,000 |
| | (Being 15% of the value of redeemable debentures invested) | | | |
| Sept. 30 | Bank A/c ...Dr. | | 3,00,000 | |
| | To Debentures Redemption Investment A/c | | | 3,00,000 |
| | (Being the investment realised) | | | |
| Sept. 30 | 10% Debentures A/c ...Dr. | | 20,00,000 | |
| | Premium on Redemption of Debentures A/c ...Dr. | | 2,00,000 | |
| | To Debentureholders' A/c | | | 22,00,000 |
| | (Being the amount due on redemption of balance 20,000; 10% Debentures) | | | |
| | Debentureholders' A/c ...Dr. | | 22,00,000 | |
| | To Bank A/c | | | 22,00,000 |
| | (Being the payment made to debentureholders) | | | |
| | Debentures Redemption Reserve A/c ...Dr. | | 5,00,000 | |
| | To General Reserve A/c | | | 5,00,000 |
| | (Being the balance of DRR transferred to General Reserve) | | | |

(*b*) **Strong Ltd.**

BALANCE SHEET *as at 31st March, 2018*

| Particulars | Note No. | ₹ |
|---|---|---|
| **I. EQUITY AND LIABILITIES** | | |
| **1. Shareholders' Funds** | | |
| (*a*) Share Capital | | 50,000 |
| (*b*) Reserves and Surplus | 1 | 42,000 |
| **2. Non-Current Liabilities** | | |
| Long-term Borrowings | 2 | 30,000 |
| **3. Current Liabilities** | | 25,000 |
| **Total** | | 1,47,000 |
| **II. ASSETS** | | |
| **1. Non-Current Assets** | | |
| Fixed Assets (Tangible) | 3 | 83,000 |
| **2. Current Assets** | | 64,000 |
| **Total** | | 1,47,000 |

**Notes to Accounts**

| Particulars | ₹ |
|---|---|
| **1. Reserves and Surplus** | |
| General Reserve | 30,000 |
| Surplus, *i.e.*, Balance in Statement of Profit and Loss | 12,000 |
| | 42,000 |
| **2. Long-term Borrowings** | |
| 8% Debentures | 30,000 |
| **3. Fixed Assets (Tangible)** | |
| Cost | 90,000 |
| *Less:* Accumulated Depreciation | 7,000 |
| | 83,000 |

8.

*Dr.* REVALUATION ACCOUNT *Cr.*

| Particulars | ₹ | Particulars | | ₹ |
|---|---|---|---|---|
| To Bad Debts A/c | 1,000 | By Furniture A/c | | 6,000 |
| To Outstanding Electricity Charges A/c | 11,000 | By Prepaid (Unexpired) Insurance A/c | | 5,000 |
| | | By Loss transferred to: | | |
| | | *A*'s Capital A/c | 750 | |
| | | *B*'s Capital A/c | 250 | 1,000 |
| | 12,000 | | | 12,000 |

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

| Particulars | *A* (₹) | *B* (₹) | *C* (₹) | Particulars | *A* (₹) | *B* (₹) | *C* (₹) |
|---|---|---|---|---|---|---|---|
| To Goodwill A/c | 30,000 | 10,000 | ... | By Balance *b/d* | 54,000 | 35,000 | ... |
| To Revaluation A/c (Loss) | 750 | 250 | ... | By Workmen Compensation Fund A/c | 3,000 | 1,000 | ... |
| To Balance *c/d* | 39,450 | 30,150 | 23,200 | By Investment Fluctuation Reserve A/c | 1,200 | 400 | ... |
| | | | | By Premium for Goodwill A/c | 12,000 | 4,000 | ... |
| | | | | By Cash A/c (WN) | ... | ... | 23,200 |
| | 70,200 | 40,400 | 23,200 | | 70,200 | 40,400 | 23,200 |

BALANCE SHEET (OF RECONSTITUTED FIRM) *as at 31st March, 2018*

| Liabilities | | ₹ | Assets | | ₹ |
|---|---|---|---|---|---|
| Workmen Compensation Claim | | 2,000 | Cash (₹ 6,100 + ₹ 16,000 + ₹ 23,200) | | 45,300 |
| Outstanding Electricity Charges | | 11,000 | Stock | | 15,000 |
| Employees' Provident Fund | | 17,000 | Debtors | 50,000 | |
| Capital A/cs: | | | *Less:* Bad Debts | 3,000 | 47,000 |
| *A* | 39,450 | | Investments | | 4,500 |
| *B* | 30,150 | | Prepaid (Unexpired) Insurance | | 5,000 |
| *C* | 23,200 | 92,800 | Furniture | | 6,000 |
| | | 1,22,800 | | | 1,22,800 |

***Working Note:***

| *Calculation of C's Proportionate Capital:* | ₹ |
|---|---|
| *A*'s capital after all adjustments | 39,450 |
| *B*'s capital after all adjustments | 30,150 |
| Combined capital of *A* and *B* for 3/4th share | 69,600 |

Therefore, Total Capital of New Firm should be = ₹ 69,600 × 4/3 = ₹ 92,800

*C*'s capital for 1/4th share = ₹ 92,800 × 1/4 = ₹ 23,200.

## SECTION B

**9.** **JP International**

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

| Particulars | | ₹ |
|---|---|---|
| **I. Cash Flow from Operating Activities** | | |
| Net Profit before Tax (WN 1) | | 53,000 |
| *Adjustments for Non-cash and Non-operating Activities:* | | |
| *Add:* Interest on Debentures | 9,600 | |
| Depreciation (WN 3) | 25,000 | |
| Interest on Bank Loan | 2,000 | |
| Premium on Redemption of Debentures | 1,000 | 37,600 |
| | | 90,600 |
| *Less:* Gain (Profit) on Sale of Machinery | | 7,000 |
| Operating Profit before Working Capital Changes | | 83,600 |
| *Add:* *Increase in Current Liabilities:* | | |
| Trade Payables | | 1,05,000 |
| | | 1,88,600 |
| *Less:* *Increase in Current Assets:* | | |
| Inventories | 22,000 | |
| Trade Receivables | 20,000 | 42,000 |
| Cash Generated from Operating Activities | | 1,46,600 |
| *Less:* Tax paid | | 15,000 |
| *Cash Flow from Operating Activities* | | 1,31,600 |
| **II. Cash Flow from Investing Activities** | | |
| Sale Proceeds of Machinery | | 12,000 |
| Purchase of Machinery (WN 2) | | (1,40,000) |
| Sale Proceeds of Non-current Investment | | 12,000 |
| *Cash Used in Investing Activities* | | (1,16,000) |
| **III. Cash Flow from Financing Activities** | | |
| Proceeds from Issue of Shares | | 50,000 |
| Redemption of 12% Debentures (₹ 20,000 + ₹ 1,000) | | (21,000) |
| Interest on Debentures Paid | | (9,600) |
| Payment of Bank Loan | | (10,000) |
| Interest on Bank Loan Paid | | (2,000) |
| Payment of Interim Dividend | | (20,000) |
| *Cash Used in Financing Activities* | | (12,600) |
| **IV. Net Increase in Cash and Cash Equivalents (I + II + III)** | | 3,000 |
| *Add:* Cash and Cash Equivalents (Opening) | | 15,000 |
| **V. Cash and Cash Equivalents (Closing)** | | 18,000 |

***Working Notes:***

1. *Calculation of Net Profit before Tax:*

| | | ₹ | ₹ |
|---|---|---|---|
| Closing Surplus, *i.e.*, Balance in Statement of Profit and Loss | | | 35,000 |
| *Less:* | Opening Surplus, *i.e.*, Balance in Statement of Profit and Loss | | 30,000 |
| Profit during the year | | | 5,000 |
| *Add:* | Transfer to General Reserve | 13,000 | |
| | Provision for Tax (Tax paid) | 15,000 | |
| | Interim Dividend Paid | 20,000 | 48,000 |
| Net Profit before Tax | | | 53,000 |

2. *Dr.* MACHINERY ACCOUNT *Cr.*

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance *b/d* | 3,50,000 | By Bank A/c | 12,000 |
| To Gain (Profit) on Sale of Machinery A/c | 7,000 | By Accumulated Depreciation A/c | 15,000 |
| To Bank A/c (Purchase) (Balancing Figure) | 1,40,000 | By Balance *c/d* | 4,70,000 |
| | 4,97,000 | | 4,97,000 |

3. *Dr.* ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Machinery A/c (Transfer) | 15,000 | By Balance *b/d* | 50,000 |
| To Balance *c/d* | 60,000 | By Depreciation A/c (Statement of Profit and Loss) (Balancing Figure) | 25,000 |
| | 75,000 | | 75,000 |

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

| Particulars | ₹ | Particulars | ₹ |
|---|---|---|---|
| To Balance *b/d* | 50,000 | By Bank A/c* | 12,000 |
| To Capital Reserve A/c (Gain on Sale) | 2,000 | By Balance *c/d* | 40,000 |
| | 52,000 | | 52,000 |

**Calculation of Sale Proceeds of Non-current Investment:*

Book Value of Non-current Investment Sold = Opening Balance – Closing Balance
= ₹ 50,000 – ₹ 40,000 = ₹ 10,000

Sale Proceeds = Book Value + Gain on Sale = ₹ 10,000 + 20% of ₹ 10,000 = ₹ 12,000.

**10.** (*a*) (*i*)

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

$$= \frac{₹\,50{,}000}{₹\,25{,}000} = 2 \text{ Times.}$$

$$\text{Cost of Revenue from Operations} = \text{Opening Inventory + Purchases + Carriage Inwards – Closing Inventory}$$

$$= ₹\,28{,}000 + ₹\,40{,}000 + ₹\,4{,}000 - ₹\,22{,}000$$

$$= ₹\,50{,}000$$

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

$$= \frac{₹\,28{,}000 + ₹\,22{,}000}{2} = ₹\,25{,}000.$$

(*ii*) Operating Ratio

$$= \frac{\text{Cost of Revenue from Operations} + \text{Operating Expenses}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{₹\,50,000 + ₹\,4,000 + ₹\,2,000}{₹\,80,000} \times 100$$

$$= \frac{₹\,56,000}{₹\,80,000} \times 100 = 70\%.$$

(*iii*) Gross Profit Ratio $= \dfrac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$

$$= \frac{₹\,30,000}{₹\,80,000} \times 100 = 37.5\%.$$

Gross Profit = Revenue from Operations – Cost of Revenue from Operations
= ₹ 80,000 – ₹ 50,000 = ₹ 30,000.

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

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

*Calculation of Credit Revenue from Operations:*

Let Credit Revenue from Operations = ₹ 100

Then, Cash Revenue from Operations = 60% of ₹ 100 = ₹ 60

Total Revenue from Operations = ₹ 100 + ₹ 60 = ₹ 160.

So, Credit Revenue from Operations = ₹ 5,20,000 × ₹ 100/₹ 160 = ₹ 3,25,000.

*Calculation of Average Trade Receivables:*

Closing Trade Receivables = ₹ 80,000

Opening Trade Receivables = 3/4 × ₹ 80,000 = ₹ 60,000

Average Trade Receivables $= \dfrac{₹\,60,000 + ₹\,80,000}{2} = ₹\,70,000.$

(*ii*) Current Liabilities = ₹ 1,60,000

Liquid Ratio $= \dfrac{\text{Liquid Assets}}{\text{Current Liabilities}}$

$$\frac{1.5}{1} = \frac{\text{Liquid Assets}}{₹\,1,60,000}$$

∴ Liquid Assets = ₹ 1,60,000 × 1.5 = ₹ 2,40,000

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

$$\frac{2.5}{1} = \frac{\text{Current Assets}}{₹\,1,60,000}$$

Current Assets = ₹ 1,60,000 × 2.5 = ₹ 4,00,000.

**11.** (*a*) (*i*) *Increase:* Both Current Assets and Current Liabilities decrease by same amount of ₹ 9,000.

(*ii*) *No Change:* Issuing shares to Vendor has no effect on either Current Assets or Current Liabilities.

(*b*) (*i*) *No Flow*. **Reason:** Sale of Marketable Securities at par represents movement between items of Cash and Cash Equivalents.

(*ii*) Operating Activities are the principal revenue producing activities of the enterprise and other activities that are not Investing or Financing Activities. Whereas Investing Activities are the acquisition and disposal of Long-term Assets and Other Investment not included in Cash Equivalents.

(*c*) **Better Sales Ltd.**

COMPARATIVE INCOME STATEMENT

*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 | | 7,00,000 | 5,00,000 | 2,00,000 | 40.00 |
| II. Other Income | | 75,000 | 1,00,000 | (25,000) | (25.00) |
| III. Total Income (I + II) | | 7,75,000 | 6,00,000 | 1,75,000 | 29.17 |
| IV. Expenses | | 4,50,000 | 3,75,000 | 75,000 | 20.00 |
| V. Net Profit before Tax (III – IV) | | 3,25,000 | 2,25,000 | 1,00,000 | 44.44 |
| VI. Tax (50%) | | 1,62,500 | 1,12,500 | 50,000 | 44.44 |
| VII. Net Profit after Tax (V – VI) | | 1,62,500 | 1,12,500 | 50,000 | 44.44 |