MODEL TEST PAPTER 20 (Solution)

SECTION A
PART I

1. (*i*) Partnership Deed is a useful document because of the following reasons:

(*a*) It regulates the rights, duties and liabilities of each partner.

(*b*) If any dispute arises among the partners, then it may be settled by referring Partnership Deed as it acts as a good evidence in the court of law.

(*ii*) Revaluation Account is prepared:

(*a*) To ascertain the Gain/Loss arising on account of revaluation of assets and reassessment of liabilities.

(*b*) To record the effect of Revaluation of Assets and Reassessment of Liabilities so as to show Assets and Liabilities at their revalued amounts.

(*iii*) *Pro rata* Allotment means allotment of shares in proportion. *Pro rata* Allotment *takes place only when the issue of shares is oversubscribed*.

Example: Total No. of Shares offered for subscription = 40,000

Total No. of Shares applied by the public = 48,000

No. of Shares applied by Mr. X = 960

No. of Shares allotted to Mr. $X = \frac{40,000}{48,000} \times 960 = 800$ shares.

(*iv*) The following items are shown under the head Reserves and Surplus:

(*a*) Capital Reserve,

(*b*) Capital Redemption Reserve,

(*c*) Securities Premium Reserve,

(*d*) Revaluation Reserve, and

(*e*) Surplus, *i.e.*, Balance in Statement of Profit and Loss.

(*v*) Debentures Redemption Reserve (DRR) is created out of profits available for the distribution as dividend for the purpose of redemption of debentures. The amount credited to the Debentures Redemption Reserve can be used only for redemption of debentures.

(*vi*) *Preliminary Expenses are the expenses incurred prior to the incorporation of the company*.

Example: Stamp duty and registration fee paid to the Registrar of Companies, public issue expenses, etc.

- Preliminary Expenses are written off in the year in which they are incurred.
- They may be written off from Securities Premium Reserve as permitted by Section 52(2) of the Companies Act, 2013 or from Statement of Profit and Loss.

PART II

2. (*a*) (*i*) Interest on Drawings = $\dfrac{\text{Amount of Drawings} \times \text{Rate} \times 6.5^*}{100 \times 12}$

$= ₹\ 36{,}000 \times 9/100 \times 13/24 = ₹\ 1{,}755.$

*Average Period = $\dfrac{(12+1) \text{ months}}{2}$ = 6.5 months.

(*ii*) Interest on Drawings = $\dfrac{\text{Amount of Drawings} \times \text{Rate} \times 5.5^*}{100 \times 12}$

$= ₹\ 36{,}000 \times 9/100 \times 11/24 = ₹\ 1{,}485.$

*Average Period = $\dfrac{(11+0) \text{ months}}{2}$ = 5.5 months.

(*iii*) To calculate interest, product method should be followed:

Date of Drawings	Amount ₹	Period up to 31st March, 2018	Product ₹
1st June, 2017	12,000	10	1,20,000
31st August, 2017	8,000	7	56,000
30th September, 2017	3,000	6	18,000
30th November, 2017	7,000	4	28,000
31st January, 2018	6,000	2	12,000
Total			2,34,000

Interest on Drawings = $\dfrac{\text{Total of Product} \times \text{Rate} \times 1 \text{ month}}{100 \times 12}$

$= ₹\ 2{,}34{,}000 \times 9/100 \times 1/12 = ₹\ 1{,}755.$

(*b*)

TABLE SHOWING ADJUSTMENT

Particulars	*A*'s Capital A/c		*B*'s Capital A/c		*C*'s Capital A/c		Firm	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
I. Amount actually credited, now to be debited	11,000	...	11,000	...	11,000	...	...	33,000
II. Amounts which should have been credited:								
(*i*) Salary	...	...	...	...	...	5,000	5,000	...
(*ii*) Interest on Capital	...	2,500	...	1,250	...	1,250	5,000	...
(*iii*) Share of Profit (2 : 1 : 1)	...	11,500	...	5,750	...	5,750	23,000	...
	11,000	14,000	11,000	7,000	11,000	12,000	33,000	33,000
III. Net Effect	3,000 (Cr.)		4,000 (Dr.)		1,000 (Cr.)		...	

ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018				
March 31	*B*'s Capital A/c ...Dr.		4,000	
	To *A*'s Capital A/c			3,000
	To *C*'s Capital A/c			1,000
	(Being the adjustment entry passed)			

(*c*) (*i*) *Goodwill on the basis of Capitalisation of Super Profit:*

Average Profit = ₹ 4,00,000

Capital Employed = Assets – External Liabilities
= ₹ 40,00,000 – ₹ 7,20,000
= ₹ 32,80,000.

Normal Rate of Return = 10%

Normal Profit = ₹ 32,80,000 × 10/100 = ₹ 3,28,000

Super Profit = Average Profit – Normal Profit
= ₹ 4,00,000 – ₹ 3,28,000 = ₹ 72,000

Goodwill = Super Profit × 100/Normal Rate of Return
= ₹ 72,000 × 100/10 = ₹ 7,20,000.

(*iii*) *Goodwill on the basis of Super Profit Method:*

Goodwill = Super Profit × No. of Years' Purchase
= ₹ 72,000 × 3 = ₹ 2,16,000.

3.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Stock A/c		11,000	By Fixed Assets A/c	75,000
To Gain (Profit) transferred to:			By Provision for Doubtful Debts A/c	1,000
Khanna's Capital A/c	23,100		By Creditors A/c	2,000
Seth's Capital A/c	15,400		By Investments A/c	10,000
Mehta's Capital A/c	38,500	77,000		
		88,000		88,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Khanna ₹	Seth ₹	Mehta ₹	Particulars	Khanna ₹	Seth ₹	Mehta ₹
To Goodwill A/c	90,000	60,000	1,50,000	By Balance *b/d*	5,00,000	2,55,000	3,00,000
To Profit and Loss A/c	18,000	12,000	30,000	By Workmen Compensation Reserve A/c	30,000	20,000	50,000
To Profit and Loss Suspense A/c (WN 1)	...	2,400	...	By Revaluation A/c	23,100	15,400	38,500
To Seth's Drawings A/c	...	5,000	...	By Mehta's Current A/c (WN 2)	...	...	2,00,000
To Seth's Executor's A/c	...	2,11,000	...				
To Khanna's Current A/c	2,00,000	...	...				
To Balance *c/d* (WN 2)	2,45,100	...	4,08,500				
	5,53,100	2,90,400	5,88,500		5,53,100	2,90,400	5,88,500

Dr. SETH'S EXECUTOR'S ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c	1,05,500	By Seth's Capital A/c	2,11,000
To Balance *c/d*	1,05,500		
	2,11,000		2,11,000

BALANCE SHEET
as at 12th June, 2018

Liabilities		₹	Assets		₹
Creditors		49,000	Fixed Assets		7,35,000
Employees' Provident Fund		20,000	Stock		19,000
Khanna's Current A/c		2,00,000	Debtors	1,20,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	3,000	1,17,000
Khanna	2,45,100		Mehta's Current A/c		2,00,000
Mehta	4,08,500	6,53,600			
Bank Overdraft (WN 3)		40,500			
Seth's Executor's A/c		1,05,500			
Profit and Loss Suspense A/c		2,400			
		10,71,000			10,71,000

Working Notes:

1. Seth's share in Profit/(Loss) till the date of death (from 1st April, 2018 to 12th June, 2018)

$= (₹\ 60,000) \times 2/10 \times 73/365$

$= (₹\ 2,400)$. Negative balance means loss.

2. *Adjustment of Capitals of Khanna and Mehta:*

	₹
Khanna's capital after all adjustments	4,45,100
Mehta's capital after all adjustments	2,08,500
Total capital of new firm	6,53,600

Total capital of new firm will be in the new profit-sharing ratio of Khanna and Mehta, *i.e.*, 3 : 5. Therefore,

Khanna's new capital = ₹ 6,53,600 × 3/8 = ₹ 2,45,100

Mehta's new capital = ₹ 6,53,600 × 5/8 = ₹ 4,08,500

Khanna has excess capital = ₹ 4,45,100 – ₹ 2,45,100 = ₹ 2,00,000, which will be credited to his Current Account.

Mehta has deficient capital = ₹ 4,08,500 – ₹ 2,08,500 = ₹ 2,00,000, which will be debited to his Current Account.

3. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	50,000	By Seth's Drawings A/c	5,000
To Investments A/c	20,000	By Seth's Executor's A/c	1,05,500
To Balance *c/d* (Bank Overdraft)	40,500		
	1,10,500		1,10,500

4. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
April 1	General Reserve A/c	...Dr.		30,000	
	Workmen Compensation Reserve A/c	...Dr.		1,00,000	
	To *X*'s Capital A/c				52,000
	To *Y*'s Capital A/c				78,000
	(Being the amount of reserves distributed)				
	X's Capital A/c	...Dr.		12,000	
	Y's Capital A/c	...Dr.		18,000	
	To Profit and Loss A/c				20,000
	To Advertisement Suspense A/c				10,000
	(Being the losses adjusted)				
	Realisation A/c	...Dr.		5,50,000	
	To Stock A/c				1,00,000
	To Debtors A/c				1,50,000
	To Land and Building A/c				3,00,000
	(Being the assets transferred)				
	Creditors A/c	...Dr.		1,05,000	
	To Realisation A/c				1,05,000
	(Being the creditors transferred)				
	Bank A/c	...Dr.		4,40,000	
	To Realisation A/c				4,40,000
	(Being the Land and Building and stock realised)				
	X's Capital A/c	...Dr.		2,000	
	Y's Capital A/c	...Dr.		3,000	
	To Realisation A/c				5,000
	(Being the loss on realisation transferred)				
	X's Capital A/c	...Dr.		2,38,000	
	Y's Capital A/c	...Dr.		3,57,000	
	To Bank A/c				5,95,000
	(Being the final payments made)				

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Realisation A/c	...Dr.		1,000	
	To *A*'s Capital A/c				1,000
	(Being the remuneration payable to *A* for carrying out dissolution)				
(*ii*)	No Entry				
(*iii*)	Realisation A/c	...Dr.		6,000	
	To Cash/Bank A/c				6,000
	(Being the damages claim paid)				
(*iv*)	Cash/Bank A/c	...Dr.		79,000	
	To Realisation A/c				79,000
	(Being the assets realised)				
(*v*)	Reserve A/c	...Dr.		6,000	
	To *A*'s Capital A/c				2,000
	To B's Capital A/c				2,000
	To C's Capital A/c				2,000
	(Being the reserve appropriated among partners)				
(*vi*)	Realisation A/c	...Dr.		5,000	
	To Cash/Bank A/c				5,000
	(Being the liability against bill discounted paid)				

5. JOURNAL OF *AB* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		12,50,000	
	To Shares Application A/c				12,50,000
	(Being the application money received)				
	Shares Application A/c	...Dr.		12,50,000	
	To Share Capital A/c				10,00,000
	To Shares Allotment A/c				2,50,000
	(Being the application money adjusted)				
	Shares Allotment A/c	...Dr.		10,00,000	
	To Share Capital A/c				10,00,000
	(Being the allotment money due)				
	Bank A/c	...Dr.		7,74,000	
	To Shares Allotment A/c				7,50,000
	To Calls-in-Advance A/c				24,000
	(Being the allotment money received along with calls-in-advance on 480 shares)				
	Shares First Call A/c	...Dr.		10,00,000	
	To Share Capital A/c				10,00,000
	(Being the first call made due)				
	Bank A/c	...Dr.		9,88,000	
	Calls-in-Advance A/c	...Dr.		12,000	
	To Shares First Call A/c				10,00,000
	(Being the call money received and calls-in-advance adjusted)				
	Shares Second and Final Call A/c	...Dr.		10,00,000	
	To Share Capital A/c				10,00,000
	(Being the second and final call made due)				
	Bank A/c	...Dr.		9,78,000	
	Calls-in-Advance A/c	...Dr.		12,000	
	Calls-in-Arrears A/c	...Dr.		10,000	
	To Shares Second and Final Call A/c				10,00,000
	(Being the second and final call received except on 400 shares and calls-in-advance adjusted)				
	Bank A/c	...Dr.		10,250	
	To Calls-in-Arrears A/c				10,000
	To Interest on Calls-in-Arrears A/c				250
	(Being the call money received along with interest) (WN)				
	Interest on Calls-in-Advance A/c	...Dr.		1,320	
	To Bank A/c				1,320
	(Being the interest on calls-in-advance paid) (WN)				

Working Note:

Interest on Calls-in-Advance at 12% p.a.

	₹
₹ 12,000 (*i.e.*, 480 × ₹ 25) × 12/100 × 3/12 =	360
₹ 12,000 × 12/100 × 8/12 =	960
	1,320

Interest on Calls-in-Arrears at 10% p.a.

₹ 10,000 (*i.e.*, 400 × ₹ 25) × 3/12 × 10/100 = ₹ 250

6. *(a)* JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		1,20,000	
	To Debentures Application A/c				1,20,000
	(Being the application money for 4,000 debentures @ ₹ 30 each received)				
	Debentures Application A/c	...Dr.		1,20,000	
	To 10% Debentures A/c				1,20,000
	(Being the application money transferred to 10% Debentures A/c)				
	Debentures Allotment A/c	...Dr.		2,80,000	
	To 10% Debentures A/c				2,80,000
	(Being the allotment money due on 4,000 debentures @ ₹ 70 each)				
	Bank A/c	...Dr.		2,80,000	
	To Debentures Allotment A/c				2,80,000
	(Being the allotment money received)				

BALANCE SHEET OF FEEBLE LTD.
as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Non-Current Liabilities		
Long-term Borrowings	1	4,00,000
Total		4,00,000
II. ASSETS		
Current Assets		
Cash and Cash Equivalents	2	4,00,000
Total		4,00,000

Notes to Accounts

Particulars	₹
1. Long-term Borrowings	
4,000; 10% Debentures of ₹ 100 each	4,00,000
2. Cash and Cash Equivalents	
Cash at Bank	4,00,000

(b) (i) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		40,000	
	To Debentures Application and Allotment A/c				40,000
	(Being the application money received)				
	Debentures Application and Allotment A/c	...Dr.		40,000	
	Loss on Issue of Debentures A/c	...Dr.		4,000	
	To 12% Debentures A/c				40,000
	To Premium on Redemption of Debentures A/c				4,000
	(Being the allotment of 12% Debentures redeemable at premium)				

(ii) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		85,500	
	To Debentures Application and Allotment A/c			85,500
	(Being the application money received)			
	Debentures Application and Allotment A/c ...Dr.		85,500	
	Loss on Issue of Debentures A/c ...Dr.		13,500	
	To 12% Debentures A/c			90,000
	To Premium on Redemption of Debentures A/c			9,000
	(Being the allotment of 12% Debentures issued at a discount and redeemable at premium)			

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

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018				
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		1,36,000	
	To Debentures Redemption Reserve A/c			1,36,000
	(Being the balance transferred to make DRR equal to 25% of outstanding debentures)			
April 1	Debentures Redemption Investment A/c ...Dr.		1,50,000	
	To Bank A/c			1,50,000
	(Being 15% of redeemable debentures invested in specified securities)			
Oct. 1	Bank A/c ...Dr.		1,50,000	
	To Debentures Redemption Investment A/c			1,50,000
	(Being the investment realised)			
Oct. 1	9% Debentures A/c ...Dr.		10,00,000	
	Premium on Redemption of Debentures A/c ...Dr.		50,000	
	To Debentureholders' A/c			10,50,000
	(Being the amount due on redemption)			
Oct. 1	Debentureholders' A/c ...Dr.		10,50,000	
	To Bank A/c			10,50,000
	(Being the payment made to debentureholders)			
Oct. 1	Debentures Redemption Reserve A/c ...Dr.		2,50,000	
	To General Reserve A/c			2,50,000
	(Being the balance in DRR transferred)			

(b) **At the time of Issue of Debentures**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		11,00,000	
	To Debentures Application and Allotment A/c			11,00,000
	(Being the application money received)			
	Debentures Application and Allotment A/c ...Dr.		11,00,000	
	To 10% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			1,00,000
	(Being the allotment of 10% Debentures issued at premium)			

At the time of Redemption of Debentures

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	10% Debentures A/c ...Dr.		10,00,000	
	To Debentureholders' A/c			10,00,000
	(Being the amount due on redemption)			
	Debentureholders' A/c ...Dr.		10,00,000	
	To Bank A/c			10,00,000
	(Being the payment made)			

Notes:

1. As per Rule 18(7)(*b*) of the Companies (Share capital and Debentures) Rules, 2014, All India Financial Institutions regulated by RBI and Banking Companies are exempted from creation of DRR.
2. They are also not required to invest/deposit the amount in banks or specified securities.

(*c*)

BALANCE SHEET OF GREEN LTD. *as at 31st March, 2018*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		20,00,000
(*b*) Reserves and Surplus		6,25,000
2. Non-Current Liabilities		
Long-term Borrowings		10,00,000
3. Current Liabilities		
Trade Payables		5,00,000
Total		41,25,000
II. ASSETS		
1. Non-Current Assets		
(*a*) *Fixed Assets:*		
Tangible Assets (Machinery)		17,50,000
(*b*) Non-Current Investments		6,87,500
2. Current Assets		
(*a*) Inventories		7,50,000
(*b*) Trade Receivables		5,00,000
(*c*) Cash and Bank Balances		4,37,500
Total		41,25,000

8.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Stock A/c		70,000	By Land and Building A/c	50,000
To Gain (Profit) transferred to:			By Provision for Doubtful Debts A/c	5,000
X's Capital A/c	21,000		By Accrued Income A/c	10,000
Y's Capital A/c	14,000	35,000	By Bad Debts Recovered A/c	40,000
		1,05,000		1,05,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Goodwill A/c	6,000	4,000	...	By Balance *b/d*	1,76,000	2,54,000	...
To Advertisement Suspense A/c	6,000	4,000	...	By *Z*'s Loan A/c	...	...	3,00,000
To Bank A/c (WN 4)	...	20,000	...	By Premium for Goodwill A/c	72,000	36,000	...
To Balance *c/d* (WN 4)	4,00,000	3,00,000	3,00,000	By *Z*'s Current A/c (WN 3)	48,000	24,000	...
				By Revaluation A/c	21,000	14,000	...
				By Bank A/c (WN 4)	95,000	...	...
	4,12,000	3,28,000	3,00,000		4,12,000	3,28,000	3,00,000

BALANCE SHEET OF NEW FIRM *as at 1st April, 2018*

Liabilities		₹	Assets		₹
Sundry Creditors		30,000	Land and Building		1,10,000
Workmen Compensation Reserve		10,000	Investments		45,000
Investment Fluctuation Reserve		5,000	Debtors	1,00,000	
Employees' Provident Fund		10,000	*Less:* Provision for Doubtful Debts	5,000	95,000
Workmen Compensation Claim		10,000	Stock		2,30,000
X's Current A/c		3,000	Bank Balance (WN 6)		5,03,000
Y's Current A/c		1,500	Accrued Income		10,000
Capital A/cs:			*Z*'s Current A/c (₹ 72,000 + ₹ 4,500)		76,500
X	4,00,000				
Y	3,00,000				
Z	3,00,000	10,00,000			
		10,69,500			10,69,500

Working Notes:

1. *Valuation of Firm's Goodwill:*

$$\text{Average Profit} = \frac{₹\ 4,80,000 + ₹\ 9,30,000^* + ₹\ 13,80,000}{3} = ₹\ 9,30,000$$

Super Profit = Average Profit – Normal Profit = ₹ 9,30,000 – ₹ 6,30,000 = ₹ 3,00,000

Value of Firm's Goodwill = Super Profit × Number of Years' Purchase = ₹ 3,00,000 × 2 = ₹ 6,00,000.

*₹ 9,50,000 – ₹ 20,000 =₹ 9,30,000.

2. *Calculation of New Profit-sharing Ratio and Sacrificing Ratio:*

	X	*Y*	*Z*
I. Old Share	3/5	2/5	...
II. Sacrifice/Acquired	$\frac{1}{5}\left(i.e., \frac{1}{3} \times \frac{3}{5}\right)$	$\frac{1}{10}$	$\frac{3}{10}\left(i.e., \frac{1}{5} + \frac{1}{10}\right)$
III. New Share	2/5	3/10	3/10

Thus, New Profit-sharing Ratio of *X*, *Y* and *Z* = $\frac{4}{10} : \frac{3}{10} : \frac{3}{10} = 4:3:3.$

As *X* sacrifices 1/5th share and *Y* sacrifices 1/10th share

∴ Sacrificing Ratio of *X* and *Y* = 1/5 : 1/10 = 2 : 1.

3. *Adjustment of Goodwill:*

Z's share of Goodwill = ₹ 6,00,000 × 3/10 = ₹ 1,80,000, out of which Z brings only 60% of his share of goodwill in cash. Thus, for balance 40% his Current Account will be debited.

Journal Entry for adjustment of Goodwill:		₹	₹
Premium for Goodwill A/c	...Dr.	1,08,000	
Z's Current A/c	...Dr.	72,000	
To *X*'s Capital A/c			1,20,000
To *Y*'s Capital A/c			60,000

4. *Adjustment of Capitals:*

Z's capital for 3/10 share = ₹ 3,00,000

Total capital of new firm = ₹ 3,00,000 × 10/3 = ₹ 10,00,000, which will be contributed by *X*, *Y* and *Z* in their new profit-sharing ratio, *i.e.*, 4 : 3 : 3. Thus,

X's capital in new firm = ₹ 10,00,000 × 4/10 = ₹ 4,00,000;

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

Z's capital in new firm = ₹ 3,00,000.

In effect, *X* will bring further capital = ₹ 4,00,000 – ₹ 3,05,000
= ₹ 95,000

Y will withdraw excess capital = ₹ 3,20,000 – ₹ 3,00,000
= ₹ 20,000.

5. *Adjustment for Workmen Compensation Reserve and Investment Fluctuation Reserve:*

Workmen Compensation Reserve (after adjusting claim) =	₹ 10,000
Investment Fluctuation Reserve (after adjusting ₹ 5,000) =	₹ 5,000
Total =	₹ 15,000

Z's share = ₹ 15,000 × 3/10 = ₹ 4,500

It will be credited to *X* and *Y* in their sacrificing ratio, *i.e.*, 2 : 1.

		₹	₹
Entry: *Z*'s Current A/c	...Dr.	4,500	
To *X*'s Current A/c			3,000
To *Y*'s Current A/c			1,500

6. Bank Balance: ₹ 2,80,000 + ₹ 1,08,000 + ₹ 40,000 + ₹ 95,000 – ₹ 20,000 = ₹ 5,03,000.

SECTION B

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

Particulars		₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		1,65,000
Adjustments for Non-cash and Non-operating Activities:		
Add: Depreciation (WN 2)	80,000	
Interest on Debentures	10,000	90,000
		2,55,000
Less: Gain (Profit) on Sale of Machinery	10,000	
Dividend Received	2,000	
Gain (Profit) on Sale of Non-current Investments (20% of ₹ 40,000)	8,000	20,000
Operating Profit before Working Capital Changes		2,35,000
Add: *Decrease in Current Assets:*		
Trade Receivables		1,10,000
		3,45,000
Less: *Increase in Current Assets and Decrease in Current Liabilities:*		
Inventories	40,000	
Trade Payables	15,000	55,000
Cash Generated from Operations		2,90,000
Less: Tax Paid		28,000
Cash Flow from Operating Activities		2,62,000

II. Cash Flow from Investing Activities	
Sale Proceeds from Machinery	25,000
Sale Proceeds from Non-current Investments	48,000
Dividend Received	2,000
Purchase of Machinery (WN 3)	(4,40,000)
Purchase of Non-current Investments (WN 4)	(75,000)
Cash Used in Investing Activities	(4,40,000)
III. Cash Flow from Financing Activities	
Proceeds from Issue of Debentures	60,000
Interest paid on Debentures	(10,000)
Bank Loan repaid	(15,000)
Proceeds from Issue of Shares	2,10,000
Dividend Paid (₹ 33,000 – ₹ 4,000)	(29,000)
Cash Flow from Financing Activities	2,16,000
IV. Net Increase in Cash and Cash Equivalents (I + II + III)	38,000
Add: Cash and Cash Equivalents (Opening)	1,48,000
V. Cash and Cash Equivalents (Closing)	1,86,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

	₹
Closing Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,70,000
Less: Opening Surplus, *i.e.*, Balance in Statement of Profit and Loss	1,00,000
Profit during the year	70,000
Add: Transfer to General Reserve	30,000
Provision for Tax	32,000
Dividend Paid (Proposed Dividend for 2016–17)	33,000
Net Profit before Tax	1,65,000

2. *Dr.* ACCUMULATED DEPRECIATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Machinery A/c	55,000	By Balance *b/d*	95,000
To Balance *c/d*	1,20,000	By Depreciation A/c	80,000
	1,75,000		1,75,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	7,00,000	By Bank A/c	25,000
To Gain (Profit) on Sale of Machinery A/c	10,000	By Accumulated Depreciation A/c	55,000
To Bank A/c (Balancing Figure)—Purchase	4,40,000	By Balance *c/d*	10,70,000
	11,50,000		11,50,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	1,00,000	By Bank A/c (₹ 40,000 + ₹ 8,000)	48,000
To Gain (Profit) on Sale of Investments A/c	8,000	By Balance *c/d*	1,35,000
To Bank A/c (Balancing Figure)—Purchase	75,000		
	1,83,000		1,83,000

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

$$= \frac{₹\,90{,}000}{₹\,60{,}000} = 1.5 : 1.$$

Liquid Assets = Current Assets – Prepaid Expenses – Closing Inventory
= ₹ 1,00,000 – ₹ 3,000 – ₹ 7,000 = ₹ 90,000.

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

$$= \frac{₹\,57{,}000}{₹\,4{,}00{,}000} \times 100 = 14.25\%.$$

Gross Profit = Revenue from Operations – Cost of Revenue from Operations
= ₹ 4,00,000 – (Opening Inventory + Net Purchases* + Direct Expenses – Closing Inventory)
= [₹ 4,00,000 – (₹ 10,000 + ₹ 3,20,000 + 20,000 – ₹ 7,000)
= ₹ 57,000.

*Net purchases = 80% of Revenue from Operations
= 80% of ₹ 4,00,000 = ₹ 3,20,000.

(*iii*) $$\text{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Equity}}$$

$$= \frac{₹\,5{,}50{,}000}{₹\,11{,}00{,}000} = 0.5 : 1.$$

Debt = 9% Debentures + Long-term Loan from Bank
= ₹ 4,00,000 + ₹ 1,50,000 = ₹ 5,50,000

Equity = Equity Share Capital + 8% Preference Share Capital
= ₹ 8,00,000 + ₹ 3,00,000 = ₹ 11,00,000.

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

$$\frac{1.5}{1} = \frac{\text{Quick Assets}}{₹\,40{,}000}$$

∴ Quick Assets = ₹ 60,000
Stock = Current Assets – Quick Assets
= ₹ 1,00,000 – ₹ 60,000 = ₹ 40,000.

(*c*)

$$\text{Current Ratio} = 4.5 : 1$$
$$\text{Quick Ratio} = 3 : 1$$
$$\therefore \text{ Inventory} = 4.5 - 3 = 1.5$$

If Inventory is 1.5, Current Assets = 4.5

If Inventory is 1, Current Assets = 4.5/1.5

If Inventory is ₹ 72,000, Current Assets = 4.5/1.5 × ₹ 72,000 = ₹ 2,16,000

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

$$\frac{4.5}{1} = \frac{₹\ 2,16,000}{\text{Current Liabilities}}$$

$$\text{Current Liabilities} = \frac{₹\ 2,16,000}{4.5}$$

$$= ₹\ 48,000.$$

11. (*a*) *Advantages of Comparative Balance Sheet:*

(*i*) In a Balance Sheet the emphasis is on status, whereas in the Comparative Balance Sheet the emphasis is on change, which may be used in studying the trends in enterprise.

(*ii*) It shows the effects of business operations on its assets, equity and liabilities.

(*b*)

$$\text{Return on Investment} = \frac{\text{Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$$

$$= \frac{₹\ 2,50,000}{₹\ 10,00,000} \times 100 = 25\%.$$

Note:

$$\text{Profit after interest but before Tax} = ₹\ 1,05,000 \times \frac{100}{50} = ₹\ 2,10,000$$

$$\text{Profit before Interest and Tax} = ₹\ 2,10,000 + \left(₹\ 5,00,000 \times \frac{8}{100}\right) = ₹\ 2,50,000$$

Capital Employed = Shareholders' Funds + Non-current Liabilities

= (Equity Share Capital + Preference Share Capital) + Debentures

= (₹ 2,00,000 + ₹ 3,00,000) + ₹ 5,00,000 = ₹ 10,00,000.

(*c*)

Effect on Current Ratio	Reason
1. Improve	As current assets have increased by the amount of profit (included in Trade Receivables), whereas, current liabilities remain unchanged.
2. Reduce	As only current assets (Increase in Trade Receivables is less than the decrease in Inventory) have decreased by the amount of loss, whereas, current liabilities remain unchanged.

(*d*)

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		9,00,000	6,00,000	60	60
2. Non-Current Liabilities		3,00,000	3,00,000	20	30
3. Current Liabilities		3,00,000	1,00,000	20	10
Total		15,00,000	10,00,000	100	100
II. ASSETS					
1. Non-Current Assets		10,50,000	7,00,000	70	70
2. Current Assets		4,50,000	3,00,000	30	30
Total		15,00,000	10,00,000	100	100