MODEL TEST PAPER 13 (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 to 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*)

PROFIT AND LOSS APPROPRIATION ACCOUNT
for the year ended 31st March, 2019

Dr. | *Cr.*

Particulars		₹	Particulars	₹
To Partners' Salaries:			By Profit and Loss A/c (Net Profit) (WN 1)	2,18,700
Y	1,20,000			
Z	96,000	2,16,000		
To Profit transferred to Capital A/cs:				
X	1,200			
Y	900			
Z	600	2,700		
		2,18,700		2,18,700

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	*Z* ₹	Particulars	*X* ₹	*Y* ₹	*Z* ₹
To Drawings A/c	80,000	1,70,000	1,26,000	By Balance *b/d*	7,20,000	4,50,000	2,70,000
To Balance *c/d*	7,70,800	4,81,900	2,89,200	By Interest on Capital A/c	1,29,600	81,000	48,600
				By Partners' Salaries A/c	...	1,20,000	96,000
				By Profit and Loss App. A/c	1,200	900	600
	8,50,800	6,51,900	4,15,200		8,50,800	6,51,900	4,15,200

Working Notes:

1. PROFIT AND LOSS ACCOUNT

Dr. *for the year ended 31st March, 2019* *Cr.*

Particulars		₹	Particulars	₹
To Interest on *Z*'s Loan A/c		4,500	By Net Profit (Given)	4,82,400
(₹ 1,50,000 × 6/100 × 6/12)				
To Interest on Capital A/cs:				
X	1,29,600			
Y	81,000			
Z	48,600	2,59,200		
To Net Profit transferred to Profit and Loss Appropriation A/c		2,18,700		
		4,82,400		4,82,400

2. Interest on capital is a charge against profit. Hence, it is debited to Profit and Loss Account instead of debiting to Profit and Loss Appropriation Account.

(*b*) ADJUSTMENT ENTRY

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Karim's Current A/c ...Dr.		150	
	To Krishna's Current A/c			150
	(Being the adjustment made for crediting interest on capitals to partners in excess)			

Working Note:

TABLE SHOWING ADJUSTMENT

Particulars	Krishna's Current A/c		Sandeep's Current A/c		Karim's Current A/c	
	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹	Dr. ₹	Cr. ₹
Interest on Capital, wrongly credited 1% in excess, now written back	1,200	...	900	...	600	...
Share of Profit ₹ 2,700 (*i.e.*, ₹ 1,200 + ₹ 900 + ₹ 600) in ratio of 3 : 2 : 1	...	1,350	...	900	...	450
	1,200	1,350	900	900	600	450
Net Effect	150 (Cr.)		...		150 (Dr.)	

(*c*) (*i*)

PROFIT AND LOSS APPROPRIATION ACCOUNT
for the year ended 31st March, 2019

Dr. *Cr.*

Particulars		₹	Particulars	₹
To Profit transferred to Current A/cs:			By Profit and Loss A/c (Net Profit)	1,26,000
Priya	78,750			
Kajal	47,250	1,26,000		
		1,26,000		1,26,000

(*ii*)

PROFIT AND LOSS APPROPRIATION ACCOUNT
for the year ended 31st March, 2019

Dr. *Cr.*

Particulars		₹	Particulars	₹
To Interest on Capital A/cs (Note):			By Profit and Loss A/c (Net Profit)	1,26,000
Priya's Current A/c	54,000			
Kajal's Current A/c	72,000	1,26,000		
		1,26,000		1,26,000

Note: Interest on Priya's Capital = ₹ 6,00,000 × $\frac{12}{100}$ = ₹ 72,000;

Interest on Kajal's Capital = ₹ 8,00,000 × $\frac{12}{100}$ = ₹ 96,000;

Total Appropriation = ₹ 72,000 + ₹ 96,000 = ₹ 1,68,000, which is more than the available profit. Hence, the available profit is distributed in the ratio of appropriations to be made, *i.e.*, ₹ 72,000 : ₹ 96,000 or 3 : 4.

3. (*a*)

ADJUSTMENT ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019					
April 1	*Y*'s Capital A/c (3/42 × ₹ 84,000)	...Dr.		6,000	
	Z's Capital A/c (7/42 × ₹ 84,000)	...Dr.		14,000	
	To *X*'s Capital A/c (10/42 × ₹ 84,000)				20,000
	(Being the adjustment made for accumulated profits, losses and reserves)				

Working Notes:

1. *Calculation of Net Effect of Accumulated Profits, Losses and Reserves:*

	₹
General Reserve	53,000
Investment Fluctuation Reserve	10,000
Workmen Compensation Reserve	15,000
Contingency Reserve	25,000
Profit and Loss A/c (Dr.)	(14,500)
Advertisement Suspense A/c	(4,500)
Net Effect	84,000

2. *Calculation of Sacrifice/(Gain) of each Partner:*

	X	*Y*	*Z*
I. Old Share	4/7	3/7	...
II. New Share	2/6	3/6	1/6
III. Sacrifice/(Gain) [I – II]	10/42 (Sacrifice)	–3/42 (Gain)	–1/6 (Gain)

(*b*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Machinery A/c		4,000	By Building A/c	10,000
To Gain (Profit) on Revaluation transferred to:				
P's Capital A/c	3,600			
Q's Capital A/c	2,400	6,000		
		10,000		10,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*P* ₹	*Q* ₹	*R* ₹	Particulars	*P* ₹	*Q* ₹	*R* ₹
To Cash A/c (Bal. Fig.)	19,200	16,800	...	By Balance *b/d*	96,000	68,000	...
To Balance *c/d* (WN 3)	1,08,000	72,000	60,000	By General Reserve A/c	9,600	6,400	...
				By Revaluation A/c (Gain)	3,600	2,400	...
				By Cash A/c	...	...	60,000
				By Premium for Goodwill A/c	18,000	12,000	...
	1,27,200	88,800	60,000		1,27,200	88,800	60,000

BALANCE SHEET OF *P*, *Q* AND *R*
as at 1st April, 2019

Liabilities		₹	Assets	₹
Creditors		20,000	Cash (WN 4)	74,000
Capital A/cs:			Debtors	18,000
P	1,08,000		Stock	20,000
Q	72,000		Furniture	12,000
R	60,000	2,40,000	Machinery	36,000
			Building	1,00,000
		2,60,000		2,60,000

Working Notes:

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

Let total share of profit be 1; *R*'s Share = $\frac{1}{4}$ or $\frac{5}{20}$;

Remaining Share = $1-\frac{1}{4}=\frac{3}{4}$, which will be distributed among *P* and *Q* in their old profit-sharing ratio, *i.e.*, 3 : 2. Thus,

P's New Share = $\frac{3}{5}\times\frac{3}{4}=\frac{9}{20}$; *Q*'s New Share = $\frac{2}{5}\times\frac{3}{4}=\frac{6}{20}$

Hence, New Profit-sharing Ratio of *P*, *Q* and *R* = $\frac{9}{20}:\frac{6}{20}:\frac{5}{20}$ = 9 : 6 : 5.

3. *Adjustment of Capitals:*

R's Capital for 1/4th Share = ₹ 60,000

Total Capital of the New Firm = $4 \times$ ₹ 60,000 = ₹ 2,40,000, which will be contributed by P, Q and R in their new profit-sharing ratio. Thus,

P's Capital in the New Firm = ₹ 2,40,000 $\times \frac{9}{20}$ = ₹ 1,08,000;

Q's Capital in the New Firm = ₹ 2,40,000 $\times \frac{6}{20}$ = ₹ 72,000.

4. Cash Balance = ₹ 20,000 + ₹ 60,000 (R's Capital) + ₹ 30,000 (Premium for Goodwill) – ₹ 19,200 (Amount withdrawn by P) – ₹ 16,800 (Amount withdrawn by Q) = ₹ 74,000.

4. (*a*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Fixed Assets A/c	2,500	By Creditors A/c	2,000
To Provision for Doubtful Debts A/c	5,000	By Loss transferred to:	
		X's Capital A/c (₹ 5,500 × 5/10)	2,750
		Y's Capital A/c (₹ 5,500 × 3/10)	1,650
		Z's Capital A/c (₹ 5,500 × 2/10)	1,100
	7,500		7,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	*Z* ₹	Particulars	*X* ₹	*Y* ₹	*Z* ₹
To Goodwill A/c	25,000	15,000	10,000	By Balance *b/d*	40,000	62,000	33,000
To Revaluation A/c (Loss)	2,750	1,650	1,100	By Workmen Compensation			
To *X*'s Capital A/c	...	8,000	32,000	Reserve A/c	25,000	15,000	10,000
(Adjustment of Goodwill)				By *Y*'s Capital A/c (Goodwill)	8,000	...	...
To Bank A/c (Bal. Fig.)	1,19,750	...	...	By *Z*'s Capital A/c (Goodwill)	32,000	...	...
To Balance *c/d* (WN 4)	...	79,000	1,18,500	By Profit and Loss A/c	42,500	25,500	17,000
				By Bank A/c (Bal. Fig.)	...	1,150	1,01,600
	1,47,500	1,03,650	1,61,600		1,47,500	1,03,650	1,61,600

BALANCE SHEET OF NEW FIRM *as at 1st April, 2019*

Liabilities	₹	Assets		₹
Creditors	40,000	Bank ₹ (40,000 – 8,000 + 1,150		
Employees' Provident Fund	28,500	+ 1,01,600 – 1,19,750)		15,000
Y's Capital A/c	79,000	Sundry Debtors	1,00,000	
Z's Capital A/c	1,18,500	*Less:* Provision for Doubtful Debts	5,000	95,000
		Stock		80,000
		Investment		18,500
		Fixed Assets		57,500
	2,66,000			2,66,000

Working Notes:

1. *Calculation of Gaining Ratio:* Gain/(Sacrifice) = *New Share – Old Share*

   Y's Gain = $\frac{2}{5} - \frac{3}{10} = \frac{1}{10}$

   Z's Gain = $\frac{3}{5} - \frac{2}{10} = \frac{4}{10}$, Gaining Ratio = 1 : 4.

2. *X*'s Share of Goodwill = ₹ 80,000 × $\frac{5}{10}$ = ₹ 40,000 to be contributed by Gaining Partners in their Gaining Ratio.

   Y's contribution = ₹ 40,000 × $\frac{1}{5}$ = ₹ 8,000;

   Z's contribution = ₹ 40,000 × $\frac{4}{5}$ = ₹ 32,000.

3. Total Capital of New Firm = Adjusted Capitals of All Partners – Cash Available for Payment
   = (₹ 1,19,750 + ₹ 77,850 + ₹ 16,900) – (₹ 40,000 – ₹ 8,000 – ₹ 15,000) = ₹ 1,97,500.

   Alternatively:

   Total Capital of New Firm = Adjusted Capital of Remaining Partners + Cash Payable to Outgoing Partner – Cash Available + Cash Required to Maintain
   = ₹ 77,850 + ₹ 16,900 + ₹ 1,19,750 – (₹ 40,000 – ₹ 8,000) + ₹ 15,000 = ₹ 1,97,500.

4. *Y*'s New Capital = ₹ 1,97,500 × $\frac{2}{5}$ = ₹ 79,000, *Z*'s New Capital = ₹ 1,97,500 × $\frac{3}{5}$ = ₹ 1,18,500.

(*b*)

Dr. Y'S CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To *Y*'s Executors' A/c (Balancing Figure)	12,800	By Balance *b/d*	6,000
		By Reserve A/c (2/5 of ₹ 3,000)	1,200
		By Profit and Loss Suspense A/c (WN 1)	560
		By *X*'s Capital A/c (Goodwill) (WN 2)	5,040
	12,800		12,800

Working Notes:

1. *Calculation of Y's Share of Profit (from 1st April, 2019 to 1st August, 2019):*

$$\text{Average Profit} = \frac{₹\,4,500 + ₹\,3,900 + ₹\,4,200}{3} = ₹\,4,200$$

$$Y\text{'s Share of Profit} = \frac{2}{5} \times ₹\,4,200 \times \frac{4}{12} = ₹\,560.$$

2. *Adjustment of Goodwill:*

$$Y\text{'s Share of Profit for Last 3 Years} = \frac{2}{5} \text{ of } (₹\,4,200 + ₹\,3,900 + ₹\,4,500)$$

$$= \frac{2}{5} \text{ of } ₹\,12,600 = ₹\,5,040.$$

   Thus, *X* will compensate *Y* for his share of goodwill, *i.e.*, ₹ 5,040.

5. **In the Books of Janta Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		6,60,000	
	To Equity Shares Application A/c				6,60,000
	(Being the application money received on 2,20,000 shares)				
	Equity Shares Application A/c	...Dr.		6,60,000	
	To Equity Share Capital A/c (1,00,000 × ₹ 3)				3,00,000
	To Equity Shares Allotment A/c				1,60,000
	To Calls-in-Advance A/c				1,40,000
	To Bank A/c (20,000 × ₹ 3)				60,000
	(Being the application money adjusted)				
	Equity Shares Allotment A/c	...Dr.		2,00,000	
	To Equity Share Capital A/c				2,00,000
	(Being the allotment money due)				
	Bank A/c	...Dr.		40,000	
	To Equity Shares Allotment A/c				40,000
	(Being the allotment money received)				
	Equity Shares First and Final Call A/c	...Dr.		5,00,000	
	To Equity Share Capital A/c				5,00,000
	(Being the call money due on 1,00,000 shares)				
	Bank A/c	...Dr.		3,58,200	
	Calls-in-Arrears A/c	...Dr.		1,800	
	Calls-in-Advance A/c	...Dr.		1,40,000	
	To Equity Shares First and Final Call A/c (WN 4)				5,00,000
	(Being the receipt of first and final call money except on 600 shares and Calls-in-Advance adjusted)				
	Equity Share Capital A/c	...Dr.		6,000	
	To Calls-in-Arrears A/c				1,800
	To Forfeited Shares A/c				4,200
	(Being 600 shares forfeited due to non-payment of call money)				
	Bank A/c (600 × ₹ 9)	...Dr.		5,400	
	Forfeited Shares A/c (600 × ₹ 1)	...Dr.		600	
	To Equity Share Capital A/c				6,000
	(Being 600 forfeited shares reissued for ₹ 9 per share fully paid-up)				
	Forfeited Shares A/c	...Dr.		3,600	
	To Capital Reserve A/c				3,600
	(Being the gain (profit) on reissue transferred to Capital Reserve)				

BALANCE SHEET OF JANTA LTD. *as at ...*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
(*a*) Share Capital	1	10,00,000
(*b*) Reserves and Surplus	2	3,600
Total		10,03,600
II. ASSETS		
Current Assets		
Cash and Cash Equivalents	3	10,03,600

Notes to Accounts

	₹
1. Share Capital	
Authorised Capital	
... Equity Shares of ₹ 10 each	...
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. Reserves and Surplus	
Capital Reserve	3,600
3. Cash and Cash Equivalents	
Cash at Bank	10,03,600

Working Notes:

1. *Total No. of Shares applied by an applicant who has not paid call money (Defaulter shareholder) from category (c):*

$$= \frac{1,40,000}{60,000} \times 600 = 1,400 \text{ Shares.}$$

Category	*Shares Applied*	*Shares Allotted*
Rejected	20,000	...
(*a*) Raman	40,000	20,000
(*b*) Akbar	20,000	20,000
(*c*) *Pro rata* basis	1,40,000	60,000
	2,20,000	1,00,000

	₹
2. Application money received from defaulter shareholder (1,400 × ₹ 3)	4,200
Less: Application money adjusted (600 × ₹ 3)	1,800
Surplus application money	2,400
Less: Surplus application money adjusted on allotment (600 × ₹ 2)	1,200
Surplus application money to be adjusted on first and final call	1,200

3. *Calculation of Amount due but not paid by defaulter shareholder on first and final call:*

First and final call money due (600 × ₹ 5)	3,000
Less: Surplus application money adjusted (WN 2)	1,200
Amount due but not paid on first and final call (Calls-in-Arrears)	1,800

4. *Calculation of call money received later:*

Total call money due	5,00,000
Less: Surplus application money adjusted	1,40,000
	3,60,000
Less: Amount due but not received on first and final call [as per WN 3]	1,800
	3,58,200

6. (*a*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Bank A/c	...Dr.		4,32,000	
	To Debentures Application and Allotment A/c				4,32,000
	(Being the application money for 4,000; 9% Debentures received)				
	Debentures Application and Allotment A/c	...Dr.		4,32,000	
	Loss on Issue of Debentures A/c	...Dr.		40,000	
	To 9% Debentures A/c				4,00,000
	To Securities Premium Reserve A/c				32,000
	To Premium on Redemption of Debentures A/c				40,000
	(Being 4,000; 9% Debentures of ₹ 100 each issued at 8% premium and redeemable at 10% premium)				
(*ii*)	Bank A/c	...Dr.		6,00,000	
	To Debentures Application and Allotment A/c				6,00,000
	(Being the application money received for 6,000; 9% Debentures)				
	Debentures Application and Allotment A/c	...Dr.		6,00,000	
	Loss on Issue of Debentures A/c	...Dr.		60,000	
	To 9% Debentures A/c				6,00,000
	To Premium on Redemption of Debentures A/c				60,000
	(Being 6,000; 9% Debentures of ₹ 100 each issued at par and redeemable at 10% premium)				
(*iii*)	Bank A/c	...Dr.		10,50,000	
	To Debentures Application and Allotment A/c				10,50,000
	(Being the application money received for 10,000; 9% Debentures)				
	Debentures Application and Allotment A/c	...Dr.		10,50,000	
	To 9% Debentures A/c				10,00,000
	To Securities Premium Reserve A/c				50,000
	(Being 10,000; 9% Debentures of ₹ 100 each issued at 5% premium)				

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019					
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		6,25,000	
	To Debentures Redemption Reserve A/c				6,25,000
	(Being the DRR created for 25% of nominal value of outstanding debentures)				
April 1	Debentures Redemption Investment A/c	...Dr.		3,75,000	
	To Bank A/c				3,75,000
	(Being the investment made in Securities equal to 15% of nominal (face) value of debentures redeemable by 31st March, 2020)				
Dec. 31	Bank A/c	...Dr.		3,75,000	
	To Debentures Redemption Investment A/c				3,75,000
	(Being the debentures redemption Investment realised)				
	10% Debentures A/c	...Dr.		25,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		2,50,000	
	To Debentureholders' A/c				27,50,000
	(Being the amount due on redemption of 25,000; 10% Debentures at 10% premium)				

Debentureholders' A/c ...Dr.			27,50,000	
To Bank A/c				27,50,000
(Being the due amount paid)				
Debentures Redemption Reserve A/c ...Dr.			6,25,000	
To General Reserve A/c				6,25,000
(Being the amount of DRR transferred to General Reserve)				

7.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets (Transfer):			By Sundry Liabilities (Transfer):		
Stock A/c	5,000		Sundry Creditors A/c	30,000	
Investments A/c	10,000		Bills Payable A/c	8,000	
Debtors A/c	20,000		Loan from Mrs. *X* A/c	5,000	
Fixed Assets A/c	38,000	73,000	Loan from Mrs. *Y* A/c	10,000	
To *X*'s Capital A/c:			Provision for Doubtful Debts	2,000	55,000
Mrs. *X*'s Loan	5,000		By *X*'s Capital A/c (Stock)		4,000
Remuneration for Dissolution Process	1,000	6,000	By *Y*'s Capital A/c (Assets Taken Over):		
To Bank A/c (Liabilities Paid):			Investments	4,500	
Sundry Creditors ₹ (30,000 – 150)	29,850		Furniture	300	4,800
Bills Payable ₹ (8,000 – 40)	7,960		By Bank A/c (Assets Realised):		
Mrs. *Y*'s Loan	10,000	47,810	Debtors ₹ (20,000 – 1,000)	19,000	
To Gain (Profit) transferred to Capital A/cs:			Fixed Assets	71,000	
X	15,745		Remaining Investments	4,500	94,500
Y	15,745	31,490			
		1,58,300			1,58,300

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* ₹	*Y* ₹	Particulars	*X* ₹	*Y* ₹
To Advertisement Suspense A/c	1,750	1,750	By Balance *b/d*	10,000	10,000
To Realisation A/c (Stock taken over)	4,000	...	By Workmen Compensation		
To Realisation A/c (Assets taken over)	...	4,800	Reserve A/c	5,000	5,000
To Bank A/c (Bal. Fig.)	30,995	24,195	By Realisation A/c	6,000	...
(Final Payment)			(Liabilities taken over)		
			By Realisation A/c (Gain)	15,745	15,745
	36,745	30,745		36,745	30,745

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	8,500	By Realisation A/c (Liabilities Paid)	47,810
To Realisation A/c (Assets Realised)	94,500	By *X*'s Capital A/c (Final Payment)	30,995
		By *Y*'s Capital A/c (Final Payment)	24,195
	1,03,000		1,03,000

Working Note: *Calculation of Discount on:*

(*i*) Debtors = ₹ 20,000 × $\frac{6}{100} \times \frac{10}{12}$ = ₹ 1,000;

(*ii*) Sundry Creditors = ₹ 30,000 × $\frac{6}{100} \times \frac{1}{12}$ = ₹ 150;

(*iii*) Bills Payable = ₹ 8,000 × $\frac{6}{100} \times \frac{1}{12}$ = ₹ 40.

8. (*a*) (*i*) Current Liabilities—Other Current Liabilities;
(*ii*) As Contingent Liability in the Notes to Accounts;
(*iii*) Current Assets—Cash and Cash Equivalents;
(*iv*) Non-Current Assets—Non-Current Investments;
(*v*) Current Assets—Current Investments;
(*vi*) Current Liabilities—Short-term Provisions.

(*b*)

Jiyaji Ltd.
BALANCE SHEET
as at 31st March, 2019

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital		3,90,000
(*b*) Reserves and Surplus		90,000
2. Share Application Money Pending Allotment		10,000
3. Non-Current Liabilities		
Long-term Borrowings		5,00,000
4. Current Liabilities		
(*a*) Trade Payables		20,000
(*b*) Short-term Provisions	1	10,000
Total		10,20,000
II. ASSETS		
1. Non-Current Assets		
(*a*) *Fixed Assets*—Tangible Assets		6,00,000
(*b*) Non-Current Investments		2,00,000
2. Current Assets		
(*a*) Inventories		20,000
(*b*) Trade Receivables		80,000
(*c*) Cash and Cash Equivalents		1,20,000
Total		10,20,000

Note to Accounts

Particulars	₹
1. Short-term Provisions	
Provision for Tax	10,000

SECTION B

9. **Shuchi Diamonds Ltd.**

CASH FLOW STATEMENT

for the year ended 31st March, 2019

Particulars		₹
A. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)		1,40,000
Add: Non-cash and Non-operating Items:		
Depreciation on Tangible Assets	2,00,000	
Interest on 10% Debentures	40,000	
Loss on Sale of Machinery	10,000	2,50,000
Operating Profit before Working Capital Changes		3,90,000
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Trade Payables	1,00,000	
Inventories	2,00,000	
Trade Receivables	1,00,000	(4,00,000)
		(10,000)
Add: Increase in Current Liabilities:		
Outstanding Expenses		20,000
Cash Flow from Operating Activities		10,000
B. Cash Flow from Investing Activities		
Purchase of Tangible Assets	(20,000)	
Proceeds for Sale of Machinery	10,000	
Proceeds for Sale of Non-current Investments	1,20,000	
Purchase of Goodwill	(2,00,000)	
Cash Used in Investing Activities		(90,000)
C. Cash Flow from Financing Activities		
Proceeds from Issue of Equity Shares	4,00,000	
Payment of Dividend of Preference Shares	(40,000)	
Payment of Dividend on Equity Shares	(3,00,000)	
Proceeds from Issue of 10% Debentures	2,00,000	
Payment of Interest on 10% Debentures	(40,000)	
Cash Flow from Financing Activities		2,20,000
D. Net Increase in Cash and Cash Equivalents (A + B + C)		1,40,000
E. *Add:* Cash and Cash Equivalents in the beginning of the Period		8,80,000
F. Cash and Cash Equivalents at the end of the Period (D + E)		10,20,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

		₹
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)		6,00,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)		8,00,000
		(2,00,000)
Add: Dividend Paid on:		
Preference Shares*	40,000	
Equity Shares	3,00,000	3,40,000
Net Profit before Tax		1,40,000

**Preference shareholders have preferential right to get dividend before it is given on equity shares. In the question, company has proposed and paid dividend on equity shares. Thus, it is implied that dividend was paid to the preference shareholders before it was paid to equity shareholders.*

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

Particulars	₹	Particulars	₹
To Balance *b/d*	5,00,000	By Bank A/c (Sale Proceeds) (Bal. Fig.)	1,20,000
To Capital Reserve A/c (Profit on Sale)	20,000	By Balance *c/d*	4,00,000
	5,20,000		5,20,000

3. *Dr.* TANGIBLE ASSETS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	18,00,000	By Bank A/c	10,000
To Bank A/c (Bal. Fig.) (Purchase)	20,000	By Loss on Sale of Machinery A/c (Statement of Profit and Loss)	10,000
		By Depreciation A/c	2,00,000
		By Balance *c/d*	16,00,000
	18,20,000		18,20,000

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

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

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

(*b*) $$\text{Debt to Toal Assets Ratio} = \frac{\text{Debt}}{\text{Total Assets}} = \frac{₹\ 5{,}00{,}000}{₹\ 12{,}00{,}000} = 0.42 : 1.$$

$$\text{Debt} = ₹\ 9{,}00{,}000 - ₹\ 4{,}00{,}000 = ₹\ 5{,}00{,}000$$

$$\text{Total Assets} = \text{Total Debts} + \text{Preference Share Capital} + \text{Equity Shareholders' Funds}$$
$$= ₹\ 9{,}00{,}000 + ₹\ 1{,}00{,}000 + ₹\ 2{,}00{,}000 = ₹\ 12{,}00{,}000.$$

(*c*) (*i*) *No Flow.* **Reason:** Charging of Depreciation on Furniture would result in No flow of cash because it is a non-cash expense.

(*ii*) Investing Activities are acquisition and disposal of long-term assets and other investments not included in Cash and Cash Equivalents.

(*d*) COMMON-SIZE BALANCE SHEET OF RADHA LTD.

as at 31st March, 2019 and 2018

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31st March, 2019 (₹)	31st March, 2018 (₹)	31st March, 2019 (%)	31st March, 2018 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(*a*) Share Capital		15,00,000	10,00,000	39.47	40.00
(*b*) Reserves and Surplus		10,00,000	10,00,000	26.32	40.00
2. Non-Current Liabilities					
Long-term Borrowings (Secured Loans)		8,00,000	2,00,000	21.05	8.00
3. Current Liabilities					
Trade Payables		5,00,000	3,00,000	13.16	12.00
Total		38,00,000	25,00,000	100.00	100.00
II. ASSETS					
1. Non-Current Assets					
Fixed Assets: Tangible		30,00,000	20,00,000	78.95	80.00
2. Current Assets					
Cash and Cash Equivalents		8,00,000	5,00,000	21.05	20.00
Total		38,00,000	25,00,000	100.00	100.00

11. (*a*) (*i*) Operating Ratio $= \dfrac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100$

$$= \frac{₹\ 30,80,000}{₹\ 44,00,000} \times 100 = 70\%.$$

Revenue from Operations = Cash Revenue from Operations + Credit Revenue from Operations

= ₹ 20,00,000 + 120% of ₹ 20,00,000

= ₹ 20,00,000 + ₹ 24,00,000 = ₹ 44,00,000

Operating Cost = Cost of Revenue from Operations* + Operating Expenses**

= ₹ 26,40,000 + ₹ 4,40,000 = ₹ 30,80,000.

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

= ₹ 44,00,000 – (40% of ₹ 44,00,000)

= ₹ 44,00,000 – ₹ 17,60,000 = ₹ 26,40,000.

**Operating Expenses = 10% of Total Revenue from Operations

= 10% of ₹ 44,00,000 = ₹ 4,40,000.

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

$$= \frac{₹\ 26,40,000}{₹\ 3,20,000} = 8.25\ \text{Times.}$$

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

$$= \frac{₹\ 3,00,000 + ₹\ 3,40,000}{2} = ₹\ 3,20,000.$$

(*iii*) $$\text{Proprietary Ratio} = \frac{\text{Shareholders' Funds/Equity}}{\text{Total Assets}}$$

$$= \frac{₹\ 12,00,000}{₹\ 16,00,000} = 0.75 : 1 \text{ or } 75\%.$$

Shareholders' Funds/Equity = Share Capital = ₹ 12,00,000

Total Assets = Fixed Assets + Current Assets

= ₹ 10,00,000 + ₹ 6,00,000 = ₹ 16,00,000.

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

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

$$\text{Credit Revenue from Operations} = \frac{₹\ 100}{₹\ 160} \times ₹\ 5,20,000 = ₹\ 3,25,000$$

(Let Credit Revenue from Operations be ₹ 100;

Cash Revenue from Operations ₹ 60;

Total Revenue from Operations ₹ 160).

Average Trade Receivables

$$= \frac{\text{Opening Trade Receivables + Closing Trade Receivables}}{2}$$

$$= \frac{3/4 \textit{ of } ₹\ 80,000 + ₹\ 80,000}{2} = \frac{₹\ 60,000 + ₹\ 80,000}{2} = ₹\ 70,000.$$

(*ii*) Yes, if Non-operating Incomes exceed Non-operating Expenses.