

# MODEL TEST PAPER 15 (Solution)

## SECTION A

### PART I

1. (i) In this case outgoing Partner's share in the profit/loss is adjusted through the Capital Accounts of Gaining Partners in their **gaining ratio**. Following Journal entry is passed to record this adjustment:

| Case                  | Accounting Entry to be Passed                                       |        |                                      |
|-----------------------|---|--------|--------------------------------------|
| (a) In Case of Profit | Gaining Partners' Capital A/cs<br>To Outgoing Partner's Capital A/c | ...Dr. | [Gaining Ratio]<br>[Share of Profit] |
| (b) In Case of Loss   | Outgoing Partner's Capital A/c<br>To Gaining Partners' Capital A/cs | ...Dr. |                                      |

- (ii) **Difference between Drawings Against Profit and Drawings Against Capital (Any two)**

| Basis                         | Drawings Against Profit                                     | Drawings Against Capital                                |
|-------------------------------|---|---|
| 1. <b>Where Debited</b>       | It is debited to Drawings Account.                          | It is debited to Capital Account.                       |
| 2. <b>Part</b>                | It is a part of expected profit.                            | It is part of capital.                                  |
| 3. <b>Effect</b>              | It does not reduce capital.                                 | It reduces capital.                                     |
| 4. <b>Interest on Capital</b> | It is not considered while calculating interest on capital. | It is considered while calculating interest on capital. |

- (iii) Securities Premium received cannot be used for purposes other than those specified in Section 52(2) of the Companies Act, 2013.
- (iv) Utilise ₹ 10,00,000 to write off underwriting commission.
- (v) Under redemption of debentures by lump sum payment, all debentures are redeemed in one lot on the redemption date specified in the terms of issue (*i.e., on maturity*).
- (vi) If purchase consideration is more than the net assets acquired, then the difference is debited to Goodwill Account.

### PART II

2. (a) (i) PROFIT AND LOSS APPROPRIATION ACCOUNT  
*for the year ended 31st March, 2019* Cr.

| Particulars                                | ₹         | Particulars                                | ₹         |
|--|-----------|--|-----------|
| To Interest on Capital (WN 3):             |           | By Profit and Loss A/c (Net Profit) (WN 2) | 9,95,500  |
| Sanjay's Current A/c                       | 50,000    | By Interest on Drawings (WN 4):            |           |
| Manoj's Current A/c                        | 80,000    | Sanjay's Current A/c                       | 3,600     |
| To Interest on Current A/cs:               |           | Manoj's Current A/c                        | 3,600     |
| Sanjay's Current A/c                       | 10,000    |  |           |
| Manoj's Current A/c                        | 20,000    |  | 7,200     |
| To General Reserve A/c (10% of ₹ 9,95,500) | 99,550    |  |           |
| To Profit transferred to Current A/cs:     |           |  |           |
| Sanjay                                     | 4,45,890  |  |           |
| Manoj                                      | 2,97,260  |  |           |
|  | 10,02,700 |  | 10,02,700 |

(ii)

| Dr.              |                       | PARTNERS' CAPITAL ACCOUNTS |                 |                 |                       | Cr.             |                 |
|------------------|-----------------------|----------------------------|-----------------|-----------------|-----------------------|-----------------|-----------------|
| Date             | Particulars           | Sanjay<br>₹                | Manoj<br>₹      | Date            | Particulars           | Sanjay<br>₹     | Manoj<br>₹      |
| 2019<br>March 31 | To Balance <i>c/d</i> | 8,00,000                   | 8,00,000        | 2018<br>April 1 | By Balance <i>b/d</i> | 4,00,000        | 8,00,000        |
|                  |                       |                            |                 | 2019<br>Jan. 1  | By Bank A/c           | 4,00,000        | ...             |
|                  |                       | <u>8,00,000</u>            | <u>8,00,000</u> |                 |                       | <u>8,00,000</u> | <u>8,00,000</u> |

(iii)

| Dr.              |                             | PARTNERS' CURRENT ACCOUNTS |                 |                  |  | Cr.             |                 |
|------------------|-----------------------------|----------------------------|-----------------|------------------|--|-----------------|-----------------|
| Date             | Particulars                 | Sanjay<br>₹                | Manoj<br>₹      | Date             | Particulars                                      | Sanjay<br>₹     | Manoj<br>₹      |
| 2019<br>March 31 | To Drawings A/c             | 48,000                     | 48,000          | 2018<br>April 1  | By Balance <i>b/d</i>                            | 1,00,000        | 2,00,000        |
|                  | To Interest on Drawings A/c | 3,600                      | 3,600           | 2019<br>March 31 | By Interest on Capital A/c                       | 50,000          | 80,000          |
|                  | To Balance <i>c/d</i>       | 5,54,290                   | 5,45,660        |                  | By Interest on Current A/c                       | 10,000          | 20,000          |
|                  |                             |                            |                 |                  | By Profit and Loss<br>Appropriation A/c (Profit) | 4,45,890        | 2,97,260        |
|                  |                             | <u>6,05,890</u>            | <u>5,97,260</u> |                  |  | <u>6,05,890</u> | <u>5,97,260</u> |

(iv)

| Dr.              |                       | MANOJ'S LOAN ACCOUNT |                |  | Cr.             |  |
|------------------|-----------------------|----------------------|----------------|--|-----------------|--|
| Date             | Particulars           | ₹                    | Date           | Particulars  | ₹               |  |
| 2019<br>March 31 | To Balance <i>c/d</i> | 3,04,500             | 2019<br>Jan. 1 | By Bank A/c  | 3,00,000        |  |
|                  |                       |                      | March 31       | By Interest on Manoj's Loan A/c<br>(₹ 3,00,000 × 6/100 × 3/12) | 4,500           |  |
|                  |                       | <u>3,04,500</u>      |                |  | <u>3,04,500</u> |  |

**Working Notes:**

- When the Partnership Deed is silent, interest on Partner's Loan is to be allowed @ 6% p.a. as per Indian Partnership Act, 1932.
- Interest on Manoj's Loan = ₹ 3,00,000 ×  $\frac{6}{100} \times \frac{3}{12}$  = ₹ 4,500 will be debited to Profit and Loss Account as it is charge against the Profit. Thus, Amount of Profit transferred to Profit and Loss Appropriation Account will be ₹ 9,95,500 (i.e., ₹ 10,00,000 – ₹ 4,500).
- Interest on Sanjay's Capital = ₹ 4,00,000 ×  $\frac{10}{100}$  + ₹ 4,00,000 ×  $\frac{10}{100} \times \frac{3}{12}$  = ₹ 40,000 + ₹ 10,000 = ₹ 50,000; Interest on Manoj's Capital =  $\left( ₹ 8,00,000 \times \frac{10}{100} \right)$  = ₹ 80,000.
- As both the partners withdrew ₹ 12,000 each in the beginning of every quarter, interest will be charged on their drawings for average period of 7.5 months. Thus.  
Interest on Drawings = ₹ 48,000 ×  $\frac{12}{100} \times \frac{7.5}{12}$  = ₹ 3,600 each.

(b) CALCULATION OF AVERAGE PROFIT

| Based on Past 3 Years' Profits |         | ₹        | Based on Past 4 Years' Profits |         | ₹        |
|--------------------------------|---------|----------|--------------------------------|---------|----------|
| Profit for the Year 2018–19    |         | 32,600   | Profit for the Year 2018–19    |         | 32,600   |
| Profit for the Year 2017–18    |         | 42,000   | Profit for the Year 2017–18    |         | 42,000   |
| Profit for the Year 2016–17    |         | 3,70,000 | Profit for the Year 2016–17    |         | 3,70,000 |
|                                |         |          | Profit for the year 2015–16    |         | 2,90,000 |
| Total                          | (A)     | 4,44,600 | Total                          | (A)     | 7,34,600 |
| Number of Years                | (B)     | 3        | Number of Years                | (B)     | 4        |
| Average Profit                 | (A ÷ B) | 1,48,200 | Average Profit                 | (A ÷ B) | 1,83,650 |

Value of Goodwill = 60% of Average Profit  
 = 60% of ₹ 1,83,650 = ₹ 1,10,190.

3.

| Dr. REALISATION ACCOUNT                      |          |   |          | Cr.      |          |
|--|----------|---|----------|----------|----------|
| Particulars                                  | ₹        | Particulars                             | ₹        |          |          |
| To Sundry Assets (Transfer):                 |          | By Provision for Doubtful Debts A/c     | 10,000   |          |          |
| Investments A/c                              | 60,000   | By Mrs. A's Loan A/c                    | 50,000   |          |          |
| Furniture A/c                                | 50,000   | By Sundry Creditors A/c                 | 70,000   |          |          |
| Machinery A/c                                | 1,50,000 | By A's Capital A/c (Assets Taken over): |          |          |          |
| Debtors A/c                                  | 1,00,000 | Investments (B.V. ₹ 36,000)             | 28,800   |          |          |
| To A's Capital A/c (Liabilities taken over): |          | Car                                     | 24,000   | 52,800   |          |
| Mrs. A's Loan                                | 50,000   | By Bank A/c (Assets Realised):          |          |          |          |
| Outstanding Salaries                         | 24,000   | Debtors                                 | 95,000   |          |          |
| To Bank A/c (Liabilities Paid):              |          | Machinery                               | 1,30,000 |          |          |
| Sundry Creditors (₹ 10,000 + ₹ 31,500)       | 41,500   | Investments (Remaining)                 | 29,000   | 2,54,000 |          |
| Workmen Compensation Claim                   | 10,000   | By Loss on Realisation transferred to:  |          |          |          |
| To B's Capital A/c (Dissolution Expenses)    | 5,000    | A's Capital A/c                         | 32,220   |          |          |
|  |          | B's Capital A/c                         | 21,480   | 53,700   |          |
|  |          |   |          |          |          |
|  | 4,90,500 |   |          |          | 4,90,500 |

| Dr. PARTNERS' CAPITAL ACCOUNTS          |          |          |   |          |          | Cr. |  |
|---|----------|----------|---|----------|----------|-----|--|
| Particulars                             | A        | B        | Particulars                                 | A        | B        |     |  |
|   | ₹        | ₹        |   | ₹        | ₹        |     |  |
| To Profit and Loss A/c                  | 12,000   | 8,000    | By Balance b/d                              | 2,00,000 | 1,00,000 |     |  |
| To Advertisement Suspense A/c           | 6,000    | 4,000    | By General Reserve A/c                      | 18,000   | 12,000   |     |  |
| To Realisation A/c (Assets taken over)  | 52,800   | ...      | By Realisation A/c (Liabilities taken over) | 74,000   | ...      |     |  |
| To Realisation A/c (Loss)               | 32,220   | 21,480   | By Realisation A/c (Diss. Expenses)         | ...      | 5,000    |     |  |
| To Bank A/c (Final Payment) (Bal. Fig.) | 1,88,980 | 83,520   |   |          |          |     |  |
|   | 2,92,000 | 1,17,000 |   | 2,92,000 | 1,17,000 |     |  |

| Dr. BANK ACCOUNT                     |          |                                       |          | Cr. |          |
|--------------------------------------|----------|---------------------------------------|----------|-----|----------|
| Particulars                          | ₹        | Particulars                           | ₹        |     |          |
| To Balance b/d                       | 70,000   | By Realisation A/c (Liabilities Paid) | 51,500   |     |          |
| To Realisation A/c (Assets Realised) | 2,54,000 | By A's Capital A/c (Final Payment)    | 1,88,980 |     |          |
|                                      |          | By B's Capital A/c (Final Payment)    | 83,520   |     |          |
|                                      | 3,24,000 |                                       |          |     | 3,24,000 |

**Note:** When an asset, whether recorded or unrecorded is given in payment of a liability, whether recorded or unrecorded, there will be no entry for such payment. Thus, no entry will be passed for adjustment (iii).

## 4. (a)

| Dr. REVALUATION ACCOUNT Cr.      |                 |                                     |                 |
|----------------------------------|-----------------|-------------------------------------|-----------------|
| Particulars                      | ₹               | Particulars                         | ₹               |
| To Stock A/c (₹ 44,000 × 10/110) | 4,000           | By Provision for Doubtful Debts A/c | 5,000           |
| To Gain (Profit) transferred to: |                 | By Building A/c                     | 2,00,000        |
| Brown's Capital A/c              | 1,26,000        | By Investments A/c                  | 15,000          |
| Green's Capital A/c              | 90,000          |                                     |                 |
|                                  | 2,16,000        |                                     |                 |
|                                  | <u>2,20,000</u> |                                     | <u>2,20,000</u> |

| Dr. PARTNERS' CAPITAL ACCOUNTS Cr. |                 |                 |                 |                                       |                 |                 |                 |
|------------------------------------|-----------------|-----------------|-----------------|---------------------------------------|-----------------|-----------------|-----------------|
| Particulars                        | Brown<br>₹      | Green<br>₹      | Violet<br>₹     | Particulars                           | Brown<br>₹      | Green<br>₹      | Violet<br>₹     |
| To Balance c/d                     | 9,94,500        | 6,07,500        | 3,00,000        | By Balance b/d                        | 8,00,000        | 4,00,000        | ...             |
|                                    |                 |                 |                 | By Revaluation A/c (Gain)             | 1,26,000        | 90,000          | ...             |
|                                    |                 |                 |                 | By Workmen Compensation Reserve A/c   | 21,000          | 15,000          | ...             |
|                                    |                 |                 |                 | By Investment Fluctuation Reserve A/c | 17,500          | 12,500          | ...             |
|                                    |                 |                 |                 | By Bank A/c                           | ...             | ...             | 3,00,000        |
|                                    |                 |                 |                 | By Premium for Goodwill A/c           | 22,500          | 67,500          | ...             |
|                                    |                 |                 |                 | By Violet's Current A/c               | 7,500           | 22,500          | ...             |
|                                    | <u>9,94,500</u> | <u>6,07,500</u> | <u>3,00,000</u> |                                       | <u>9,94,500</u> | <u>6,07,500</u> | <u>3,00,000</u> |

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

| Liabilities                | ₹                | Assets                                     | ₹                |
|----------------------------|------------------|--|------------------|
| Capital A/cs:              |                  | Building                                   | 12,00,000        |
| Brown                      | 9,94,500         | Sundry Debtors                             | 2,00,000         |
| Green                      | 6,07,500         | Less: Provision for Doubtful Debts         | 10,000           |
| Violet                     | 3,00,000         | Stock                                      | 40,000           |
| Current A/cs:              |                  | Investments (at Market Value)              | 4,15,000         |
| Brown                      | 5,000            | Cash at Bank (WN 4)                        | 4,36,000         |
| Green                      | 15,000           | Violet's Current A/c (₹ 20,000 + ₹ 30,000) | 50,000           |
| General Reserve            | 45,000           | Advertisement Suspense A/c                 | 25,000           |
| Profit and Loss A/c        | 1,00,000         |  |                  |
| Workmen Compensation Claim | 24,000           |  |                  |
| Sundry Creditors           | 2,65,000         |  |                  |
|                            | <u>23,56,000</u> |  | <u>23,56,000</u> |

**Working Notes:**

1. Sacrificing Ratio of Brown and Green =  $\frac{1}{24} : \frac{3}{24} = 1 : 3$ .

2. Adjustment of Goodwill:

Violet's Share of Goodwill =  $\frac{1}{6} \times ₹ 7,20,000 = ₹ 1,20,000$ , out of which he brought  $\frac{3}{4}$  th share in cash.

∴ Amount of Goodwill brought in cash =  $₹ 1,20,000 \times \frac{3}{4} = ₹ 90,000$ .

Journal entry for Adjustment of Goodwill:

|                          |        | ₹      | ₹      |
|--------------------------|--------|--------|--------|
| Premium for Goodwill A/c | ...Dr. | 90,000 |        |
| Violet's Current A/c     | ...Dr. | 30,000 |        |
| To Brown's Capital A/c   |        |        | 30,000 |
| To Green's Capital A/c   |        |        | 90,000 |

3. Adjustment for General Reserve, Profit and Loss Account and Advertisement Suspense A/c:

|                            |  | ₹          |  |
|----------------------------|--|------------|--|
| General Reserve            |  | 45,000     |  |
| Profit and Loss A/c        |  | 1,00,000   |  |
| Advertisement Suspense A/c |  | (25,000)   |  |
| Net Amount                 |  | (1,20,000) |  |

Journal entry:

|                        |        | ₹      | ₹      |
|------------------------|--------|--------|--------|
| Violet's Current A/c   | ...Dr. | 20,000 |        |
| To Brown's Current A/c |        |        | 5,000  |
| To Green's Current A/c |        |        | 15,000 |

4. Cash at Bank = ₹ 46,000 + ₹ 3,00,000 + ₹ 90,000 = ₹ 4,36,000.

5. (a)

JOURNAL OF A LTD.

| Date | Particulars   | L.F.   | Dr. (₹)  | Cr. (₹)  |
|------|---|--------|----------|----------|
|      | Plant A/c   | ...Dr. | 40,000   |          |
|      | Building A/c  | ...Dr. | 40,000   |          |
|      | Debtors A/c   | ...Dr. | 30,000   |          |
|      | Stock A/c   | ...Dr. | 50,000   |          |
|      | Furniture A/c   | ...Dr. | 20,000   |          |
|      | To Creditors A/c  |        |          | 20,000   |
|      | To B Ltd.   |        |          | 1,50,000 |
|      | To Capital Reserve A/c (Balancing Figure)   |        |          | 10,000   |
|      | (Being the business purchased of B Ltd.)  |        |          |          |
|      | B Ltd.  | ...Dr. | 1,50,000 |          |
|      | To Equity Share Capital A/c (10,000 × ₹ 10)   |        |          | 1,00,000 |
|      | To Securities Premium Reserve A/c (10,000 × ₹ 2)  |        |          | 20,000   |
|      | To Cash/Bank A/c  |        |          | 30,000   |
|      | (Being the issue of 10,000 equity shares of ₹ 10 each at a premium of ₹ 2 to B Ltd. along with cash of ₹ 30,000 against purchase price) |        |          |          |

## (b) JOURNAL OF KING LTD.

| Date | Particulars  | L.F. | Dr. (₹) | Cr. (₹) |
|------|--|------|---------|---------|
|      | Incorporation Cost or Goodwill A/c ...Dr.<br>To Share Capital A/c<br>(Being the issue of 3,000 shares of ₹ 10 each as fully paid to promoters) |      | 30,000  | 30,000  |
|      | Underwriting Commission A/c ...Dr.<br>To Underwriters' A/c<br>(Being the underwriting commission payable)                                      |      | 40,000  | 40,000  |
|      | Underwriters' A/c ...Dr.<br>To Share Capital A/c<br>(Being 4,000 shares issued to underwriters for their commission)                           |      | 40,000  | 40,000  |

## (c) JOURNAL OF XYZ LTD.

| Date | Particulars  | L.F. | Dr. (₹)                                    | Cr. (₹)              |
|------|--|------|--|----------------------|
|      | Building A/c ...Dr.<br>Machinery A/c ...Dr.<br>Sundry Debtors A/c ...Dr.<br>Goodwill A/c (Balancing Figure) ...Dr.<br>To Sundry Creditors A/c<br>To Y Ltd.<br>(Being the business purchased of Y Ltd.) |      | 3,00,000<br>2,00,000<br>1,00,000<br>50,000 | 1,50,000<br>5,00,000 |
|      | Y Ltd. ...Dr.<br>To Equity Share Capital A/c<br>To Securities Premium Reserve A/c<br>(Being the issue of 4,000 Equity Shares of ₹ 100 each at 25% premium against purchase price)                      |      | 5,00,000                                   | 4,00,000<br>1,00,000 |

**Working Note:**

$$\text{Number of Equity Shares to be Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price of a Share}} = \frac{\text{₹ 5,00,000}}{\text{₹ 125}} = 4,000 \text{ Shares.}$$

## (d) JOURNAL OF Z LTD.

| Date | Particulars  | L.F. | Dr. (₹)      | Cr. (₹)        |
|------|--|------|--------------|----------------|
|      | Share Capital A/c (50 × ₹ 80) ...Dr.<br>Securities Premium Reserve A/c (50 × ₹ 10) ...Dr.<br>To Forfeited Shares A/c (50 × ₹ 30)<br>To Calls-in-Arrears A/c (50 × ₹ 60)<br>(Being 50 shares forfeited for non-payment of allotment and first call) |      | 4,000<br>500 | 1,500<br>3,000 |
|      | Bank A/c (₹ 70 × 20) ...Dr.<br>Forfeited Shares A/c (₹ 10 × 20) ...Dr.<br>To Share Capital A/c (20 × ₹ 80)<br>(Being 20 forfeited shares reissued at ₹ 70 per share as ₹ 80 paid-up)   |      | 1,400<br>200 | 1,600          |
|      | Forfeited Shares A/c (20 × ₹ 20) ...Dr.<br>To Capital Reserve A/c<br>(Being the gain on reissue transferred to Capital Reserve)  |      | 400          | 400            |

| Dr.                                |       | FORFEITED SHARES ACCOUNT |       | Cr. |  |
|------------------------------------|-------|--------------------------|-------|-----|--|
| Particulars                        | ₹     | Particulars              | ₹     |     |  |
| To Share Capital A/c (20 × ₹ 10)   | 200   | By Share Capital A/c     | 1,500 |     |  |
| To Capital Reserve A/c (20 × ₹ 20) | 400   |                          |       |     |  |
| To Balance c/d                     | 900   |                          |       |     |  |
|                                    | 1,500 |                          | 1,500 |     |  |

**6. (a) Jaypee Construction Ltd.**  
JOURNAL

| Date             | Particulars   | L.F. | Dr. (₹)   | Cr. (₹)            |
|------------------|---|------|-----------|--------------------|
| 2018<br>March 31 | Surplus, i.e., Balance in Statement of Profit and Loss A/c ...Dr.<br>To Debentures Redemption Reserve A/c<br>(Being the amount transferred to DRR)          |      | 75,000    | 75,000             |
| April 1          | Debentures Redemption Investment A/c ...Dr.<br>To Bank A/c<br>(Being 15% of the value of debentures invested in DRI)  |      | 1,50,000  | 1,50,000           |
| 2019<br>March 31 | Bank A/c ...Dr.<br>To Debentures Redemption Investment A/c<br>To Interest Earned A/c<br>(Being the Debentures Redemption Investment encashed with interest) |      | 1,65,000  | 1,50,000<br>15,000 |
|                  | 8% Debentures A/c ...Dr.<br>To Debentureholders' A/c<br>(Being the amount due on redemption of 10,000; 8% Debentures)                                       |      | 10,00,000 | 10,00,000          |
|                  | Debentureholders' A/c ...Dr.<br>To Bank A/c<br>(Being the payment made to debentureholders)   |      | 10,00,000 | 10,00,000          |
|                  | Debentures Redemption Reserve A/c ...Dr.<br>To General Reserve A/c<br>(Being the DRR transferred to General Reserve after redemption)                       |      | 2,50,000  | 2,50,000           |

**Working Note:**

Balance amount transferred to DRR = ₹ 2,50,000 (i.e., 25% of ₹ 10,00,000) – ₹ 1,75,000 (Existing Balance in DRR) = ₹ 75,000.

**(b) JOURNAL OF Z LTD.**

| Date | Particulars                               | L.F. | Dr. (₹)  | Cr. (₹)  |
|------|---|------|----------|----------|
|      | Building A/c ...Dr.                       |      | 3,00,000 |          |
|      | Plant and Machinery A/c ...Dr.            |      | 1,00,000 |          |
|      | Stock A/c ...Dr.                          |      | 2,00,000 |          |
|      | Sundry Debtors A/c ...Dr.                 |      | 1,00,000 |          |
|      | To Sundry Creditors A/c                   |      |          | 80,000   |
|      | To Y Ltd.                                 |      |          | 6,00,000 |
|      | To Capital Reserve A/c (Balancing Figure) |      |          | 20,000   |
|      | (Being the business purchased of Y Ltd.)  |      |          |          |

|  |        |          |          |
|--|--------|----------|----------|
| Y Ltd.   | ...Dr. | 6,00,000 |          |
| To Bank A/c (10% of ₹ 6,00,000)  |        |          | 60,000   |
| To 10% Debentures A/c  |        |          | 4,50,000 |
| To Securities Premium Reserve A/c  |        |          | 90,000   |
| (Being 4,500; 10% Debentures of ₹ 100 each issued at 20% premium along with cheque of ₹ 60,000 against purchase consideration) |        |          |          |

**Working Note:**

$$\begin{aligned} \text{Number of Debentures to be Issued} &= \frac{\text{Purchase Consideration} - \text{Part Payment}}{\text{Issue Price of Debenture}} \\ &= \frac{\text{₹ 6,00,000} - \text{₹ 60,000}}{\text{₹ 120}} = 4,500 \text{ Debentures.} \end{aligned}$$

## (c) JOURNAL OF ALOK LTD.

| Date             | Particulars  | L.F. | Dr. (₹) | Cr. (₹)         |
|------------------|--|------|---------|-----------------|
| 2018<br>Oct. 1   | Own Debentures A/c (300 × ₹ 93) ...Dr.<br>To Bank A/c<br>(Being 300 own Debentures purchased @ ₹ 93 each)  |      | 27,900  | 27,900          |
|                  | 12% Debentures A/c ...Dr.<br>To Own Debentures A/c<br>To Gain (Profit) on Cancellation of Own Debentures A/c<br>(Being 300 Own Debentures cancelled)                               |      | 30,000  | 27,900<br>2,100 |
|                  | Gain (Profit) on Cancellation of Own Debentures A/c ...Dr.<br>To Capital Reserve A/c<br>(Being the gain on cancellation of Own Debentures transferred)                             |      | 2,100   | 2,100           |
| 2019<br>March 31 | Interest on Debentures A/c ...Dr.<br>To Debentureholders' A/c<br>(Being the interest due on 700; 12% Debentures for 6 months)  |      | 4,200   | 4,200           |
|                  | Debentureholders' A/c ...Dr.<br>To Bank A/c<br>(Being the payment made to debentureholders)  |      | 4,200   | 4,200           |
|                  | Statement of Profit and Loss (Finance Cost) ...Dr.<br>To Interest on Debentures A/c<br>(Being the interest on Debentures for the year transferred to Statement of Profit and Loss) |      | 10,200  | 10,200          |

**Note:** Debentures (300) purchased on 1st October, 2018 were cancelled. Hence, interest is payable on 700 Debentures: ₹ 70,000 @ 12% p.a. for 6 months.

## 7. (a)

| S. No. | Main Head               | Sub-head                     |
|--------|-------------------------|------------------------------|
| (i)    | Current Liabilities     | Other Current Liabilities    |
| (ii)   | Shareholders' Funds     | Reserves and Surplus         |
| (iii)  | Current Liabilities     | Short-term Borrowings        |
| (iv)   | Current Liabilities     | Other Current Liabilities    |
| (v)    | Non-Current Liabilities | Deferred Tax Liability (Net) |
| (vi)   | Non-Current Liabilities | Long-term Provisions         |



(b)

**Satya Ltd.**  
BALANCE SHEET  
as at ...

| Particulars                      | Note No. | ₹         |
|----------------------------------|----------|-----------|
| <b>I. EQUITY AND LIABILITIES</b> |          |           |
| <b>Shareholders' Funds</b>       |          |           |
| Share Capital                    | 1        | 31,50,000 |

**Note to Accounts**

| Particulars                                     | ₹         |
|---|-----------|
| <b>1. Share Capital</b>                         |           |
| <i>Authorised Capital</i>                       |           |
| 1,00,000 Equity Shares of ₹ 50 each             | 50,00,000 |
| <i>Issued Capital</i>                           |           |
| 90,000 Equity Shares of ₹ 50 each               | 45,00,000 |
| <i>Subscribed Capital</i>                       |           |
| Subscribed but not fully paid-up                |           |
| 90,000 Equity Shares of ₹ 50 each; ₹ 35 paid-up | 31,50,000 |

(c)

**Star Ltd.**  
BALANCE SHEET (AN EXTRACT)  
as at 31st March, 2019

| Particulars                       | Note No. | ₹         |
|-----------------------------------|----------|-----------|
| <b>I. EQUITY AND LIABILITIES</b>  |          |           |
| <b>1. Non-Current Liabilities</b> |          |           |
| Long-term Borrowings              | 1        | 27,50,000 |
| <b>2. Current Liabilities</b>     |          |           |
| Other Current Liabilities         | 2        | 5,70,000  |

**Notes to Accounts**

| Particulars   | ₹         |
|---|-----------|
| <b>1. Long-term Borrowings</b>  |           |
| 7,500; 10% Debentures of ₹ 100 (Redeemable after 31st March, 2020)      | 7,50,000  |
| 11% Bank Loan from SBI (Repayable after 5 Years)                        | 20,00,000 |
|   | 27,50,000 |
| <b>2. Other Current Liabilities</b>                                     |           |
| (a) Current Maturities of Long-term Debts                               |           |
| 2,500; 10% Debentures of ₹ 100 each (Redeemable up to 31st March, 2020) | 2,50,000  |
| (b) <i>Interest Accrued and Due on Borrowings:</i>                      |           |
| Interest on 10% Debentures of ₹ 100 each                                | 1,00,000  |
| Interest on 11% Bank Loan from SBI                                      | 2,20,000  |
|   | 5,70,000  |

## 8. (a)

| Dr.                               |                 | B'S CAPITAL ACCOUNT  |                 | Cr. |  |
|-----------------------------------|-----------------|--|-----------------|-----|--|
| Particulars                       | ₹               | Particulars  | ₹               |     |  |
| To B's Executors' A/c (Bal. Fig.) | 3,47,000        | By Balance b/d   | 1,20,000        |     |  |
|                                   |                 | By Workmen Compensation Reserve A/c                        | 40,000          |     |  |
|                                   |                 | By Interest on Capital A/c<br>(₹ 1,20,000 × 10/100 × 3/12) | 3,000           |     |  |
|                                   |                 | By Profit and Loss Suspense A/c (WN 1)                     | 40,000          |     |  |
|                                   |                 | By A's Capital A/c (Goodwill) (WN 2)                       | 1,08,000        |     |  |
|                                   |                 | By C's Capital A/c (Goodwill) (WN 2)                       | 36,000          |     |  |
|                                   | <u>3,47,000</u> |  | <u>3,47,000</u> |     |  |

| Dr.         |                 | B'S EXECUTORS' ACCOUNT |                 | Cr. |  |
|-------------|-----------------|------------------------|-----------------|-----|--|
| Particulars | ₹               | Particulars            | ₹               |     |  |
| To Bank A/c | 3,47,000        | By B's Capital A/c     | 3,47,000        |     |  |
|             | <u>3,47,000</u> |                        | <u>3,47,000</u> |     |  |

**Working Notes:**

## 1. Calculation of B's Share of Profit:

Sales for the Period = ₹ 12,00,000

Rate of Net Profit on Sales = 10%

Net Profit for the Period = 10% of ₹ 12,00,000 = ₹ 1,20,000

B's Share of Net Profit =  $\frac{2}{6}$  of ₹ 1,20,000 = ₹ 40,000.

## 2. Adjustment of Goodwill:

Value of Goodwill = 2 (₹ 82,000 + ₹ 90,000 + ₹ 98,000) Less 20%

= ₹ 5,40,000 – 20% of ₹ 5,40,000 = ₹ 4,32,000

∴ B's Share of Goodwill =  $\frac{2}{6}$  of ₹ 4,32,000 = ₹ 1,44,000, which will be contributed by A and C in their gaining ratio, i.e., 3 : 1.

Thus, A's contribution will be ₹ 1,08,000 and C's contribution will be ₹ 36,000.

## (b)

## JOURNAL

| Date | Particulars  | L.F. | Dr. (₹) | Cr. (₹) |
|------|--|------|---------|---------|
|      | Profit and Loss Adjustment A/c ...Dr.                                    |      | 73,000  |         |
|      | To X's Capital A/c   |      |         | 41,000  |
|      | To Y's Capital A/c   |      |         | 32,000  |
|      | (Being the adjustment made for omitted interest on capital) (WN 1)       |      |         |         |
|      | X's Capital A/c ...Dr.   |      | 2,250   |         |
|      | Y's Capital A/c ...Dr.   |      | 1,125   |         |
|      | To Profit and Loss Adjustment A/c  |      |         | 3,375   |
|      | (Being the adjustment made for omitted interest on drawings) (WN 2)      |      |         |         |
|      | X's Capital A/c ...Dr.   |      | 41,775  |         |
|      | Y's Capital A/c ...Dr.   |      | 27,850  |         |
|      | To Profit and Loss Adjustment A/c  |      |         | 69,625  |
|      | (Being the loss on adjustment transferred to Partners' Capital Accounts) |      |         |         |

**Working Notes:**

|  |            |          |
|--|------------|----------|
| 1. Calculation of Opening Capitals and interest thereon: | X(₹)       | Y(₹)     |
| Closing Capital  | 10,00,000  | 7,50,000 |
| Add: Drawings  | 1,20,000   | 90,000   |
|  | <hr/>      | <hr/>    |
|  | 11,20,000  | 8,40,000 |
| Less: Profit   | 3,00,000   | 2,00,000 |
| Opening Capital  | <hr/>      | <hr/>    |
|  | 8,20,000   | 6,40,000 |
| Interest on Capital @ 5% p.a.                            | 41,000     | 32,000   |
| 2. Calculation of Interest on Drawings:                  | X          | Y        |
| Drawings   | ₹ 1,20,000 | ₹ 90,000 |
| Average Period   | 4.5 months | 3 months |
| Interest on Drawings                                     | ₹ 2,250    | ₹ 1,125  |

**SECTION B**

$$9. (a) (i) \text{ Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Shareholders' Funds/Equity}}$$

$$= \frac{\text{₹ 4,00,000}}{\text{₹ 14,00,000}} = 0.29 : 1.$$

$$\text{Debt} = 12\% \text{ Debentures} = \text{₹ 4,00,000}$$

$$\begin{aligned} \text{Shareholders' Funds/Equity} &= \text{Equity Share Capital} + \text{General Reserve} \\ &\quad + \text{Balance in Statement of Profit and Loss} \\ &= \text{₹ 10,00,000} + \text{₹ 1,00,000} + \text{₹ 3,00,000} \\ &= \text{₹ 14,00,000}. \end{aligned}$$

$$(ii) \text{ Working Capital Turnover Ratio} = \frac{\text{Revenue from Operations}}{\text{Working Capital}}$$

$$= \frac{\text{₹ 30,00,000}}{\text{₹ 1,00,000}} = 30 \text{ Times.}$$

$$\text{Revenue from Operations} = \text{₹ 30,00,000}$$

$$\begin{aligned} \text{Working Capital} &= \text{Current Assets} - \text{Current Liabilities} \\ &= \text{Trade Receivables} + \text{Cash and Cash} \\ &\quad \text{Equivalentents} - \text{Trade Payables} \\ &= \text{₹ 2,90,000} + \text{₹ 1,10,000} - \text{₹ 3,00,000} \\ &= \text{₹ 1,00,000}. \end{aligned}$$

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

$$= \frac{\text{₹ 6,48,000}}{\text{₹ 18,00,000}} \times 100 = 36\%.$$

**Working Notes:**

|   |                 |
|---|-----------------|
| 1. Calculation of Net Profit before Interest and Tax:   | ₹               |
| Statement of Profit and Loss after Interest and Tax     | 3,00,000        |
| Add: Tax  | 3,00,000        |
| Interest on Debentures (12% of ₹ 4,00,000)              | 48,000          |
| Net Profit before Interest and Tax                      | <u>6,48,000</u> |
| 2. Capital Employed = Debt + Equity/Shareholders' Funds |                 |
| = ₹ 4,00,000 + ₹ 14,00,000 = ₹ 18,00,000.               |                 |

$$(b) \text{ Interest Coverage Ratio} = \frac{\text{Net Profit before Interest and Tax}}{\text{Interest}}$$

$$= \frac{\text{₹ } 6,50,000}{\text{₹ } 50,000} = 13 \text{ Times.}$$

**Working Notes:**

|   |                 |
|---|-----------------|
| 1. Interest = Fixed Interest Charges = ₹ 50,000.  |                 |
| 2. Calculation of Profit before Interest and Tax: | ₹               |
| Net Profit before Tax (after Interest)*           | 6,00,000        |
| Add: Interest                                     | 50,000          |
| Net Profit before Interest and Tax                | <u>6,50,000</u> |

\*Calculation of Net Profit before Tax (after Interest):

Rate of Tax = 50%

Let Net Profit before Tax (after Interest) be ₹ 100; Tax = ₹ 50

Net Profit after Interest and Tax = ₹ 100 – ₹ 50 = ₹ 50

Profit after Interest and Tax = ₹ 3,00,000 (Given)

$$\therefore \text{Net Profit before Tax (after Interest)} = \frac{\text{₹ } 100}{\text{₹ } 50} \times \text{₹ } 3,00,000 = \text{₹ } 6,00,000.$$

$$(c) \text{ Debt to Total Assets Ratio} = \frac{\text{Debt}}{\text{Total Assets}}$$

$$= \frac{\text{₹ } 6,00,000}{\text{₹ } 14,40,000} = 0.42 : 1.$$

**Working Notes:**

$$1. \text{ Debt} = \text{Total Debt} - \text{Current Liabilities}$$

$$= \text{₹ } 10,80,000 - \text{₹ } 4,80,000 = \text{₹ } 6,00,000.$$

$$2. \text{ Total Assets} = \text{Total Debt} + \text{Shareholders' Funds/Equity}$$

$$= \text{₹ } 10,80,000 + \text{₹ } 3,60,000^* = \text{₹ } 14,40,000.$$

\*Shareholders' Funds/Equity = Preference Share Capital + Equity Shareholders' Funds

$$= \text{₹ } 1,20,000 + \text{₹ } 2,40,000 = \text{₹ } 3,60,000.$$

10.

H.P. LTD.

CASH FLOW STATEMENT  
for the year ended 31st March, 2019

| Particulars   | ₹           | ₹           |
|---|-------------|-------------|
| <b>I. Cash Flow from Operating Activities</b>                               |             |             |
| Net Profit before Tax (WN 1)  | 6,40,000    |             |
| <i>Add: Non-cash and Non-operating Items:</i>                               |             |             |
| Provision for Doubtful Debts  | 50,000      |             |
| Depreciation on Machinery   | 2,00,000    |             |
| Goodwill Amortised  | 50,000      |             |
| Interest on Bank Loan (₹ 6,00,000 × 10/100 + ₹ 3,00,000 × 10/100 × 3/12)    | 67,500      |             |
|   | 10,07,500   |             |
| <i>Less: Non-operating Income:</i>  |             |             |
| Gain (Profit) on Sale of Machinery (WN 3)                                   | 30,000      |             |
| Operating Profit before Working Capital Changes                             | 9,77,500    |             |
| <i>Add: Increase in Current Liabilities and Decrease in Current Assets:</i> |             |             |
| Trade Payables  | 30,000      |             |
| Inventories   | 20,000      |             |
| Trade Receivables (Debtors)   | 3,50,000    |             |
| Cash Generated from Operations  | 13,77,500   |             |
| <i>Less: Tax Paid</i>   | 1,50,000    |             |
| <i>Cash Flow from Operating Activities</i>                                  |             | 12,27,500   |
| <b>II. Cash Flow from Investing Activities</b>                              |             |             |
| Proceeds from Sale of Machinery   | 1,50,000    |             |
| Payment for Purchase of Machinery (WN 3)                                    | (17,20,000) |             |
| Payment for Purchase of Non-current Investments                             | (2,00,000)  |             |
| <i>Cash Used in Investing Activities</i>                                    |             | (17,70,000) |
| <b>III. Cash Flow from Financing Activities</b>                             |             |             |
| Receipts from Issue of Shares   | 10,00,000   |             |
| Proceeds from 10% Bank Loan   | 3,00,000    |             |
| Payment of Interim Dividend   | (2,25,000)  |             |
| Payment of Dividend (Proposed Dividend for 2017-18)                         | (2,50,000)  |             |
| Payment of Interest on Bank Loan (₹ 67,500 – ₹ 50,000)                      | (17,500)    |             |
| Raised Short-term Borrowings  | 20,000      |             |
| <i>Cash Flow from Financing Activities</i>                                  |             | 8,27,500    |
| <b>IV. Net Increase in Cash and Cash Equivalents (I + II + III)</b>         |             | 2,85,000    |
| <i>Add: Cash and Cash Equivalents in the beginning of the Period</i>        |             | 5,25,000    |
| <b>V. Cash and Cash Equivalents at the end of the Period</b>                |             | 8,10,000    |

**Working Notes:**

|  |          |
|--|----------|
| 1. Calculation of Net Profit before Tax:   | ₹        |
| Closing Balance of Surplus, i.e., Balance in Statement of Profit and Loss              | 7,00,000 |
| <i>Less: Opening Balance of Surplus, i.e., Balance in Statement of Profit and Loss</i> | 5,00,000 |
|  | 2,00,000 |
| <i>Add: Dividend Paid (Proposed Dividend for 2017-18)</i>                              | 2,50,000 |
| Provision for Tax (WN 2)   | 1,90,000 |
| Net Profit before Tax  | 6,40,000 |

| 2. Dr.         |          | PROVISION FOR TAX ACCOUNT                   |          | Cr. |
|----------------|----------|---|----------|-----|
| Particulars    | ₹        | Particulars                                 | ₹        |     |
| To Bank A/c    | 1,50,000 | By Balance b/d                              | 1,10,000 |     |
| To Balance c/d | 1,50,000 | By Statement of Profit and Loss (Bal. Fig.) | 1,90,000 |     |
|                | 3,00,000 |   | 3,00,000 |     |

| 3. Dr.   |           | MACHINERY ACCOUNT   |           | Cr. |
|--|-----------|---------------------|-----------|-----|
| Particulars  | ₹         | Particulars         | ₹         |     |
| To Balance b/d   | 16,00,000 | By Bank A/c         | 1,50,000  |     |
| To Gain (Profit) on Sale of Machinery A/c*<br>(Statement of Profit and Loss) | 30,000    | By Depreciation A/c | 2,00,000  |     |
| To Bank A/c (Bal. Fig.) (Purchase)   | 17,20,000 | By Balance c/d      | 30,00,000 |     |
|  | 33,50,000 |                     | 33,50,000 |     |

\*Gain (Profit) on Sale of Machinery = 25% of Book Value of Machinery on Date of Sale

$$= \frac{25}{100} [\text{₹ } 3,00,000 - \text{₹ } 1,80,000] = \text{₹ } 30,000.$$

3. Interim dividend is not considered while calculating Net Profit before Tax as it is paid out of General Reserve and not appropriated out of Surplus, i.e., Balance in Statement of Profit and Loss.

11. (a)

**Sun Ltd.**

**COMPARATIVE STATEMENT OF PROFIT AND LOSS**

for the years ended 31st March, 2019 and 2018

| Particulars                            | Note No. | 31st March,<br>2019 | 31st March,<br>2018 | Absolute<br>Change (Increase/<br>Decrease (₹)) | Percentage<br>Change (Increase/<br>Decrease) (%) |
|--|----------|---------------------|---------------------|--|--|
|  |          | ₹                   | ₹                   | (₹)  | (%)  |
|  |          | (A)                 | (B)                 | (C = A - B)                                    | $\left(D = \frac{C}{B} \times 100\right)$        |
| <b>I. Revenue from Operations</b>      |          | 25,00,000           | 20,00,000           | 5,00,000                                       | 25.00  |
| <b>II. Add: Other Income</b>           |          | 1,00,000            | 5,00,000            | (4,00,000)                                     | (80.00)  |
| <b>III. Total Revenue (I + II)</b>     |          | 26,00,000           | 25,00,000           | 1,00,000                                       | 4.00   |
| <b>IV. Expenses</b>                    |          |                     |                     |  |  |
| (a) Employee Benefit Expenses          |          | 15,60,000           | 12,50,000           | 3,10,000                                       | 24.80  |
| (b) Other Expenses                     |          | 1,56,000            | 2,50,000            | (94,000)                                       | (37.60)  |
| <b>Total Expenses</b>                  |          | 17,16,000           | 15,00,000           | 2,16,000                                       | 14.40  |
| <b>V. Profit before Tax (III - IV)</b> |          | 8,84,000            | 10,00,000           | (1,16,000)                                     | (11.60)  |
| <b>VI. Less: Tax</b>                   |          | 4,42,000            | 4,00,000            | 42,000   | 10.50  |
| <b>VII. Profit after Tax (V - VI)</b>  |          | 4,42,000            | 6,00,000            | (1,58,000)                                     | (26.33)  |

**Working Note:**

| Particulars                                     | 31st March, 2019 (₹)                         | 31st March, 2018 (₹)                         |
|---|--|--|
| Total Revenue                                   | 26,00,000                                    | 25,00,000                                    |
| Employee Benefit Expenses (% of Total Revenue)  | ₹ 26,00,000 × $\frac{60}{100}$ = ₹ 15,60,000 | ₹ 25,00,000 × $\frac{50}{100}$ = ₹ 12,50,000 |
| Other Expenses (% of Employee Benefit Expenses) | ₹ 15,60,000 × $\frac{10}{100}$ = ₹ 1,56,000  | ₹ 12,50,000 × $\frac{20}{100}$ = ₹ 2,50,000  |

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

$$8 = \frac{\text{Cost of Revenue from Operations}}{\text{₹ 80,000}^*}$$

$$\text{Cost of Revenue from Operations} = \text{₹ 6,40,000}$$

$$\left[ \begin{aligned} * \text{Average Inventory} &= \frac{\text{Opening Stock} + \text{Closing Stock}}{2} \\ &= \frac{\text{₹ 60,000} + \text{₹ 1,00,000}}{2} = \text{₹ 80,000} \end{aligned} \right]$$

As, Selling Price = 25% above Cost

It means, Revenue from Operations = 125% of ₹ 6,40,000

$$= \frac{125}{100} \times \text{₹ 6,40,000} = \text{₹ 8,00,000}$$

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

$$= \text{₹ 8,00,000} - \text{₹ 6,40,000} = \text{₹ 1,60,000}$$

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{\text{₹ 1,60,000}}{\text{₹ 8,00,000}} \times 100 = 20\%$$

(c) (i) Investing Activity;

(ii) ₹ 10,000 (Source of Cash).