Model Test Paper 7

Answers

PART A

1. (*a*) ₹ 18,000; ₹ 18,000; ₹ 9,000.

2. (*c*)

3. (*a*) Revaluation Account.

4. (*d*) Old Profit-sharing Ratio.

5. (*a*) ₹ 270

Total Drawings = ₹ 3,600 × 3 = ₹ 10,800

Average Period

$$= \frac{\text{Months Left After First Drawings + Months Left After Last Drawings}}{2}$$

$$= \frac{6+0}{2} = 3 \text{ months}$$

Interest on Drawings = ₹ 10,800 × $\frac{3}{12} \times \frac{10}{100}$ = ₹ 270.

6. (*d*)

Number of Shares Allotted = $\frac{1,00,000}{1,40,000} \times 4,200 = 3,000$ shares

Application Money Received on Shares Applied (4,200 × ₹ 20)	=	₹ 84,000
Less: Application Money due on Shares Allotted (3,000 × ₹ 20)	=	₹ 60,000
Excess Application Money adjusted on Allotment		₹ 24,000

7. (*c*) *B*'s Share is $\frac{3}{9}$, he gives his share in equal proportion to *A* and *C*. Thus *A* and *C* gets $\frac{3}{18}\left(\frac{3}{9} \times \frac{1}{2}\right)$ each from *B*.

A's New Share = $\frac{4}{9} + \frac{3}{18} = \frac{8+3}{18} = \frac{11}{18}$

C's New Share = $\frac{2}{9} + \frac{3}{18} = \frac{4+3}{18} = \frac{7}{18}$

New Ratio of *A* and *C* = 11 : 7.

8. No. **Reason:** *There is a difference between 'Y' gives 1/3rd of his share' and 'Y' gives 1/3rd from his share'*. For example, if *Y*'s share is 2/5 and he gives 1/3rd of his share, it means he has given 2/15 (*i.e.*, 2/5 × 1/3) share and *Y*'s New Share will be 4/15 (*i.e.*, 2/5 – 2/15). If *Y*'s share is 2/5 and he gives 1/3 from his share, it means he has given 1/3 share and *Y*'s New Share will be 1/15 (*i.e.*, 2/5 – 1/3).

9. Loss on Sale of Fixed Assets or Depreciation on Fixed Asset.

10. (*c*)

11. (*b*)

12. (*a*)

	₹
Amount forfeited on 100 shares (100 × ₹ 8)	800
Amount forfeited on 60 shares (60 × ₹ 8)	480
Less: Discount allowed on Reissue (60 × ₹ 1)	60
Gain on Reissue of Forfeited Shares transferred to Capital Reserve	420

13. (*c*)

	₹
Creditor's Dues	70,000
Less: Stock (₹ 60,000 – 20% of ₹ 60,000)	48,000
Realisation Account will be debited by amount paid in cash	22,000

14. AN EXTRACT OF INCOME AND EXPENDITURE ACCOUNT

for the year ending 31st March, 2020

Dr. *Cr.*

Expenditure	₹	Income	₹
To Subscription (Written off)	600	By Subscription A/c	95,700

AN EXTRACT OF BALANCE SHEET *as at 31st March, 2020*

Liabilities	₹	Assets		₹
Subscription Received in Advance	3,000	Subscription Receivable:		
		Or		
		Subscription Outstanding:		
		For 2018–19	1,500	
		For 2019–20	11,000	12,500

Working Note:

Subscription Income to be credited to Income and Expenditure Account is calculated by preparing Subscription Account as under:

Dr. SUBSCRIPTION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Outstanding Subscription A/c (1st April, 2019)	8,400	By Advance Subscription A/c (2018–19)	5,000
		By Bank A/c	89,000
To Income and Expenditure A/c (Balancing Figure)	**95,700**	By Income and Expenditure A/c (Subscription Written-off)	600
To Advance Subscription A/c (2020–21)	3,000	By Outstanding Subscription A/c (2019–20)*	12,500
	1,07,100		1,07,100

*Outstanding subscription: ₹ 12,500 includes ₹ 1,500 for 2018–19.

Or

Difference between Income and Expenditure Account and Profit and Loss Account

Basis	***Income and Expenditure Account***	***Profit and Loss Account***
1. **Object**	Object of Income and Expenditure Account is to determine surplus, *i.e.*, excess of income over expenditure or deficit, *i.e.*, excess of expenditure over income.	Object of Profit and Loss Account is to determine net profit earned or net loss incurred.
2. **Prepared by**	It is prepared by Not-for-Profit Organisations.	It is prepared by an enterprise.
3. **Balance**	The balance in the account is termed as **surplus** or **deficit**.	The balance in the account is termed as **net profit** or **net loss**.

15. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020	**Case I**				
April 1	Workmen Compensation Reserve A/c	...Dr.		12,000	
	To *X*'s Capital A/c				6,000
	To *Y*'s Capital A/c				3,600
	To *Z*'s Capital A/c				2,400
	(Transfer of Workmen Compensation Reserve to Partners' Capital Accounts in their Old Profit-sharing Ratio)				
	Case II				
	Workmen Compensation Reserve A/c	...Dr.		12,000	
	Revaluation A/c (₹ 22,500 – ₹ 12,000)	...Dr.		10,500	
	To Provision for Workmen Compensation Claim A/c				22,500
	(Provision created and short fall charged to Revaluation Account)				
	X's Capital A/c	...Dr.		5,250	
	Y's Capital A/c	...Dr.		3,150	
	Z's Capital A/c	...Dr.		2,100	
	To Revaluation A/c				10,500
	(Transfer of loss on revaluation to Partners' Capital Accounts in their Old Profit-sharing ratio)				

16. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
Mar. 31	*A*'s Capital A/c	...Dr.		140	
	To *B*'s Capital A/c				140
	(Error of omission of interest on capital and interest on drawings wrongly charged, now rectified)				

Working Notes:

1. TABLE SHOWING ADJUSTMENTS

Particulars	*A*'s Capital A/c		*B*'s Capital A/c		Firm	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
For Interest on Drawings (Written back)	...	4,500	...	2,400	6,900	...
For Interest on Capital (WN 2)	...	10,000	...	7,500	17,500	...
For Profit to be Shared ₹ 25,600 (₹ 50,000 – ₹ 6,900 – ₹ 17,500) 3 : 2	...	15,360	...	10,240	25,600	...
Profit of ₹ 50,000 already distributed in the ratio of 3 : 2, now reversed	30,000	...	20,000	...	...	50,000
	30,000	29,860	20,000	20,140	50,000	50,000
Net Effect	₹ 140 (Dr.)		₹ 140 (Cr.)		Nil	

2. TABLE SHOWING CALCULATION OF OPENING CAPITAL AND INTEREST ON CAPITAL

Particulars	*A* (₹)	*B* (₹)
Closing Capitals	1,65,500	1,27,600
Add: Drawings	60,000	40,000
Interest on Drawings	4,500	2,400
Less: Profits	(30,000)	(20,000)
Opening Capitals	2,00,000	1,50,000
Interest on Capitals @ 5% p.a.	10,000	7,500

3. **Interest on Drawings:**

$$A: \frac{12}{100} \times ₹\,60{,}000 \times \frac{7.5}{12} = ₹\,4{,}500$$

$$B: \frac{12}{100} \times ₹\,40{,}000 \times \frac{6}{12} = ₹\,2{,}400$$

For the calculation of Interest on Drawings, average period is followed:

$$\text{For } A = \frac{\text{Time Left After 1st Drawings} + \text{Time Left After Last Drawings}}{2}$$

$$= \frac{\text{12 Months} + \text{3 Months}}{2} = 7.5 \text{ months}$$

For B = 6 months.

Or

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Profit and Loss A/c ...Dr.		90,000	
	To Profit and Loss Appropriation A/c			90,000
	(Profit transferred from Profit and Loss Account to Profit and Loss Appropriation Account)			
	Partner's Salary A/c ...Dr.		60,000	
	To Arun's Current A/c			20,000
	To Shobha's Current A/c			20,000
	To Yuvraj's Current A/c			20,000
	(Salary credited to Partners' Current Accounts)			
	Profit and Loss Appropriation A/c ...Dr.		60,000	
	To Partner's Salary A/c			60,000
	(Partner's Salary transferred to Profit and Loss Appropriation Account)			
	Interest on Capital A/c ...Dr.		20,000	
	To Arun's Current A/c			10,000
	To Shobha's Current A/c			5,000
	To Yuvraj's Current A/c			5,000
	(Interest on Capital credited to Partners' Current Accounts)			
	Profit and Loss Appropriation A/c ...Dr.		20,000	
	To Interest on Capital A/c			20,000
	(Interest on Capital transferred to Profit and Loss Appropriation Account)			
	Profit and Loss Appropriation A/c (₹ 90,000 – ₹ 60,000 – ₹ 20,000) ...Dr.		10,000	
	To Arun's Current A/c (₹ 10,000 × 3/5)			6,000
	To Shobha's Current A/c (₹ 10,000 × 1/5)			2,000
	To Yuvraj's Current A/c (₹ 10,000 × 1/5)			2,000
	(Divisible profit credited to Partners' Current Accounts)			

17. JOURNAL OF *L* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Equity Share Capital A/c (470 × ₹ 10)	...Dr.		4,700	
	Securities Premium Reserve A/c (470 × ₹ 5)	...Dr.		**2,350**	
	To Forfeited Shares A/c (470 × ₹ 2)				940
	To Calls-in-Arrears A/c				6,110
	(470 shares forfeited for non-payment of allotment and call money)				
	Bank A/c (60 × ₹ 14)	...Dr.		840	
	To **Equity Share Capital A/c (60 × ₹ 10)**				**600**
	To **Securities Premium Reserve A/c (60 × ₹ 4)**				**240**
	(60 Shares reissued at ₹ 14 per share)				
	Forfeited Shares A/c	...Dr.		**120**	
	To **Capital Reserve A/c**				**120**
	(**Gain @ ₹ 2 on reissue of 60 shares transferred to Capital Reserve**)				

18.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Stock A/c		95,000	By Land and Building A/c	50,000
To Provision for Doubtful Debts A/c		12,500	By Sundry Creditors A/c	75,000
[(5% of ₹ 7,50,000) – ₹ 25,000]			By Prepaid Insurance A/c	12,500
To Gain (Profit) transferred to:				
X's Capital A/c	10,000			
Y's Capital A/c	15,000			
Z's Capital A/c	5,000	30,000		
		1,37,500		1,37,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To Goodwill A/c	10,000	15,000	5,000	By Balance *b/d*	2,50,000	5,00,000	7,50,000
To *Y*'s Capital A/c (WN 1 and 2)	77,500	...	...	By *X*'s Capital A/c (WN 1 and 2)	...	77,500	..
To Advertisement Suspense A/c	10,000	15,000	5,000	By Revaluation A/c	10,000	15,000	5,000
To Balance *c/d*	1,77,500	5,85,000	7,52,500	By Workmen Compensation Reserve A/c	10,000	15,000	5,000
				By Investment Fluctuation Reserve A/c	5,000	7,500	2,500
	2,75,000	6,15,000	7,62,500		2,75,000	6,15,000	7,62,500

Working Notes:

1. *Calculation of Gain/(Sacrifice) of Share:*

Partners	New Share	Old Share	Difference = New Share – Old Share
X	3/6	2/6	3/6 – 2/6 = 1/6 (Gain)
Y	2/6	3/6	2/6 – 3/6 = – 1/6 (Sacrifice)
Z	1/6	1/6	0

2. *Valuation and Adjustment of Goodwill:*

$$\text{Average Profit} = \frac{₹\ 1{,}20{,}000 + ₹\ 2{,}32{,}500 + ₹\ 3{,}45{,}000}{3} = ₹\ 2{,}32{,}500$$

Firm's Goodwill = ₹ 2,32,500 $\times$ 2 = ₹ 4,65,000

Y's Share of Goodwill = ₹ 4,65,000 $\times \frac{1}{6}$ = ₹ 77,500, which will be contributed by *X* (as he alone gains).

19. (*a*) JOURNAL OF MOON LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Bank A/c ...Dr.		30,00,000	
	To Debentures Application and Allotment A/c			30,00,000
	(Debentures application money received for 25,000 debentures)			
	Debentures Application and Allotment A/c ...Dr.		30,00,000	
	To 10% Debentures A/c			25,00,000
	To Securities Premium Reserve A/c			5,00,000
	(Issue of 25,000; 10% Debentures of ₹ 100 each at a premium of 20%)			
(*ii*)	Bank A/c ...Dr.		20,00,000	
	To Bank Loan A/c			20,00,000
	(Bank loan taken)			
	Debentures Suspense A/c ...Dr.		25,00,000	
	To 10% Debentures A/c			25,00,000
	(Issue of 25,000, 10% Debentures of ₹ 100 each as collateral security for a bank loan)			
(*iii*)	Machinery A/c ...Dr.		28,00,000	
	To Supplier's A/c			28,00,000
	(Purchase of Machinery from supplier)			
	Supplier's A/c ...Dr.		28,00,000	
	To 10% Debentures A/c			25,00,000
	To Securities Premium Reserve A/c			3,00,000
	(Issue of 25,000, 10% Debentures of ₹ 100 each at a premium of ₹ 12 each)			

(*b*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c ...Dr.		25,00,000	
	To Sun Ltd.			25,00,000
	(Machinery purchased)			
	Sun Ltd. ...Dr.		25,00,000	
	To Bank A/c			5,00,000
	To Bills Payable A/c			5,00,000
	To 10% Debentures A/c			15,00,000
	(Due amount paid to vendor)			

20. **Patel Education Society**

INCOME AND EXPENDITURE ACCOUNT

Dr. *for the year ending 31st March, 2020* *Cr.*

Expenditure		₹	Income		₹
To Salaries		12,000	By Entrance Fees		3,000
To Electricity Charges		1,200	By Subscription	35,000	
To Other Expenses		5,250	*Add:* Outstanding	750	35,750
To Depreciation on:			By Surplus on Sale of Refreshment		1,000
Furniture (10% of ₹ 25,000)	2,500		By Gain (Profit) on Sale of Old Printer		4,000
Utensils (15% of ₹ 10,000)	1,500	4,000	By Miscellaneous Income		3,200
To Surplus, *i.e.*, excess of Income			By Accrued Interest on Fixed Deposits		250
over Expenditure		24,750			
		47,200			47,200

BALANCE SHEET

as at 31st March, 2020

Liabilities		₹	Assets		₹
Subscription Received in Advance		750	Cash in Hand		25,500
Creditors		5,500	Outstanding Subscription		750
Capital Fund	58,500		Fixed Deposits		25,000
Add: Surplus	24,750	83,250	Accrued Interest on Fixed Deposits		250
			Stock of Consumable Stores		7,000
			Utensils	8,000	
			Add: New Purchases	2,000	
				10,000	
			Less: Depreciation	1,500	8,500
			Furniture	25,000	
			Less: Depreciation	2,500	22,500
		89,500			89,500

Working Note:

Calculation of Opening Capital Fund:

BALANCE SHEET *as at 1st April, 2019*

Liabilities	₹	Assets	₹
Creditors	12,000	Cash in Hand	33,500
Capital Fund (Balancing Figure)	**58,500**	Outstanding Subscription	500
		Stock of Consumable Stores	3,500
		Utensils	8,000
		Furniture	25,000
	70,500		70,500

21. JOURNAL OF BHARAT LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		2,25,000	
	To Shares Application A/c				2,25,000
	(Application money received)				
	Shares Application A/c	...Dr.		2,25,000	
	To Share Capital A/c				1,50,000
	To Shares Allotment A/c				75,000
	(Application money transferred to Share Capital Account and excess money adjusted to allotment)				
	Shares Allotment A/c	...Dr.		3,00,000	
	To Share Capital A/c				2,00,000
	To Securities Premium Reserve A/c				1,00,000
	(Allotment money due)				
	Bank A/c	...Dr.		2,20,500	
	To Shares Allotment A/c (WN (3))				2,20,500
	Or				
	Bank A/c	...Dr.		2,20,500	
	Calls-in-Arrears A/c	...Dr.		4,500	
	To Shares Allotment A/c				2,25,000
	(Allotment money received except on 900 shares)				
	Shares First and Final Call A/c	...Dr.		1,50,000	
	To Share Capital A/c				1,50,000
	(First and Final call money due)				
	Bank A/c	...Dr.		1,47,300	
	To Shares First and Final Call A/c				1,47,300
	Or				
	Bank A/c	...Dr.		1,47,300	
	Calls-in-Arrears A/c	...Dr.		2,700	
	To Shares First and Final Call A/c				1,50,000
	(First and final call money received except on 900 shares)				
	Share Capital A/c	...Dr.		9,000	
	Securities Premium Reserve A/c	...Dr.		1,800	
	To Forfeited Shares A/c				3,600
	To Shares Allotment A/c				4,500
	To Shares First and Final Call A/c				2,700
	Or				
	Share Capital A/c	...Dr.		9,000	
	Securities Premium Reserve A/c	...Dr.		1,800	
	To Forfeited Shares A/c				3,600
	To Calls-in-Arrears A/c				7,200
	(900 shares forfeited for non-payment of allotment and call money)				
	Bank A/c	...Dr.		6,300	
	Forfeited Shares A/c	...Dr.		2,700	
	To Share Capital A/c				9,000
	(900 shares reissued for ₹ 7 per share as fully paid-up)				
	Forfeited Shares A/c (₹ 3,600 – ₹ 2,700)	...Dr.		900	
	To Capital Reserve A/c				900
	(Transfer of gain (profit) on reissue)				

Working Notes:

1. *Number of Shares allotted to Ram* = $\frac{30,000}{40,000} \times 1,200$ = 900 Shares.

2. *Calculation of the Amount Due but not Paid on Allotment by Ram:*

		₹
(*a*)	Application money received on shares applied (1,200 × ₹ 3)	3,600
(*b*)	Application money due on shares allotted (900 × ₹ 3)	2,700
(*c*)	Excess Application money to be adjusted on Allotment [(*a*) – (*b*)]	900
(*d*)	Allotment money due on allotted shares (900 × ₹ 6)	5,400
(*e*)	Allotment money due but not received [(*d*) – (*c*)] (₹ 5,400 – ₹ 900)	4,500

3. *Calculation of Allotment Money Received Later:*

(*a*)	Total allotment money due	3,00,000
(*b*)	*Less:* Allotment money already received on application stage	75,000
		2,25,000
(*c*)	*Less:* Allotment money due but not received from Ram [WN (2)]	4,500
	Allotment Money Received	2,20,500

Or

JOURNAL OF GRAND AUTO LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		37,50,000	
	To Equity Shares Application A/c				37,50,000
	(Application money received for 7,50,000 shares)				
	Equity Shares Application A/c	...Dr.		37,50,000	
	To Equity Share Capital A/c (5,00,000 × ₹ 3)				15,00,000
	To Securities Premium Reserve A/c (5,00,000 × ₹ 2)				10,00,000
	To Bank A/c (1,50,000 × ₹ 5)				7,50,000
	To Equity Shares Allotment A/c (1,00,000 × ₹ 5)				5,00,000
	(Application money adjusted)				
	Equity Shares Allotment A/c	...Dr.		20,00,000	
	To Equity Share Capital A/c				20,00,000
	(Allotment money due)				
	Bank A/c	...Dr.		14,70,000	
	Calls-in-Arrears A/c	...Dr.		30,000	
	To Equity Shares Allotment A/c				15,00,000
	(Allotment money received except on 10,000 shares) (WN 1)				
	Equity Shares First and Final Call A/c	...Dr.		15,00,000	
	To Equity Share Capital A/c				15,00,000
	(First and final call money due)				
	Bank A/c	...Dr.		14,70,000	
	Calls-in-Arrears A/c	...Dr.		30,000	
	To Equity Shares First and Final Call A/c				15,00,000
	(Call money received except on 10,000 shares)				

	Equity Share Capital A/c ...Dr.		1,00,000	
	To Calls-in-Arrears A/c (₹ 30,000 + ₹ 30,000)			60,000
	To Forfeited Shares A/c			40,000
	(10,000 shares forfeited due to non-payment of allotment and call money)			
	Bank A/c (5,000 × ₹ 8) ...Dr.		40,000	
	Forfeited Shares A/c (5,000 × ₹ 2) ...Dr.		10,000	
	To Equity Share Capital A/c			50,000
	(5,000 forfeited shares reissued for ₹ 8 per share fully paid-up)			
	Forfeited Shares A/c ...Dr.		10,000	
	To Capital Reserve A/c			10,000
	(Gain (profit) on reissue transferred to Capital Reserve Account) (WN 2)			

Working Notes:

1. *Calculation of Money Received on Allotment:*

(*i*)	*Pro rata* allotment = 6,00,000 : 5,00,000 or 6 : 5	
(*ii*)	Number of shares allotted to Giri = 5/6 × 12,000 = 10,000 shares	₹
(*iii*)	Money received on application from Giri (12,000 shares × ₹ 5)	60,000
	Less: Amount adjusted on application (10,000 × ₹ 5)	50,000
	Excess application money adjusted on allotment	10,000
(*iv*)	*Amount due but not paid by Giri on Allotment:*	
	Amount due on allotment (10,000 × ₹ 4)	40,000
	Less: Excess application money adjusted [as per (iii)]	10,000
	Amount due but not paid by Giri	30,000
(*v*)	*Amount Received on Allotment:*	
	Amount amount due on allotment	20,00,000
	Less: Excess application money adjusted	5,00,000
		15,00,000
	Less: Amount due but not paid by Giri [as per (iv)]	30,000
	Amount Received on Allotment	14,70,000

2. *Calculation of amount transferred to Capital Reserve:*

	₹
Amount forfeited on 5,000 shares (₹ 40,000 × 1/2)	20,000
Less: Discount on reissue	10,000
Gain (Profit) on reissue transferred to Capital Reserve	10,000

22. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019				
April 1	Bank A/c ...Dr.		3,00,000	
	To *Z*'s Capital A/c			2,00,000
	To Premium for Goodwill A/c			1,00,000
	(Capital and premium for goodwill brought in by *Z*)			
April 1	Premium for Goodwill A/c ...Dr.		1,00,000	
	To *X*'s Capital A/c			75,000
	To *Y*'s Capital A/c			25,000
	(Goodwill amount brought in by *Z* credited to *X* and *Y* in their sacrificing ratio, *i.e.*, 3 : 1 or 1/8 : 1/24)			

April 1	*X*'s Capital A/c ...Dr. *Y*'s Capital A/c ...Dr. To Goodwill A/c (Existing goodwill written off between old partners)		60,000 40,000	 1,00,000
April 1	Revaluation A/c ...Dr. To Machinery A/c [₹ 1,00,000 – (90% of ₹ 1,00,000)] To Investment A/c (₹ 1,10,000 – ₹ 80,000) (Assets revalued downwards on *Z*'s admission)		40,000	 10,000 30,000
April 1	Land and Building A/c (₹ 4,00,000 × 50/100) ...Dr. To Revaluation A/c (Land and building revalued upwards by 50% on *Z*'s admission)		2,00,000	 2,00,000
April 1	Revaluation A/c ...Dr. To *X*'s Capital A/c To *Y*'s Capital A/c (Gain (profit) on revaluation credited to *X* and *Y* in their old profit-sharing ratio)		1,60,000	 96,000 64,000

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2020* *Cr.*

Particulars		₹	Particulars	₹
To Interest on Capital A/cs (WN 1):			By Profit and Loss A/c (Net Profit) (Transferred from Profit and Loss A/c)	4,18,000
X (₹ 3,11,000 × 10/100)	31,100			
Y (₹ 2,49,000 × 10/100)	24,900			
Z (₹ 2,00,000 × 10/100)	20,000	76,000		
To Profit transferred to:				
X's Capital A/c (₹ 3,42,000 × 57/120)	1,62,450			
Y's Capital A/c (₹ 3,42,000 × 43/120)	1,22,550			
Z's Capital A/c (₹ 3,42,000 × 20/120)	57,000	3,42,000		
		4,18,000		4,18,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Date	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Date	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
2019					2019				
April 1	To Goodwill A/c	60,000	40,000	...	April 1	By Balance *b/d*	2,00,000	2,00,000	...
2020					April 1	By Bank A/c	...	...	2,00,000
March 31	To Drawings A/c	1,00,000	80,000	50,000	April 1	By Premium for Goodwill A/c	75,000	25,000	...
March 31	To Balance *c/d*	4,04,550	3,16,450	2,27,000	April 1	By Revaluation A/c	96,000	64,000	...
					2020 March 31	By Interest on Capital A/c	31,100	24,900	20,000
						By Profit and Loss App. A/c (Profit)	1,62,450	1,22,550	57,000
		5,64,550	4,36,450	2,77,000			5,64,550	4,36,450	2,77,000

Working Notes:

1. *Interest on Capital is calculated on the basis of capital as on 1st April, 2019, which is calculated as follows:*

   X = ₹ 2,00,000 + ₹ 75,000 + ₹ 96,000 – ₹ 60,000 = ₹ 3,11,000.

   Y = ₹ 2,00,000 + ₹ 25,000 + ₹ 64,000 – ₹ 40,000 = ₹ 2,49,000.

   Z = ₹ 2,00,000.

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

   $X = 3/5 - 1/8 = \frac{24-5}{40} = \frac{19}{40}$

   $Y = 2/5 - 1/24 = \frac{48-5}{120} = \frac{43}{120}$

   $Z = 1/6$

   Thus, New Profit-sharing Ratio of *X*, *Y* and *Z* = 19/40 : 43/120 : 1/6 = 57 : 43 : 20.

Or

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts A/c		3,100	By Land and Building A/c	12,000
To Furniture A/c		8,000		
To Gain (Profit) transferred to:				
A's Capital A/c	300			
B's Capital A/c	300			
C's Capital A/c	300	900		
		12,000		12,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To *B*'s Capital A/c	10,000	...	...	By Balance *b/d*	60,000	40,000	32,000
To Bank A/c	...	20,000	...	By General Reserve A/c	10,000	10,000	10,000
To *B*'s Loan A/c	...	41,800	...	By *A*'s Capital A/c (Goodwill) (WN 1 and 2)	...	10,000	...
To Balance *c/d*	61,800	...	43,800	By Workmen's Compensation Reserve A/c	1,500	1,500	1,500
				By Revaluation A/c (Profit)	300	300	300
	71,800	61,800	43,800		71,800	61,800	43,800

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	20,000	By *B*'s Capital A/c	20,000
To Furniture A/c	20,000	By Balance *c/d*	20,000
	40,000		40,000

Working Notes:

1. *Calculation of Gaining Ratio:*

   A's Gain (New Share – Old Share) = $\frac{2}{3}-\frac{1}{3}=\frac{2-1}{3}=\frac{1}{3}$

   C's Gain (New Share – Old Share) = $\frac{1}{3}-\frac{1}{3}=0$

2. *A* is the only gaining partner, he will compensate *B*.

   B's Share of Goodwill ₹ 10,000 (₹ 30,000 × 1/3).

PART B

23. it does not show the calculation of Net Profit earned or Net Loss incurred.

24. (*a*) Current Liabilities.

25. Incorrect. **Reason:** Common-size Statement expresses all items of a financial statement as percentage of a common base as *Revenue from Operations* for Statement of Profit and Loss and *total assets/total of equity and liabilities for Balance Sheet*.

26. (*d*) Non-current Assets.

27. Not Change

28. (*d*)

29. (*c*)

30. COMPARATIVE STATEMENT OF PROFIT AND LOSS

for the years ended 31st March, 2019 and 2020

Particulars	Note No.	31st March, 2019 ₹	31st March, 2020 ₹	Absolute Change (Increase/ Decrease) ₹	Percentage Change (Increase/ Decrease) %
I. **Revenue from Operations**		50,00,000	70,00,000	20,00,000	40.00
II. *Expenses:*					
(*a*) Employee Benefit Expenses		20,00,000	35,00,000	15,00,000	75.00
(*b*) Depreciation and Amortisation		5,00,000	8,00,000	3,00,000	60.00
(*c*) Other Expenses		12,00,000	16,00,000	4,00,000	33.33
Total Expenses		37,00,000	59,00,000	22,00,000	59.46
III. **Profit before Tax (I – II)**		13,00,000	11,00,000	(2,00,000)	(15.38)
IV. *Less:* Tax @ 40%		5,20,000	4,40,000	(80,000)	(15.38)
V. **Profit after Tax (III – IV)**		7,80,000	6,60,000	(1,20,000)	(15.38)

Or

(*i*) It is shown as a negative figure under the head "Reserves and Surplus".

(*ii*) Operating cycle means the time between the acquisition of assets for processing and their realisation in Cash and Cash Equivalents.

(*iii*) (*a*) Tangible Assets,

(*b*) Intangible Assets,

(*c*) Capital Work-in-Progress, and

(*d*) Intangible Assets under Development.

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

$$= \frac{₹\ 4,00,000\ (\text{WN } 1)}{₹\ 20,000\ (\text{WN } 2)} = 20 \text{ Times.}$$

Working Notes:

1. Let Revenue from Operations = ₹ 100, Gross Profit = ₹ 20

   Cost = ₹ 100 – ₹ 20 = ₹ 80

   If Cost is ₹ 80, then Revenue from Operations = ₹ 100

   If Cost is ₹ 3,20,000, then Revenue from Operations = ₹ 3,20,000 × ₹ 100/₹ 80 = ₹ 4,00,000.

2. Capital Employed = Non-current Assets + Working Capital

   ₹ 1,00,000 = ₹ 80,000 + Working Capital

   Working Capital = ₹ 1,00,000 – ₹ 80,000 = ₹ 20,000.

(*b*) Current Ratio = $\dfrac{\text{Current Assets}}{\text{Current Liabilities}} = \dfrac{₹\ 96,250}{₹\ 40,000} = 2.41 : 1.$

Working Notes:

1. Gross Profit = ₹ 3,00,000 × 25/100 = ₹ 75,000.
2. Cost of Revenue from Operations = Revenue from Operations – Gross Profit

   = ₹ 3,00,000 – ₹ 75,000 = ₹ 2,25,000.

3. Inventory Turnover Ratio = $\dfrac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$

$$4 = \frac{₹\ 2,25,000}{\text{Average Inventory}}$$

$$\text{Average Inventory} = \frac{₹\ 2,25,000}{4} = ₹\ 56,250$$

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

$$₹\ 56,250 = \frac{X + X + ₹\ 20,000}{2} \qquad \left[\begin{array}{l}\text{Let Opening Inventory} = X \\ \text{Closing Inventory} = X + ₹\ 20,000\end{array}\right]$$

$$X + X + ₹\ 20,000 = ₹\ 1,12,500$$

$$2X = ₹\ 92,500$$

$$X = \frac{₹\ 92,500}{2} = ₹\ 46,250 \text{ (Opening Inventory)}$$

Closing Inventory = ₹ 46,250 + ₹ 20,000 = ₹ 66,250.

4. Quick Ratio = $\dfrac{\text{Quick Assets}}{\text{Current Liabilities}}$

$$0.75 = \frac{\text{Quick Assets}}{₹\ 40,000}$$

Quick Assets = ₹ 40,000 × 0.75 = ₹ 30,000

Current Assets = Quick Assets + Inventory (Closing)

= ₹ 30,000 + ₹ 66,250 = ₹ 96,250.

Or

$$\text{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} = \frac{₹\,16,00,000}{₹\,9,00,000} = \mathbf{1.78 : 1}.$$

$$\text{Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Debt}} = \frac{₹\,31,80,000 \text{ (WN 3)}}{₹\,16,00,000 \text{ (WN 4)}} = \mathbf{1.99 : 1}.$$

Working Notes:

1. *Calculation of Shareholders' Funds or Proprietors' Funds or Equity*:

Liabilities Side Approach	₹	*Assets Side Approach*	₹
Equity Share Capital	2,00,000	Fixed Assets (Tangible)	21,00,000
Add: Reserves and Surplus	4,00,000	Long-term Trade Investments	2,00,000
(₹ 2,50,000 + ₹ 1,50,000)		*Add:* Working Capital (WN 2)	2,00,000
Equity Shareholders' Funds	6,00,000		25,00,000
Add: Preference Share Capital	3,00,000	*Less:* Long-term Borrowings (12% Debentures)	16,00,000
Shareholders' Funds	9,00,000	**Shareholders' Funds**	9,00,000

2. Working Capital = Current Assets – Current Liabilities = ₹ 8,80,000 – ₹ 6,80,000 = ₹ 2,00,000.
3. Total Assets = Fixed Assets (Tangible) + Long-term Trade Investments + Current Assets
   = ₹ 21,00,000 + ₹ 2,00,000 + ₹ 8,80,000 = ₹ 31,80,000.
4. Debt = 12% Debentures = ₹ 16,00,000.

32. (*a*) CASH FLOW FROM OPERATING ACTIVITIES

Particulars	₹	₹
Net Profit before Tax and Extraordinary Items (WN 1)		41,000
Add: Non-cash and Non-operating items:		
Depreciation on Machinery	18,000	
Loss on Sale of Machinery (₹ 50,000 – ₹ 20,000 – ₹ 10,000)	20,000	38,000
Operating Profit before Working Capital Changes		79,000
Add: Increase in Current Liabilities:		
Outstanding Expenses (₹ 14,600 – ₹ 10,000)		4,600
		83,600
Less: Increase in Current Assets:		
Inventory (₹ 12,000 – ₹ 4,000)	8,000	
Trade Receivables (₹ 58,000 – ₹ 45,000)	13,000	21,000
Cash Flow from Operating Activities before Tax		62,600
Less: Tax paid		23,000
Cash Flow from Operating Activities		39,600

Working Notes:

1. *Calculation of Net Profit before Tax and Extraordinary Items:*

		₹
Surplus, *i.e.*, Balance in the Statement of Profit and Loss as on 31st March, 2019		71,000
Less: Surplus, *i.e.*, Balance in the Statement of Profit and Loss as on 31st March, 2018		89,000
Net Loss during the year		(18,000)
Add: Interim Dividend Paid	36,000	
Tax paid	23,000	59,000
Net Profit before Tax and Extraordinary Items		41,000

2. As the profit on sale of Non-current Investment ₹ 2,000 has not been transferred to Statement of Profit and Loss but to Capital Reserve, it will not be adjusted while computing Operating Profit before Working Capital Changes.

(*b*) CASH FLOW FROM INVESTING ACTIVITIES

Particulars	₹
Purchase of Machinery (WN 1)	(2,40,000)
Sale of Machinery	36,000
Cash Used in Investing Activities	(2,04,000)

Working Notes:

1. *Dr.* MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	2,50,000	By Bank A/c (Sale Proceeds)*	36,000
To Gain (Profit) on Sale of Machinery A/c (Statement of Profit and Loss)	6,000	By Accumulated Depreciation A/c	50,000
		By Balance *c/d*	4,10,000
To Bank A/c (Purchase)—Balancing Figure	2,40,000		
	4,96,000		4,96,000

	₹
*Book Value of Machinery on the date of Sale (₹ 80,000 – ₹ 50,000)	30,000
Add: Gain (Profit) on Sale of Machinery (20% of ₹ 30,000)	6,000
Sale Proceeds	36,000

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

Particulars	₹	Particulars	₹
To Machinery A/c—Transfer	50,000	By Balance *b/d*	60,000
To Balance *c/d*	90,000	By Statement of Profit and Loss (Depreciation of Current Year) (Balancing Figure)	80,000
	1,40,000		1,40,000

Model Test Paper 8

Answers

PART A

1. (*a*) Firm

2. (*b*) Partner's Current Account.

3. (*b*) Ram's Capital A/c by ₹ 40,000.

Only Ram is the sacrificing partner.

4. (*d*)

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Cash/Bank A/c ...Dr.		1,20,000	
	To Gyan's Capital A/c*			90,000
	To Premium for Goodwill A/c*			30,000
	(Capital and Premium for Goodwill brought by Gyan on admission)			

5. (*b*) It records receipts and payments of revenue nature only.

6.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020				
May 31	Profit and Loss Suspense A/c ...Dr.		7,250	
	To *Z*'s Capital A/c			7,250
	(*Z*'s share of estimated profits till the date of his death credited)			

7. (*b*), (*a*), (*d*), (*c*).

8. (*c*) (*i*) No of shares applied by Mohan = $\frac{6,000}{5,000} \times 60 = 72$ shares

	₹
(*ii*) Application money received from Mohan (72 × ₹ 5)	360
Less: Application money adjusted (60 × ₹ 5)	300
Excess money adjusted towards allotment	60
(*iii*) Allotment money due on 60 shares (60 × ₹ 4)	240
Less: Excess application money adjusted (*b*)	60
Amount due but not received on allotment	180

9. No, Interest on loan by partner is a charge against the profits and not an appropriation of profits because it is payable whether firm earns profit on incurs loss.

10. The claim of the partner against the firm is increased by the amount of liability assumed.

11. (*c*)

Amount forfeited on 125 shares (125 × ₹ 5)	₹ 625
Less: Discount on Reissue of Shares (125 × ₹ 1)	₹ 125
Gain on Reissue transferred to Capital Reserve	₹ 500

12. (*b*)

13. (*b*)

			₹
Total capital of firm on the basis of *C*'s Capital (₹ 25,000 × 6)			1,50,000
Less: Capital after adjustment (excluding goodwill)	*A*	₹ 60,000	
	B	₹ 40,000	
	C	₹ 25,000	1,25,000
Firm's Goodwill			25,000

14. Statement showing Expenditure on Medicines consumed during the year ending 31st March, 2020

Particulars	₹
Amount paid for medicines during the year	2,00,000
Add: Opening Stock of Medicines	50,000
Less: Closing Stock of Medicines	(95,000)
Less: Opening Creditors	(20,000)
Add: Closing Creditors	10,000
Medicines consumed during the year	1,45,000

INCOME AND EXPENDITURE ACCOUNT (AN EXTRACT)

Dr. *for the year ended 31st March, 2020* *Cr.*

Expenditure	₹	Income	₹
To Medicines Consumed	1,45,000		

BALANCE SHEET *as at 31st March, 2020*

Liabilities	₹	Assets	₹
Creditors for Medicines	10,000	Stock of Medicines	95,000

Or

Basis of Distinction	***Income and Expenditure Account***	***Receipts and Payments Account***
(*i*) Nature	It is like a Profit and Loss Account, hence is a nominal account.	It is the summary of the cash book, hence a real account.
(*ii*) Nature of Items	It shows incomes and expenses of revenue nature.	It shows receipts and payments of cash and bank.
(*iii*) Period	Items in Income and Expenditure Account relate to the current period.	Items in Receipts and Payments Account may relate to preceding, current and succeeding periods.

15. The Profit and Loss Appropriation Account presented by Arthur is not correct because in the absence of Partnership Deed, provisions of Indian Partnership Act, 1932 will apply, as follows:

(*i*) Salary is not payable to any of the partners.

(*ii*) Interest on capitals is not allowed.

(*iii*) Both partners shall share the profit equally.

(*iv*) Interest allowed on Loan by Arthur @ 6% p.a. is correct. But the interest on loan by a partner is a **charge against profits, therefore, should have been debited to Profit and Loss Account and not to the Profit and Loss Appropriation Account**

(*v*) Rent paid to Brian is a charge against profit. Hence, should have been debited to Profit and Loss Account and credited to Brian's Capital Account. (Assuming Fluctuating Capital Accounts Method is followed.)

The correct Profit and Loss Appropriation Account will be as follows:

Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT *for the year ended 31st March, 2020* *Cr.*

Particulars		₹	Particulars	₹
To Profit transferred to Capital A/cs:			By Profit and Loss A/c (₹ 2,94,000 – ₹ 12,000)	2,82,000
Arthur (1/2)	1,41,000		(After interest on loan and rent to Brian)	
Brian (1/2)	1,41,000	2,82,000		
		2,82,000		2,82,000

16. BALANCE SHEET (AN EXTRACT) OF RAUNIT STYLES LTD.

Particulars	Note No.	Current Year ₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	40,68,000

Note to Accounts

Particulars	₹	₹
1. **Share Capital**		
Authorised Capital		
85,000 Equity Shares of ₹ 100 each		85,00,000
Issued Capital		
45,000 Equity Shares of ₹ 100 each		45,00,000
Subscribed Capital		
Subscribed and Fully Paid-up		
38,700 Equity Shares of ₹ 100 each	38,70,000	
Add: Forfeited Shares A/c (3,300 × ₹ 60)	1,98,000	40,68,000

17. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Y's Current A/c	...Dr.		9,000	
	To *X*'s Current A/c				8,000
	To *Z*'s Current A/c				1,000
	(Required adjustment due to wrong distribution of profits)				

Working Notes:

1. STATEMENT SHOWING ADJUSTMENT TO BE MADE

Particulars			X ₹	Y ₹	Z ₹
I. **Amount Already Credited by way of Share of Profits, now written Back:**					
31st March, 2019 (₹ 33,000)			11,000	11,000	11,000
31st March, 2020 (₹ 45,000)			15,000	15,000	15,000
Total		(Dr.)	26,000	26,000	26,000
II. **Amount which should have been Credited:**					
Salary:	31st March, 2019		...	...	5,000
	31st March, 2020		...	...	5,000
Interest on Capital:	31st March, 2019		2,500	1,250	1,250
	31st March, 2020		2,500	1,250	1,250
Share of Profit:	31st March, 2019 (WN 2)		11,500	5,750	5,750
	31st March, 2020 (WN 3)		17,500	8,750	8,750
		(Cr.)	34,000	17,000	27,000
III. **Difference (I – II)**			8,000 Cr.	9,000 Dr.	1,000 Cr.

2. *Calculation of Share of Profit (31st March, 2019):*

Adjusted Profit = ₹ 33,000 – ₹ 5,000 (*Z*'s Salary) – ₹ 5,000 (Interest on Partners' Capitals) = ₹ 23,000.

X's Share of Profit = ₹ 23,000 $\times \frac{2}{4}$ = ₹ 11,500; *Y*'s Share of Profit = ₹ 23,000 $\times \frac{1}{4}$ = ₹ 5,750;

Z's Share of Profit = ₹ 23,000 $\times \frac{1}{4}$ = ₹ 5,750.

3. *Calculation of Share of Profit (31st March, 2020):*

Adjusted Profit = ₹ 45,000 – ₹ 5,000 (*Z*'s Salary) – ₹ 5,000 (Interest on Partners' Capitals) = ₹ 35,000.

X's Share of Profit = ₹ 35,000 $\times \frac{2}{4}$ = ₹ 17,500; *Y*'s Share of Profit = ₹ 35,000 $\times \frac{1}{4}$ = ₹ 8,750;

Z's Share of Profit = ₹ 35,000 $\times \frac{1}{4}$ = ₹ 8,750.

Or

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2020* *Cr.*

Particulars		₹	Particulars	₹
To Interest on Capital:			By Profit and Loss A/c (Net Profit)	3,40,000
X's Current A/c (₹ 6,00,000 × 5/100)	30,000			
Y's Current A/c (₹ 4,00,000 × 5/100)	20,000			
Z's Current A/c (₹ 2,00,000 × 5/100)	10,000	60,000		
To Salaries:				
X's Current A/c	20,000			
Y's Current A/c	20,000	40,000		
To General Reserve		40,000		
To Profit transferred to:				
X's Current A/c	80,000			
Y's Current A/c	80,000			
Z's Current A/c	40,000	2,00,000		
		3,40,000		3,40,000

Dr. PARTNERS' CURRENT ACCOUNTS Cr.

Particulars	X ₹	Y ₹	Z ₹	Particulars	X ₹	Y ₹	Z ₹
To Balance *b/d*	...	...	6,000	By Balance *b/d*	20,000	10,000	...
To Drawings A/c*	26,000	28,000	10,000	By Interest on Capital A/c	30,000	20,000	10,000
To Balance *c/d*	1,24,000	1,02,000	34,000	By Salaries	20,000	20,000	...
				By Profit and Loss			
				Appropriation A/c (Profit)	80,000	80,000	40,000
	1,50,000	1,30,000	50,000		1,50,000	1,30,000	50,000

**X* and *Y* have withdrawn their salaries also, hence their drawings will increase by ₹ 20,000 each.

18. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*a*)	Realisation A/c	...Dr.		12,000	
	To Dharam's Capital A/c				12,000
	(Amount payable credited to Dharam)				
(*b*) (*i*)	Realisation A/c	...Dr.		7,000	
	To Deepa's Capital A/c				7,000
	(Remuneration payable to Deepa)				
(*ii*)	Deepa's Capital A/c	...Dr.		6,000	
	To Bank A/c				6,000
	(Dissolution expenses paid by firm on behalf of Deepa)				
(*c*)	No Entry				
(*d*) (*i*)	Realisation A/c	...Dr.		10,000	
	To Jeev's Capital A/c				10,000
	(Remuneration payable to Jeev)				
(*ii*)	Jeev's Capital A/c	...Dr.		12,000	
	To Cash A/c				12,000
	(Dissolution expenses paid by Jeev from firm's cash)				

19. (*a*) JOURNAL OF BANKEY LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Bank A/c	...Dr.		30,00,000	
	To Debentures Application and Allotment A/c				30,00,000
	(Receipt of debentures application money for 2,500; 10% Debentures @ ₹ 1,200 each)				
	Debentures Application and Allotment A/c	...Dr.		30,00,000	
	To 10% Debentures A/c				25,00,000
	To Securities Premium Reserve A/c				5,00,000
	(Issue of 2,500; 10% Debentures of ₹ 1,000 each at 20% premium)				

(*ii*)	Debentures Suspense A/c ...Dr.		25,00,000	
	To 10% Debentures A/c			25,00,000
	(Issue of 2,500; 10% Debentures of ₹ 1,000 each as collateral security for a loan from bank)			
(*iii*)	Vendor's A/c ...Dr.		25,00,000	
	To 10% Debentures A/c			25,00,000
	(Issue of 2,500; 10% Debentures of ₹ 1,000 each to supplier of machinery)			

Note: Entry for purchase of machinery is not passed since the question requires to pass Journal entry for Issue of Debentures.

(*b*) Difference between Reserve Capital and Capital Reserve (Any two).

Basis	***Reserve Capital***	***Capital Reserve***
1. **Meaning**	It is that part of the uncalled capital which cannot be called-up except in the event of winding up.	It is that part of the reserves which is not free for distribution as dividend.
2. **Creation**	It is an uncalled capital.	It is a reserve set aside out of capital profits.
3. **Optional/Mandatory**	It is not mandatory to have reserve capital.	It is appropriate to transfer capital profits to capital reserve.
4. **Resolution**	Special resolution is required for reserve capital.	No resolution is required for capital reserve.
5. **Writing off Capital Losses**	It cannot be used to write off capital losses.	It can be used to write off capital losses.
6. **Disclosure**	It is not disclosed, *i.e.*, shown in the company's Balance Sheet.	It is disclosed, *i.e.*, shown in the Note to Accounts on Shareholders' Funds under the head 'Reserves and Surplus'.

20. **Queen's Club**

Dr. INCOME AND EXPENDITURE ACCOUNT *for the year ended 31st March, 2020* *Cr.*

Expenditure		₹	Income			₹
To Salaries		1,66,000	By Subscriptions		1,80,000	
To Rent	48,000		*Less:* Subscriptions for			
Less: Paid for March, 2019	4,000		2018–19	12,000		
	44,000		2020–21	18,000	30,000	1,50,000
Add: Outstanding for March, 2020	4,000	48,000	By Interest on Investments		65,000	
To Telephone Expenses		8,000	*Add:* Accrued Interest (WN 1)		10,000	75,000
To *Sports Material:*			By Sale of Concert Tickets		2,47,000	
Opening Stock	19,200		*Less:* Concert Expenses		58,000	1,89,000
Add: Purchases	1,10,000		By Donations (WN 2)			1,12,000
	1,29,200					
Less: Closing Stock	26,400	1,02,800				
To Miscellaneous Expenses		24,000				
To Depreciation on Building (₹ 8,00,000 × 10/100)		80,000				
To Surplus, *i.e.*, Excess of Income over Expenditure		97,200				
		5,26,000				5,26,000

Working Notes:

1. *Calculation of Interest on Investments:*

	₹
Investments on 31st March, 2019 (₹ 10,00,000 × 6/100)	60,000
Investments made on 1st October, 2019 (₹ 5,00,000 × 6/100 × 6/12)	15,000
Total Interest Due	75,000
Less: Interest received during the year	65,000
Interest accrued but not received	10,000

2. Donations are general donations since use of donation is not stated. Hence, it is taken as revenue in nature and credited to Income and Expenditure Account.

21.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Raghu's Capital A/c (Revaluation Expenses)		7,400	By Building A/c	19,600
To Gain (Profit) transferred to:			By Provision for Doubtful Debts A/c	7,000
Raghu's Capital A/c (₹ 30,000 × 3/5)	18,000		By Creditors A/c	10,800
Rishu's Capital A/c (₹ 30,000 × 2/5)	12,000	30,000		
		37,400		37,400

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Raghu ₹	Rishu ₹	Rishabh ₹	Particulars	Raghu ₹	Rishu ₹	Rishabh ₹
To Goodwill A/c	12,000	8,000	...	By Balance *b/d*	1,19,000	1,12,000	...
To Balance *c/d* (Balancing Figure)	1,39,000	1,23,900	50,000	By Revaluation A/c	7,400	...	...
				By Revaluation A/c (Gain)	18,000	12,000	...
				By Investments Fluctuation Reserve A/c	2,400	1,600	...
				By Bank A/c	...	...	50,000
				By Premium for Goodwill A/c (WN 3)	2,100	3,150	...
				By Rishabh's Current A/c (WN 3)	2,100	3,150	...
	1,51,000	1,31,900	50,000		1,51,000	1,31,900	50,000

Working Notes:

1. *Calculation of Sacrificing Ratio:*

Sacrifice = Old Share – New Share

$$\text{Raghu} = \frac{3}{5}-\frac{2}{4}=\frac{12-10}{20}=\frac{2}{20}\text{; Rishu} = \frac{2}{5}-\frac{1}{4}=\frac{8-5}{20}=\frac{3}{20}$$

$$\text{Sacrificing Ratio of Raghu and Rishu} = \frac{2}{20}:\frac{3}{20} \text{ or } 2:3.$$

2. Rishabh's Share of Goodwill = ₹ 42,000 × $\frac{1}{4}$ = ₹ 10,500, which will be distributed between Raghu and Rishu in their sacrificing ratio, *i.e.*, 2 : 3. He brings only 50% of his share of Goodwill, *i.e.*, ₹ 5,250 in cash.

3. *Journal Entry for Adjustment of Goodwill:*

		₹	₹	
Premium for Goodwill A/c (Cash)	...Dr.	5,250		
Rishabh's Current A/c	...Dr.	5,250		
To Raghu's Capital A/c			4,200	[₹ 2,100 (Cash) + ₹ 2,100]
To Rishu's Capital A/c			6,300	[₹ 3,150 (Cash) + ₹ 3,150]

Or

Dr. REVALUATION ACCOUNT Cr.

Particulars	₹	Particulars		₹
To Machinery A/c (Bal. Fig.)	**1,80,000**	By Land and Building A/c (Bal. Fig.)		**1,20,000**
To Bad Debts A/c	10,000	By Loss transferred to (WN 1):		
		Kusum's Capital A/c	**20,000**	
		Sneh's Capital A/c	**30,000**	
		Usha's Capital A/c	**20,000**	70,000
	1,90,000			1,90,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	Kusum ₹	Sneh ₹	Usha ₹	Particulars	Kusum ₹	Sneh ₹	Usha ₹
To Revaluation A/c (Loss)	**20,000**	**30,000**	**20,000**	By Balance *b/d*	**4,00,000**	6,00,000	4,00,000
To Kusum's Capital A/c (Goodwill)	...	...	**80,000**	By Workmen Compensation Reserve A/c (WN 2)	**4,000**	**6,000**	**4,000**
To Bank A/c	1,00,000	...	...	By Usha's Capital A/c (WN 3)	80,000	...	...
To Kusum's Loan A/c (Bal. Fig.)	**3,64,000**	...	...				
To Balance *c/d*	...	**5,76,000**	**3,04,000**				
	4,84,000	**6,06,000**	**4,04,000**		4,84,000	**6,06,000**	4,04,000

BALANCE SHEET OF THE NEW FIRM

as at 31st March, 2020

Liabilities		₹	Assets	₹
Capital A/cs:			Land and Building (₹ 4,00,000 + ₹ 1,20,000)	**5,20,000**
Sneh	**5,76,000**		Machinery (₹ 6,00,000 – ₹ 1,80,000)	**4,20,000**
Usha	**3,04,000**	**8,80,000**	Closing Stock	2,00,000
Kusum's Loan A/c		**3,64,000**	Sundry Debtors	**1,90,000**
Employees' Provident Fund		70,000	Cash at Bank	1,00,000
Workmen Compensation Claim		**16,000**		
Sundry Creditors		1,00,000		
		14,30,000		**14,30,000**

Working Notes:

1. Loss of Revaluation Account ₹ 70,000 is distributed among the partners in their old profit-sharing ratio.
2. After adjusting Workmen Compensation Claim of ₹ 16,000 (Given in the Balance Sheet of the new firm) from Workmen Compensation Reserve, balance ₹ 14,000 is distributed among the partners in their old profit-sharing ratio.

3. Kusum's share of goodwill = ₹ 2,80,000 × 2/7 = ₹ 80,000, which will be contributed by Sneh and Usha in gaining ratio.

Gain = New Profit Share – Old Profit Share

Sneh's Gain = 3/7 – 3/7 = Nil

Usha's Gain = 4/7 –2/7 = 2/7

Only Usha is the gaining partner, so she will contribute towards Kusum's share of goodwill.

22.

In the Books of Fable Ltd.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		46,25,000	
	To Shares Application A/c				46,25,000
	(Application money received for 92,500 shares @ ₹ 50 each)				
	Shares Application A/c	...Dr.		46,25,000	
	To Share Capital A/c (50,000 × ₹ 50)				25,00,000
	To Bank A/c (30,000 × ₹ 50)				15,00,000
	To Shares Allotment A/c (12,500 × ₹ 50)				6,25,000
	(Application money adjusted and surplus refunded upon allotment)				
	Shares Allotment A/c (50,000 × ₹ 35)	...Dr.		17,50,000	
	To Share Capital A/c (50,000 × ₹ 25)				12,50,000
	To Securities Premium Reserve A/c (50,000 × ₹ 10)				5,00,000
	(Allotment money due)				
	Bank A/c (WN 2)	...Dr.		11,02,500	
	To Shares Allotment A/c				11,02,500
	Or				
	Bank A/c	...Dr.		11,02,500	
	Calls-in-Arrears A/c	...Dr.		22,500	
	To Shares Allotment A/c				11,25,000
	(Balance allotment money received except on 1,000 shares) (WN 1 and 2)				
	Shares First and Final Call A/c	...Dr.		12,50,000	
	To Share Capital A/c				12,50,000
	(First and final call money due on 50,000 shares @ ₹ 25 each)				
	Bank A/c	...Dr.		12,25,000	
	To Shares First and Final Call A/c				12,25,000
	Or				
	Bank A/c	...Dr.		12,25,000	
	Calls-in-Arrears A/c	...Dr.		25,000	
	To Shares First and Final Call A/c				12,50,000
	(First and final call money received except on 1,000 shares)				
	Share Capital A/c (1,000 × ₹ 100)	...Dr.		1,00,000	
	Securities Premium Reserve A/c	...Dr.		10,000	
	To Forfeited Shares A/c				62,500
	To Shares Allotment A/c				22,500
	To Shares First and Final Call A/c				25,000

	Or			
	Share Capital A/c ...Dr.		1,00,000	
	Securities Premium Reserve A/c ...Dr.		10,000	
	To Forfeited Shares A/c			62,500
	To Calls-in-Arrears A/c			47,500
	(1,000 shares forfeited for non-payment of allotment and first and final call money)			
	Bank A/c (500 × ₹ 120) ...Dr.		60,000	
	To Share Capital A/c (500 × ₹ 100)			50,000
	To Securities Premium Reserve A/c (500 × ₹ 20)			10,000
	(500 forfeited shares reissued at ₹ 120 per share as fully paid-up)			
	Forfeited Shares A/c ...Dr.		31,250	
	To Capital Reserve A/c (WN 3)			31,250
	(Gain on reissue transferred to Capital Reserve)			

Working Notes:

1. *Calculation of Amount not Paid on Allotment by Sahil:*

(*a*) No. of shares allotted to Sahil = $\frac{50,000}{62,500} \times 1,250 = 1,000$ shares.

		₹
(*b*)	Amount paid on application by Sahil (1,250 × ₹ 50)	62,500
	Less: Amount adjusted with application (1,000 × ₹ 50)	50,000
	Excess application money to be adjusted on allotment	12,500
(*c*)	Amount due on allotment (1,000 × ₹ 35)	35,000
	Less: Excess application money to be adjusted on allotment [WN 1(*b*)]	12,500
	Amount due but not received on allotment	22,500

2. *Calculation of Allotment Money Received Later:*

	₹
Total Amount due on allotment	17,50,000
Less: Excess application money adjusted	6,25,000
	11,25,000
Less: Amount due but not received on allotment [WN 1(*c*)]	22,500
Amount Received on allotment	11,02,500

3. Amount transferred to Capital Reserve = ₹ $62,500 \times \frac{500}{1,000}$ = ₹ 31,250.

Or

In the Books of Sunrise Ltd.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		1,50,000	
	To Shares Application A/c				1,50,000
	(Application money received for 50,000 shares @ ₹ 3 each)				
	Shares Application A/c	...Dr.		1,50,000	
	To Share Capital A/c (30,000 × ₹ 3)				90,000
	To Bank A/c (10,000 × ₹ 3)				30,000
	To Shares Allotment A/c (10,000 × ₹ 3)				30,000
	(Application money adjusted)				
	Shares Allotment A/c	...Dr.		90,000	
	To Share Capital A/c				90,000
	(Allotment money due on 30,000 shares @ ₹ 3 each)				
	Bank A/c (WN 2)	...Dr.		57,600	
	To Shares Allotment A/c				57,600
	Or				
	Bank A/c	...Dr.		57,600	
	Calls-in-Arrears A/c	...Dr.		2,400	
	To Shares Allotment A/c				60,000
	(Allotment money received except on 1,200 shares)				
	Shares First and Final Call A/c	...Dr.		1,20,000	
	To Share Capital A/c				1,20,000
	(First and final call money due on 30,000 shares @ ₹ 4 each)				
	Bank A/c	...Dr.		1,15,200	
	To Shares First and Final Call A/c				1,15,200
	Or				
	Bank A/c	...Dr.		1,15,200	
	Calls-in-Arrears A/c	...Dr.		4,800	
	To Shares First and Final A/c				1,20,000
	(First and final call money received except on 1,200 shares)				
	Share Capital A/c (1,200 × ₹ 10)	...Dr.		12,000	
	To Forfeited Shares A/c				4,800
	To Shares Allotment A/c				2,400
	To Shares First and Final Call A/c				4,800
	Or				
	Share Capital A/c	...Dr.		12,000	
	To Forfeited Shares A/c				4,800
	To Calls-in-Arrears A/c				7,200
	(1,200 shares forfeited due to non-payment of allotment and first and final call money)				
	Bank A/c	...Dr.		8,000	
	To Share Capital A/c				8,000
	(800 forfeited shares reissued at ₹ 10, being fully paid-up)				
	Forfeited Shares A/c	...Dr.		3,200	
	To Capital Reserve A/c (WN 3)				3,200
	(Gain on reissue of 800 forfeited shares transferred to Capital Reserve)				

Working Notes:

1. *Calculation of Amount not paid on allotment by Nimesh:*

(*a*) Total No. of shares allotted to Nimesh = $\frac{30,000}{40,000} \times 1,600 = 1,200$ shares.

		₹
(*b*)	Amount paid on application by Nimesh (1,600 × ₹ 3)	4,800
	Less: Amount adjusted on application (1,200 × ₹ 3)	3,600
	Excess application money to be adjusted on allotment	1,200
(*c*)	Amount due on allotment (1,200 × ₹ 3)	3,600
	Less: Excess application money to be adjusted on allotment [WN 1(*b*)]	1,200
	Amount due but not paid on allotment	2,400

2. *Amount Received on Allotment:*

Total Amount due on allotment	90,000
Less: Excess application money adjusted	30,000
	60,000
Less: Amount due but not paid on allotment (WN 1)	2,400
	57,600

3. *Amount transferred to Capital Reserve* = ₹ 4,800 × $\frac{800}{1,200}$ = ₹ 3,200.

PART B

23. Operating Ratio will not change as conversion of Debentures into Equity Shares will not affect any of its components, *i.e.*, there will be no change in Cost of Revenue from Operations, Operating Expenses and Revenue from Operations.

24. (*b*) Three months or less from the date of acquisition.

25. (*d*) Payment of Salaries, Wages to employees.

26. (*d*) Non-current Assets.

27. (*c*) Under Current Liabilities as Other Current Liabilities.

28. Yes, I agree.

29. (*b*) Trade Receivables.

30. (*a*) Return on Investment = $\frac{\text{Net Profit before Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100$

$$= \frac{₹\ 14,50,000}{₹\ 88,00,000} \times 100 = 16.48\%.$$

Net Profit before Interest, Tax and Dividend = ₹ 14,50,000.

Capital Employed = Fixed Assets + Current Assets – Current Liabilities

= ₹ 75,00,000 + ₹ 40,00,000 – ₹ 27,00,000 = ₹ 88,00,000.

(*b*) Total Assets to Debt Ratio $= \dfrac{\text{Total Assets}}{\text{Long-term Debts}} = \dfrac{₹\ 1{,}15{,}00{,}000}{₹\ 80{,}00{,}000} = 1.44 : 1.$

Total Assets = Fixed Assets + Current Assets

= ₹ 75,00,000 + ₹ 40,00,000 = ₹ 1,15,00,000.

Long-term Debt = 12% Debentures = ₹ 80,00,000.

Or

Transaction	*Effect*	*Reason*
(*a*) Payment of Liability of ₹ 15,000	No change	Because Current Liability and Current Assets decline by the same amount.
(*b*) Purchase of Machinery for ₹ 1,00,000 against cheque	Decrease	Because Current Assets will decline by ₹ 1,00,000 whereas Current Liabilities will remain same.
(*c*) Acceptance of Bill of Exchange	No change	Because by accepting a Bill of Exchange, one Current Liability is replaced by another. In effect, the amount of Current Liability does not change.

31. COMMON-SIZE BALANCE SHEET

as at 31st March, 2019 and 2020

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31st March, 2019 (₹)	31st March, 2020 (₹)	31st March, 2019 (%)	31st March, 2020 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(*a*) Share Capital		6,00,000	10,00,000	37.50	41.67
(*b*) Reserves and Surplus		3,00,000	2,00,000	18.75	8.33
2. Non-Current Liabilities					
Long-term Borrowings		4,00,000	8,00,000	25.00	33.33
3. Current Liabilities					
Short-term Borrowings		3,00,000	4,00,000	18.75	16.67
Total		16,00,000	24,00,000	100.00	100.00
II. ASSETS					
1. Non-Current Assets					
Fixed Assets—Tangible Assets		10,00,000	15,00,000	62.50	62.50
2. Current Assets					
(*a*) Inventories		3,00,000	4,00,000	18.75	16.67
(*b*) Cash and Cash Equivalents		3,00,000	5,00,000	18.75	20.83
Total		16,00,000	24,00,000	100.00	100.00

Or

COMPARATIVE STATEMENT OF PROFIT AND LOSS

for the years ended 31st March, 2019 and 2020

Particulars	Note No.	31st March, 2019 ₹	31st March, 2020 ₹	Absolute Change (Increase/ Decrease) ₹	Percentage Change (Increase/ Decrease) %
		(A)	(B)	(C = B – A)	$\left(D = \frac{C}{A} \times 100\right)$
I. Revenue from Operations		20,00,000	**30,00,000**	10,00,000	50.00
II. Other Income		4,00,000	**4,50,000**	50,000	12.50
III. **Total Revenue (I + II)**		24,00,000	**34,50,000**	10,50,000	43.75
IV. **Expenses**		10,00,000	**18,00,000**	8,00,000	80.00
V. **Profit before Tax (III – IV)**		14,00,000	**16,50,000**	2,50,000	17.86
VI. *Less:* Tax		4,20,000	**4,95,000**	75,000	17.86
VII. **Profit after Tax (V – VI)**		9,80,000	**11,55,000**	1,75,000	17.86

32. **Young India Traders Ltd.**

CASH FLOW STATEMENT *for the year ended 31st March, 2020*

Particulars	₹	₹
I. Cash Flow from Operating Activities		
Net Profit (₹ 2,00,000 – ₹ 1,00,000)	1,00,000	
Add: Provision for Tax (WN 2)	80,000	
Dividend Payable (Last Year's Proposed Dividend)	60,000	
Net Profit before Tax and Extraordinary Items		2,40,000
Adjustment for Non-Cash and Non-Operating Items:		
Add: Depreciation on Machinery	12,000	
Loss on Sale of Machinery	5,000	
Amortisation of Patents	5,000	
Interest on Bank Loan (10% of ₹ 1,00,000)	10,000	32,000
Operating Profit before Working Capital Changes		2,72,000
Change in Current Assets and Current Liabilities:		
Decrease in Trade Payables	(15,000)	
Increase in Inventories	(5,000)	
Increase in Trade Receivables	(1,35,000)	(1,55,000)
Cash Generated from Operating Activities before Tax		1,17,000
Less: Tax Paid		50,000
Cash Flow from Operating Activities		67,000
II. Cash Flow from Investing Activities		
Purchase of Non-Current Investments	(75,000)	
Purchase of Machinery	(75,000)	
Proceeds from Sale of Machinery (WN 1)	58,000	
Cash Used in Investing Activities		(92,000)

III.	**Cash Flow from Financing Activities**		
	Proceeds from Issue of Shares	2,00,000	
	Bank Loan Repaid	(1,00,000)	
	Interest on Bank Loan Paid	(10,000)	
	Dividend Paid [(₹ 60,000 – ₹ 20,000 (Unpaid)]	(40,000)	
	Cash Flow from Financing Activities		50,000
IV.	**Net Increase in Cash and Cash Equivalents (I + II + III)**		25,000
V.	Opening Cash and Cash Equivalents		20,000
VI.	**Closing Cash and Cash Equivalents (IV + V)**		45,000

Working Notes:

1. *Dr.* MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	6,00,000	By Depreciation A/c	12,000
To Bank A/c (Purchase)	75,000	By Bank A/c (Sale) (Balancing Figure)	58,000
		By Loss on Sale of Machinery A/c (Statement of Profit and Loss)	5,000
		By Balance *c/d*	6,00,000
	6,75,000		6,75,000

2. *Dr.* PROVISION FOR TAX ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Tax Paid)	50,000	By Balance *b/d*	40,000
To Balance *c/d*	70,000	By Statement of Profit and Loss (Bal. Fig.)	80,000
	1,20,000		1,20,000

3. Proposed Dividend for the year ended 31st March, 2020 will not affect Cash Flow Statement.

Model Test Paper 9

Answers

PART A

1. (*d*) Receipts and Payments Account is the summary of income and expenditures.

2. (*i—b*), (*ii—c*), (*iii—d*), (*iv—a*)

3. (*d*)

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	O's Capital A/c	...Dr.		20,000	
	To *N*'s Capital A/c				20,000

Working Notes:

1. *N*'s Share of Goodwill = ₹ 60,000 × 2/6 = ₹ 20,000.
2. Gaining Ratio = New Profit Share – Old Profit Share
   M = 1/2 – 3/6 = Nil, *O* = 1/2 – 1/6 = 2/6.

4. (*c*)

Calculation of Hidden Goodwill:

(*i*) Net worth of the new firm on the basis of *C*'s capital (₹ 8,000 × 5/1) = ₹ 40,000.

(*ii*) Total existing capital of *A*, *B* and *C* = ₹ 13,000 + ₹ 9,000 + ₹ 8,000 = ₹ 30,000.

(*iii*) Firm's Goodwill [(*i*) – (*ii*)] = ₹ 40,000 – ₹ 30,000 = ₹ 10,000.

C's Share of Goodwill = ₹ 10,000 × 1/5 = ₹ 2,000.

5. (*d*) Bina paying amount to the firm.

6. pay amount due to deceased partner to his/her executors.

7. (*b*) Dr. *Z* and Cr. *X* with ₹ 10,800.

Calculation of Net Effect of Revaluation:

		₹
Increase in value of Land and Building		60,000
Add: Decrease in Trade Creditors		6,000
		66,000
Less: Decrease in Plant and Machinery	₹ 12,000	
Increase in Outstanding Expenses	₹ 18,000	30,000
Net Gain on Revaluation		36,000

Calculation of Gain/Loss of Share:

	X	*Y*	*Z*
New Profit Share	2/10	3/10	5/10
Old Profit Share	5/10	3/10	2/10
Difference	(3/10) (Sacrifice)	...	3/10 (Gain)

Calculation of proportionate Amount of Net Gain on Revaluation:

For *X* = ₹ 36,000 × 3/10 = ₹ 10,800

For *Z* = ₹ 36,000 × 3/10 = ₹ 10,800.

8. (*a*)

9. (*d*)

Working Note:

New Profit Share of Old Partner = Old Profit Share – Share acquired by incoming partner

$$A\text{'s New Profit Share} = \frac{5}{8} - \frac{1}{5} = \frac{25-8}{40} = \frac{17}{40}$$

$$B\text{'s New Profit Share} = \frac{3}{8} - \frac{1}{10} = \frac{15-4}{40} = \frac{11}{40}$$

$$C\text{'s Profit Share} = \frac{3}{10} \text{ or } \frac{12}{40}$$

$$\text{New Ratio of } A, B \text{ and } C = \frac{17}{40} : \frac{11}{40} : \frac{12}{40} = 17 : 11 : 12.$$

10. (*d*)

Working Note:

Amount forfeited on 20 shares (₹ 30 × 20)	₹ 600
(Application money)	
Less: Discount on Reissue of 20 shares (₹ 30 × 20)	₹ 600
Gain on Reissue	NIL

11. (*c*)

12. No, Interest on Debentures is a charge against profits and is payable whether profit is earned or not.

13. (*d*)

C's share of Profit = ₹ 1,20,000 × 1/6 = ₹ 20,000

Guaranteed Amount for half year = ₹ 30,000 × 6/12 = ₹ 15,000.

Since *C*'s Share of profit (₹ 20,000) exceeds the Guaranteed Amount, no deficiency is to be charged to *A*.

14. Difference between Receipts and Payments Account and Income and Expenditure Account

Basis of Difference	*Receipts and Payments Account*	*Income and Expenditure Account*
1. **Nature of Account**	It is a **real** account.	It is a **nominal** account.
2. **Basis of Accounting**	It is prepared on **Cash Basis of Accounting**.	It is prepared on **Accrual Basis of Accounting**.
3. **Balance**	It starts with the **Opening Balances of Cash and Bank**. Balances at the end represent cash and bank balances at the end.	It has no Opening Balance. Balance at the end means either **surplus** *or* **deficit**.

Or

BALANCE SHEET *as at 31st March, 2020*

Liabilities		₹	Assets	₹
Building Fund (Opening Balance)	10,00,000			
Less: Expenditure on the construction of Sports Room	8,00,000	2,00,000		

15. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020 Feb. 1	Vrinda's Capital A/c ...Dr.		60,000	
	To Ghanshyam's Capital A/c			60,000
	(Ghanshyam's share of goodwill adjusted by debiting gaining partner (Vrinda) and crediting deceased partner (Ghanshyam))			
	Vrinda's Capital A/c ...Dr.		18,750	
	To Ghanshyam's Capital A/c			18,750
	(Ghanshyam's share of profit till the date of death adjusted by debiting gaining partner (Vrinda))			
	Or			
	(*i*) Profit and Loss Suspense A/c ...Dr.		18,750	
	To Ghanshyam's Capital A/c			18,750
	(Ghanshyam's share in profit up to the date of death)			
	(*ii*) Vrinda's Capital A/c ...Dr.		18,750	
	To Profit and Loss Suspense A/c			18,750
	(Ghanshyam's share of profit transferred to Vrinda's Capital A/c being the only gaining partner)			

Working Notes:

1. *Calculation of Ghanshyam's Share of Goodwill:*
   Total profits of last four years = ₹ 1,20,000 + ₹ 80,000 + ₹ 40,000 + ₹ 80,000 = ₹ 3,20,000
   Ghanshyam's share in last four years' profit = ₹ 3,20,000 × 3/8 = ₹ 1,20,000
   Ghanshyam's share of Goodwill = ₹ 1,20,000 × 1/2 = ₹ 60,000.
2. *Calculation of Gaining Ratio:*
   Gain of a partner = New Profit Share – Old Profit Share
   Ram's Gain = 1/2 – 4/8 = Nil; Vrinda's Gain = 1/2 – 1/8 = $\frac{4-1}{8} = \frac{3}{8}$
   Hence, only Vrinda is the gaining partner.
3. *Calculation of Ghanshyam's share of profit till the date of death:*
   Average profit of past two years = $\frac{₹\ 40{,}000 + ₹\ 80{,}000}{2}$ = ₹ 60,000
   Profit for 10 months (from 1st April, 2019 to 1st February, 2020) = ₹ 60,000 × 10/12 = ₹ 50,000
   Ghanshyam's share of profit = ₹ 50,000 × 3/8 = ₹ 18,750.
   Due to change in profit-sharing ratio in the new firm, Ghanshyam's share of profit will be adjusted through Vrinda's Capital Account (gaining partner) and not through Profit and Loss Suspense Account.

Or

Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT *for the year ended 31st March, 2020* *Cr.*

Particulars		₹	Particulars	₹
To Interest on Capital A/cs:			By Profit and Loss A/c (Net Profit)	6,70,000
A	14,000			
B	7,000			
C	4,200			
D	2,800	28,000		
To *A*'s Salary		12,000		
To Profit transferred to: (WN 3)				
A's Capital A/c	2,54,600			
B's Capital A/c	1,93,000			
C's Capital A/c	87,400			
D's Capital A/c	95,000	6,30,000		
		6,70,000		6,70,000

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020	*For Deficiency of B's Share:*				
March 31	*A*'s Capital A/c	...Dr.		7,800	
	C's Capital A/c	...Dr.		2,600	
	D's Capital A/c	...Dr.		2,600	
	To *B*'s Capital A/c				13,000
	(Deficiency in *B*'s Share adjusted) (WN 1)				
	For Deficiency of D's Share:				
	A's Capital A/c	...Dr.		7,600	
	To *D*'s Capital A/c				7,600
	(Deficiency in *D*'s Share adjusted) (WN 2)				

Working Notes:

1. *Calculation of Deficiency of B's Share:*

		₹
B's Share of Profit (₹ 6,30,000 × 2/7)	=	1,80,000
Interest on Capital (₹ 1,00,000 × 7/100)	=	7,000
Share of Profit + Interest on Capital	=	1,87,000

Deficiency = ₹ 2,00,000 (Guaranteed Profit) – ₹ 1,87,000 = ₹ 13,000.

2. *Calculation of Deficiency of D's Share:*

		₹
D's Share of Profit (₹ 6,30,000 × 1/7)	=	90,000
Less: B's Deficiency (₹ 13,000 × 1/5)	=	2,600
Share of Profit after *B*'s Deficiency	=	87,400

Deficiency = ₹ 95,000 (Guaranteed Profit) – ₹ 87,400 = ₹ 7,600.

3. *Calculation of Share of Profit:*

(*i*) *A*'s Share = ₹ 6,30,000 × 3/7 = ₹ 2,70,000 – ₹ 7,800 – ₹ 7,600 = ₹ 2,54,600.

(*ii*) *B*'s Share = ₹ 6,30,000 × 2/7 = ₹ 1,80,000 + ₹ 13,000 = ₹ 1,93,000.

(*iii*) *C*'s Share = ₹ 6,30,000 × 1/7 = ₹ 90,000 – ₹ 2,600 = ₹ 87,400.

(*iv*) *D*'s Share = ₹ 6,30,000 × 1/7 = ₹ 90,000 – ₹ 2,600 + ₹ 7,600 = ₹ 95,000.

16. (*i*) No, the accountant is not correct. The provisions of Indian Partnership Act, 1932 are applicable only when Partnership Deed or Agreement does not exist or where it exists it is silent. In the given case, Raghav will get interest @ 10% p.a. because the agreement between Raghav and the firm exists.

(*ii*) No, he is not correct because rent paid is a charge against the profit. Therefore, it should be debited to Profit and Loss Account and not to Profit and Loss Appropriation Account.

(*iii*) He can do this only if it is agreed by *X* and *Y*, the other partners also.

(*iv*) The claim of Anshul is not acceptable because in the absence of Partnership Deed, Profit-sharing is guided by the Indian Partnership Act, 1932. The Act provides for sharing the profits equally.

17. **In the Books of PS Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		**6,90,000**	
	To **8% Debentures Application and Allotment A/c**				**6,90,000**
	(Application money received for issuing 6,000; 8% Debentures of ₹ 100 each at a premium of 15% and redeemable at a premium of 5%)				
	8% Debentures Application and Allotment A/c	...Dr.		**6,90,000**	
	Loss on Issue of Debentures A/c	...Dr.		**30,000**	
	To **8% Debentures A/c**				**6,00,000**
	To **Securities Premium Reserve A/c**				**90,000**
	To **Premium on Redemption of Debenture A/c**				**30,000**
	(**Issue of ₹ 6,00,000, 8% Debentures of ₹ 100 each issued at a premium of 15% and redeemable at a premium of 5%**)				

(*b*) **In the Books of PS Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c	...Dr.		25,00,000	
	To Sundry Creditors A/c				6,00,000
	To **Rajan & Co.**				**18,00,000**
	To **Capital Reserve A/c**				**1,00,000**
	(Business of Rajan & Co. purchased for a consideration of ₹ 18,00,000)				
	Rajan & Co.	...Dr.		**18,00,000**	
	Discount on Issue of Debentures A/c	...Dr.		**2,00,000**	
	To 8% Debentures A/c				**20,00,000**
	(Paid to Rajan & Co. by issue of **10,000**, 8% Debentures of ₹ 200 each at a discount of ₹ 20 per debenture)				

18. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Realisation A/c	...Dr.		20,000	
	To Kunal's Capital A/c				20,000
	(Kunal agreed to pay his wife's loan)				
(*ii*)	Realisation A/c	...Dr.		27,000	
	To Bank A/c				27,000
	(Payment to creditors)				
(*iii*)	Rohit's Capital A/c	...Dr.		10,000	
	Kunal's Capital A/c	...Dr.		10,000	
	Sarthak's Capital A/c	..Dr.		10,000	
	To Profit and Loss A/c				30,000
	(Loss distributed)				
(*iv*)	Realisation A/c	...Dr.		15,000	
	To Sarthak's Capital A/c				15,000
	(Remuneration payable to Sarthak)				

19. **Chennai Sports Club**

AN EXTRACT OF INCOME AND EXPENDITURE ACCOUNT

Dr. *for the year ended 31st March, 2020* *Cr.*

Expenditure	₹	Income	₹
To Sports Material Consumed (WN 4)	78,750	By Subscription A/c (WN 1)	1,80,000
To Salaries A/c (WN 2)	62,500		

AN EXTRACT OF BALANCE SHEET

as at 31st March, 2020

Liabilities	₹	Assets	₹
Advance Subscription	6,500	Outstanding Subscription	8,750
Creditors for Sports Material	11,250	Advance to Suppliers of Sports Material	3,750
Outstanding Salaries	11,250	Stock of Sports Materials	8,750
		Prepaid Salaries	3,750

Working Notes:

1. *Dr.* SUBSCRIPTION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Outstanding Subscription (in the beginning)	11,875	By Advance Subscription A/c (in the beginning)	3,500
To Income and Expenditure A/c (Balancing Figure)	1,80,000	By Bank A/c (received during the year)	1,86,125
To Advance Subscription A/c (at the end)	6,500	By Outstanding Subscription A/c (at the end)	8,750
	1,98,375		1,98,375

Alternate Method: *Subscription Income to be credited to Income and Expenditure Account can be determined by preparing the following statement:*

		₹	₹
Subscription received during the year			1,86,125
Add:	Outstanding (31st March, 2020)	8,750	
	Advance (1st April, 2019)	3,500	12,250
			1,98,375
Less:	Outstanding (1st April, 2019)	11,875	
	Advance (31st March, 2020)	6,500	18,375
Subscription Income to be credited to Income and Expenditure Account			1,80,000

2. *Dr.* SALARIES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Prepaid Salaries A/c (in the beginning)	6,250	By Outstanding Salaries A/c (in the beginning)	18,750
To Bank A/c	67,500	By Income and Expenditure A/c (Balancing Figure)	62,500
To Outstanding Salaries A/c (at the End)	11,250	By Prepaid Salaries A/c (at the end)	3,750
	85,000		85,000

Alternate Method: *For Calculating Salaries to be debited to Income and Expenditure Account:*

		₹	₹
Salaries paid during the year			67,500
Add:	Outstanding (31st March, 2020)	11,250	
	Prepaid (1st April, 2019)	6,250	17,500
			85,000
Less:	Outstanding (1st April, 2019)	18,750	
	Prepaid (31st March, 2020)	3,750	22,500
Salaries to be debited to Income and Expenditure Account			62,500

3. *Dr.* CREDITORS FOR SPORTS MATERIAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d* (Advances in the beginning)	6,250	By Balance *b/d* (Due)	18,750
To Bank A/c	67,500	By Stock of Sports Material A/c (Credit Purchase—Balancing Figure)	62,500
To Balance *c/d*	11,250	By Balance *c/d* (Advances at the end)	3,750
	85,000		85,000

4. *Dr.* STOCK OF SPORTS MATERIAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	18,750	By Income and Expenditure A/c (Sports Material Consumed—Bal. Fig.)	78,750
To Creditors for Sports Material A/c (Transfer)	62,500		
To Cash A/c (Purchases) (10% of ₹ 62,500)	6,250	By Balance *c/d*	8,750
	87,500		87,500

Alternate Method: *For Calculating Sports Material Consumed to be debited to Income and Expenditure Account:*

		₹
Opening Stock of Sports Material		18,750
Add:	Purchases (Cash + Credit) [₹ 6,250 + ₹ 62,500 (from Creditors for Sports Material A/c)]	68,750
		87,500
Less:	Closing Stock of Sports Materials	8,750
Sports Materials Consumed during the year to be debited to Income and Expenditure Account		78,750

20. JOURNAL OF RAHEJA LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Underwriting Commission A/c ...Dr.		2,00,000	
	To Underwriters' A/c			2,00,000
	(Underwriting commission payable)			
	Incorporation Cost A/c ...Dr.		5,00,000	
	To Promoters' A/c			5,00,000
	(Incorporation cost payable)			
	Underwriters' A/c ...Dr.		2,00,000	
	Promoters' A/c ...Dr.		5,00,000	
	To Share Capital A/c			7,00,000
	(Shares issued to underwriters and promoters)			
	Bank A/c ...Dr.		50,00,000	
	To Shares Application and Allotment A/c			50,00,000
	(Share application money received)			
	Shares Application and Allotment A/c ...Dr.		50,00,000	
	To Share Capital A/c			50,00,000
	(Shares allotted)			

BALANCE SHEET *as at...*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	57,00,000

Note to Accounts

Particulars	₹
1. Share Capital	
Authorised Capital	
... Shares of ₹ 100 each	...
Issued Capital	
57,000 Shares of ₹ 100 each	57,00,000
Subscribed Capital	
Subscribed and Fully Paid-up	
57,000 shares of ₹ 100 each	57,00,000
(Out of the above, 7,000 shares are issued without consideration being received in cash)	

21. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020					
March 31	*X*'s Current A/c	...Dr.		50,000	
	Y's Current A/c	...Dr.		30,000	
	To Advertisement Suspense A/c				80,000
	(Transfer of Advertisement Suspense Account to old partners in their old profit-sharing ratio)				
March 31	Provision for Doubtful Debts A/c	...Dr.		20,000	
	Land and Building A/c	...Dr.		3,00,000	
	Creditors A/c	...Dr.		40,000	
	To Revaluation A/c				3,60,000
	(Increase in value of Land and Building, reduction in Provision for Doubtful Debts and creditors recorded)				
March 31	Revaluation A/c	...Dr.		30,000	
	To Provision for Outstanding Electricity Bill A/c				30,000
	(Provision for outstanding electricity bill recorded)				
March 31	Revaluation A/c (₹ 3,60,000 – ₹ 30,000)	...Dr.		3,30,000	
	To *X*'s Current A/c				2,06,250
	To *Y*'s Current A/c				1,23,750
	(Gain on revaluation credited to partners' Current Accounts in old profit-sharing ratio)				
March 31	Creditors A/c	...Dr.		10,000	
	To Bank A/c				10,000
	(Payment made to creditors is recorded)				
March 31	Workmen Compensation Reserve A/c	...Dr.		4,00,000	
	To *X*'s Current A/c				2,50,000
	To *Y*'s Current A/c				1,50,000
	(Workmen Compensation Reserve distributed between partners in their old profit-sharing ratio)				

March 31	Bank A/c ...Dr.	5,60,000	
	To *Z*'s Capital A/c		4,00,000
	To Premium for Goodwill A/c		1,60,000
	(Capital and Premium for Goodwill brought in by Z)		
March 31	Premium for Goodwill A/c ...Dr.	1,60,000	
	To *X*'s Current A/c		1,00,000
	To *Y*'s Current A/c		60,000
	(Goodwill distributed among sacrificing partners in sacrificing ratio, *i.e.*, 5 : 3)		
March 31	X's Current A/c ...Dr.	50,000	
	Y's Current A/c ...Dr.	30,000	
	To Bank A/c		80,000
	(Half premium for goodwill is withdrawn by *X* and *Y*)		
March 31	Creditors A/c ...Dr.	60,000	
	To Bills Payable A/c		60,000
	(Acceptance given to Amrit)		

Or

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Machinery A/c	1,80,000	By Land and Building A/c		1,20,000
To Bad Debts A/c	15,000	By Loss transferred to:		
		X's Capital A/c	21,429	
		Y's Capital A/c	32,142	
		Z's Capital A/c	21,429	75,000
	1,95,000			1,95,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To Revaluation A/c	21,429	32,142	21,429	By Balance *b/d*	4,00,000	6,00,000	4,00,000
To *X*'s Capital A/c	...	...	80,000	By Workmen Compen-			
To Bank A/c	1,00,000	...	...	sation Reserve A/c	4,285	6,429	4,286
To *X*'s Loan A/c	3,62,856	...	...	By *Z*'s Capital A/c	80,000	...	...
To Balance *c/d* (WN 3)	...	5,74,287	3,02,857	(WN 1 and 2)			
	4,84,285	6,06,429	4,04,286		4,84,285	6,06,429	4,04,286

BALANCE SHEET OF *Y* AND *Z as at 31st March, 2020*

Liabilities		₹	Assets	₹
Capital A/cs:			Land and Building	5,20,000
Y	5,74,287		Machinery	4,20,000
Z	3,02,857	8,77,144	Closing Stock	2,00,000
X's Loan A/c		3,62,856	Debtors	1,85,000
Employees' Provident Fund		70,000	Cash at Bank	1,00,000
Sundry Creditors		2,00,000	Cash in Hand	1,00,000
Provision for Workmen Compensation Claim		15,000		
		15,25,000		15,25,000

Working Notes:

1. *Calculation of Gaining Ratio:*

Gain = New Share – Old Share

$$Y = \frac{3}{7} - \frac{3}{7} = 0;$$

$$Z = \frac{4}{7} - \frac{2}{7} = \frac{2}{7}$$

Y has not gained on retirement of *X*. Therefore, only *Z* will compensate *X* for Goodwill..

2. *X*'s share of Goodwill = ₹ 2,80,000 × $\frac{2}{7}$ = ₹ 80,000.

22. JOURNAL OF KITPLY LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Equity Shares Application A/c (Application money received on 65,000 equity shares @ ₹ 15 each)		9,75,000	 9,75,000
	Equity Shares Application A/c ...Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Application money adjusted)		9,75,000	 1,95,000 7,80,000
	Equity Shares Allotment A/c ...Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Allotment money due)		6,50,000	 1,30,000 5,20,000
	Bank A/c ...Dr. To Equity Shares Allotment A/c *Or* Bank A/c ...Dr. Calls-in-Arrears A/c ...Dr. To Equity Shares Allotment A/c (Allotment money received on 63,000 shares)		6,30,000 6,30,000 20,000	 6,30,000 6,50,000
	Equity Share Capital A/c ...Dr. Securities Premium Reserve A/c ...Dr. To Equity Shares Allotment A/c/Calls-in-Arrears A/c To Forfeited Shares A/c (2,000 shares forfeited for non-payment of allotment money)		10,000 16,000	 20,000 6,000
	Equity Shares First and Final Call A/c ...Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Call money due on 63,000 shares)		12,60,000	 3,15,000 9,45,000
	Bank A/c ...Dr. To Equity Shares First and Final Call A/c *Or* Bank A/c ...Dr. Calls-in-Arrears A/c ...Dr. To Equity Shares First and Final Call A/c (Call money received on 60,000 shares)		12,00,000 12,00,000 60,000	 12,00,000 12,60,000

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Equity Share Capital A/c	...Dr.		30,000	
	Securities Premium Reserve A/c	...Dr.		45,000	
	To Equity Shares First and Final Call A/c/Calls-in-Arrears A/c				60,000
	To Forfeited Shares A/c				15,000
	(3,000 shares forfeited for non payment of call money)				
	Bank A/c	...Dr.		2,00,000	
	To Equity Share Capital A/c				40,000
	To Securities Premium Reserve A/c				1,60,000
	(4,000 shares reissued at ₹ 50 per share)				
	Forfeited Shares A/c	...Dr.		16,000	
	To Capital Reserve A/c				16,000
	(Gain on reissue of 4,000 shares transferred)				

BALANCE SHEET

as at...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	6,45,000

Note to Accounts

Particulars		₹
1. Share Capital		
Authorised Capital		
... Equity Shares of ₹ 10 each		...
Issued Capital		
70,000 Equity Shares of ₹ 10 each		7,00,000
Subscribed Capital		
Subscribed and Fully Paid-up		
64,000 Equity Shares of ₹ 10 each	6,40,000	
Add: Forfeited Shares A/c	5,000	6,45,000

Or

JOURNAL OF KAILASH LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		26,95,000	
	To Equity Shares Application A/c				26,95,000
	(Application money received for 77,000 shares @ ₹ 35 per share)				
	Equity Shares Application A/c	...Dr.		26,95,000	
	To Equity Share Capital A/c				3,85,000
	To Securities Premium Reserve A/c				23,10,000
	(Application money adjusted)				
	Equity Shares Allotment A/c	...Dr.		6,16,000	
	To Equity Share Capital A/c				3,08,000
	To Securities Premium Reserve A/c				3,08,000
	(Allotment money due)				

	Bank A/c ...Dr.		5,60,000	
	To Equity Shares Allotment A/c			5,60,000
	Or			
	Bank A/c ...Dr.		5,60,000	
	Calls-in-Arrears A/c ...Dr.		56,000	
	To Equity Shares Allotment A/c			6,16,000
	(Allotment money received)			
	Equity Share Capital A/c ...Dr.		63,000	
	Securities Premium Reserve A/c ...Dr.		28,000	
	To Equity Shares Allotment A/c/Calls-in-Arrears A/c			56,000
	To Forfeited Shares A/c			35,000
	(7,000 shares forfeited)			
	Equity Shares First and Final Call A/c ...Dr.		4,90,000	
	To Equity Share Capital A/c			70,000
	To Securities Premium Reserve A/c			4,20,000
	(Call money due)			
	Bank A/c ...Dr.		4,86,500	
	To Equity Shares First and Final Call A/c			4,86,500
	Or			
	Bank A/c ...Dr.		4,86,500	
	Calls-in-Arrears A/c ...Dr.		3,500	
	To Equity Shares First and Final Call A/c			4,90,000
	(Call money received)			
	Equity Share Capital A/c ...Dr.		5,000	
	Securities Premium Reserve A/c ...Dr.		3,000	
	To Equity Shares First and Final Call A/c/Calls-in-Arrears A/c			3,500
	To Forfeited Shares A/c			4,500
	(500 shares forfeited for non-payment of call momey)			
	Bank A/c ...Dr.		50,000	
	To Equity Share Capital A/c			10,000
	To Securities Premium Reserve A/c			40,000
	(1,000 shares reissued at ₹ 50 per share)			
	Forfeited Shares A/c ...Dr.		7,000	
	To Capital Reserve A/c			7,000
	(Gain (profit) on reissue transferred)			

BALANCE SHEET

as at...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	7,37,500

Note to Accounts

Particulars		₹
1. **Share Capital**		
Authorised Capital		
... Equity Shares of ₹ 10 each		...
Issued Capital		
80,000 Equity Shares of ₹ 10 each		8,00,000
Subscribed Capital		
Subscribed and Fully Paid-up		
70,500 Equity Shares of ₹ 10 each	7,05,000	
Add: Forfeited Shares A/c	32,500	7,37,500

PART B

23. (*i—b*), (*ii—c*), (*iii—a*).

24. No. **Reason:** The financial statements are prepared on historical costs. Hence, its analysis is also historical in nature. Therefore, it does not show price level changes. For example, fixed assets are shown at historical cost *less* depreciation and not at the replacement value in the Balance Sheet.

25. In case a bill receivable is dishonoured, Current Ratio will not change because it would affect neither Current Asset nor Current Liability.

26. Common-size, Revenue from Operations.

27. (*d*) 12 months.

28. (*b*) Investing Activity

29. (*a*) Comparative Statement of Profit and Loss.

30. COMPARATIVE STATEMENT OF PROFIT AND LOSS *for the years ended 31st March, 2019 and 2020*

Particulars	Note No.	31st March, 2019 ₹	31st March, 2020 ₹	Absolute Change (Increase/ Decrease) ₹	Percentage Change (Increase/ Decrease) %
I. **Revenue from Operations**		32,00,000	40,00,000	8,00,000	25
II. **Expenses**					
(*a*) Employee Benefit Expenses		16,00,000	20,00,000	4,00,000	25
(*b*) Other Expenses		4,00,000	2,00,000	(2,00,000)	(50)
Total Expenses		20,00,000	22,00,000	2,00,000	10
III. **Profit before Tax (I – II)**		12,00,000	18,00,000	6,00,000	50
IV. *Less:* Tax @ 40%		4,80,000	7,20,000	2,40,000	50
V. **Profit after Tax (III – IV)**		7,20,000	10,80,000	3,60,000	50

Or

COMMON-SIZE BALANCE SHEET

as at 31st March, 2019 and 2020

Particulars	Note No.	Absolute Amounts 31st March, 2019 (₹)	Absolute Amounts 31st March, 2020 (₹)	Percentage of Balance Sheet Total 31st March, 2019 (%)	Percentage of Balance Sheet Total 31st March, 2020 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds					
(*a*) Share Capital		5,00,000	10,00,000	33.33	41.67
(*b*) Reserves and Surplus		3,00,000	2,00,000	20.00	8.33
2. Non-Current Liabilities					
Long-term Borrowings		5,00,000	8,00,000	33.34	33.33
3. Current Liabilities					
Trade Payables		2,00,000	4,00,000	13.33	16.67
Total		15,00,000	24,00,000	100.00	100.00
II. ASSETS					
1. Non-Current Assets					
Fixed Assets—Tangible Assets		10,00,000	15,00,000	66.67!	62.50
2. Current Assets					
Cash and Cash Equivalents		5,00,000	9,00,000	33.33	37.50
Total		15,00,000	24,00,000	100.00	100.00

31. Current Ratio = 2.5 : 1

It means if Current Assets are 2.5, Current Liabilities are 1.

Hence, Working Capital = 2.5 – 1 = 1.5

If Working Capital is 1.5, Current Assets are = 2.5

If Working Capital is 1, Current Assets are = $\frac{2.5}{1.5}$

If Working Capital is ₹ 1,20,000, Current Assets are = $\frac{2.5}{1.5} \times$ ₹ 1,20,000 = ₹ **2,00,000**.

$$\text{Current Liabilities} = ₹\ 2{,}00{,}000 - ₹\ 1{,}20{,}000\ (\text{Working Capital})$$
$$= ₹\ \mathbf{80{,}000}$$

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

$$\frac{1.5}{1} = \frac{\text{Quick Assets}}{₹\ 80{,}000}$$

$$\text{Quick Assets} = 1.5 \times ₹\ 80{,}000 = ₹\ \mathbf{1{,}20{,}000}$$

$$\text{Closing Inventory} = \text{Current Assets} - \text{Quick Assets}$$
$$= ₹\ 2{,}00{,}000 - ₹\ 1{,}20{,}000 = ₹\ 80{,}000.$$

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

$$3 = \frac{₹\ 3{,}00{,}000^*}{\text{Average Inventory}}$$

*Gross Profit = 25% on Revenue from Operations = ₹ 1,00,000;

Revenue from Operations = ₹ 4,00,000;

Cost of Revenue from Operations = ₹ 4,00,000 – ₹ 1,00,000 = ₹ 3,00,000.

Average Inventory = ₹ 1,00,000

Let Opening Inventory = x

$$\text{So,} \quad \text{Average Inventory} = \frac{x + ₹\ 80{,}000}{2} = ₹\ 1{,}00{,}000$$

$$x + ₹\ 80{,}000 = ₹\ 2{,}00{,}000$$

$$x = ₹\ \mathbf{1{,}20{,}000}\ \text{(Opening Inventory)}.$$

Or

$$(i)\ \text{Debt to Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} = \frac{₹\ 10{,}00{,}000}{₹\ 20{,}00{,}000} = \mathbf{0.5 : 1}.$$

Notes:

1. Debt = 6% Debentures + 9% Bank Loan

   = ₹ 3,00,000 + ₹ 7,00,000 = ₹ 10,00,000.

2. Equity = Paid-up share capital + Debentures Redemption Reserve

   = ₹ 17,00,000 + ₹ 3,00,000 = ₹ 20,00,000.

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

$$= \frac{₹\ 60{,}00{,}000}{₹\ 5{,}00{,}000} = \mathbf{12\ Times}.$$

Notes:

1. Working Capital = xOther Current Assets + Closing Inventory – Current Liabilities

   = ₹ 8,00,000 + ₹ 1,00,000 – ₹ 4,00,000 = ₹ 5,00,000.

2. Revenue from Operations = Cash Sales + Credit Sales

   = ₹ 40,00,000 + ₹ 20,00,000 = ₹ 60,00,000.

32.

GEC Ltd.

CASH FLOW STATEMENT *for the year ended 31st March, 2020*

Particulars	₹	₹
A. Cash Flow from Operating Activities		
Net Profit before Tax and Extraordinary Activities (WN 1)		1,40,000
Adjustment for Non-Cash and Non-Operating Items:		
Add: Depreciation (WN 3)	80,000	
Interest on Debentures	10,000	90,000
		2,30,000
Less: Gain (Profit) on Sale of Machinery	10,000	
Gain (Profit) on Sale of Investments	8,000	18,000
Operating Profit before Working Capital Changes		2,12,000
Add: *Decrease in Current Assets:*		
Trade Receivables		1,10,000
		3,22,000
Less: *Decrease in Current Liabilities:*		
Trade Payables		15,000
Cash Generated from Operating Activities		3,07,000
Less: Tax Paid		55,000
Cash Flow from Operating Activities		2,52,000
B. Cash Flow from Investing Activities		
Proceeds from Sale of Machinery		25,000
Purchase of Machinery (WN 2)		(4,40,000)
Proceeds from Sale of Investments		48,000
Purchase of Investments (WN 4)		(75,000)
Cash Used in Investing Activities		(4,42,000)
C. Cash Flow from Financing Activities		
Proceeds from Issue of 10% Debentures		60,000
Interest Paid		(10,000)
Proceeds from Issue of Shares		2,10,000
Cash Flow from Financing Activities		2,60,000
D. Net Increase in Cash and Cash Equivalents (A + B + C)		70,000
Add: Opening Balance of Cash and Cash Equivalents (₹ 1,70,000 + ₹ 40,000)		2,10,000
E. Closing Balance of Cash and Cash Equivalents (₹ 2,00,000 + ₹ 80,000)		**2,80,000**

Working Notes:

1. *Calculation of Net Profit before Tax and Extraordinary Items:*

	₹
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)	1,70,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)	1,00,000
	70,000
Add: Transfer to General Reserve (₹ 1,50,000 – ₹ 1,20,000)	30,000
Provision for Tax	40,000
Net Profit before Tax and Extraordinary items	1,40,000

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

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

*Book Value on the date of Sale (₹ 70,000 – ₹ 55,000)	₹ 15,000
Add: Profit on Sale	₹ 10,000
Sale Value of Machinery	₹ 25,000

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

Particulars	₹	Particulars	₹
To Machinery A/c (Transfer)	55,000	By Balance *b/d*	95,000
To Balance *c/d*	1,20,000	By Statement of Profit and Loss (Depreciation) —Balancing Figure	80,000
	1,75,000		1,75,000

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

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

5. It has been assumed that New Debentures of ₹ 60,000 have been issued at the end of current accounting year. So, interest on debentures has been provided on ₹ 1,00,000.

Model Test Paper 10

Answers

PART A

1. (*c*) Both (*a*) and (*b*).

2. (*c*)

3. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Partner's Capital/Current A/c	...Dr.		4,000	
	To **Interest on Drawings A/c**				4,000
	(Interest on drawings charged)				

4. (*a*) ₹ 1,800.

5. (*a*) Donation for Tournament.

6. (*d*) ₹ 6,000.

Interest due to Vidit and Seema = ₹ 12,000 + ₹ 24,000 = ₹ 36,000. However, total distributable profit is just ₹ 18,000. Therefore, total profit, *i.e.*, ₹ 18,000 will be distributed between Vidit and Seema in the ratio of their interest on capital, *i.e.*, the ratio of ₹ 12,000 : ₹ 24,000 or 1 : 2.

Interest on Vidit's Capital = ₹ 18,000 × 1/3 = ₹ 6,000.

7. (*d*) ₹ 56,000.

Dr. REALISATION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Sundry Assets	3,00,000	By External Liabilities	1,20,000
To Bank A/c (Liabilities Paid)	1,20,000	By Bank A/c (Assets realised)	3,60,000
To Bank A/c (Realisation Expenses)	4,000	(₹ 3,00,000 × 120/100)	
To Gain (Profit)—Balancing Figure	56,000		
	4,80,000		4,80,000

8. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Kartik's Loan A/c	...Dr.		80,000	
	Cash A/c	...Dr.		20,000	
	To Realisation A/c				1,00,000
	(Asset taken against loan and balance received in cash)				

9. (*b*) *X* only.

Calculation of Sacrificing Ratio:

Sacrifice = Old Profit Share – New Profit Share

X's Sacrifice = 3/4 – 2/4 = 1/4; *Y*'s Sacrifice = 1/4 – 1/4 = 0.

10. (*b*) Share acquired by Karan from Mohan = $\frac{1}{5}\times\frac{1}{2}=\frac{1}{10}$

Share acquired by Karan from Sohan = $\frac{1}{5}\times\frac{1}{2}=\frac{1}{10}$

New Share of Old Partner = Old Profit Share – Share Acquired by Incoming Partner

$$\text{Mohan's New Profit Share} = \frac{3}{5} - \frac{1}{10} = \frac{6-1}{10} = \frac{5}{10}$$

$$\text{Sohan's New Profit Share} = \frac{2}{5} - \frac{1}{10} = \frac{4-1}{10} = \frac{3}{10}$$

$$\text{Karan's Profit Share} = \frac{1}{10} + \frac{1}{10} = \frac{2}{10}$$

Thus, New Profit-sharing Ratio of Mohan, Sohan and Karan = $\frac{5}{10} : \frac{3}{10} : \frac{2}{10} = 5 : 3 : 2.$

11. (*b*) Shares Allotment Account.

12. (*b*) ₹ 1,20,000.

Explanation:

	₹
Application money received on shares applied (15,000 × ₹ 40)	6,00,000
Less: Application money due on shares allotted (12,000 × ₹ 40)	4,80,000
Surplus application money adjusted on allotment	1,20,000
Allotment money due on shares allotted (12,000 × ₹ 20)	2,40,000
Less: Surplus application money adjusted on allotment	1,20,000
Amount received in cash on allotment of shares	1,20,000

13. (*d*)

14.

Dr. CREDITORS FOR MEDICINES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Payment Made)	6,79,000	By Balance *b/d* (Opening Creditors)	2,40,000
To Balance *c/d* (Closing Creditors)	2,04,000	By Stock of Medicines A/c (Bal. Fig.) (Purchase)	**6,43,000**
	8,83,000		8,83,000

Dr. STOCK OF MEDICINES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	90,000	By Income and Expenditure A/c (Balancing Figure) (Medicines Consumed)	**6,09,000**
To Creditors for Medicines A/c (Medicines Purchased)	6,43,000	By Balance *c/d*	1,24,000
	7,33,000		7,33,000

Amount of Medicines to be debited to Income and Expenditure Account = ₹ 6,09,000.

Alternative Method: *Amount of medicines to be debited to Income and Expenditure Account can be determined in the following manner:*

Particulars		₹
Amount paid to Creditors for Medicines		6,79,000
Add: Opening Stock of Medicines	90,000	
Closing Creditors for Medicines	2,04,000	2,94,000
		9,73,000
Less: Closing Stock of Medicines	1,24,000	
Opening Creditors for Medicines	2,40,000	3,64,000
Amount of Medicines to be debited to Income and Expenditure A/c		6,09,000

Or

Dr.	SUBSCRIPTIONS ACCOUNT		*Cr.*
Particulars	₹	Particulars	₹
To Subscriptions Outstanding (in the beginning)	20,000	By Advance Subscription A/c (in the beginning)	30,000
To Income and Expenditure A/c (Bal. Fig.)	**1,30,000**	By Bank A/c	1,00,000
To Advance Subscription A/c (at the end)	20,000	By Subscription Outstanding A/c (at the end)	40,000
	1,70,000		1,70,000

Note: Subscription outstanding as on 31st March, 2020 is total amount of subscription due as on that date, it means it also includes "Subscription still in arrear for the year 2018–19—₹ 2,000".

15. (*a*) *X* should pay ₹ 7,50,000 [₹ 5,00,000 + ₹ 2,50,000 (Profit)] because every partner is responsible to pay to the firm the profit earned by him from the use of firm's property.

(*b*) *Y* should pay ₹ 3,00,000 because every partner is duty bound to bear the loss incurred by him from the use of firm's property.

(*c*) No person can be admitted as a partner without the consent of all the partners. Therefore, *W* cannot be admitted as a partner because *X* objects to it.

(*d*) In the absence of Partnership Deed, the provisions of Partnership Act, will be applicable according to which no salary/remuneration is payable to any partner. So, *Z*'s claim is not acceptable.

16. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Share Capital A/c	...Dr.		**8,000**	
	Securities Premium Reserve A/c	...Dr.		**2,000**	
	To Shares Forfeited A/c				3,000
	To Shares Allotment A/c				**5,000**
	To Shares First Call A/c				**2,000**
	(1,000 shares of ₹ 10 each ₹ 8 called-up issued at a premium of ₹ 2 per share forfeited for non-payment of allotment of ₹ 5 per share including premium and first call of ₹ 2 per share)				
	Bank A/c	...Dr.		9,800	
	To Share Capital A/c				**7,000**
	To **Securities Premium Reserve A/c**				**2,800**
	(700 shares reissued @ ₹ 14 per share fully paid-up)				
	Shares Forfeited A/c	...Dr.		**2,100**	
	To Capital Reserve A/c				**2,100**
	(Gain on reissue of forfeited shares transferred to Capital Reserve)				

17. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020					
April 1	Building A/c	...Dr.		4,00,000	
	Furniture A/c	...Dr.		1,50,000	
	To Revaluation A/c				5,50,000
	(Increase in the value of assets recorded)				
	Revaluation A/c	...Dr.		50,000	
	To Provision for Doubtful Debts A/c				50,000
	(Provision made for doubtful debts)				
	Revaluation A/c (₹ 5,50,000 – ₹ 50,000)	...Dr.		5,00,000	
	To *X*'s Capital A/c				3,00,000
	To *Y*'s Capital A/c				2,00,000
	(Profit on revaluation transferred to Partners' Capital Accounts in their old ratio)				

BALANCE SHEET OF THE RECONSTITUTED FIRM
as at 1st April, 2020

Liabilities		₹	Assets		₹
Creditors		3,00,000	Building		11,00,000
Capital A/cs:			Furniture		6,50,000
X (₹ 9,00,000 + ₹ 3,00,000)	12,00,000		Debtors	5,00,000	
Y (₹ 6,00,000 + ₹ 2,00,000)	8,00,000	20,00,000	*Less:* Provision for Doubtful Debts	50,000	4,50,000
			Cash in Hand		1,00,000
		23,00,000			23,00,000

Or

STATEMENT SHOWING ADJUSTMENT TO BE MADE

Particulars	Alia's Capital A/c		Bhanu's Capital A/c		Chand's Capital A/c		Firm	
	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)	Dr. (₹)	Cr. (₹)
Profits wrongly credited, now reversed	30,000	...	30,000	...	20,000	...	...	80,000
Salary	...	18,000	...	4,000	...	18,000	40,000	...
Profit to be credited	...	15,000	...	15,000	...	10,000	40,000	...
	30,000	33,000	30,000	19,000	20,000	28,000	80,000	80,000
Net effect	3,000 (Cr.)		11,000 (Dr.)		8,000 (Cr.)			

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020					
March 31	Bhanu's Capital A/c	...Dr.		11,000	
	To Alia's Capital A/c				3,000
	To Chand's Capital A/c				8,000
	(Salary and profit share incorrectly distributed, now adjusted)				

18.

Dr. REALISATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Sundry Assets—Transfer:			By Provision for Doubtful Debts		4,000
Building	1,20,000		By Investment Fluctuation Reserve		8,000
Investments	30,600		By Mrs. *X*'s Loan		40,000
Goodwill	4,000		By Sundry Creditors		80,000
Debtors	34,000		By Bank A/c (Assets Realised):		
Bills Receivable	37,400	2,26,000	Debtors	24,000	
To *X*'s Capital A/c (Commission)		1,000	Building	1,52,000	
To *X*'s Capital A/c (Mrs. *X*'s Loan)		40,000	Bills Receivable	36,000	2,12,000
To Bank A/c (Liabilities Paid):			By Y's Capital A/c (Investments)		27,000
Sundry Creditors (₹ 80,000 – 10%)	72,000				
Realisation Expenses	2,500	74,500			
To Gain (Profit) transferred to:					
X's Capital A/c	17,700				
Y's Capital A/c	11,800	29,500			
		3,71,000			3,71,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	Particulars	*X* (₹)	*Y* (₹)
To Profit and Loss A/c	4,800	3,200	By Balance *b/d*	42,000	42,000
To Realisation A/c (Investments)	...	27,000	By Realisation A/c (Commission)	1,000	...
To Bank A/c (Final Payment)	95,900	23,600	By Realisation A/c (Mrs. *X*'s Loan)	40,000	...
(Balancing Figure)			By Realisation A/c (Gain)	17,700	11,800
	1,00,700	53,800		1,00,700	53,800

Notes: 1. If question is silent about the realisation of particular asset, then its realised value is taken as Nil.

2. If an asset (recorded or unrecorded) is given in payment of liability (recorded or unrecorded), then no entry is passed for such payment [Refer to adjustment (*g*)].

19. (*a*) JOURNAL OF GOPALAN LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Debentures Suspense A/c	...Dr.		1,00,000	
	To 9% Debentures A/c				1,00,000
	(1,000, 9% Debentures of ₹ 100 each issued as collateral security)				

Note to Accounts

Particulars		₹
1. Long-term Borrowings		
5,000; 9% Debentures of ₹ 100 each		5,00,000
Bank Loan		80,000
1,000; 9% Debentures of ₹ 100 each issued as Collateral Security	1,00,000	
Less: Debentures Suspense A/c	1,00,000	...
		5,80,000

(*b*) **In the Books of Pilot Pens Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c ...Dr.		55,000	
	To Kiran Machines Ltd.			55,000
	(Machinery purchased from Kiran Machines Ltd.)			
	Kiran Machines Ltd. ...Dr.		5,500	
	To Bills Payable A/c			5,500
	(Part payment for machinery purchased met by giving acceptance for a bill)			
	Kiran Machines Ltd. ...Dr.		49,500	
	To 9% Debentures A/c (WN)			49,500
	(Balance payment made by the issue of 495, 9% Debentures of ₹ 100 each at par)			

Working Note: Number of Debentures to be issued = (Purchase Consideration – Part Payment) ÷ Issue Price
= ₹ (55,000 – 5,500) ÷ ₹ 100 = 495 Debentures.

20. **S.R. Entertainment Club**

Dr. INCOME AND EXPENDITURE ACCOUNT *for the year ended 31st March, 2020* *Cr.*

Expenditure		₹	Income		₹
To Salaries		84,500	By Subscription A/c (WN 1)		1,48,800
To Printing		20,700	By Profit on Competition:		
To Repairs to Sports Equipments		8,000	Competition Fees	25,900	
To Loss on Cultural Evening:			*Less:* Competition Prizes	22,000	3,900
Cultural Evening Expenses	20,600		By Deficit		25,370
Less: Sales of Tickets	17,780	2,820	(*i.e.*, Excess of Expenditure over Income)		
To Van Expenses		12,000			
To Sundry Expenses		11,800			
To Loss on Sale of Van (WN 2)		12,500			
To Depreciation on:					
Van (25% of ₹ 63,000)		15,750			
Computer (₹ 16,000 – ₹ 14,000)		2,000			
Sports Equipments (₹ 62,000 – ₹ 54,000)		8,000			
		1,78,070			1,78,070

BALANCE SHEET *as at 31st March, 2020*

Liabilities		₹	Assets		₹
Capital Fund	1,66,820		Van	63,000	
Less: Deficit	25,370	1,41,450	*Less:* Depreciation	15,750	47,250
			Computer (Cost ₹ 20,000)	16,000	
			Less: Depreciation	2,000	14,000
			Sports Equipments	62,000	
			Less: Depreciation	8,000	54,000
			Subscription in Arrears:		
			2018–19 (₹ 14,400 – ₹ 6,200)	8,200	
			2019–20 (₹ 16,200 – ₹ 8,200)	8,000	16,200
			Cash at Bank		8,000
			Cash in Hand		2,000
		1,41,450			1,41,450

Working Notes:

1. *Dr.* SUBSCRIPTION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Subscription in Arrears (Opening)	14,400	By Bank A/c		1,47,000
To Income and Expenditure A/c (Balancing Figure)	1,48,800	By Subscription in Arrears:		
		2018–19 (₹ 14,400 – ₹ 6,200)	8,200	
		2019–20 (₹ 16,200 – ₹ 8,200)	8,000	16,200
	1,63,200			1,63,200

2. *Calculation of Loss on Sale of Van:*

	₹
Book Value of Van as on 1st April, 2018	30,000
Less: Depreciation @ 25%	7,500
Book Value (W.D.V.) of Van as on 1st April, 2019	22,500
Less: Sale Proceeds	10,000
Loss on Sale of Van	12,500

21.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Stock A/c	1,00,000	By Fixed Assets A/c		50,000
To Outstanding Rent A/c	1,900	By Prepaid Insurance Premium A/c		1,900
		By Loss transferred to:		
		A's Capital A/c	25,000	
		B's Capital A/c	15,000	
		C's Capital A/c	10,000	50,000
	1,01,900			1,01,900

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Revaluation A/c (Loss)	25,000	15,000	10,000	By Balance *b/d*	2,00,000	1,00,000	80,000
To *B*'s Capital A/c (Goodwill) (WN 1 and 2)	19,000	...	38,000	By General Reserve A/c	15,000	9,000	6,000
				By *A*'s Capital A/c (Goodwill)	...	19,000	...
To Bank A/c	...	1,51,000	...				
To Balance *c/d*	1,71,000	...	38,000	By *C*'s Capital A/c (Goodwill)	...	38,000	...
	2,15,000	1,66,000	86,000		2,15,000	1,66,000	86,000

BALANCE SHEET OF *A* AND *C as at 1st April, 2020*

Liabilities		₹	Assets	₹
Sundry Creditors		1,53,000	Fixed Assets	3,00,000
Outstanding Expenses		58,000	Stock	10,000
Outstanding Rent		1,900	Book Debts	90,000
Capital A/cs:			Prepaid Insurance Premium	1,900
A	1,71,000		Cash at Bank	20,000
C	38,000	2,09,000		
		4,21,900		4,21,900

Working Notes:

1. *Calculation of Gaining Ratio:*

Gain of a Partner = New Share – Old Share

$$A = \frac{3}{5} - \frac{5}{10} = \frac{1}{10};\ C = \frac{2}{5} - \frac{2}{10} = \frac{2}{10};\ \text{Thus, Gaining Ratio of } A \text{ and } C = 1:2.$$

2. *Adjustment of Goodwill:*

B's Share of Goodwill = $\frac{3}{10} \times$ ₹ 1,90,000 = ₹ 57,000, which will be contributed by *A* and *C* in their Gaining Ratio, *i.e.*, 1 : 2.

Or

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020					
April 1	Building A/c	...Dr.		5,000	
	Bills Receivable A/c (Shikha)	...Dr.		1,750	
	To Revaluation A/c				6,750
	(Increase in assets recorded)				
April 1	Revaluation A/c	...Dr.		4,230	
	To Machinery A/c				2,000
	To Stock A/c				1,750
	To Provision for Doubtful Debts A/c				480
	(Decrease in assets recorded)				
April 1	Revaluation A/c	...Dr.		2,520	
	To *A*'s Capital A/c				1,680
	To *B*'s Capital A/c				840
	(Gain on revaluation credited to *A* and *B* in their old profit-sharing ratio)				
April 1	General Reserve A/c	...Dr.		6,000	
	To *A*'s Capital A/c				4,000
	To *B*'s Capital A/c				2,000
	(General Reserve credited to *A* and *B* in their old profit-sharing ratio)				
April 1	Bank A/c	...Dr.		42,000	
	To *C*'s Capital A/c				30,000
	To Premium for Goodwill A/c				12,000
	(Capital and premium for goodwill brought in cash by *C*)				
April 1	Premium for Goodwill A/c	...Dr.		12,000	
	To *A*'s Capital A/c				8,000
	To *B*'s Capital A/c				4,000
	(Premium for goodwill credited to old partners in their sacrificing ratio, *i.e.*, 2 : 1)				

REVALUATION ACCOUNT

Dr. Particulars		₹	Particulars	₹ *Cr.*
To Machinery A/c		2,000	By Building A/c	5,000
To Stock A/c		1,750	By Bills Receivable A/c (Shikha)	1,750
To Provision for Doubtful Debts A/c		480		
To Gain (Profit) transferred to:				
A's Capital A/c	1,680			
B's Capital A/c	840	2,520		
		6,750		6,750

22. JOURNAL OF SMILE LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Land and Building A/c ...Dr.		20,00,000	
	To M/s Jain Brothers			20,00,000
	(Land and building purchased from M/s Jain Brothers)			
	M/s Jain Brothers ...Dr.		20,00,000	
	To Equity Share Capital A/c			10,00,000
	To Securities Premium Reserve A/c			10,00,000
	(1,00,000 Equity Shares of ₹ 10 each issued at 100% premium)			
	Incorporation Cost/Expenses A/c ...Dr.		1,00,000	
	To Promoters' A/c			1,00,000
	(Amount due to promoters)			
	Promoters' A/c ...Dr.		1,00,000	
	To Equity Share Capital A/c			1,00,000
	(Issue of 10,000 shares to promoters against their dues)			
	Bank A/c ...Dr.		45,00,000	
	To Equity Shares Application and Allotment A/c			40,00,000
	To Preference Shares Application and Allotment A/c			5,00,000
	(Application money received by 2,00,000 Equity Shares and 50,000 preference shares)			
	Equity Shares Application and Allotment A/c ...Dr.		40,00,000	
	To Equity Share Capital A/c			20,00,000
	To Securities Premium Reserve A/c			20,00,000
	(Application and allotment money for Equity Shares adjusted)			
	Preference Shares Application and Allotment A/c ...Dr.		5,00,000	
	To 12% Preference Share Capital A/c			5,00,000
	(Application and allotment money for preference shares adjusted)			
	Underwriting Commission A/c ...Dr.		90,000	
	To M/s Globe Capitals			90,000
	(Underwriting commission due to underwriters)			
	M/s Globe Capitals ...Dr.		90,000	
	To Equity Share Capital A/c			90,000
	(Issue of equity shares at par to underwriters)			

Or

(*a*) *Pro rata* Allotment means allotting shares or debentures to applicants in the ratio of total number of shares offered to the total number of shares applied. For example, *H* Ltd. issued 1,00,000 shares of ₹ 10 each for subscription. Subscription was received for 2,00,000 shares and allotment was made to all the applicants. It is *pro rata* allotment.

(*b*) The need for a *pro rata* allotment arises in case of **oversubscription of shares**, *i.e.*, when the number of shares applied for is more than the number of shares offered by the company.

(*c*) Reissue of shares is sale of forfeited shares. It is considered as sale and not an allotment of shares.

(*d*) Gain on reissue of forfeited shares is transferred to Capital Reserve Account.

(*e*) JOURNAL OF *XYZ* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Case I				
	Share Capital A/c	...Dr.		2,500	
	Securities Premium Reserve A/c	...Dr.		1,000	
	To Forfeited Shares A/c				1,500
	To Shares Allotment A/c				2,000
	(500 shares forfeited for non-payment of allotment money)				
	Case II				
	Share Capital A/c	...Dr.		3,750	
	Securities Premium Reserve A/c	...Dr.		1,000	
	To Forfeited Shares A/c				1,500
	To Shares Allotment A/c				2,000
	To Shares First Call A/c				1,250
	(500 shares forfeited for non-payment of allotment and first call)				
	Case III				
	Share Capital A/c	...Dr.		3,750	
	To Forfeited Shares A/c				2,500
	To Shares First Call A/c				1,250
	(500 shares forfeited for non-payment of first call)				
	Case IV				
	Share Capital A/c	...Dr.		5,000	
	To Forfeited Shares A/c				3,750
	To Shares Second and Final Call A/c				1,250
	(500 shares forfeited for non-payment of second and final call)				

PART B

23. (*b*) Financing Activity.

24. (*a*) Operating Activity.

25. (*b*) ₹ 9,00,000.

Note: While calculating Trade Receivables Turnover Ratio, Provision for Doubtful Debts is not deducted from total debtors.

26. It is not correct. Horizontal Analysis is conducted for two or more accounting periods, while Vertical Analysis is conducted for one accounting period.

27. (*d*) Return on Investment Ratio (ROI).

28. Tax Authorities are interested in knowing whether Financial Statements have been prepared according to the legal provisions and whether the figures of production, sales and profits are correct to ensure proper assessment of tax liability.

29. (*d*) All of the above.

30. COMPARATIVE STATEMENT OF PROFIT AND LOSS *for the years ended 31st March, 2019 and 2020*

Particulars	Note No.	31st March, 2019 ₹	31st March, 2020 ₹	Absolute Change ₹	Percentage Change %
I. **Revenue from Operations**		10,00,000	20,00,000	10,00,000	100.00
II. *Expenses:*					
(*a*) Cost of Materials Consumed		6,00,000	15,00,000	9,00,000	150.00
(*b*) Other Expenses		5,50,000	6,00,000	50,000	9.09
Total Expenses		11,50,000	21,00,000	9,50,000	82.61
III. **Profit before Tax (I – II)**		(1,50,000)	(1,00,000)	(50,000)	(33.33)
IV. Tax		...	...	...	...
V. **Profit after Tax (III – IV)**		(1,50,000)	(1,00,000)	(50,000)	(33.33)

Note: Since there is loss, tax will not be adjusted.

Or

Shiv Darshan Ltd.

COMMON-SIZE STATEMENT OF PROFIT AND LOSS

for the year ended 31st March, 2019 and 31st March, 2020

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations (Net Sales)	
		2018–19 ₹	2019–20 ₹	2018–19 %	2019–20 %
I. Revenue from Operations		10,00,000	20,00,000	100.00	100.00
II. *Add:* Other Income		50,000	60,000	5.00	3.00
III. **Total Revenue (I + II)**		10,50,000	20,60,000	105.00	103.00
IV. *Expenses:*					
(*a*) Purchases of Stock-in-Trade		4,20,000	7,70,000	42.00	38.50
(*b*) Change in Inventories		80,000	1,20,000	8.00	6.00
(*c*) Other Expenses		30,000	52,000	3.00	2.60
Total Expenses		5,30,000	9,42,000	53.00	47.10
V. **Profit before Tax (III – IV)**		5,20,000	11,18,000	52.00	55.90
VI. *Less:* Tax @ 50%		2,60,000	5,59,000	26.00	27.95
VII. **Profit after Tax (V – VI)**		2,60,000	5,59,000	26.00	27.95

31. (*a*)

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

$$= \frac{₹\ 60{,}000 + ₹\ 1{,}00{,}000}{2} = ₹\ 80{,}000$$

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

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

$$\text{Cost of Revenue from Operations} = ₹\ 80{,}000 \times 8 = ₹\ 6{,}40{,}000$$

$$\text{Gross Profit} = 25\% \text{ of } ₹\ 6{,}40{,}000 = ₹\ \mathbf{1{,}60{,}000}$$

$$\text{Revenue from Operations} = \text{Cost of Revenue from Operations} + \text{Gross Profit}$$

$$= ₹\ 6{,}40{,}000 + ₹\ 1{,}60{,}000 = ₹\ \mathbf{8{,}00{,}000}.$$

(*b*)

Effect	Reason
(*i*) Reduce	Equity is increased by the amount of profit but Debt remains unchanged.
(*ii*) No Change	Long-term Debts are not affected because debentures redeemed are Current Liabilities. As per Schedule III of the Companies Act, 2013, long-term liabilities maturing within 12 months or within the period of Operating Cycle from the Balance Sheet Date are shown as Current Liabilities under Current Maturities of Long-term Debts. Thus, redeemed debentures are Current Liabilities and not Non-current Liabilities. Shareholders' Funds also remain unchanged. Therefore, Debt to Equity Ratio will **not change**.

Or

$$\text{Proprietary Ratio} = \frac{\text{Proprietor's Funds}}{\text{Total Assets}} \times 100$$

$$= \frac{₹\ 8{,}00{,}000}{₹\ 32{,}00{,}000} \times 100 = \mathbf{25\%}.$$

Notes:

1. Shareholders' Funds = Share Capital + Reserves and Surplus
   = ₹ 5,00,000 + ₹ 3,00,000 = ₹ 8,00,000.
2. Total Assets = Non-current Assets + Current Assets
   = ₹ 22,00,000 + ₹ 10,00,000 = ₹ 32,00,000.

32. **Grow More Ltd.**

CASH FLOW STATEMENT *for the year ended 31st March, 2020*

Particulars	₹	₹
I. Cash Flow from Operating Activities		
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)	10,00,000	
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)	6,00,000	
Profit during the year	4,00,000	
Add: Interim Dividend	6,00,000	
Provision for Tax	1,40,000	
Net Profit before Tax and Extraordinary Items		11,40,000
Add: *Non-Operating and Non-cash Items:*		
Depreciation (WN 2)	1,30,000	
Loss on Sale of Machinery (WN 1)	1,000	
Interest on Debentures (₹ 6,00,000 × 10/100)	60,000	1,91,000
Operating Profit before Working Capital Changes		13,31,000
Less: *Increase in Current Assets and Decrease in Current Liabilities:*		
Trade Payables	1,00,000	
Inventories	1,80,000	2,80,000
Cash Generated from Operations		10,51,000
Less: Tax Paid		1,20,000
Cash Flow from Operating Activities		9,31,000

II.	**Cash Flow from Investing Activities**		
	Purchase of Machinery	(9,40,000)	
	Proceeds from Sale of Machinery	9,000	
	Purchase of Goodwill	(4,00,000)	
	Cash Used in Investing Activities		(13,31,000)
III.	**Cash Flow from Financing Activities**		
	Proceeds from Issue of Shares including Premium	10,20,000	
	Proceeds from Issue of 10% Debentures (₹ 2,00,000 – ₹ 20,000: Discount)	1,80,000	
	Payment of Interim Dividend	(6,00,000)	
	Payment of Interest on Debentures	(60,000)	
	Cash Flow from Financing Activities		5,40,000
IV.	**Net Increase in Cash and Cash Equivalents (I + II + III)**		1,40,000
	Add: Cash and Cash Equivalents in the beginning of the period		2,40,000
V.	**Cash and Cash Equivalents at the end of the period**		3,80,000

Working Notes:

1. *Dr.* MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	33,00,000	By Bank A/c (Sale proceeds)	9,000
To Bank A/c (Bal. Fig.) —Purchase	9,40,000	By Accumulated Depreciation A/c (On Sold Machinery)	30,000
		By Loss on Sale of Machinery A/c (Statement of Profit and Loss)	1,000
		By Balance *c/d*	42,00,000
	42,40,000		42,40,000

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

Particulars	₹	Particulars	₹
To Machinery A/c (Sold Machinery)	30,000	By Balance *b/d*	3,00,000
To Balance *c/d*	4,00,000	By Statement of Profit and Loss (Bal. Fig.) (Depreciation)	1,30,000
	4,30,000		4,30,000

3. Discount on Issue of Debentures ₹ 20,000 is adjusted (written off) from Securities Premium Reserve as per Section 52(2) of the Companies Act, 2013. Since discount on issue of debentures is not written off from Statement of Profit and Loss, it is not adjusted while computing Operating Profit before Working Capital Changes.

Model Test Paper 11

Answers

PART A

1. (*c*) ₹ 52,000.

Working Note:	₹
Subscription received during the year 2019–20	50,000
Add: Subscription Outstanding on 31st March, 2020	8,000
	58,000
Less: Subscription Outstanding on 1st April, 2019	6,000
Subscription to be Credited to Income and Expenditure Account	52,000

2. (*b*) ₹ 40,000.

Working Note:

D brings half of premium for Goodwill = ₹ 5,000.
D's Share of Goodwill = ₹ 5,000 × 2 = ₹ 10,000.
Firm's Goodwill = ₹ 10,000 × 4/1 = ₹ 40,000.

3. JOURNAL

Date		Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020						
April	1	*A*'s Capital A/c	...Dr.		4,000	
		B's Capital A/c	...Dr.		6,000	
		C's Capital A/c	...Dr.		2,000	
		To Profit and Loss A/c				12,000
		(Balance of Profit and Loss Account transferred)				

4. (*b*) *Z*'s Capital Account is credited with ₹ 5,000 for 1/6th share as goodwill.
X's Capital Account is also credited with ₹ 5,000, it means he is also sacrificing 1/6th share.
Y's Capital Account is debited with ₹ 10,000, it means *Y* has gained 2/6 (= 1/6 + 1/6) share.

New Profit Share of Remaining Partner = Old Profit Share + Share Taken

$$X\text{'s New Profit Share} = \frac{3}{6} - \frac{1}{6} = \frac{2}{6}$$

$$Y\text{'s New Profit Share} = \frac{2}{6} + \frac{2}{6} = \frac{4}{6}$$

$$\text{New Profit-sharing Ratio of } X \text{ and } Y = \frac{2}{6} : \frac{4}{6} \quad \text{or} \quad 1:2.$$

5. (*a*) When Partnership Deed does not exist.

6. (*b*) Dr. Profit and Loss Appropriation Account, Cr. Partners' Current Accounts.

7. (*d*) distributed equally.

8. (*b*) When a partner retires/dies.

9. dissolution of the firm.

10. (*c*) Old Profit-sharing Ratio.

11. (*a*) an adjusting entry.

12. (*d*) Amount paid by Rakesh on application = 48 × ₹ 2 = ₹ 96

	₹
Amount received on 20 shares $\left(₹\ 96 \times \dfrac{20}{40}\right)$	48
Less: Discount on Reissue	20
Gain on reissue transferred to Capital Reserve	28

13. (*d*)

14.

AN EXTRACT OF INCOME AND EXPENDITURE ACCOUNT

Dr. *for the year ended 31st March, 2020* *Cr.*

Expenditure	₹	Income	₹
To Prize Fund A/c (Excess of Expense over Fund Balance)	6,000		

AN EXTRACT OF BALANCE SHEET

as at 31st March, 2020

Liabilities		₹	Assets	₹
Prize Fund			10% Prize Fund Investments	72,000
Opening Balance	72,000			
Add: Donations	16,800			
Interest on Prize Fund Investments	7,200			
	96,000			
Less: Prizes awarded	1,02,000			
Transferred to Income and Expenditure A/c	6,000	...		

Or

INCOME AND EXPENDITURE ACCOUNT

Dr. *for the year ended 31st March, 2020* *Cr.*

Expenditure	₹	Income		₹
		By Subscriptions	50,000	
		Add: Subscription Outstanding on 31.3.2020	20,000	
		Subscriptions Received in Advance on 31.3.2019	15,000	
			85,000	
		Less: Subscription Received in Advance on 31.3.2020	10,000	
			75,000	
		Subscriptions Outstanding on 31.3.2019	10,000	65,000

15. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020					
April 1	*X*'s Capital A/c	...Dr.		1,00,000	
	Y's Capital A/c	...Dr.		1,00,000	
	Z's Capital A/c	...Dr.		1,00,000	
	To Profit and Loss Adjustment A/c				3,00,000
	(Profit wrongly distributed, now reversed by debiting to Partners' Capital Accounts)				
	Profit and Loss Adjustment A/c	...Dr.		40,000	
	To *Z*'s Capital A/c				40,000
	(Salary credited to *Z*'s Capital Account)				
	Profit and Loss Adjustment A/c	...Dr.		1,80,000	
	To *X*'s Capital A/c				80,000
	To *Y*'s Capital A/c				60,000
	To *Z*'s Capital A/c				40,000
	(Interest on capitals credited to Partners' Capital Accounts)				
	Profit and Loss Adjustment A/c	...Dr.		80,000	
	To *X*'s Capital A/c				32,000
	To *Y*'s Capital A/c				32,000
	To *Z*'s Capital A/c				16,000
	(Profit after salary and interest on capitals credited to Partners' Capital Accounts in the ratio of 2 : 2 : 1)				

Or

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2020* *Cr.*

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Profit and Loss A/c		9,16,000
Rohit	48,000		[₹ 9,22,000 – ₹ 6,000 (WN 1)]		
Sahil	36,000	84,000	By Interest on Drawings A/cs:		
To Partners' Salary:			Rohit (₹ 4,00,000 × 5/100 × 6/12)	10,000	
Rohit	1,20,000		Sahil (₹ 5,00,000 × 5/100 × 6/12)	12,500	22,500
Sahil	1,80,000	3,00,000			
To Rohit's Commission (1% of ₹ 35,00,000)		35,000			
To General Reserve A/c (WN 3)		49,700			
To Profit* transferred to Capital A/cs:					
Rohit	2,59,900				
Sahil	2,09,900	4,69,800			
		9,38,500			9,38,500

*Division of Profit:	Rohit (₹)	Sahil (₹)
Profit up to ₹ 3,50,000 in the ratio of 4 : 3	2,00,000	1,50,000
Balance (₹ 1,19,800) Equally	59,900	59,900
	2,59,900	2,09,900

Working Notes:

1. As per the Indian Partnership Act, 1932, Interest on Partner's Loan is to be allowed @ 6% p.a. Being a charge against profit, it is to be debited to Profit and Loss Account. Therefore, Net Profit is reduced by ₹ 6,000 (*i.e.*, ₹ 2,00,000 × 6/100 × 6/12).
2. Interest on Drawings has been calculated for an average period of 6 months as date of drawings is not given.
3. Transfer to General Reserve = 10% of ₹ 4,97,000 (*i.e.*, ₹ 9,16,000 – ₹ 84,000 – ₹ 3,00,000 – ₹ 35,000)
   = ₹ 49,700.

16. (*a*) Premium on Redemption of Preference Shares Account is a *liability account* of the company it being premium payable on redemption of Preference Shares.

(*b*) (*i*) Total number of shares allotted to Nikhil $\left(1{,}000 \times \frac{30{,}000}{60{,}000}\right)$ = 500 shares

(*ii*) Total Number of Shares applied by Vish $\left(600 \times \frac{40{,}000}{30{,}000}\right)$ = 800 shares.

(*iii*) *Calculation of the Amount due but not received on allotment:*

	Nikhil (₹)	*Vish* (₹)
Number of Shares Applied	1,000	800*
A. Application money received on shares applied	30,000	24,000
B. *Less:* Application money due on shares allotted	15,000	18,000
C. Excess Application Money (A – B)	15,000	6,000
D. Allotment Money due on shares allotted	25,000	30,000
E. Excess Application Money Adjusted	15,000	6,000
F. Allotment money due but not received (D – E)	10,000	24,000

* $\frac{40{,}000}{30{,}000} \times 600 = 800.$

(*iv*) *Calculation of allotment money received later on:*

	₹
Total allotent money due (60,000 × ₹ 50)	30,00,000
Less: Allotment money already received on application stage [(30,000 + 10,000) × ₹ 30]	12,00,000
	18,00,000
Less: Allotment money not received (₹ 10,000 + ₹ 24,000)	34,000
Allotment Money Received	17,66,000

17. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Realisation A/c ...Dr.		19,000	
	To Sudha's Capital A/c			19,000
	(Sudha's husband's loan undertaken by Sudha to pay)			
(*ii*)	Bank A/c ...Dr.		7,500	
	To Realisation A/c			7,500
	(Bad debt recovered)			

(*iii*)	Realisation A/c ...Dr.		3,000	
	To Sudha's Capital A/c			3,000
	(Realisation Expenses ₹ 3,200 borne by Sudha while she was allowed ₹ 3,000)			
(*iv*)	Sudha's Capital A/c ...Dr.		6,000	
	Shiva's Capital A/c ...Dr.		4,000	
	To Realisation A/c			10,000
	(Loss on realisation transferred to Partners' Capital Accounts)			

18. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020				
April 1	*B*'s Capital A/c ...Dr.		60,000	
	To *A*'s Capital A/c			60,000
	(Adjustment for goodwill made on change in profit-sharing ratio)			

Working Notes:

1. *Valuation of Goodwill:*

Average Profit =

$$\frac{₹\ 72{,}000\ (₹\ 85{,}000 - ₹\ 13{,}000) + ₹\ 1{,}80{,}000\ (₹\ 1{,}50{,}000 + ₹\ 30{,}000) + ₹\ 2{,}04{,}000 + ₹\ 2{,}28{,}000\ (₹\ 2{,}48{,}000 - ₹\ 20{,}000) - ₹\ 84{,}000}{5}$$

= ₹ 1,20,000

Goodwill = Average Profit $\times$ No. of Years' Purchase

= ₹ 1,20,000 $\times$ 3 = ₹ 3,60,000.

2. Calculation of Sacrifice/(Gain) of Partners:

Sacrifice/(Gain) = Old Profit Share – New Profit Share

A = 3/6 – 2/6 = 1/6 (*i.e.*, sacrifice)

B = 2/6 – 3/6 = (1/6) (*i.e.*, gain)

C = 1/6 – 1/6 = 0

A is a sacrificing partner and *B* is a gaining partner.

19. (*a*) **In the Books of Hind Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020				
March 31	Interest on Debentures A/c ...Dr.		12,000	
	To Debentureholders' A/c			10,800
	To Income Tax Payable A/c/TDS Payable A/c			1,200
	(Half yearly interest on debentures made due and tax deducted at source @ 10%)			

March 31	Debentureholders' A/c ...Dr.		10,800	
	To Bank A/c			10,800
	(Payment of interest on debentures)			
March 31	Income Tax Payable/TDS Payable A/c ...Dr.		1,200	
	To Bank A/c			1,200
	(TDS deposited with income tax authorities)			
March 31	Statement of Profit and Loss (Finance Cost) ...Dr.		24,000	
	To Interest on Debentures A/c			24,000
	(Interest on debentures transferred to Statement of Profit and Loss)			

(*b*) JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Bank A/c ...Dr.		100	
	To Debentures Application A/c			100
	(Receipt of debentures application money)			
	Debentures Application A/c ...Dr.		100	
	Loss on Issue of Debentures A/c ...Dr.		5	
	To 10% Debentures A/c			100
	To Premium on Redemption of Debentures A/c			5
	(Issue of debentures at par and redeemable at 5% premium)			
(*ii*)	Bank A/c ...Dr.		95	
	To Debentures Application A/c			95
	(Receipt of debentures application money)			
	Debentures Application A/c ...Dr.		95	
	Loss on Issue of Debentures A/c ...Dr.		10	
	To 10% Debentures A/c			100
	To Premium on Redemption of Debentures A/c			5
	(Issue of debentures at 5% discount and redeemable at 5% premium)			
(*iii*)	Bank A/c ...Dr.		105	
	To Debentures Application A/c			105
	(Receipt of debentures application money)			
	Debentures Application A/c ...Dr.		105	
	Loss on Issue of Debentures A/c ...Dr.		10	
	To 10% Debentures A/c			100
	To Securities Premium Reserve A/c			5
	To Premium on Redemption of Debentures A/c			10
	(Issue of debentures at 5% premium and redeemable at 10% premium)			

20. **South India Club**

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31st March, 2020

Dr. Expenditure		₹	Income		₹ *Cr.*
To Salaries	1,98,000		By Subscription	3,96,000	
Add: Outstanding Salaries	18,000	2,16,000	*Add:* Advance in the beginning	12,000	4,08,000
To Depreciation on Sports Equipment (WN 3)		30,000	By Interest on Investment		24,000
To Surplus, *i.e.*, Excess of Income over Expenditure		1,86,000			
		4,32,000			4,32,000

BALANCE SHEET

as at 31st March, 2020

Liabilities		₹	Assets		₹
Salaries Outstanding		18,000	Cash at Bank		96,000
Capital Fund (WN 1)	5,82,000		Investment (WN 2)		3,00,000
Add: Surplus	1,86,000	7,68,000	Sports Equipment:		
			Opening Balance	1,80,000	
			Add: Purchase	2,40,000	
				4,20,000	
			Less: Depreciation (WN 3)	30,000	3,90,000
		7,86,000			7,86,000

Working Notes:

1. *Calculation of Capital Fund as on 1st April, 2019:*

BALANCE SHEET

as at 1st April, 2019

Liabilities	₹	Assets	₹
Subscription Received in Advance	12,000	Cash at Bank	1,14,000
Capital Fund (Balancing Figure)	5,82,000	Investment (WN 2)	3,00,000
		Sports Equipment	1,80,000
	5,94,000		5,94,000

2. *Calculation of Value of Investment:*

   Interest of ₹ 24,000 is received for full year on the investment @ 8% p.a.

   So, Value of Investment = ₹ 24,000 × 100/8 = ₹ 3,00,000.

3. Depreciation on Sports Equipment can be calculated by preparing Sports Equipment Account as under:

SPORTS EQUIPMENT ACCOUNT

Dr. Particulars	₹	Particulars	₹ *Cr.*
To Balance *b/d*	1,80,000	By Depreciation A/c (Balancing Figure)	30,000
To Bank A/c (Purchase)	2,40,000	By Balance *c/d*	3,90,000
	4,20,000		4,20,000

21. JOURNAL OF YOUNG INDIA LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (1,10,000 × ₹ 3)	...Dr.		3,30,000	
	To Equity Shares Application A/c				3,30,000
	(Application money received for 1,10,000 shares)				
	Equity Shares Application A/c	...Dr.		3,30,000	
	To Equity Share Capital A/c (50,000 × ₹ 3)				1,50,000
	To Equity Shares Allotment A/c (10,000 × ₹ 2 + 30,000 × ₹ 2)				80,000
	To Calls-in-Advance A/c				70,000
	To Bank A/c (10,000 × ₹ 3)				30,000
	(Application money adjusted)				
	Equity Shares Allotment A/c (50,000 × ₹ 2)	...Dr.		1,00,000	
	To Equity Share Capital A/c				1,00,000
	(Allotment money due)				
	Bank A/c	...Dr.		20,000	
	To Equity Shares Allotment A/c				20,000
	(Allotment money duly received)				
	Equity Shares First and Final Call A/c	...Dr.		2,50,000	
	To Equity Share Capital A/c				2,50,000
	(Call money due)				
	Bank A/c	...Dr.		1,79,100	
	Calls-in-Advance A/c	...Dr.		70,000	
	To Equity Shares First and Final Call A/c				2,49,100
	(Call money received except on 300 shares) (WN 2)				
	Equity Share Capital A/c (300 × ₹ 10)	...Dr.		3,000	
	To Forfeited Shares A/c (WN 2)				2,100
	To Equity Shares First and Final Call A/c				900
	(300 shares forfeited due to non-payment of call money)				
	Bank A/c (300 × ₹ 9)	...Dr.		2,700	
	Forfeited Shares A/c (300 × ₹ 1)	...Dr.		300	
	To Equity Share Capital A/c				3,000
	(Forfeited shares reissued for ₹ 9 per share fully paid-up)				
	Forfeited Shares A/c	...Dr.		1,800	
	To Capital Reserve A/c				1,800
	(Gain on reissue of shares transferred to Capital Reserve)				

Working Notes:

1. *Table Showing Allotment of Shares:*

Category	No. of Applied Shares	No. of Allotted Shares
(*a*)	20,000	10,000
(*b*)	10,000	10,000
(*c*)	70,000	30,000

2. *Calculation of Call Money due but not received from Defaulter:*

(*i*)	No. of shares applied by defaulter = 70,000/30,000 × 300 = 700 shares.	₹
(*ii*)	Application money paid by him (700 × ₹ 3)	2,100
	Less: Amount adjusted against application money (300 × ₹ 3)	900
		1,200
	Less: Amount adjusted against allotment (300 × ₹ 2)	600
	Surplus application money to be used towards call	600
(*iii*)	Call money due on 300 shares (300 × ₹ 5)	1,500
	Less: Surplus application money to be used towards call	600
	Call money due but not received	900

3. *Call money received later:*

	₹
Total amount due on call (50,000 × ₹ 5)	2,50,000
Less: Excess application money adjusted (Calls-in-Advance)	70,000
	1,80,000
Less: Call money due but not received (WN 2)	900
	1,79,100

Or

JOURNAL OF SUPERSEALS LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		75,00,000	
	To Equity Shares Application A/c				75,00,000
	(Application money received for 15,00,000 shares)				
	Equity Shares Application A/c	...Dr.		75,00,000	
	To Equity Share Capital A/c (10,00,000 × ₹ 3)				30,00,000
	To Securities Premium Reserve A/c (10,00,000 × ₹ 2)				20,00,000
	To Bank A/c (3,00,000 × ₹ 5)				15,00,000
	To Equity Shares Allotment A/c (2,00,000 × ₹ 5)				10,00,000
	(Application money adjusted)				
	Equity Shares Allotment A/c	...Dr.		40,00,000	
	To Equity Share Capital A/c				40,00,000
	(Allotment money due)				
	Bank A/c	...Dr.		29,40,000	
	Calls-in-Arrears A/c	...Dr.		60,000	
	To Equity Shares Allotment A/c				30,00,000
	(Allotment money received except on 20,000 shares) (WN 1)				
	Equity Shares First and Final Call A/c	...Dr.		30,00,000	
	To Equity Share Capital A/c				30,00,000
	(First and final call money due)				
	Bank A/c	...Dr.		29,40,000	
	Calls-in-Arrears A/c	...Dr.		60,000	
	To Equity Shares First and Final Call A/c				30,00,000
	(Call money received except on 20,000 shares)				

	Equity Share Capital A/c ...Dr. To Calls-in-Arrears A/c (₹ 60,000 + ₹ 60,000) To Forfeited Shares A/c (20,000 shares forfeited due to non-payment of allotment and call money)		2,00,000	 1,20,000 80,000
	Bank A/c (10,000 × ₹ 8) ...Dr. Forfeited Shares A/c (10,000 × ₹ 2) ...Dr. To Equity Share Capital A/c (10,000 forfeited shares reissued for ₹ 8 per share fully paid-up)		80,000 20,000	 1,00,000
	Forfeited Shares A/c ...Dr. To Capital Reserve A/c (Gain (profit) on reissue transferred to Capital Reserve) (WN 2)		20,000	 20,000

Working Notes:

1. *Calculation of Money Received on Allotment:*

(*i*) *Pro rata* allotment = 12,00,000 : 10,00,000 or 12 : 10

		₹
(*ii*)	Number of shares allotted to Mohan = 10/12 × 24,000 = 20,000 shares	
(*iii*)	Amount received on application from Mohan (24,000 shares × ₹ 5)	1,20,000
	Less: Amount adjusted on application (20,000 × ₹ 5)	1,00,000
	Excess application money adjusted on allotment	20,000
(*iv*)	*Amount due but not paid by Mohan on Allotment:*	
	Amount due on allotment (20,000 × ₹ 4)	80,000
	Less: Excess application money adjusted [as per (*iii*)]	20,000
	Amount due but not paid by Mohan	60,000
(*v*)	*Amount Received on Allotment:*	₹
	Total amount due on allotment	40,00,000
	Less: Excess application money adjusted	10,00,000
		30,00,000
	Less: Amount due but not paid by Mohan [as per (*iv*)]	60,000
	Amount Received on Allotment	29,40,000

2. *Calculation of amount transferred to Capital Reserve:*

	₹
Amount forfeited on 10,000 shares (₹ 80,000 × 1/2)	40,000
Less: Discount on reissue	20,000
Gain (Profit) on reissue transferred to Capital Reserve	20,000

22. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020 March 31	General Reserve A/c ...Dr. To Madan's Capital A/c To Mohan's Capital A/c (General Reserve distributed between Madan and Mohan)		5,000	 3,000 2,000
	Bank/Cash A/c ...Dr. To Gopal's Capital A/c To Premium for Goodwill A/c (Capital and premium for goodwill brought in cash by Gopal)		40,000	 30,000 10,000

Premium for Goodwill A/c ...Dr. To Madan's Capital A/c To Mohan's Capital A/c (Premium for goodwill credited to Madan and Mohan in their sacrificing ratio, *i.e.*, 3 : 2) (WN 1)		10,000	 6,000 4,000
Madan's Capital A/c ...Dr. Mohan's Capital A/c ...Dr. To Bank/Cash A/c (Half of goodwill withdrawn by Madan and Mohan)		3,000 2,000	 5,000
Bad Debts A/c ...Dr. To Debtors A/c (Bad debts written off)		1,500	 1,500
Provision for Bad and Doubtful Debts A/c ...Dr. To Bad Debts A/c (Bad debts met from provision for bad and doubtful debts)		1,500	 1,500
Revaluation A/c ...Dr. To Provision for Bad and Doubtful Debts A/c (WN 2) (Provision for bad debts created)		325	 325
Outstanding Salary A/c ...Dr. To Bank/Cash A/c (Outstanding Salary paid)		3,000	 3,000
Revaluation A/c ...Dr. To Stock A/c To Furniture A/c To Plant and Machinery A/c (Decrease in value of assets recorded)		5,700	 2,000 500 3,200
Investments A/c ...Dr. To Revaluation A/c (Unrecorded investments, now recorded)		2,500	 2,500
Revaluation A/c ...Dr. To Sundry Creditors A/c (Unrecorded creditor, now recorded)		2,100	 2,100
Madan's Capital A/c ...Dr. Mohan's Capital A/c ...Dr. To Revaluation A/c (WN 3) (Loss on revaluation transferred to Old Partners' Capital A/cs in their old ratio)		3,375 2,250	 5,625

Working Notes:

1. Unless agreed otherwise, sacrificing ratio of old partners is same as their old profit-sharing ratio.

2. *Dr.* PROVISION FOR BAD AND DOUBTFUL DEBTS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bad Debts A/c	1,500	By Balance *b/d*	2,000
To Balance *c/d* (Required) [5/100 (₹ 18,000 – ₹ 1,500)]	825	By Revaluation A/c (Balancing Figure)—Created	325
	2,325		2,325

3. *Dr.* REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Provision for Bad & Doubtful Debts A/c	325	By Investments A/c		2,500
To Stock A/c	2,000	By Loss on Revaluation transferred to:		
To Furniture A/c	500	Madan's Capital A/c (3/5)	3,375	
To Plant and Machinery A/c	3,200	Mohan's Capital A/c (2/5)	2,250	5,625
To Sundry Creditors A/c	2,100			
	8,125			8,125

Or

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Furniture A/c	1,200	By Investments A/c		1,000
To Stock A/c	16,700	By Loss transferred to:		
To Provision for Doubtful Debts A/c	7,000	*A*'s Capital A/c	11,950	
		B's Capital A/c	7,170	
		C's Capital A/c	4,780	23,900
	24,900			24,900

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Revaluation A/c (Loss)	11,950	7,170	4,780	By Balance *b/d*	2,37,500	1,72,500	1,30,000
To Goodwill A/c	50,000	30,000	20,000	By General Reserve A/c	4,000	2,400	1,600
(Written-off)				By Investment Fluctuation			
To *A*'s Capital A/c	...	12,000	18,000	Reserve A/c	1,000	600	400
To Cash/Bank A/c	2,18,550	...	...	By *B*'s Capital A/c (WN 1)	12,000	...	...
To Balance *c/d*	...	2,35,605	1,98,495	By *C*'s Capital A/c (WN 1)	18,000	...	...
				By *A*'s Loan A/c	8,000	...	...
				By Cash/Bank A/c (WN 2)	...	1,09,275	1,09,275
	2,80,500	2,84,775	2,41,275		2,80,500	2,84,775	2,41,275

BALANCE SHEET OF *B* AND *C*

as at 1st April, 2020

Liabilities		₹	Assets		₹
Trade Creditors		58,000	Furniture		10,800
Bills Payable		59,000	Stock		1,50,300
Capital A/cs:			Debtors	2,80,000	
B	2,35,605		*Less:* Provision for Doubtful Debts	14,000	2,66,000
C	1,98,495	4,34,100	Investments		51,000
			Cash and Bank Balance		73,000
		5,51,100			5,51,100

Working Notes:

1. *A*'s share of goodwill of ₹ 30,000 credited to his Capital Account, which is contributed by *B* and *C* in their gaining ratio, *i.e.*, 2 : 3*.

   **Calculation of Gaining Ratio*:

   Gain of a Partner = New Profit Share – Old Profit Share

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

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

$$\text{Gaining Ratio of } B \text{ and } C = \frac{2}{10} : \frac{3}{10} \textit{ or } 2:3.$$

2. *Calculation of Cash brought in by B* and *C:*

   Amount Payable to *A* = ₹ 2,18,550

   B will bring = ₹ 2,18,550 × 1/2 = ₹ 1,09,275

   C will bring = ₹ 2,18,550 × 1/2 = ₹ 1,09,275.

PART B

23. (*b*) Financing Activity.

24. (*c*) Sale of Machinery of the book value of ₹ 85,000 at a loss of ₹ 10,000.

25. (*a*) Inventory Turnover Ratio and Working Capital Turnover Ratio.

26. (*c*) Long-term Debts.

27. Horizontal Analysis is considered as dynamic in nature because it is based on the data of two or more years rather than only one year.

28. Intra-firm Comparison

29. (*b*) 3.5 : 1.

Current Assets = Working Capital + Current Liabilities

= ₹ 7,20,000 + ₹ 2,40,000 = ₹ 9,60,000

Quick Assets = Current Assets – Inventory

= ₹ 9,60,000 – ₹ 1,20,000 = ₹ 8,40,000

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}} = \frac{₹\ 8,40,000}{₹\ 2,40,000} = 3.5:1.$$

30. COMPARATIVE INCOME STATEMENT

for the years ended 31st March, 2019 and 2020

Particulars	Note No.	31st March, 2019 ₹	31st March, 2020 ₹	Absolute Change (Increase/ Decrease) ₹	Percentage Change (Increase/ Decrease) %
I. **Revenue from Operations**		50,000	60,000	10,000	20.00
II. Other Incomes		2,000	3,000	1,000	50.00
III. **Total Revenue (I + II)**		52,000	63,000	11,000	21.15
IV. *Expenses:*					
(*a*) Cost of Materials Consumed		30,000	35,000	5,000	16.67
(*b*) Employees Benefit Expenses		16,000	14,000	(2,000)	(12.50)
(*c*) Other Expenses		2,500	3,500	1,000	40.00
Total Expenses		48,500	52,500	4,000	8.25
V. **Profit before Tax (III – IV)**		3,500	10,500	7,000	200.00
VI. Tax Expense		1,750	5,250	3,500	200.00
VII. **Profit after Tax (V – VI)**		1,750	5,250	3,500	200.00

Or

S. Icon Ltd.

COMPARATIVE STATEMENT OF PROFIT AND LOSS

for the years ended 31st March, 2019 and 2020

Particulars	Note No.	31st March, 2019 ₹	31st March, 2020 ₹	Absolute Change (Increase/ Decrease) ₹	Percentage Change (Increase/ Decrease) %
		(A)	(B)	(C = B – A)	$\left(D = \frac{C}{A} \times 100\right)$
I. Revenue from Operations		4,20,000	8,00,000	**3,80,000**	90.48
II. *Expenses:*					
(*a*) Purchases of Stock-in-Trade		2,50,000	**4,50,000**	2,00,000	80.00
(*b*) Change in Inventories of Stock-in-Trade		50,000	50,000	**...**	...
(*c*) Other Expenses		30,000	40,000	10,000	33.33
Total Expenses		3,30,000	5,40,000	2,10,000	63.64
III. **Profit before Tax (I – II)**		90,000	2,60,000	1,70,000	188.89
IV. *Less:* Tax		27,000	78,000	**51,000**	188.89
V. **Profit after Tax (III – IV)**		63,000	1,82,000	**1,19,000**	188.89

31. (*a*) Return on Investment $= \dfrac{\text{Net Profit before Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100$

$$= \frac{₹\ 29,00,000}{₹\ 1,76,00,000} \times 100$$

$$= \mathbf{16.48\%}.$$

Note: Capital Employed = Fixed Assets + Current Assets – Current Liabilities

= ₹ 1,50,00,000 + ₹ 80,00,000 – ₹ 54,00,000

= ₹ 1,76,00,000.

(*b*) Total Assets to Debt Ratio $= \dfrac{\text{Total Assets}}{\text{Debt}} = \dfrac{₹\ 2,30,00,000}{₹\ 1,60,00,000} = \mathbf{1.44 : 1}$.

Notes: 1. Total Assets = Fixed Assets + Current Assets

= ₹ 1,50,00,000 + ₹ 80,00,000

= ₹ 2,30,00,000.

2. Debt = 12% Debentures = ₹ 1,60,00,000.

Or

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

$$2 = \frac{\text{Liquid Assets}}{₹\ 50,000}$$

Liquid Assets = ₹ 50,000 × 2 = ₹ 1,00,000

Current Assets = Liquid Assets + Inventories

= ₹ 1,00,000 + ₹ 20,000

= ₹ 1,20,000

Current Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}} = \dfrac{₹\ 1,20,000}{₹\ 50,000} = \mathbf{2.4 : 1}$.

(*ii*) Debt to Equity Ratio $= \dfrac{\text{Debt (Note)}}{\text{Equity}} = \dfrac{₹\ 5,00,000}{₹\ 3,00,000} = \mathbf{1.67 : 1}$.

Note: Debt = Total Assets – Current Liabilities – Equity

= ₹ 10,00,000 – ₹ 2,00,000 – ₹ 3,00,000

= ₹ 5,00,000.

32. **Hemco Ltd.**

CASH FLOW STATEMENT

for the year ended 31st March, 2020

Particulars		₹	₹
I. Cash Flow from Operating Activities			
Net Profit for the year:			
Closing Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss		7,50,000	
Less: Opening Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss		6,00,000	
		1,50,000	
Add: Provision for Tax		95,000	
Declared Dividend (Proposed in 2017–18)		1,50,000	
Net Profit before Tax and Extraordinary Activities		3,95,000	
Add: Non-Cash and Non-Operating Expenses:			
Depreciation	40,000		
Goodwill Amortised	20,000	60,000	
		4,55,000	
Less: Non-Operating Income: Gain (Profit) on Sale of Land and Building		15,000	
Operating Profit before Working Capital Changes		4,40,000	
Less: Decrease in Current Liabilities and Increase in Current Assets:			
Trade Payables	10,000		
Trade Receivables	50,000		
Inventories	80,000	1,40,000	
Cash Generated from Operating Activities		3,00,000	
Less: Income Tax Paid (₹ 80,000 – ₹ 15,000 Dividend Distribution Tax)		65,000	
Cash Flow from Operating Activities			2,35,000
II. Cash Flow from Investing Activities			
Proceeds from Sale of Land and Building		1,65,000	
Purchase of Non-current Investments		(1,00,000)	
Cash Flow from Investing Activities			65,000
III. Cash Flow from Financing Activities			
Payments for Redemption of 10% Debentures		(2,00,000)	
Proceeds from Bank Loan		1,00,000	
Payment of Dividend		(1,50,000)	
Payment of Dividend Distribution Tax		(15,000)	
Cash Used in Financing Activities			(2,65,000)
IV. Net Increase in Cash and Cash Equivalents (I + II + III)			35,000
Add: Opening Cash and Cash Equivalents			3,40,000
V. Closing Cash and Cash Equivalents			3,75,000

Working Notes:

1. It is assumed that 10% Debentures have been redeemed in the beginning of the year. Therefore, interest is not provided.

2. *Dr.* LAND AND BUILDING ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	8,00,000	By Bank A/c (Sale) (₹ 1,50,000 + ₹ 15,000)	1,65,000
To Gain (Profit) on Sale of Land and Building A/c (Statement of Profit and Loss)	15,000	By Balance *c/d*	6,50,000
	8,15,000		8,15,000

Model Test Paper 12

Answers

PART A

1. (*a*) out of profits.

2. (*c*) Profit and Loss Appropriation Account.

3. (*d*) None of the above.

4. (*c*) ₹ 30,00,000.

₹ 30,00,000 will be credited to Realisation Account and ₹ 60,000 will be debited.

5. (*b*) Cash in Hand

6. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Revaluation A/c ...Dr.		38,000	
	To Stock A/c			20,000
	To Furniture A/c			18,000
	(Decrease in value of assets recorded)			

7. compensate the Sacrificing Partner.

8. (*c*) ₹ 24,000.

	₹
Unrecorded Assets taken over by *A*	10,000
Less: Unrecorded Liabilities assumed by *A*	1,000
	9,000
A's Share of Unrecorded Assets and Unrecorded Liabilities (₹ 9,000 × 1/3)	3,000
Net amount to be deducted from the amount due to A	6,000

Therefore, Amount due to *A*'s Executors = ₹ 30,000 – ₹ 6,000 = ₹ 24,000.

9. (*b*) ₹ 15,000

₹ 15,000 (3/10 of ₹ 50,000 (₹ 1,00,000 – ₹ 50,000).

10. (*c*) ₹ 25,000 from Securities Premium Reserve and ₹ 15,000 from Statement of Profit and Loss (Finance Cost).

11. (*b*) Debited to Shares Forfeited Account.

12. (*a*) ₹ 10,00,000.

Capital Employed = Tangible Assets of the Firm – Outside Liabilities

= ₹ 14,00,000 – ₹ 4,00,000 = ₹ 10,00,000.

13. (*d*) 2 : 1

$$\text{New Share of } X = \frac{4}{8} + \left(\frac{4}{9} \text{ of } \frac{3}{8}\right) = \frac{4}{8} + \frac{12}{72} = \frac{36 + 12}{72} = \frac{48}{72}$$

$$\text{New Share of } Z = \frac{1}{8} + \left(\frac{5}{9} \text{ of } \frac{3}{8}\right) = \frac{1}{8} + \frac{15}{72} = \frac{9 + 15}{72} = \frac{24}{72}$$

Hence, New Profit-sharing Ratio between X and Z = 48 : 24 or 2 : 1.

14.

Dr. CREDITORS FOR SPORTS MATERIALS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d* (Advances)	25,000	By Balance *b/d*	25,000
To Bank A/c	1,50,000	By Stock of Sports Materials A/c (Balancing Figure) (Credit Purchase)	**1,40,000**
To Balance *c/d*	60,000	By Balance *c/d* (Advances)	70,000
	2,35,000		2,35,000

Dr. STOCK OF SPORTS MATERIALS ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,10,000	By Income and Expenditure A/c (Sports Materials Consumed) —Balancing Figure	**3,50,000**
To Cash A/c	2,50,000		
To Creditors—Credit Purchase	1,40,000		
		By Balance *c/d*	1,50,000
	5,00,000		5,00,000

Alternatively:

Credit Purchases = Payment made to Creditors + Closing Creditors – Opening Creditors – Closing Advance + Opening Advance

= ₹ 1,50,000 + ₹ 60,000 – ₹ 25,000 – ₹ 70,000 + ₹ 25,000 = ₹ 1,40,000

Sports Materials Consumed = Opening Stock + Purchases (Cash + Credit) – Closing Stock

= ₹ 1,10,000 + (₹ 2,50,000 + ₹ 1,40,000) – ₹ 1,50,000 = ₹ **3,50,000**.

Or

STATEMENT SHOWING STATIONERY CONSUMED DURING 2019–20

Particulars		₹
Amount paid for Stationery during the Year		1,08,000
Add: Stock of Stationery on 1st April, 2019	30,000	
Creditors for Stationery on 31st March, 2020	13,000	43,000
		1,51,000
Less: Stock of Stationery on 31st March, 2020	5,000	
Creditors for Stationery on 1st April, 2019	20,000	25,000
Stationery Consumed during 2019–20		1,26,000

15. ADJUSTMENT JOURNAL ENTRY

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2021					
March 31	*Q*'s Current A/c	...Dr.		200	
	R's Current A/c	...Dr.		400	
	To *P*'s Current A/c				600
	(Less interest on capital provided, now rectified)				

Working Note:

ADJUSTMENT TABLE

Particulars		*P* ₹	*Q* ₹	*R* ₹	*Total* ₹
I. *Amount already credited by way of:*					
Interest on Capital @ 9%		27,000	9,000	18,000	54,000
Share of Profit (₹ 60,000 – ₹ 54,000) in the ratio of 2 : 1 : 2		2,400	1,200	2,400	6,000
	(Dr.)	29,400	10,200	20,400	60,000
II. *Amount which should have been credited by way of:*					
Interest on Capital @ 10%	(Cr.)	30,000	10,000	20,000	60,000
III. Difference (I – II)		600 (Cr.) Short	200 (Dr.) Excess	400 (Dr.) Excess	Nil

Or

Table Showing Deficiency in *C's* Share of Profit

Particulars	2017–18 (₹)	2018–19 (₹)	2019–20 (₹)
I. Guaranteed Profit	1,25,000	1,25,000	1,25,000
II. *C*'s Share of Profit/Loss as per their Profit-sharing Ratio	₹ 5,00,000 × 5/25 = ₹ 1,00,000	₹ 7,50,000 × 5/25 = ₹ 1,50,000	(₹ 5,00,000 × 5/25) = (₹ 1,00,000)
III. Deficiency (I – II)	25,000	...	2,25,000

Since no specific ratio in which the deficiency is to be met is given, it means *A* and *B* shall meet the deficiency in their agreed profit-sharing ratio, *i.e.*, 12 : 8 or 3 : 2.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
March 31	Profit and Loss Appropriation A/c	...Dr.		5,00,000	
	To *A*'s Capital A/c				2,40,000
	To *B*'s Capital A/c				1,60,000
	To *C*'s Capital A/c				1,00,000
	(Distribution of profits as if there is no guarantee)				
	A's Capital A/c	...Dr.		15,000	
	B's Capital A/c	...Dr.		10,000	
	To *C*'s Capital A/c				25,000
	(Deficiency met by guaranteeing partners)				

2019 March 31	Profit and Loss Appropriation A/c ...Dr. To *A*'s Capital A/c To *B*'s Capital A/c To *C*'s Capital A/c (Distribution of profits in 12 : 8 : 5)		7,50,000	 3,60,000 2,40,000 1,50,000
2020 March 31	*A*'s Capital A/c ...Dr. *B*'s Capital A/c ...Dr. *C*'s Capital A/c ...Dr. To Profit and Loss A/c (Being the distribution of loss)		2,40,000 1,60,000 1,00,000	 5,00,000
	A's Capital A/c ...Dr. *B*'s Capital A/c ...Dr. To *C*'s Capital A/c (Being the deficiency met by guaranteeing partners)		1,35,000 90,000	 2,25,000

16. Calculation of Gain/Sacrifice = New Profit Share – Old Profit Share

Old Profit-sharing Ratio among *W*, *X*, *Y* and *Z* (From 1st Entry) 3 : 3 : 2 : 2.

New Profit-sharing Ratio after *Z*'s retirement (From 3rd Entry) 3 : 2 : 1.

$$W\text{'s Gain} = \frac{3}{6} - \frac{3}{10} = \frac{15-9}{30} = \frac{6}{30}$$

$$X\text{'s Gain} = \frac{2}{6} - \frac{3}{10} = \frac{10-9}{30} = \frac{1}{30}$$

$$Y\text{'s Sacrifice} = \frac{1}{6} - \frac{2}{10} = \frac{5-6}{30} = \left(\frac{1}{30}\right)$$

$$Z\text{'s Sacrifice} = \frac{2}{10} \text{ or } \frac{6}{30}$$

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	W's Capital A/c (₹ 1,50,000 × 6/30) ...Dr. *X*'s Capital A/c (₹ 1,30,000 × 1/30) ...Dr. To *Y*'s Capital A/c (₹ 1,50,000 × 1/30) To *Z*'s Capital A/c (₹ 1,50,000 × 6/30) (Adjustment for goodwill made on account of change in profit-sharing ratio)		30,000 5,000	 5,000 30,000

17.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Investments A/c	6,000	By Accrued Income A/c		4,500
To Provision for Doubtful Debts A/c	600	By Loss transferred to Current A/cs:		
To Outstanding Rent A/c	15,000	*X*	10,260	
		Y	6,840	17,100
	21,600			21,600

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Balance *c/d*	1,80,000	90,000	60,000	By Balance *b/d*	1,80,000	90,000	...
				By Bank A/c	...	...	60,000
	1,80,000	90,000	60,000		1,80,000	90,000	60,000

Dr. PARTNERS' CURRENT ACCOUNTS *Cr.*

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Goodwill A/c	18,000	12,000	...	By Balance *b/d*	30,000	6,000	...
To Bank A/c	12,600	5,400	...	By Premium for			
To Investments A/c	18,000	...	...	Goodwill A/c (WN 2)	25,200	10,800	...
To Revaluation A/c (Loss)	10,260	6,840	...	By General Reserve A/c	21,600	14,400	...
To Balance *c/d*	17,940	6,960	...				
	76,800	31,200	...		76,800	31,200	...

Working Notes:

1. *Calculation of Sacrificing Ratio:*
   Sacrifice = Old Share – New Share
   X sacrifices = 3/5 – 4/9 = 7/45; *Y* sacrifices = 2/5 – 3/9 = 3/45; Sacrificing Ratio = 7 : 3.
2. Credit given for goodwill to *X* and *Y* in their sacrificing ratio of 7 : 3.

18. (*a*) JOURNAL OF SHARMAN LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020				
April 1	Sundry Assets A/c ...Dr.		2,80,000	
	To Creditors A/c			50,000
	To Verma Ltd.			2,30,000
	(Business purchased of Verma Ltd.)			
April 3	Verma Ltd. ...Dr.		50,000	
	To Cash A/c			50,000
	(Part payment made to Verma Ltd.)			
April 5	Verma Ltd. ...Dr.		1,80,000	
	To Equity Share Capital A/c			1,50,000
	To Securities Premium Reserve A/c			30,000
	(Issue of 1,500 Equity Shares of ₹ 100 each at 20% premium against purchase price)			

Note: No. of Equity Shares to be issued $= \dfrac{\text{Purchase Price – Part Payment}}{\text{Issue Price}}$

$$= \frac{₹\ 2,30,000 - ₹\ 50,000}{₹\ 120} = 1,500.$$

(*b*) JOURNAL OF GARMIN LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Underwriting Commission A/c	...Dr.		60,000	
	To Jarmin & Co.				60,000
	(Underwriting commission due)				
	Jarmin & Co.	...Dr.		60,000	
	To Equity Share Capital A/c				50,000
	To Securities Premium Reserve A/c				10,000
	(Equity Shares issued at premium)				

19. (*a*) BALANCE SHEET OF STAR LTD. (An Extract) *as at...*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Non-current Liabilities		
Long-term Borrowings	1	5,00,000
2. Current Liabilities		
Short-term Borrowings	2	4,00,000

Notes to Accounts

Particulars		₹
1. Long-term Borrowings		
5,000; 12% Debentures of ₹ 100 each		5,00,000
2. Short-term Borrowings		
Loan from State Bank of India		4,00,000
4,500; 12% Debentures of ₹ 100 each issued as collateral security	4,50,000	
Less: Debentures Suspense A/c	4,50,000	...
		4,00,000

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		1,00,00,000	
	To Debentures Application A/c				1,00,00,000
	(Application money received on 2,00,000 debentures @ ₹ 50 per debenture)				
	Debentures Application A/c	...Dr.		1,00,00,000	
	To 9% Debentures A/c				1,00,00,000
	(Application money transferred to 9% Debentures Account)				
	Debentures Allotment A/c	...Dr.		92,00,000	
	Loss on Issue of Debentures A/c	...Dr.		18,00,000	
	To 9% Debentures A/c				1,00,00,000
	To Premium on Redemption of Debentures A/c				10,00,000
	(Allotment of 9% Debentures at a discount of 4% and redeemable at 5% premium)				
	Bank A/c	...Dr.		92,00,000	
	To Debentures Allotment A/c				92,00,000
	(Allotment money received)				

20.

Good Health Club

RECEIPTS AND PAYMENTS ACCOUNT

for the year ended 31st March, 2020

Dr. Receipts		₹	Payments		₹ *Cr.*
To Balance *b/d*:			By Wages and Salaries		55,000
Cash	1,70,000		By Investment in 9% Debentures of *XYZ* Ltd.		2,40,000
Bank	4,00,000	5,70,000	By Health Journals		5,000
To Subscription Received:			By Stationery		12,500
2018–19	40,000		By Insurance Premium		6,760
2019–20	3,75,000		By Courier Charges		800
2020–21	20,000	4,35,000	By Telephone Expenses		9,570
To Donations for Gym		1,64,000	By Investment in Government Securities		38,000
To Admission Fees		14,000	By Balance *c/d:*		
To Life Membership Fees		45,000	Cash in Hand	43,000	
To Lockers Rent		11,000	Bank (Balancing Figure)	8,30,410	8,73,410
To Sale of Old Newspapers		300			
To Interest on Bank Balance		1,740			
		12,41,040			12,41,040

21.

REALISATION ACCOUNT

Dr. Particulars		₹	Particulars		₹ *Cr.*
To Stock		10,000	By Provision for Doubtful Debts		5,000
To Debtors		25,000	By Sundry Creditors		16,600
To Plant and Machinery		40,000	By Bills Payable		3,400
To Bank:			By Mortgage Loan		15,000
Sundry Creditors	16,000		By Bank—Assets Realised:		
Bills Payable	3,400		Stock	6,700	
Mortgage Loan	15,000	34,400	Debtors	12,500	
To Bank—Outstanding Repairs		400	Plant and Machinery	36,000	55,200
To Bank—Expenses		620	By Bank—Unrecorded Assets Realised (Note 4)		6,220
			By Loss transferred to Partners' Capital A/cs: (Bal. Fig.) (Note 1)		
			***X* (5/9)**	**5,000**	
			***Y* (3/9)**	**3,000**	
			***Z* (1/9)**	**1,000**	**9,000**
		1,10,420			1,10,420

PARTNERS' CAPITAL ACCOUNTS

Dr. Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹) *Cr.*
To Realisation A/c (Note 1)	**5,000**	**3,000**	**1,000**	By Balance *b/d*	22,000	18,000	10,000
To Bank A/c (Bal. Fig.) (Note 2)	**19,500**	**16,500**	**9,500**	By General Reserve A/c	2,500	1,500	500
	24,500	19,500	10,500		24,500	19,500	10,500

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Balance *b/d*	19,500	By Realisation A/c—Liabilities		34,400
To Realisation A/c—Assets Realised	55,200	By Realisation A/c—Unrecorded Liabilities		400
To Realisation A/c—Unrecorded Assets (Note 4)	**6,220**	By **Realisation A/c—Expenses (Note 3)**		**620**
		By ***X*'s Capital A/c (Note 2)**	**19,500**	
		By ***Y*'s Capital A/c (Note 2)**	**16,500**	
		By ***Z*'s Capital A/c (Note 2)**	**9,500**	**45,500**
	80,920			80,920

Notes:

1. The balancing figure of Realisation Account ₹ 9,000 shows the loss on realisation, which is transferred to Partners' Capital Accounts in their profit-sharing ratio, *i.e.*, *X*'s Share ₹ 5,000; *Y*'s ₹ 3,000 and *Z*'s ₹ 1,000.
2. After transferring the realisation loss to Partners' Capital Accounts, balancing figures show the final payment to partners through Bank Account.
3. Expenses ₹ 620 paid on realisation are transferred to the credit side of Bank Account.
4. Amount realised from unrecorded assets ₹ 6,220 are transferred from the credit side of Realisation Account to the debit side of the Bank Account.

Or

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2020					
April 1	*A*'s Capital A/c	...Dr.		3,000	
	B's Capital A/c	...Dr.		2,000	
	C's Capital A/c	...Dr.		1,000	
	To Goodwill A/c				6,000
	(Existing goodwill written off)				
	A's Capital A/c	...Dr.		3,480	
	B's Capital A/c	...Dr.		2,320	
	To *C*'s Capital A/c				5,800
	(*C*'s share of goodwill adjusted between gaining partners *A* and *B* in their gaining ratio, *i.e.*, 3 : 2)				

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Patents A/c	2,000	By Investment A/c		2,600
To Machinery A/c	5,000	By Creditors A/c		6,000
To Provision for Doubtful Debts A/c	400	By Loss transferred to:		
To Bank A/c (Revaluation Expenses)	2,000	*A*'s Capital A/c	400	
		B's Capital A/c	267	
		C's Capital A/c	133	800
	9,400			9,400

Dr.				PARTNERS' CAPITAL ACCOUNTS			Cr.
Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Goodwill A/c	3,000	2,000	1,000	By Balance *b/d*	68,000	32,000	21,000
To Advertisement Expenditure A/c	2,625	1,750	875	By Workmen Compensation Reserve A/c	5,625	3,750	1,875
To Revaluation A/c	400	267	133	By Investment Fluctuation Reserve A/c	3,000	2,000	1,000
To *C*'s Capital A/c	3,480	2,320	...	By *A*'s Capital A/c	...	...	3,480
To Investment A/c	...	...	17,600	By *B*'s Capital A/c	...	...	2,320
To Bank A/c	...	...	5,067				
To *C*'s Loan A/c*	...	...	2,500				
To Bills Payable A/c*	...	...	2,500				
To Balance *c/d*	67,120	31,413	...				
	76,625	37,750	29,675		76,625	37,750	29,675

*50% of ₹ 5,000 (*i.e.*, ₹ 21,000 + ₹ 1,875 + ₹ 1,000 + ₹ 3,480 + ₹ 2,320 – ₹ 1,000 – ₹ 875 – ₹ 133 – ₹ 17,600 – ₹ 5,067).

BALANCE SHEET
as at 1st April, 2020

Liabilities		₹	Assets		₹
Creditors		15,000	Debtors	40,000	
Workmen Compensation Claim		750	*Less:* Provision for Doubtful Debts	2,400	37,600
C's Loan		2,500	Stock		30,000
Bills Payable (*C*)		2,500	Patents		8,000
Capital A/cs:			Machinery		45,000
A	67,120				
B	31,413	98,533			
Bank Overdraft		1,317			
		1,20,600			1,20,600

Working Notes:

1. Unless agreed otherwise, Gaining ratio of continuing partners will be same as their old profit-sharing ratio.
2. *Adjustment of Goodwill:*
   C's Share of Goodwill = 1/6 of ₹ 34,800 = ₹ 5,800, which will be contributed by *A* and *B* in their gaining ratio.

22.

In the Books of Exe Ltd.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		2,10,000	
	To Equity Shares Application A/c				2,10,000
	(Application money received for 70,000 shares)				
	Equity Shares Application A/c	...Dr.		2,10,000	
	To Equity Share Capital A/c				1,50,000
	To Equity Shares Allotment A/c				30,000
	To Bank A/c				30,000
	(Application money rejected on 10,000 shares and shares issued to remaining applicants on *pro rata*)				

Equity Shares Allotment A/c ...Dr.		2,50,000	
To Equity Share Capital A/c			1,50,000
To Securities Premium Reserve A/c			1,00,000
(Shares allotment money due @ ₹ 5 each including premium of ₹ 2 per share)			
Bank A/c ...Dr.		2,17,800	
To Equity Shares Allotment A/c			2,17,800
Or			
Bank A/c ...Dr.		2,17,800	
Calls-in-Arrears A/c ...Dr.		2,200	
To Equity Shares Allotment A/c			2,20,000
(Shares allotment money received except on 500 shares)			
Equity Shares First Call A/c ...Dr.		1,00,000	
To Equity Share Capital A/c			1,00,000
(Shares first call money due @ ₹ 2 each)			
Bank A/c ...Dr.		97,400	
To Equity Shares First Call A/c			97,400
Or			
Bank A/c ...Dr.		97,400	
Calls-in-Arrears A/c ...Dr.		2,600	
To Equity Shares First Call A/c			1,00,000
(Shares first call received except on 500 shares)			
Equity Share Capital A/c ...Dr.		4,000	
Securities Premium Reserve A/c ...Dr.		1,000	
To Forfeited Shares A/c			1,800
To Equity Shares Allotment A/c			2,200
To Equity Shares First Call A/c			1,000
Or			
Equity Share Capital A/c ...Dr.		4,000	
Securities Premium Reserve A/c ...Dr.		1,000	
To Forfeited Shares A/c			1,800
To Calls-in-Arrears A/c			3,200
(500 shares forfeited for non-payment of allotment and first call money)			
Equity Shares Second and Final Call A/c ...Dr.		99,000	
To Equity Share Capital A/c			99,000
(Second and Final Call due on 49,500 shares @ ₹ 2 each)			
Bank A/c ...Dr.		97,400	
To Equity Shares Second and Final Call A/c			97,400
Or			
Bank A/c ...Dr.		97,400	
Calls-in-Arrears A/c ...Dr.		1,600	
To Equity Shares Second and Final Call A/c			99,000
(Second and Final Call received except on 800 shares)			

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Equity Share Capital A/c	...Dr.		8,000	
	To Forfeited Shares A/c				4,800
	To Equity Shares First Call A/c				1,600
	To Equity Shares Second and Final Call A/c				1,600
	Or				
	Equity Share Capital A/c	...Dr.		8,000	
	To Forfeited Shares A/c				4,800
	To Call-in-Arrears A/c				3,200
	(800 shares forfeited for non-payment of both the calls)				
	Bank A/c	...Dr.		9,000	
	Forfeited Shares A/c	...Dr.		1,000	
	To Equity Share Capital A/c				10,000
	(1,000 forfeited shares reissued at ₹ 9 per share as fully paid)				
	Forfeited Shares A/c	...Dr.		4,520	
	To Capital Reserve A/c				4,520
	(Gain on reissue transferred to Capital Reserve)				

Working Notes:

1. Shares applied by Puneet = $\frac{60,000}{50,000} \times 500 = 600$ shares.

2. *Amount due on Allotment but not Received from Puneet:*

	₹
Amount due on allotment (500 × ₹ 5)	2,500
Less: Excess application money [(600 – 500) shares × ₹ 3]	300
Amount due on allotment but not received from Puneet	2,200

3. *Calculation of Amount received on Allotment:*

	₹	₹
Amount due on allotment (50,000 × ₹ 5)		2,50,000
Less: Amount received on application stage	30,000	
Amount due on allotment but not received from Puneet (WN 2)	2,200	32,200
		2,17,800

4. *Amount transferred to Capital Reserve:*

	₹
Amount forfeited on 800 shares of Rahul (800 × ₹ 6)	4,800
Add: Amount forfeited on 200 shares of Puneet (200 × ₹ 1,800/500)	720
	5,520
Less: Loss on reissue (1,000 × ₹ 1)	1,000
Gain on Reissue	4,520

Or

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Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		57,00,000	
	To Equity Shares Application A/c				57,00,000
	(Shares application money received for 1,90,000 shares)				
	Equity Shares Application A/c	...Dr.		57,00,000	
	To Equity Share Capital A/c				38,00,000
	To Securities Premium Reserve A/c				19,00,000
	(Application money adjusted)				

	Equity Shares Allotment A/c ...Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Allotment money due @ ₹ 70 each)		1,33,00,000	 38,00,000 95,00,000
	Bank A/c ...Dr. Calls-in-Arrears A/c (1,000 × ₹ 70) ...Dr. To Equity Shares Allotment A/c (Allotment money received except on 1,000 shares)		1,32,30,000 70,000	 1,33,00,000
	Equity Share Capital A/c (1,000 × ₹ 40) ...Dr. Securities Premium Reserve A/c (1,000 × ₹ 50) ...Dr. To Forfeited Shares A/c To Calls-in-Arrears A/c (1,000 shares forfeited for non-payment of allotment money)		40,000 50,000	 20,000 70,000
	Equity Shares First and Final Call A/c ...Dr. To Equity Share Capital A/c (First and final call due on 1,89,000 shares @ ₹ 60 each)		1,13,40,000	 1,13,40,000
	Bank A/c ...Dr. Calls-in-Arrears A/c (2,000 × ₹ 60) ...Dr. To Equity Shares First and Final Call A/c (First and final call received except on 2,000 shares)		1,12,20,000 1,20,000	 1,13,40,000
	Equity Share Capital A/c ...Dr. To Forfeited Shares A/c To Calls-in-Arrears A/c (2,000 shares forfeited for non-payment of first and final call)		2,00,000	 80,000 1,20,000
	Bank A/c ...Dr. Forfeited Shares A/c ...Dr. To Equity Share Capital A/c (1,500 forfeited shares reissued @ ₹ 90 per share as fully paid)		1,35,000 15,000	 1,50,000
	Forfeited Shares A/c ...Dr. To Capital Reserve A/c (Gain on reissue of 1,500 forfeited shares transferred to Capital Reserve)		35,000	 35,000

Working Note:

	₹
Amount transferred to Capital Reserve:	
Amount forfeited on 500 shares of Ankit $\left(\frac{500}{1,000} \times ₹\ 20,000\right)$	10,000
Amount forfeited on 1,000 shares of Ankur $\left(\frac{1,000}{2,000} \times ₹\ 80,000\right)$	40,000
	50,000
Less: Amount of Discount on 1,500 shares (1,500 × ₹ 10)	15,000
Amount transferred to Capital Reserve	35,000

PART B

23. Nil

Reason: This transaction does not involve cash as it is a non-cash transaction.

24. *Purchase of Shares/Debentures of Other Companies.*

This is an Investing Activity for manufacturing enterprise since it relates to the acquisition of long-term asset but is Operating Activity for a financial enterprise since it relates to the main revenue producing activities of the enterprise.

25. True

26. Revenue from Operations, Revenue from Operations.

27. (*b*) Current Liabilities.

28. (*c*) Operating Profit.

29. (*a*) Sale of a Non-current Asset for Cash.

30.

Basis	*Horizontal Analysis*	*Vertical Analysis*
(*i*) **Period**	It is conducted for two or more accounting periods.	It is conducted for one accounting period.
(*ii*) **Items**	Same items for different accounting periods are analysed.	Different Items for the same period are analysed.
(*iii*) **Utility**	It is generally used in Time Series Analysis.	It is generally useful in Cross-section Analysis.

Or

COMPARATIVE STATEMENT OF PROFIT AND LOSS
for the years ended 31st March, 2019 and 2020

Particulars	Note No.	31st March, 2019 ₹	31st March, 2020 ₹	Absolute Change (Increase/ Decrease) ₹	Percentage Change (Increase/ Decrease) %
		(A)	(B)	(C = B – A)	$\left(D = \frac{C}{A} \times 100\right)$
I. Revenue from Operations		20,00,000	30,00,000	10,00,000	50.00
II. Other Income		4,00,000	4,50,000	50,000	12.50
III. **Total Revenue (I + II)**		24,00,000	34,50,000	10,50,000	43.75
IV. Expenses		10,00,000	18,00,000	8,00,000	80.00
V. **Profit before Tax (III – IV)**		14,00,000	16,50,000	2,50,000	17.86

31. (*a*) Let the Current Assets after acquisition of Inventories of ₹ 10,000 on credit be X

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

$$\frac{2}{1} = \frac{X}{₹\,90{,}000 + ₹\,10{,}000}$$

$$X = ₹\ 1{,}00{,}000 \times 2 = ₹\ \mathbf{2{,}00{,}000}$$

Working Capital (*i.e.*, CA – CL) after acquisition = ₹ 2,00,000 – ₹ 1,00,000 = ₹ **1,00,000**

Current Assets before acquisition = Current Assets After acquisition – Purchase of Stock on credit

= ₹ 2,00,000 – ₹ 10,000 = ₹ **1,90,000**

Working Capital before acquisition = ₹ 1,90,000 – ₹ 90,000 = ₹ **1,00,000**.

(*b*) Cost of Revenue from Operations = Operating Cost – Operating Expenses

= ₹ 27,20,000 – ₹ 3,20,000 = ₹ 24,00,000

Let Revenue from Operations be ₹ 100, Gross Profit = ₹ 25, Cost = ₹ 75,

If Cost is ₹ 75, then Revenue from Operations = ₹ 100

If Cost is ₹ 24,00,000 then Revenue from Operations

$$= ₹\ 24,00,000 \times \frac{₹\ 100}{₹\ 75} = ₹\ 32,00,000.$$

$$\text{Operating Ratio} = \frac{\text{Operating Cost}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{₹\ 27,20,000}{₹\ 32,00,000} \times 100 = 85\%.$$

Or

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

$$\text{Liquid Ratio} = \frac{\text{Quick/Liquid Assets}}{\text{Current Liabilities}}$$

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

∴ Quick/Liquid Assets = ₹ 1,60,000 × 1.5 = ₹ **2,40,000**.

Current Assets = Current Ratio × Current Liabilities

= 2.5 × ₹ 1,60,000 = ₹ **4,00,000**.

(*b*) *Cost of Revenue from Operations*

= Average Inventory × Inventory Turnover Ratio = ₹ 90,000 × 6 = ₹ 5,40,000

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

= ₹ 6,00,000 – ₹ 5,40,000 = ₹ 60,000

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100 = \frac{₹\ 60,000}{₹\ 6,00,000} \times 100$$

= **10%**.

32. CASH FLOW STATEMENT *for the year ended 31st March, 2019 as per AS-3 (Revised)*

Particulars	₹	₹
I. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)	6,75,000	
Adjustment for Non-Cash and Non-Operating Items:		
Add: Interest on Debentures	1,08,000	
Depreciation (₹ 4,00,000 – ₹ 2,00,000)	2,00,000	
Goodwill Amortised	12,000	
Operating Profit before Working Capital Changes	9,95,000	
Less: Increase in Inventory	1,24,000	
Cash Generated from Operations	8,71,000	
Less: Tax paid	1,50,000	
Cash Flow from Operating Activities		7,21,000
II. Cash Flow from Investing Activities		
Purchase of Plant and Machinery (₹ 24,00,000 – ₹ 16,42,000)	(7,58,000)	
Purchase of Investments (₹ 1,00,000 – ₹ 45,000)	(55,000)	
Cash Used in Investing Activities		(8,13,000)
III. Cash Flow from Financing Activities		
Cash Flow from Financing Activities		2,32,000
IV. Net Increase in Cash and Cash Equivalents (I + II + III)		1,40,000
Add: Opening Balance of Cash and Cash Equivalents		
Current Investments	1,20,000	
Cash and Cash Equivalents	1,20,000	2,40,000
V. Closing Balance of Cash and Cash Equivalents		
Current Investments	2,00,000	
Cash and Cash Equivalents	1,80,000	3,80,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

Particulars	₹
Closing Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss	4,00,000
Less: Opening Balance	(1,00,000)
Profit during the Year	5,00,000
Add: Provision for Tax	1,75,000
	6,75,000

2. *Dr.* PROVISION FOR TAX ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Bank A/c (Tax Paid)	1,50,000	By Balance *b/d*	1,75,000
To Balance *c/d*	2,00,000	By Statement of Profit and Loss (Balancing Figure: Provision Made)	1,75,000
	3,50,000		3,50,000