Model Test Paper 15

Answers

PART A

1.

Star Sports Club

Dr. RECEIPTS AND PAYMENTS ACCOUNT *for the year ended...* *Cr.*

Receipts	₹	Payments	₹
To Sale of Old Billiards Table (Book Value ₹ 7,000)	8,500		

2. Workmen Compensation Claim, if any arising in future.

3. *Share acquired by Z:*

From X = $1/5 \times 1/5 = 1/25$; from $Y = 1/5 \times 4/5 = 4/25$

$$X\text{'s New Share} = 3/5 - 1/25 = \frac{15-1}{25} = 14/25$$

$$Y\text{'s New Share} = 2/5 - 4/25 = \frac{10-4}{25} = 6/25$$

New Profit-sharing Ratio of X, Y and Z = $14/25 : 6/25 : 5/25 = 14 : 6 : 5$.

4. $$\text{Total Capital of the New Firm} = \frac{\text{Adjusted combined capitals of the old partners}}{\text{Combined share of profit of the old partners}}$$

$$= \frac{₹\ 90{,}000}{4/5} = ₹\ 90{,}000 \times 5/4 = ₹\ 1{,}12{,}500.$$

C's Capital = Total Capital of the New Firm × share of profit of the new partner
= ₹ 1,12,500/5 = ₹ 22,500.

5.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019					
March 31	Tom's Capital A/c	...Dr.		2,000	
	To Interest on Drawings A/c				2,000
	(Being interest on drawings charged)				

6.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Partner's Capital A/c	...Dr.			
	To Partner's Loan A/c/Loan to Partner A/c				
	(Being the partner's loan transferred to his Capital Account)				

Note: Partner's Loan appearing on the assets side of the Balance Sheet implies loan given to the partner by the firm.

7. Yes

8. Securities Premium Reserve, Statement of Profit and Loss.

9. Gaining Ratio is calculated to determine the amount of compensation to be paid by the gaining partners to the sacrificing partners.

10. (*b*)

Amount forfeited on 300 shares (300 × ₹ 30)	₹ 9,000
Less: Reissue discount (300 × ₹ 20)	₹ 6,000
Amount transferred to Capital Reserve	₹ 3,000

11. (*c*) Hidden Goodwill = (₹ 1,60,000 × 5/1) – (₹ 2,60,000 + ₹ 1,80,000 + ₹ 1,60,000)
= ₹ 2,00,000

Z's Share of Goodwill = ₹ 2,00,000 × 1/5 = ₹ 40,000.

12. (*a*) **13.** (*a*)

14. *Calculation of Subscription Income for the Year Ended 31st March, 2019:*

Particulars		₹
Subscription Received during the year 2018–19		8,00,000
Add: Subscription for 2018–19 received in 2017–18		20,000
		8,20,000
Less: (*i*) Subscription for 2017–18 received in 2018–19	50,000	
(*ii*) Subscription for 2019–20 received in 2018–19	40,000	90,000
Subscription income for the year 2018–19		7,30,000

Alternatively: *Subscription income can be calculated by preparing Subscription Account as under:*

Dr. SUBSCRIPTION ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Subscription in Arrears A/c (Opening)	50,000	By Subscription Received in Advance A/c —For 2018–19	20,000
To Income and Expenditure A/c (Bal. Fig.) —Subscription Income for 2018–19	**7,30,000**	By Bank A/c	8,00,000
To Subscription Received in Advance(2019–20)	40,000		
	8,20,000		8,20,000

Or

Calculation of Amount of Sports Goods to be debited to Income and Expenditure Account:

Particulars	₹
(*a*) Payment made for Sports Goods during the year ended 31st March, 2019	1,08,000
Less: Stock of Sports Goods in hand on 31st March, 2019	5,000
Sports Goods Consumed during the year ended 31st March, 2019 debited to Income and Expenditure A/c	1,03,000
(*b*) Opening Stock of Sports Goods (1st April, 2018)	30,000
Add: Payment made during the year	1,08,000
	1,38,000
Less: Stock of Sports Goods (31st March, 2019)	5,000
Sports Goods Consumed during the year ended 31st March, 2019 debited to Income and Expenditure A/c	1,33,000

15. PROFIT AND LOSS APPROPRIATION ACCOUNT

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

Particulars	₹	Particulars		₹
To Profit and Loss A/c (Net Loss) (Note)	33,000	By Interest on Drawings		9,000
		By Net Loss transferred to:		
		X's Capital A/c	9,600	
		Y's Capital A/c	14,400	24,000
	33,000			33,000

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019					
March 31	Interest on *X*'s Loan A/c	...Dr.		12,000	
	Interest on *Y*'s Loan A/c	...Dr.		6,000	
	To *X*'s Loan A/c				12,000
	To *Y*'s Loan A/c				6,000
	(Being interest on partners' loans provided)				

Note:

Interest on Loan:

X = ₹ 4,00,000 × 6/100 × 6/12 = ₹ 12,000

Y = ₹ 2,00,000 × 6/100 × 6/12 = ₹ 6,000.

Interest on partner's loan is a charge against profit. Hence it is debited to Profit and Loss Account whether the firm earns profit or incurs loss. Thus, loss transferred to Profit and Loss Appropriation Account would be ₹ 33,000 (*i.e.*, ₹ 15,000 + ₹ 18,000). If the Partnership Deed is silent on rate of interest, the Partnership Act, 1932 prescribes that interest on loan by a partner be allowed @ 6% p.a.

16. (*i*) JOURNAL OF *AB* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2019					
April 1	Bank A/c	...Dr.		4,00,000	
	To Debentures Application A/c				4,00,000
	(Being the application money received for 10,000 debentures)				
	Debentures Application A/c	...Dr.		4,00,000	
	To 10% Debentures A/c				4,00,000
	(Being the application money transferred to 10% Debentures A/c)				
	Debentures Allotment A/c	...Dr.		5,20,000	
	Loss on Issue of Debentures A/c	...Dr.		1,30,000	
	To 10% Debentures A/c				6,00,000
	To Premium on Redemption of Debentures A/c				50,000
	(Being the issue of 10,000; 10% Debentures of ₹ 100 each at 8% discount and redeemable at 5% premium)				
	Bank A/c	...Dr.		5,20,000	
	To Debentures Allotment A/c				5,20,000
	(Being the allotment money received)				
2020					
March 31	Statement of Profit and Loss (Finance cost)	...Dr.		1,30,000	
	To Loss on Issue of Debentures A/c				1,30,000
	(Being the loss on Issue of Debentures written off)				

(*ii*)

Dr. 10% DEBENTURES ACCOUNT Cr.

Date	Particulars	₹	Date	Particulars	₹
2020			2019		
March 31	To Balance *c/d*	10,00,000	April 1	By Debentures Application A/c	4,00,000
				By Debentures Allotment A/c	5,20,000
				By Loss on Issue of Debentures A/c	80,000
		10,00,000			10,00,000

17. PROFIT AND LOSS APPROPRIATION ACCOUNT

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

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Net Profit as per Profit and		
X (5% on ₹ 2,50,000)	12,500		Loss A/c	3,00,000	
Y (5% on ₹ 1,50,000)	7,500	20,000	*Less:* Interest on *Y*'s Loan	5,000	
To *X*'s Salary A/c (₹ 5,000 × 12)		60,000	(₹ 1,25,000 × 8/100 × 6/12)		
To *Y*'s Commission A/c (2% on ₹ 8,00,000)		16,000		2,95,000	
To Profit transferred to Capital A/cs:			*Less:* Rent paid to *X*	50,000	2,45,000
X (1/2)	75,625		By Interest on Drawings A/cs:		
Y (1/2)	75,625	1,51,250	*X* (₹ 50,000 × 5/100 × 6/12)	1,250	
			Y (₹ 40,000 × 5/100 × 6/12)	1,000	2,250
		2,47,250			2,47,250

18. **In the Books of the Firm**

Dr. REVALUATION ACCOUNT Cr.

Particulars		₹	Particulars	₹
To Furniture A/c		10,000	By Building A/c	1,00,000
To Gain (Profit) transferred to:			By Land A/c	90,000
A's Capital A/c	1,26,000		By Investment A/c (₹ 1,29,000 – 1,20,000)	9,000
B's Capital A/c	63,000	1,89,000		
		1,99,000		1,99,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	*A* (₹)	*B* (₹)	Particulars	*A* (₹)	*B* (₹)
To *A*'s Capital A/c	...	40,000	By Balance *b/d*	6,00,000	3,00,000
To Balance *c/d*	7,72,000	3,26,000	By Revaluation A/c (Profit)	1,26,000	63,000
			By Investment Fluctuation Reserve A/c	6,000	3,000
			By *B*'s Capital A/c (WN 1 and 2)	40,000	...
	7,72,000	3,66,000		7,72,000	3,66,000

Working Notes:

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

	New Share	Old Share	Difference
A	$\frac{1}{2}$	$\frac{2}{3}$	$\frac{1}{2}-\frac{2}{3}=\frac{3-4}{6}=\left(\frac{1}{6}\right)$ Sacrifice
B	$\frac{1}{2}$	$\frac{1}{3}$	$\frac{1}{2}-\frac{1}{3}=\frac{3-2}{6}=\frac{1}{6}$ Gain

2. *Adjustment of Goodwill:*

   A is sacrificing partner and *B* is Gaining partner. The Journal entry will be:

B's Capital A/c (₹ 2,40,000 × 1/6)	...Dr.	₹ 40,000	
To *A*'s Capital A/c			₹ 40,000

Or

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Raman's Capital A/c ...Dr.		40,500	
	Bank A/c ...Dr.		63,000	
	To Realisation A/c			1,03,500
	(Being 50% stock taken by Raman and remaining realised)			
(*ii*)	Angad's Capital A/c ...Dr.		5,000	
	Raman's Capital A/c ...Dr.		5,000	
	Harshit's Capital A/c ...Dr.		5,000	
	To Profit and Loss A/c			15,000
	(Being the loss distributed)			
(*iii*)	Bank A/c ...Dr.		2,000	
	To Realisation A/c			2,000
	(Being the unrecorded machinery realised)			
(*iv*)	Angad's Loan A/c ...Dr.		5,500	
	To Bank A/c			5,000
	To Realisation A/c			500
	(Being the Partner's loan repaid and gain recorded)			

19. JOURNAL OF ANUPAMA LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	On Creation of DRR			
	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c ...Dr.		2,50,000	
	To Debentures Redemption Reserve A/c			2,50,000
	(Being the profit equal to 25% of the value of Debentures transferred to DRR)			
	On 1st April of the Financial Year in which Redemption is Due			
	Debentures Redemption Investment A/c ...Dr.		1,50,000	
	To Bank A/c			1,50,000
	(Being the amount invested in specified securities equal to 15% of the amount of redeemable debentures)			

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	On Redemption of Debentures			
	Bank A/c ...Dr.		1,62,000	
	To Debentures Redemption Investment A/c			1,50,000
	To Interest Earned A/c			12,000
	(Being the debentures redemption investment realised and interest received)			
	9% Debentures A/c ...Dr.		10,00,000	
	To Debentureholders' A/c			10,00,000
	(Being the amount due on redemption)			
	Debentureholders' A/c ...Dr.		10,00,000	
	To Bank A/c			10,00,000
	(Being payment made to debentureholders)			
	Debentures Redemption Reserve A/c ...Dr.		2,50,000	
	To General Reserve A/c			2,50,000
	(Being the amount in DRR A/c transferred to General Reserve)			

Note: As per the Companies Act, 2013 an amount at least equal to 25% of the nominal value of Debentures outstanding is transferred to Debentures Redemption Reserve Account and investment is made in specified securities of amount equal to at least 15% of the nominal value of debentures to be redeemed.

Or

JOURNAL OF YES LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		5,00,000	
	To Debentures Application and Allotment A/c			5,00,000
	(Being the application money received for 5,000 debentures)			
	Debentures Application and Allotment A/c ...Dr.		5,00,000	
	To 9% Debentures A/c			5,00,000
	(Being the allotment of 5,000; 9% Debentures)			
	Debentures Suspense A/c ...Dr.		1,00,000	
	To 9% Debentures A/c			1,00,000
	(Being the issue of 9% Debentures as collateral security)			

AN EXTRACT OF BALANCE SHEET OF YES LTD.
as at...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Non-current Liabilities		
Long-term Borrowings	1	5,80,000

Note to Accounts

Particulars		₹
1. Long-term Borrowings		
5,000; 9% Debentures of ₹ 100 each		5,00,000
Loan from Bank		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

20. **Nari Kalyan Samiti**

Dr. INCOME AND EXPENDITURE ACCOUNT *for the year ended 31st March, 2019* *Cr.*

Expenditure		₹	Income		₹
To Rent		6,600	By Subscriptions	32,500	
To Electricity Charges		3,200	*Add:* Subscription Due	750	
To Lecturer's Fee		730		33,250	
To Office Expenses		1,480	*Less:* Subscription Advance	500	32,750
To Printing and Stationery		1,050	By Donations		2,500
To Legal Fee		1,870	By Surplus from Entertainment Event		7,250
To Expenses on Nukar Drama		1,300	By Interest		350
To Loss on Sale of Books		250			
To Depreciation on:					
Furniture	580				
Books	750				
Building	1,000	2,330			
To Surplus (*i.e.*, Excess of Income over Expenditure)		24,040			
		42,850			42,850

BALANCE SHEET *as at 31st March, 2019*

Liabilities		₹	Assets	₹
Subscription Received in Advance		500	Cash in Hand	8,040
Capital Fund			Cash at Bank	9,500
Opening Balance (WN)	27,270		Subscription Receivable	750
Add: Life Membership Fee	3,250		Building (₹ 20,000 – ₹ 1,000)	19,000
Surplus	24,040	54,560	Furniture (₹ 3,000 + ₹ 8,600 – ₹ 580 (Dep.))	11,020
			Books (₹ 2,000 + ₹ 6,500 – ₹ 1,000 – ₹ 750)	6,750
		55,060		55,060

Working Note: *Calculation of Capital Fund as on 1st April, 2018:*

BALANCE SHEET *as at 1st April, 2018*

Liabilities	₹	Assets	₹
Capital Fund (Balancing Figure)	27,270	Cash in Hand	1,000
		Cash at Bank	1,270
		Building	20,000
		Furniture	3,000
		Books	2,000
	27,270		27,270

21.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts A/c		600	By Building A/c	10,000
To Machinery A/c		7,200	By Sundry Creditors A/c	1,800
To Provision for Outstanding Repairs A/c		3,000	By Prepaid Insurance A/c	2,000
To Gain (Profit) transferred to:				
X's Capital A/c	1,500			
Y's Capital A/c	1,000			
Z's Capital A/c	500	3,000		
		13,800		13,800

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To *Y*'s Capital A/c (Goodwill)	9,000	...	3,000	By Balance *b/d*	90,000	60,000	30,000
To Cash A/c	...	9,000	...	By General Reserve A/c	3,000	2,000	1,000
To *Y*'s Loan A/c (Transferred)	...	66,000	...	By Revaluation A/c (Gain)	1,500	1,000	500
To Balance *c/d**	90,000	...	30,000	By *X*'s Capital A/c (WN)	...	9,000	...
				By *Z*'s Capital A/c (WN)	...	3,000	...
				By Cash A/c (Balancing Figure)	4,500	...	1,500
	99,000	75,000	33,000		99,000	75,000	33,000

*Total capital of ₹ 1,20,000 will be in new profit-sharing ratio, *i.e.*, 3 : 1. Thus,
X's Capital in new firm = 3/4 of ₹ 1,20,000 = ₹ 90,000;
Z's Capital in new firm = 1/4 of ₹ 1,20,000 = ₹ 30,000.

BALANCE SHEET OF THE NEW FIRM *as at 31st March, 2019*

Liabilities		₹	Assets		₹
Sundry Creditors		13,800	Cash (₹ 16,000 – ₹ 9,000 + ₹ 4,500 + ₹ 1,500)		13,000
Employees' Provident Fund		10,000	Prepaid Insurance		2,000
Provision for Outstanding Repairs		3,000	Debtors	20,000	
Y's Loan		66,000	*Less:* Provision for Doubtful Debts	1,000	19,000
Capital A/cs			Stock		28,000
X	90,000		Machinery		40,800
Z	30,000	1,20,000	Building		1,10,000
		2,12,800			2,12,800

Working Note:

Firm's Goodwill = ₹ 36,000

Y's Share of Goodwill = 2/6 of ₹ 36,000 = ₹ 12,000, which will be contributed by *X* and *Z* in their gaining ratio, *i.e.*, 3 : 1.

Thus, *X*'s contribution = 3/4 of ₹ 12,000 = ₹ 9,000; *Z*'s contribution = 1/4 of ₹ 12,000 = ₹ 3,000.

Or

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Gain (Profit) transferred to:			By Machinery A/c	14,000
Annu's Capital A/c	18,480		By Provision for Doubtful Debts A/c	7,000
Mannu's Capital A/c	12,320	30,800	By Creditors A/c	9,800
		30,800		30,800

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Annu (₹)	Mannu (₹)	Sonu (₹)	Particulars	Annu (₹)	Mannu (₹)	Sonu (₹)
To Bank A/c (Balancing Figure)	41,080	85,720	...	By Balance *b/d*	1,19,000	1,12,000	...
To Balance *c/d* (WN 3)	1,12,000	56,000	56,000	By General Reserve A/c	6,000	4,000	...
				By Investment Fluctuation Reserve A/c	1,200	800	...
				By Revaluation A/c (Gain)	18,480	12,320	...
				By Bank A/c	...	...	56,000
				By Premium for Goodwill A/c	8,400	12,600	...
	1,53,080	1,41,720	56,000		1,53,080	1,41,720	56,000

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

Liabilities		₹	Assets	₹
Creditors		46,200	Cash at Bank (WN 4)	27,200
Capital A/cs:			Debtors	42,000
Annu	1,12,000		Investments	19,000
Mannu	56,000		Building	98,000
Sonu	56,000	2,24,000	Machinery	84,000
		2,70,200		2,70,200

Working Notes:

1. *Calculation of Sacrificing Ratio (Sacrifice = Old share – New share):*

   Annu's sacrifice = 3/5 – 2/4 = 2/20;

   Mannu's sacrifice = 2/5 – 1/4 = 3/20;

   Thus, sacrificing ratio = 2/20 : 3/20 or 2 : 3.

2. *Adjustment of Goodwill:*

   Sonu's share of Goodwill = ₹ 84,000 × 1/4 = ₹ 21,000, which will be shared by Annu and Mannu in their sacrificing ratio, *i.e.*, 2 : 3.

3. *Adjustment of Capital:*

   Sonu's Capital for 1/4th Share = ₹ 56,000

   Total capital of the New Firm = ₹ 2,24,000 (*i.e.*, ₹ 56,000 × 4/1), which will be contributed by Annu, Mannu and Sonu in their new profit-sharing ratio, *i.e.*, 2 : 1 : 1. Thus,

   Annu's Capital in New Firm = 2/4 of ₹ 2,24,000 = ₹ 1,12,000;

   Mannu's Capital in New Firm = 1/4 of ₹ 2,24,000 = ₹ 56,000.

4. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	77,000	By Annu's Capital A/c	41,080
To Sonu's Capital A/c	56,000	By Mannu's Capital A/c	85,720
To Premium for Goodwill A/c	21,000	By Balance *c/d*	27,200
	1,54,000		1,54,000

22. JOURNAL OF *XYZ* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		4,95,000	
	To Equity Shares Application A/c				4,95,000
	(Being the shares application money received for 1,10,000 shares)				
	Equity Shares Application A/c	...Dr.		4,95,000	
	To Equity Share Capital A/c				1,20,000
	To Securities Premium Reserve A/c				1,50,000
	To Equity Shares Allotment A/c				1,86,500
	To Bank A/c				38,500
	(Being the application money adjusted)				
	Equity Shares Allotment A/c	...Dr.		2,40,000	
	To Equity Share Capital A/c				2,40,000
	(Being the allotment money due on 60,000 shares @ ₹ 4 each)				

Bank A/c ...Dr.		53,440	
To Equity Shares Allotment A/c			53,440
(Being the allotment money received except on 60 shares)			
Equity Shares First and Final Call A/c ...Dr.		2,40,000	
To Equity Share Capital A/c			2,40,000
(Being the first and final call due on 60,000 shares @ ₹ 4 each)			
Bank A/c ...Dr.		2,36,560	
To Equity Shares First and Final Call A/c			2,36,560
(Being the first and final call received except on 860 shares)			
Equity Share Capital A/c ...Dr.		8,600	
To Forfeited Shares A/c (₹ 300 + ₹ 4,800)			5,100
To Equity Shares Allotment A/c			60
To Equity Shares First and Final Call A/c			3,440
(Being 60 shares forfeited for non-payment of allotment and call and 800 shares for non-payment of call)			
Bank A/c (₹ 8 × 60 + ₹ 6 × 800) ...Dr.		5,280	
Forfeited Shares A/c (₹ 2 × 60 + ₹ 4 × 800) ...Dr.		3,320	
To Equity Share Capital A/c			8,600
(Being 860 forfeited shares reissued)			
Forfeited Shares A/c ...Dr.		1,780	
To Capital Reserve A/c			1,780
(Being the gain on reissue transferred to Capital Reserve)			

Notes:

1. **Table Showing Adjustment of Application Money**

Categories	Shares Applied	Shares Allotted	Application Money Received ₹	Appropriation of Application Money Received		
				Shares Application ₹	Shares Allotment ₹	Refund ₹
A	70,000	42,000	3,15,000 (@ ₹ 4.50)	1,89,000	1,26,000 (*i.e.*, ₹ 3,15,000 – ₹ 1,89,000)	...
B	35,000	14,000	1,57,500 (@ ₹ 4.50)	63,000	56,000 (*i.e.*, 14,000 × ₹ 4)	38,500
C	5,000	4,000	22,500 (@ ₹ 4.50)	18,000	4,500 (*i.e.*, 22,500 – ₹ 18,000)	...

2. Allotment money received: ₹ 53,440 [₹ 2,40,000 (Allotment money due) – ₹ 1,26,000 (*A*) – ₹ 56,000 (*B*) – ₹ 4,500 (*C*) – ₹ 60* (Not paid by Amar).]
3. Amount transferred to Capital Reserve: ₹ 1,780, *i.e.*, ₹ 5,100 (Forfeited Shares A/c) – ₹ 3,320 (Discount on Reissue).
4. Excess application money adjusted on Allotment (A + B + C) = ₹ 1,86,500.

*Shares allotted to Amar = $\frac{42,000}{70,000} \times 100 = 60$ shares.

Allotment money not paid by Amar = (60 × ₹ 4) – (Excess Application Money: 40 × ₹ 4.50) = ₹ 60.

Or

In the Books of *EP* Ltd.

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Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
June 1	Bank A/c	...Dr.		12,50,000	
	To Equity Shares Application A/c				12,50,000
	(Being the application money received for 2,50,000 shares @ ₹ 5 each)				
August 1	Equity Shares Application A/c	...Dr.		12,50,000	
	To Equity Share Capital A/c (2,00,000 × ₹ 5)				10,00,000
	To Equity Shares Allotment A/c (40,000 × ₹ 5)				2,00,000
	To Bank A/c (10,000 × ₹ 5)				50,000
	(Being the application money adjusted)				
August 1	Equity Shares Allotment A/c	...Dr.		6,00,000	
	To Equity Share Capital A/c				4,00,000
	To Securities Premium Reserve A/c				2,00,000
	(Being the allotment money due on 2,00,000 shares @ ₹ 3 each including premium of ₹ 1 per share)				
	Bank A/c	...Dr.		3,99,650	
	To Equity Shares Allotment A/c				3,99,650
	(Being the shares allotment money received except on 200 shares)				
Sept. 28	Equity Shares First and Final Call A/c	...Dr.		6,00,000	
	To Equity Share Capital A/c				6,00,000
	(Being the shares first and final call money due on 2,00,000 shares @ ₹ 3 each)				
Sept. 28	Bank A/c	...Dr.		5,99,400	
	To Equity Shares First and Final Call A/c				5,99,400
	(Being the shares first and final call received except on 200 shares)				
Sept. 28	Equity Share Capital A/c	...Dr.		2,000	
	Securities Premium Reserve A/c	...Dr.		200	
	To Forfeited Shares A/c				1,250
	To Equity Shares Allotment A/c				350
	To Equity Shares First and Final Call A/c				600
	(Being 200 shares forfeited for non-payment of allotment and call money)				
Nov. 30	Bank A/c	...Dr.		1,800	
	Forfeited Shares A/c	...Dr.		200	
	To Equity Share Capital A/c				2,000
	(Being 200 forfeited shares reissued at ₹ 9 per share as fully paid)				
Nov. 30	Forfeited Shares A/c	...Dr.		1,050	
	To Capital Reserve A/c				1,050
	(Being gain on reissue transferred to Capital Reserve)				

BALANCE SHEET *as at 31st March, 2019*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	20,00,000

Note to Accounts

Particulars	₹
1. Share Capital	
Authorised Capital	
... Equity Shares of ₹ 10 each	...
Issued Capital	
2,00,000 Equity Shares of ₹ 10 each	20,00,000
Subscribed Capital	
Subscribed and Fully Paid-up	
2,00,000 Equity Shares of ₹ 10 each	20,00,000

PART B

23. No flow. **Reason:** Sale of Marketable Securities at par represents movement between items of Cash and Cash Equivalents.

24. Yes

25. No. **Reason:** Personal judgement plays an important role in preparing financial statements. Since, subjectivity is inherent in personal judgement, the ratio analysis cannot be said to be free from personal bias.

26. Cash and Cash Equivalents

27. No effect.

28. (*a*)

29. (*d*)

30. Comparative Statements or Comparative Financial Statements means a comparative study of items or components of financial statements (Balance Sheet and Statement of Profit and Loss) for two or more years. Objectives of Comparative Statements are:

(*i*) To make data simpler, understandable and comparable.

(*ii*) To help in forecasting.

Or

COMMON-SIZE BALANCE SHEET *as at 31st March, 2018 and 2019*

Particulars	Note No.	Absolute Amounts		Percentage of Balance Sheet Total	
		31st March, 2018 (₹)	31st March, 2019 (₹)	31st March, 2018 (%)	31st March, 2019 (%)
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds		9,00,000	6,00,000	60.00	60.00
2. Non-Current Liabilities		3,00,000	3,00,000	20.00	30.00
3. Current Liabilities		3,00,000	1,00,000	20.00	10.00
Total		15,00,000	10,00,000	100.00	100.00
II. ASSETS					
1. Non-Current Assets		10,50,000	7,00,000	70.00	70.00
2. Current Assets		4,50,000	3,00,000	30.00	30.00
Total		15,00,000	10,00,000	100.00	100.00

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

$$= \frac{₹\ 75,000}{₹\ 4,00,000} \times 100 = 18.75\%.$$

Working Notes:

1. Net Profit before Interest = Net Profit after Interest and Tax + Tax + Interest on 10% Debentures
= ₹ 55,000 + ₹ 10,000 + ₹ 10,000 (*i.e.*, 10% of ₹ 1,00,000) = ₹ 75,000.

2. Capital Employed = Equity Share Capital + Preference Share Capital + Reserves and Surplus + 10% Debentures
= ₹ 1,50,000 + ₹ 80,000 + ₹ 70,000 + ₹ 1,00,000 = ₹ 4,00,000.

(*b*) Before Net Profit Ratio is calculated, calculate Total Revenue from Operations.

Let Revenue from Operations = x

It means, Cash Revenue from Operations = 20% of x = $0.2x$

Credit Revenue from Operations = $x - 0.2x$

₹ 8,00,000 = $0.8x$

x or Revenue from Operations = ₹ 10,00,000

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Revenue from Operations}} \times 100 = \frac{₹\ 1,50,000}{₹\ 10,00,000} \times 100 = 15\%.$$

Note: Net Profit = Gross Profit – Indirect Expenses
= ₹ 3,00,000 (*i.e.*, 30% of ₹ 10,00,000) – ₹ 1,50,000 = ₹ 1,50,000.

Or

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

$$= \frac{₹\ 2,00,000}{₹\ 6,40,000} \times 100 = 31.25\%.$$

Net Profit after Interest but before Tax = ₹ 1,40,000

Interest on Long-term Debts = 15% of ₹ 4,00,000 = ₹ 60,000

Net Profit before Interest and Tax = ₹ 1,40,000 + ₹ 60,000 = ₹ 2,00,000

Capital Employed = Long-term Debts + Shareholders' Funds
= ₹ 4,00,000 + ₹ 2,40,000 = ₹ 6,40,000.

32. CASH FLOW STATEMENT

for the year ended 31st March, 2019

Particulars		₹
I. Cash Flow from Operating Activities		
Surplus, *i.e.*, Balance in Statement of Profit and Loss (Closing)		35,000
Less: Surplus, *i.e.*, Balance in Statement of Profit and Loss (Opening)		30,000
		5,000
Add: Transfer to General Reserve (₹ 35,000 – ₹ 20,000)	15,000	
Provision for Tax	15,000	30,000
Net Profit before Tax and Extraordinary Items		35,000
Add: Non-operating and Non-cash Items:		
Depreciation	25,000	
Interest on Debentures (12% of ₹ 80,000)	9,600	
Premium on Redemption of Debentures (₹ 20,000 × 5/100)	1,000	35,600
		70,600
Less: Gain (Profit) on Sale of Machinery (WN 1)	7,000	
Gain (Profit) on Sale of Non-current Investments (WN 2)	2,000	9,000
Operating Profit before Working Capital Changes		61,600
Add: Increase in Current Liabilities:		
Trade Payables		1,05,000
		1,66,600
Less: Increase in Current Assets:		
Inventories	22,000	
Trade Receivables	20,000	42,000
Cash Generated from Operations		1,24,600
Less: Tax Paid		15,000
Cash Flow from Operating Activities		1,09,600
II. Cash Flow from Investing Activities		
Payment for Purchase of Machinery	(1,40,000)	
Proceeds from Sale of Machinery	12,000	
Proceeds from Sale of Non-current Investments	12,000	
Cash Used in Investing Activities		(1,16,000)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Equity Shares (Including Premium)	55,000	
Share Issue Expenses	(5,000)	
Redemption of Debentures at Premium	(21,000)	
Payment of Interest on Debentures	(9,600)	
Repayment of Bank Loan	(10,000)	
Cash Flow from Financing Activities		9,400
IV. Net Increase in Cash and Cash Equivalents (I + II + III)		3,000
V. *Add:* Cash and Cash Equivalents in the beginning of the period		1,15,000
VI. Cash and Cash Equivalents at the end of the period (IV + V)		1,18,000

Working Notes:

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

Particulars	₹	Particulars	₹
To Balance *b/d*	3,50,000	By Accumulated Depreciation A/c	15,000
To Gain (Profit) on Sale of Machinery A/c* (Statement of Profit and Loss)	7,000	By Bank A/c (Sales proceeds)	12,000
To Bank A/c (Bal. Fig.—Purchase)	1,40,000	By Balance *c/d*	4,70,000
	4,97,000		4,97,000

	₹
*Sale Proceeds	12,000
Less: Book Value on the date of sale (*i.e.*, ₹ 20,000 – ₹ 15,000)	5,000
Gain (Profit) on Sale of Machinery	7,000

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

Particulars	₹	Particulars	₹
To Machinery A/c (Transfer)	15,000	By Balance *b/d*	50,000
To Balance *c/d*	60,000	By Statement of Profit and Loss (Bal. Fig.)	25,000
	75,000		75,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	50,000	By Bank A/c (Sales)*	12,000
To Statement of Profit and Loss (Profit)*	2,000	By Balance *c/d*	40,000
	52,000		52,000

**Calculation of 'Sale Value' and 'Profit on sale of Non-Current Investments (NCI):*

Book Value = Opening – Closing = ₹ 50,000 – ₹ 40,000 = ₹ 10,000.

Profit on Sale = 20% × ₹ 10,000 = ₹ 2,000.

Sale value of Non-Current Investments = Book value + Profit = ₹ 10,000 + ₹ 2,000 = ₹ 12,000.

4. Share issue expenses have been written off from Securities Premium Reserve, therefore, these expenses are not considered while computing Operating Profit before Working Capital Changes.