Model Test Paper 2

Time Allowed: 3 Hrs. **Max. Marks: 80**

General Instructions: **As per Model Test Paper 1**

Section A

Part I (12 Marks)

*(Answer **all** questions)*

1. Answer the following questions briefly:

(*i*) Enumerate **two** main steps involved in valuing the Goodwill according to Super Profit Method.

(*ii*) What is meant by 'Debentures Redemption Reserve'? State the amount of profit required to be transferred to Debentures Redemption Reserve.

(*iii*) Raja, Badshah and Samrat are partners sharing profits in the ratio of 3 : 2 : 1. Badshah died on 30th June, 2019. Profit from 1st April, 2019 to 30th June, 2019 was ₹ 2,25,000. Raja and Samrat decided to share future profits in the ratio of 3 : 2. Give the necessary Journal entry to record Badshah's share of profit up to the date of death.

(*iv*) Give the Journal entry to distribute 'Investment Fluctuation Reserve' of ₹ 40,000 at the time of admission of Sachin for 20% share of profit, when Investments (Market Value ₹ 1,90,000) appear at ₹ 2,00,000. The firm has two old partners Sunil and Dalip.

(*v*) State **two** differences between Undersubscription and Oversubscription.

(*vi*) List **four** items which are included under the head 'Non-Current Assets' of the company's Balance Sheet as per Schedule III. [6 × 2 = 12]

Part II (48 Marks)

*(Answer **any four** questions)*

2. (*a*) Mohit, Ali and John are in partnership with capitals of ₹ 3,00,000 (Credit), ₹ 2,50,000 (Credit) and ₹ 20,000 (Debit) respectively on 1st April, 2019. The Partnership Deed provides the following:

(*i*) 10% of Net Profit to be transferred to General Reserve.

(*ii*) Partners are to be allowed interest on capital @ 5% p.a. and are to be charged interest on drawings @ 6% p.a.

(*iii*) John is to get salary of ₹ 60,000 p.a.

(*iv*) Mohit is to get commission of 10% of the profit.

(*v*) Ali is also entitled to a commission of 10% of the net profit before charging interest on drawings but after making appropriations.

During the year, Mohit withdrew ₹ 3,000 in the beginning of every month, Ali withdrew ₹ 3,000 during every month and John withdrew ₹ 3,000 at the end of every month.

On 1st October, 2019, John gave a loan of ₹ 5,00,000.

The manager is entitled to salary of ₹ 2,000 p.m. and a commission of 10% of net profit after charging his salary and commission.

Net Profit of the firm for the year ended on 31st March, 2020 before providing for any of the above adjustments was ₹ 2,37,000.

Prepare Profit and Loss Appropriation Account for the year ended on 31st March, 2020.

(*b*) Calculate goodwill of a firm on the basis of three years' purchase of the weighted average profit of the last four years. The appropriate weights to be used and profits are:

Year	2016–17	2017–18	2018–19	2019–20
Profits (₹)	1,01,000	1,24,000	1,00,000	1,40,000
Weights	1	2	3	4

On a scrutiny of books of account, following were noticed:

(*i*) On 1st December, 2018, major repair was carried on the plant incurring ₹ 30,000 which was charged to revenue. The said amount is agreed to be capitalised for goodwill valuation subject to adjustment of depreciation of 10% p.a. on Reducing Balance Method.

(*ii*) Closing stock for the year 2017–18 was overvalued by ₹ 12,000.

(*iii*) To cover management cost, an annual charge of ₹ 24,000 should be made for the purpose of goodwill valuation.

(*iv*) On 1st April, 2017 a machine having a book value of ₹ 10,000 was sold for ₹ 11,000 but the proceeds were wrongly credited to Profit and Loss Account. No effect has been given to rectify the same. Depreciation is charged on machine @ 10% p.a. on Reducing Balance Method. [6 + 6 = 12]

3. (*a*) Priya, Karam and Anna were partners of a firm sharing profits in the ratio of 3 : 2 : 1. Their Balance Sheet as at 31st March, 2020 was as follows:

BALANCE SHEET *as at 31st March, 2020*

Liabilities		₹	Assets	₹
Bills Payable		1,20,000	Cash at Bank	20,000
Creditors		1,40,000	Debtors	1,40,000
Karam's Loan @ 5%		1,00,000	Bills Receivable	70,000
General Reserve		1,80,000	Stock	1,70,000
Capital A/cs:			Investments	1,30,000
Priya	2,00,000		Advertisement Suspense A/c	1,20,000
Karam	1,20,000		Building	2,90,000
Anna	80,000	4,00,000		
		9,40,000		9,40,000

Karam died on 12th June, 2020 and according to the Partnership Deed his executors were entitled to be paid as under.

(*i*) His share in the profit of the firm till the date of his death which will be calculated on the basis of average profit of last three completed years.

(*ii*) His share in the goodwill of the firm which will be calculated on the basis of two years' purchase of total profits of last three years.

(*iii*) Profits for the last three years ended 31st March, were: ₹ 30,000, ₹ 70,000 and ₹ 80,000.

(*iv*) It is decided by Priya and Anna that General Reserve and accumulated losses not to be distributed. For this, it was decided that the remaining partners would compensate the deceased partner through their Capital Accounts.

Prepare Karam's Capital Account to be rendered to his executors.

(*b*) Lokesh, Mansoor and Nihal were partners in a firm sharing profits in the ratio of 5 : 3 : 2. On 31st March, 2020 their Balance Sheet was as follows:

Liabilities		₹	Assets		₹
Creditors		34,000	Cash at Bank		68,000
Employees' Provident Fund		10,000	Stock		38,000
Investment Fluctuation Reserve		20,000	Debtors	94,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	6,000	88,000
Lokesh	1,40,000		Investments		80,000
Mansoor	80,000		Goodwill		40,000
Nihal	50,000	2,70,000	Profit and Loss		20,000
		3,34,000			3,34,000

On 1st April, 2020, Mansoor retired and Lokesh and Nihal agreed to continue business on the following terms:

(*i*) Goodwill of the firm was valued at ₹ 1,02,000.

(*ii*) There was a claim for Workmen's Compensation to the extent of ₹ 12,000 and investments were brought down to ₹ 30,000.

(*iii*) Provision for Doubtful Debts was to be reduced by ₹ 2,000.

(*iv*) Mansoor was to be paid ₹ 20,600 by cheque and the balance will be transferred to his loan account which was paid in two equal annual instalments along with interest @ 10% p.a.

(*v*) Capitals of Lokesh and Nihal were to be adjusted in their new profit-sharing ratio by bringing in or paying off by cheque as the case may be.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the new firm. [4 + 8 = 12]

4. Ratnakar Ltd. issued 50,000 equity shares of ₹ 100 each payable ₹ 20 on application; ₹ 40 on allotment and ₹ 20 each on first and final call. Applications were received for 75,000 shares. Applicants of 25,000 shares were sent letters of regret and application money was refunded.

Mohan, a holder of 1,500 shares failed to pay allotment money which he paid along with the first call.

Raman, a shareholder holding 500 shares paid both the calls along with allotment. Kamal, a shareholder holding 1,000 shares did not pay first call and second and final call. His shares were forfeited. 800 of these forfeited shares were reissued at ₹ 120 per share as fully paid-up.

Pass necessary Journal entries for the above transactions in the books of the company. Also show relevant items as they would appear in the Balance Sheet of the company. [12]

5. Deepika and Rajshree are partners sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as on 31st March, 2020 is as under:

Liabilities		₹	Assets		₹
Creditors		1,25,000	Goodwill		5,000
Workmen Compensation Reserve		10,000	Building		30,000
Investment Fluctuation Reserve		5,000	Furniture		1,25,000
Employees' Provident Fund		5,000	Investments (Market Value ₹ 22,500)		25,000
Anshu's Loan		1,50,000	Debtors	50,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	5,000	45,000
Deepika	88,000		Stock		1,50,000
Rajshree	1,27,000	2,15,000	Bank Balance		1,25,000
			Advertisement Suspense A/c		5,000
		5,10,000			5,10,000

On 1st April, 2020, they admit Anshu as a partner on the following terms:

(*i*) Deepika will sacrifice 1/3rd of her share while Rajshree sacrifices 1/10 from her share in favour of Anshu.

(*ii*) Anshu's loan will be converted into his capital.

(*iii*) Anshu brings 60% of his share of goodwill by cheque.

(*iv*) Goodwill is to be valued at 2 years' purchase of super profit of last three completed years. Profits for the last three years ended 31st March, are as follows:
2018—₹ 2,40,000; 2019—₹ 4,65,000; and 2020—₹ 6,90,000.
Normal profit is ₹ 3,15,000 with same amount of capital invested in similar industry.

(*v*) Value of building is to be increased by ₹ 25,000, value of Stock and Furniture to be reduced by 15% and 10% respectively. Provision for Doubtful Debts is to be made equal to 5% of the debtors.

(*vi*) Claim on account of Workmen Compensation is ₹ 5,000.

(*vii*) An unrecorded accrued interest income of ₹ 5,000 to be accounted. A debtor whose dues of ₹ 25,000 were written off as bad debts, paid ₹ 20,000 in full settlement.

(*viii*) Workmen Compensation Reserve and Investment Fluctuation Reserve are to appear in the books of new firm after adjusting Workmen Compensation Claim and difference between book value and market value of investment.

(*ix*) Capitals of the partners shall be proportionate to their profit-sharing ratio taking Anshu's capital as base. Adjustment of capital to be made by cash.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet. [12]

6. On 1st April, 2018, Strong Ltd. issued ₹ 40,00,000, 10% Debentures of ₹ 100 each at a premium of 5% and redeemable at a premium of 10% in equal annual drawings by draw of lots in 2 years. The company decides to write off loss on issue at the end of first year itself. It has a balance of ₹ 1,75,000 in Capital Reserve and ₹ 50,000 in Securities Premium Reserve.

Pass the necessary Journal entries during the years of Issue and Redemption of Debentures without providing for the interest. Also pass accounting entry for writing off Loss on Issue of Debentures. [12]

7. (*a*) Given below is the Balance Sheet of Saurabh, Gaurav and Pawan as on 31st March, 2020 on which date they dissolved their partnership. They shared profit and loss in the ratio of 4 : 3 : 3. It was decided that Pawan shall be in charge of realisation and distribution. For this service, he was to get as remuneration 1% of the value of assets realised other than Cash and Bank and 10% of the amount distributed to partners.

BALANCE SHEET *as at 31st March, 2020*

Liabilities	₹	Assets	₹
Saurabh's Capital A/c	55,000	Cash at Bank	1,375
Gaurav's Capital A/c	22,500	Sundry Assets	2,68,625
Pawan's Capital A/c	60,000	(Other than Cash and Bank)	
Sundry Creditors	75,000		
Employees' Provident Fund	7,500		
Workmen Compensation Reserve	50,000		
	2,70,000		2,70,000

Sundry Assets were realised for ₹ 2,32,500 and creditors were paid in full. Prepare Realisation Account, Partners' Capital Accounts and Bank Account.

(*b*) Pass the necessary Journal entries for the following transactions on the dissolution of the firm of Samar, Bhanwar and Pratap (who were sharing profits in the ratio of 2 : 2 : 1) after the transfer of all assets (other than cash) and external liabilities to Realisation Account:

(*i*) Debtors were of ₹ 1,24,200. Samar takes debtors amounted to ₹ 1,20,000 at ₹ 1,17,200 and the remaining debtors were sold to a debt collecting agency at 50% of the value.

(*ii*) Sundry Assets were of ₹ 1,17,000. Bhanwar is to take some Sundry Assets at ₹ 72,000 (being 10% less than the book value). Pratap is to take over remaining Sundry Assets at 80% of the book value. [8 + 4 = 12]

8. From the following details given below and additional information, prepare Balance Sheet of Lotus Ltd. as at 31st March, 2020:

	(₹ in '000)		(₹ in '000)
10% Debentures	200	Trade Receivables	40
Trade Payables	10	Cash and Bank Balances	30
Share Capital	150	Share Application Money	
Reserves and Surplus	90	Pending Allotment	5
Advance Payment of Tax	50	Non-current Investment	100
Fixed Assets at Cost (Tangible)	350	Provision for Tax (2019–20)	45
Inventories	10	Long-term Provisions	10
Outstanding Expenses	5	Current Investment	25
Short-term Borrowings	45	Prepaid Expenses	5
Provision for Depreciation	40		

Additional Information:

(*i*) Authorised capital is 20,000 equity shares of ₹ 10 each. The company issued 15,000 shares of ₹ 10 each.

(*ii*) Provide ₹ 10,000 for depreciation on fixed assets.

(*iii*) Directors proposed dividend for the year 2019–20 ₹ 50,000.

(*iv*) Bill discounted but not matured ₹ 40,000. [12]

Section B

(20 Marks)

*(Answer **any two** questions)*

9. You are required to prepare a Cash Flow Statement for the year 2019–20 from the following Balance Sheet and additional information:

BALANCE SHEET OF STAR LTD. *as at 31st March, 2020*

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		5,00,000	4,00,000
(*b*) Reserves and Surplus	1	3,20,000	2,50,000
2. Non-Current Liabilities			
Long-term Borrowings	2	2,00,000	1,00,000
3. Current Liabilities			
(*a*) Trade Payables		1,50,000	90,000
(*b*) Short-term Provisions	3	30,000	10,000
Total		12,00,000	8,50,000
II. ASSETS			
1. Non-Current Assets			
(*a*) Fixed Assets—Tangible Assets	4	7,00,000	5,00,000
(*b*) Non-Current Investments		70,000	50,000
2. Current Assets			
(*a*) Inventories		60,000	90,000
(*b*) Trade Receivables		1,20,000	70,000
(*c*) Cash and Bank Balance		2,50,000	1,40,000
Total		12,00,000	8,50,000

Notes to Accounts

Particulars	31st March, 2020 (₹)	31st March, 2019 (₹)
1. Reserves and Surplus		
Securities Premium Reserve	5,000	...
General Reserve	1,00,000	80,000
Surplus, *i.e.*, Balance in Statement of Profit and Loss	2,15,000	1,70,000
	3,20,000	2,50,000
2. Long-term Borrowings		
10% Debentures	2,00,000	1,00,000
3. Short-term Provisions		
Provision for Tax	30,000	10,000
4. Fixed Assets—Tangible Assets		
Machinery (*Cost*)	8,50,000	6,10,000
Less: Accumulated Depreciation	1,50,000	1,10,000
	7,00,000	5,00,000

Additional Information:

(*i*) Machinery costing ₹ 1,00,000 (Accumulated Depreciation ₹ 70,000) was sold at a loss of 20%. (*ii*) Equity Shares were issued at a premium of 15% on 1st April, 2019. (*iii*) Additional debentures were issued on 1st October, 2019 at a discount of 10%. The company wrote off the discount on issue of debentures from Securities Premium Reserve. (*iv*) Interim Dividend paid during the year amounted to ₹ 25,000. (*v*) Dividend have been proposed @ 12% for both the years. [10]

10. (*a*) From the following information, calculate **any two** of the following ratios:

(*i*) Debt to Equity Ratio;

(*ii*) Working Capital Turnover Ratio;

(*iii*) Return on Investment (ROI).

Information:

Equity Share Capital ₹ 5,50,000; General Reserve ₹ 50,000; Statement of Profit and Loss (Profit after Interest and Tax) ₹ 1,00,000; 9% Debentures ₹ 2,00,000; Creditors ₹ 1,00,000; Land and Building ₹ 6,50,000; Equipments ₹ 1,50,000; Debtors ₹ 1,45,000; Cash ₹ 55,000.

Revenue from Operations (Net Sales) for the year ended 31st March, 2020 was ₹ 15,00,000 and Tax Paid 50%.

(*b*) Calculate Debt to Total Assets Ratio from the following information:

	₹		₹
Fixed Assets (Gross)	18,00,000	Accumulated Depreciation	3,00,000
Non-current Investments	30,000	Current Liabilities	6,00,000
Long-term Loans and advances	1,20,000	Long-term Borrowings	9,00,000
Current Assets	7,50,000	Long-term Provisions	3,00,000

(*c*) Calculate Earning Per Share (EPS) from the following:

Net Profit after Tax,	₹ 1,00,000
10% Preference Share Capital (₹ 10 each)	₹ 2,00,000
Equity Share Capital (₹ 10 per share)	₹ 2,00,000

[6 + 2 + 2 = 10]

11. (*a*) What is Common-size Balance Sheet? Give **one** objective of Common-size Balance Sheet.

(*b*) Calculate Trade Payables Turnover Ratio from the following information:

	₹
Total Purchases	4,20,000
Cash Purchases	40,000
Purchases Return	20,000
Opening Creditors	40,000
Closing Creditors	30,000
Opening Bills Payable (B/P)	50,000
Closing Bills Payable (B/P)	60,000

(*c*) From the following information taken from the Income Statement of Sandalwood Products Ltd. for the years ended 31st March, 2020 and 2019, prepare Comparative Statement of Profit and Loss:

Particulars	31st March, 2020 (₹)	31st March, 2019 (₹)
Revenue from Operations	14,00,000	11,00,000
Other Incomes	4,00,000	3,00,000
Expenses	11,00,000	12,00,000

Rate of Income Tax was 50%.

Also, calculate Net Profit Ratio for 2019–20. [2 + 2 + 6 = 10]

Answers

1. (*i*) (*a*) Calculate Average Capital Employed of the business as under:

$$\text{Average Capital Employed} = \frac{\text{Opeing Capital Employed} + \text{Closing Capital Employed}}{2}.$$

(*b*) Normal Profit = Average Capital Employed × Normal Rate of Return/100.

(*c*) Super Profit = Average Future Maintainable Profit − Normal Profit.

(*d*) Goodwill = Super Profit × No. of Years' Purchase.

(*ii*) Debentures Redemption Reserve (DRR) is a reserve set aside out of profits available for payment as dividend for the purpose of redemption of debentures.

The amount to be transferred to DRR is specified in Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014. The rule prescribed that a company shall *transfer at least 25 per cent of the nominal (face) value of the outstanding debentures to DRR*.

(*iii*) Dr. Raja's Capital A/c: ₹ 22,500 and Samrat's Capital A/c: ₹ 52,500;
Cr. Badshah's Capital A/c: ₹ 75,000.

(*iv*) Dr. Investment Fluctuation Reserve A/c—₹ 40,000;
Cr. Sunil's Capital A/c—₹ 15,000; Dalip's Capital A/c—₹ 15,000 and Investments A/c—₹ 10,000.

(*v*)

Basis	*Undersubscription*	*Oversubscription*
1. **Shares Applied**	Number of shares applied for is less than the number of shares offered for subscription.	Number of shares applied for is more than the number of shares offered for subscription.
2. **Acceptance**	All the applications for shares are accepted, *i.e.*, full allotment is made.	All applications are not accepted. Some are rejected. Alternatively, shares are allotted on *pro rata* basis.
3. **Refund**	As all applications are accepted, there is no excess money to be refunded.	Excess application money is refunded or adjusted towards allotment.

(*vi*) Non-current Assets comprises of following items:

(*a*) Fixed Assets;
(*b*) Non-current Investments;
(*c*) Deferred Tax Assets (Net);
(*d*) Long-term Loans and Advances;
(*e*) Other Non-current Assets.

2. (*a*)

PROFIT AND LOSS APPROPRIATION ACCOUNT
for the year ended 31st March, 2020

Dr. *Cr.*

Particulars		₹	Particulars		₹
To General Reserve A/c (10% of ₹ 1,80,000)		18,000	By Profit and Loss A/c (Net Profit)		1,80,000
To Interest on Capital A/c:			By Interest on Drawings A/c:		
Mohit	15,000		Mohit (₹ 36,000 × 6.5/12 × 6/100)	1,170	
Ali	12,500	27,500	Ali (₹ 36,000 × 6/12 × 6/100)	1,080	
To John's Salary A/c		60,000	John (₹ 36,000 × 5.5/12 × 6/100)	990	3,240
To Mohit's Remuneration A/c (10% of ₹ 1,80,000)		18,000			
To Ali's Commission A/c [10/110(₹ 1,80,000 – ₹ 18,000 – ₹ 27,500 – ₹ 60,000 – ₹ 18,000)]		5,136			
To Profit transferred to:					
Mohit's Capital A/c	18,201				
Ali's Capital A/c	18,201				
John's Capital A/c	18,202	54,604			
		1,83,240			1,83,240

Working Notes:

1. *Dr.*

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

Particulars	₹	Particulars	₹
To Interest on John's Loan A/c (₹ 5,00,000 × 6/100 × 6/12)	15,000	By Net Profit before Adjustments	2,37,000
To Manager's Salary A/c (₹ 2,000 × 12)	24,000		
To Manager's Commission A/c [10/110 (₹ 2,37,000 – ₹ 15,000 – ₹ 24,000)]	18,000		
To Net Profit transferred to Profit and Loss Appropriation A/c	1,80,000		
	2,37,000		2,37,000

2. Interest on Partner's Loan, Manager's Salary and Commission are charges against the profits and not appropriations of profits. Hence, these items have been debited to Profit and Loss Account and not to Profit and Loss Appropriation Account.

(*b*) CALCULATION OF PAST ADJUSTED PROFITS

Particulars	2016–17 (₹)	2017–18 (₹)	2018–19 (₹)	2019–20 (₹)
Profits as per Books	1,01,000	1,24,000	1,00,000	1,40,000
Less: Management Cost	24,000	24,000	24,000	24,000
	77,000	1,00,000	76,000	1,16,000
Less: Overvaluation of Closing Stock	...	12,000	...	...
	77,000	88,000	76,000	1,16,000
Add: Overvaluation of Opening Stock	...	...	12,000	...
	77,000	88,000	88,000	1,16,000
Add: Major repair of plant to be treated as Capital Expenditure	...	...	30,000	...
	77,000	88,000	1,18,000	1,16,000
Less: Depreciation on Capital Expenditure @ 10% on time basis by w.d.v. method	...	...	1,000	2,900
	77,000	88,000	1,17,000	1,13,100
Less: Sale Proceeds of Machinery wrongly credited to Profit and Loss A/c	...	11,000	...	...
	77,000	77,000	1,17,000	1,13,100
Add: Depreciation on above Sold Machinery	...	1,000	900	810
Adjusted Profit(P)	77,000	78,000	1,17,900	1,13,910

CALCULATION OF WEIGHTED PROFIT

Year Ended	Profits (₹)	Weight	Weighted Profit (₹)
31st March, 2017	77,000	1	77,000
31st March, 2018	78,000	2	1,56,000
31st March, 2019	1,17,900	3	3,53,700
31st March, 2020	1,13,910	4	4,55,640
Total		10	10,42,340

$$\text{Weighted Average Profit} = \frac{₹\ 10,42,340}{10} = ₹\ 1,04,234$$

Goodwill = Weighted Average Profit × Number of Years' Purchase
= ₹ 1,04,234 × 3 = ₹ 3,12,702.

3. (*a*)

Dr. KARAM'S CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Karam's Executors' A/c (Balancing Figure)	3,65,000	By Balance *b/d*	1,20,000
		By Profit and Loss Suspense A/c (WN 1)	4,000
		By Interest on Karam's Loan A/c	1,000*
		By Karam's Loan A/c	1,00,000
		By Priya's Capital A/c (Goodwill) (WN 2)	90,000
		By Anna's Capital A/c (Goodwill) (WN 2)	30,000
		By Priya's Capital A/c (₹ 20,000 × 3/4)(WN 3)	15,000
		By Anna's Capital A/c (₹ 20,000 × 1/4)(WN 3)	5,000
	3,65,000		3,65,000

*₹ 1,00,000 × 5/100 × 73/365 = ₹ 1,000.

Working Notes:

Calculations will be made from 1st April, 2020 to 12th June, 2020, i.e., for 73 days.

1. *Karam's share of profit till the date of his death:*

   Average Profit of last three years = $\dfrac{₹\,30{,}000 + ₹\,70{,}000 + ₹\,80{,}000}{3} = ₹\,60{,}000$

   Karam's share of profit = $₹\,60{,}000 \times \dfrac{73}{365} \times \dfrac{2}{6} = ₹\,4{,}000$.

2. *Karam's share of Goodwill:*

   Total of Profit of last three years = ₹ 30,000 + ₹ 70,000 + ₹ 80,000 = ₹ 1,80,000

   Firm's Goodwill = Total Profit × No. of years' purchase = ₹ 1,80,000 × 2 = ₹ 3,60,000

   Karam's Share of Goodwill = $₹\,3{,}60{,}000 \times \dfrac{2}{6}$ = ₹ 1,20,000, which is contributed by Priya and Anna in their Gaining Ratio of 3 : 1. Thus,

   Priya's contribution = $₹\,1{,}20{,}000 \times \dfrac{3}{4} = ₹\,90{,}000$; and

   Anna's contribution = $₹\,1{,}20{,}000 \times \dfrac{1}{4} = ₹\,30{,}000$.

3. *Adjustment of General Reserve and Advertisement Expenditure:*

	₹
General Reserve	1,80,000
Less: Advertisement Suspense A/c	1,20,000
Net Effect	60,000

   Karam's share in net effect of General Reserve & Advertisement Expenditure = $₹\,60{,}000 \times \dfrac{2}{6}$ = ₹ 20,000, which is contributed by Priya and Anna in their Gaining Ratio, *i.e.*, 3 : 1.

(*b*)

Dr. REVALUATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Workmen Compensation Claim A/c	12,000	By Provision for Doubtful Debts A/c		2,000
To Investments A/c (WN 1)	30,000	By Loss transferred to:		
		Lokesh's Capital A/c	20,000	
		Mansoor's Capital A/c	12,000	
		Nihal's Capital A/c	8,000	40,000
	42,000			42,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	Lokesh ₹	Mansoor ₹	Nihal ₹	Particulars	Lokesh ₹	Mansoor ₹	Nihal ₹
To Profit and Loss A/c	10,000	6,000	4,000	By Balance *b/d*	1,40,000	80,000	50,000
To Revaluation A/c (Loss)	20,000	12,000	8,000	By Lokesh's Capital A/c (WN 2)	...	21,857	...
To Goodwill A/c	20,000	12,000	8,000				
To Mansoor's Capital A/c	21,857	...	8,743	By Nihal's Capital A/c (WN 2)	...	8,743	...
To Bank A/c	...	20,600	...	By Bank A/c (Balancing Figure)	...	...	4,286
To Mansoor's Loan A/c	...	60,000	...				
To Bank A/c (Bal. Fig.)	4,286	...	...				
To Balance *c/d* (WN 3)	63,857	...	25,543				
	1,40,000	1,10,600	54,286		1,40,000	1,10,600	54,286

BALANCE SHEET OF THE NEW FIRM *at at 1st April, 2020*

Liabilities		₹	Assets		₹
Creditors		34,000	Cash at Bank		47,400
Provident Fund		10,000	(₹ 68,000 + ₹ 4,286 – ₹ 4,286 – ₹ 20,600)		
Workmen Compensation Claim		12,000	Stock		38,000
Mansoor's Loan		60,000	Debtors	94,000	
Capital A/cs:			*Less:* Provision for Doubtful Debts	4,000	90,000
Lokesh	63,857		Investments		30,000
Nihal	25,543	89,400			
		2,05,400			2,05,400

Working Notes:

1. *Decrease in the Value of investments adjusted through Investment Fluctuation Reserve and Revaluation Account by passing the following accounting entry:*

Investment Fluctuation Reserve A/c	...Dr.	₹ 20,000	
Revaluation A/c (₹ 50,000 – ₹ 20,000)	...Dr.	₹ 30,000	
To Investments A/c			₹ 50,000

2. *Adjustment of Goodwill:*

Mansoor's Share of Goodwill = ₹ 1,02,000 × $\frac{3}{10}$ = ₹ 30,600, which is to be contributed by Lokesh and Nihal in their gaining ratio, *i.e.*, 5 : 2. Thus,

Lokesh will contribute = ₹ 30,600 × $\frac{5}{7}$ = ₹ 21,857; and

Nihal will contribute = ₹ 30,600 × $\frac{2}{7}$ = ₹ 8,743.

3. *Calculation of Total Capital of the new firm after Mansoor's Retirement:*

A. *Capital of Lokesh after all adjustments:*

= ₹ 1,40,000 – ₹ 10,000 – ₹ 20,000 – ₹ 20,000 – ₹ 21,857 = ₹ 68,143.

B. *Capital of Nihal after all adjustments:*

= ₹ 50,000 – ₹ 4,000 – ₹ 8,000 – ₹ 8,000 – ₹ 8,743 = ₹ 21,257

C. Total capital of the New Firm **(A + B)** = ₹ 89,400

- Lokesh's capital in the New Firm = ₹ 89,400 × $\frac{5}{7}$ = ₹ 63,857
- Nihal's capital in the New Firm = ₹ 89,400 × $\frac{2}{7}$ = ₹ 25,543.

4. JOURNAL OF RATNAKAR LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		15,00,000	
	To Equity Shares Application A/c				15,00,000
	(Being the application money received on 75,000 shares @ ₹ 20 each)				
	Equity Shares Application A/c	...Dr.		15,00,000	
	To Equity Share Capital A/c (50,000 × ₹ 20)				10,00,000
	To Bank A/c (25,000 × ₹ 20)				5,00,000
	(Being the application money transferred to share capital and surplus refunded)				
	Equity Shares Allotment A/c	...Dr.		20,00,000	
	To Equity Share Capital A/c				20,00,000
	(Being allotment money due on 50,000 shares @ ₹ 40 each)				
	Bank A/c	...Dr.		19,60,000	
	Calls-in-Arrears A/c (1,500 × ₹ 40)	...Dr.		60,000	
	To Equity Shares Allotment A/c				20,00,000
	To Calls-in-Advance A/c (500 × ₹ 40)				20,000
	(Being the allotment money received on 48,500 shares and both the calls money received on 500 shares in advance)				
	Equity Shares First Call A/c (50,000 × ₹ 20)	...Dr.		10,00,000	
	To Equity Share Capital A/c				10,00,000
	(Being the first call due on 50,000 shares @ ₹ 20)				
	Bank A/c	...Dr.		10,30,000	
	Calls-in-Arrears A/c (1,000 × ₹ 20)	...Dr.		20,000	
	Calls-in-Advance A/c (500 × ₹ 20)	...Dr.		10,000	
	To Equity Shares First Call A/c				10,00,000
	To Calls-in-Arrears A/c				60,000
	(Being the first call money received except on 1,000 shares also allotment money due received)				
	Equity Shares Second and Final Call A/c	...Dr.		10,00,000	
	To Equity Share Capital A/c				10,00,000
	(Being the second and final call due @ ₹ 20 each on 50,000 shares)				
	Bank A/c	...Dr.		9,70,000	
	Calls-in-Arrears A/c (1,000 × ₹ 20)	...Dr.		20,000	
	Calls-in-Advance A/c (500 × ₹ 20)	...Dr.		10,000	
	To Equity Shares Second and Final Call A/c				10,00,000
	(Being the second and final call money received except on 1,000 shares)				
	Equity Share Capital A/c (1,000 × ₹ 100)	...Dr.		1,00,000	
	To Forfeited Shares A/c (1,000 × ₹ 60)				60,000
	To Calls-in-Arrears A/c (1,000 × ₹ 40)				40,000
	(Being the 1,000 shares forfeited for non-payment of first call and second and final call)				
	Bank A/c (800 × ₹ 120)	...Dr.		96,000	
	To Equity Share Capital A/c (800 × ₹ 100)				80,000
	To Securities Premium Reserve A/c (800 × ₹ 20)				16,000
	(Being 800 forfeited shares reissued @ ₹ 120 per share as fully paid-up)				
	Forfeited Shares A/c (800 × ₹ 60)	...Dr.		48,000	
	To Capital Reserve A/c				48,000
	(Being the gain on reissue of 800 forfeited shares transferred to Capital Reserve)				

Ratnakar Ltd.

BALANCE SHEET *as at ...*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
(*a*) Share Capital	1	49,92,000
(*b*) Reserves and Surplus	2	64,000
Total		50,56,000
II. ASSETS		
Current Assets		
Cash and Cash Equivalents	3	50,56,000
Total		50,56,000

Note to Accounts

Particulars	₹	₹
1. Share Capital		
Authorised Capital		
... Equity Shares of ₹ 100 each		...
Issued Capital		
50,000 Equity Shares of ₹ 100 each		50,00,000
Subscribed Capital		
Subscribed and fully paid-up		
49,800 Equity Shares of ₹ 100 each	49,80,000	
Add: Forfeited Shares A/c [₹ 60,000 – ₹ 48,000 (Capital Reserve)]	12,000	49,92,000
2. Reserves and Surplus		
Capital Reserve		48,000
Securities Premium Reserve		16,000
		64,000
3. Cash and Cash Equivalents		
Cash at Bank*		50,56,000

*₹ 15,00,000 – ₹ 5,00,000 + ₹ 19,60,000 + ₹ 10,30,000 + 9,70,000 + ₹ 96,000 = ₹ 50,56,000.

5.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars		₹
To Stock A/c		22,500	By Building A/c		25,000
To Furniture A/c		12,500	By Provision for Doubtful Debt A/c:		
To Gain (Profit) on Revaluation transferred to:			Existing	5,000	
Deepika's Capital A/c	10,500		*Less:* Required (5% of ₹ 50,000)	2,500	2,500
Rajshree's Capital A/c	7,000	17,500	By Bad Debts Recovered A/c		20,000
			By Accrued Income A/c		5,000
		52,500			52,500

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Deepika (₹)	Rajshree (₹)	Anshu (₹)	Particulars	Deepika (₹)	Rajshree (₹)	Anshu (₹)
To Goodwill A/c	3,000	2,000	...	By Balance *b/d*	88,000	1,27,000	...
To Advertisement Suspense A/c	3,000	2,000	...	By Anshu's Loan A/c	...	...	1,50,000
				By Premium for Goodwill A/c	36,000	18,000	...
To Bank A/c (Bal. Fig.)	...	10,000	...	By Anshu's Current A/c (WN 3)	24,000	12,000	...
To Balance *c/d* (WN 6)	2,00,000	1,50,000	1,50,000	By Revaluation A/c (Profit)	10,500	7,000	...
				By Bank A/c (Bal. Fig.)	47,500	...	...
	2,06,000	1,64,000	1,50,000		2,06,000	1,64,000	1,50,000

BALANCE SHEET *as at 1st April, 2020*

Liabilities		₹	Assets		₹
Creditors		75,000	Building		55,000
Bank Overdraft		50,000	Furniture		1,12,500
Workmen Compensation Reserve		5,000	Investments		22,500
Investment Fluctuation Reserve		2,500	Debtors	50,000	
Employees' Provident Fund		5,000	*Less:* Provision for Doubtful Debts	2,500	47,500
Workmen Compensation Claim		5,000	Stock (₹ 1,50,000 – ₹ 22,500)		1,27,500
Current A/cs:			Bank Balance (WN 7)		2,36,500
Deepika	1,500		Accrued Income		5,000
Rajshree	750	2,250	Anshu's Current A/c		38,250
Capital A/cs:					
Deepika	2,00,000				
Rajshree	1,50,000				
Anshu	1,50,000	5,00,000			
		6,44,750			6,44,750

Working Notes:

1. *Calculation Sacrificing Ratio and New Ratio:*

   New Share = Old Share – Share surrendered

   Deepika's New Share = 3/5 – (1/3 × 3/5) = 3/5 – 1/5 = 2/5 or 4/10

   Rajshree's New Share = 2/5 – 1/10 = (4 – 1)/10 = 3/10

   Anshu's Share = 1/5 + 1/10 = (2 + 1)/10 = 3/10

   Thus, New Profit-sharing Ratio of Deepika, Rajshree and Anshu = 4/10 : 3/10 : 3/10 = 4 : 3 : 3;

   Sacrificing Ratio of Deepika and Rajshree = 1/5 : 1/10 = 2 : 1.

2. *Calculation of Anshu's Share of Goodwill:*

   $$\text{Average Profit} = \frac{₹\ 2,40,000 + ₹\ 4,65,000 + ₹\ 6,90,000}{3} = ₹\ 4,65,000$$

   Normal Profit = ₹ 3,15,000

   Super Profit = Average Profit – Normal Profit = ₹ 4,65,000 – ₹ 3,15,000 = ₹ 1,50,000

   Firm's Goodwill = Super Profit × No. of years' purchase = ₹ 1,50,000 × 2 = ₹ 3,00,000

   Anshu's Share of Goodwill = ₹ 3,00,000 × 3/10 = ₹ 90,000.

3. *Journal Entries with respect to Goodwill:*

		₹	₹
Bank A/c (60% of ₹ 90,000)	...Dr.	54,000	
To Premium for Goodwill A/c			54,000
Premium for Goodwill A/c	...Dr.	54,000	
To Deepika's Capital A/c			36,000
To Rajshree's Capital A/c			18,000
Anshu's Current A/c (₹ 90,000 – ₹ 54,000)	...Dr.	36,000	
To Deepika's Capital A/c			24,000
To Rajshree's Capital A/c			12,000

4. *For Adjustment of Workmen Compensation Reserve and Investment Fluctuation Reserve:*

	₹
Workmen Compensation Reserve = ₹ 10,000 – ₹ 5,000 (Claim)	5,000
Investment Fluctuation Reserve = ₹ 5,000 – (₹ 25,000 – ₹ 22,500)	2,500
	7,500

Journal Entry with respect to Workmen Compensation Reserve and Investment Fluctuation Reserve:

		₹	₹
Anshu's Current A/c (₹ 7,500 × 3/10)	...Dr.	2,250	
To Deepika's Current A/c (₹ 7,500 × 1/5)			1,500
To Rajshree's Current A/c (₹ 7,500 × 1/10)			750

Note: For adjusting capital of Deepika, Rajshree and Anshu this adjustment is made through Partners' Current Accounts.

5. *Dr.* PARTNERS' CURRENT ACCOUNTS *Cr.*

Particulars	Deepika (₹)	Rajshree (₹)	Anshu (₹)	Particulars	Deepika (₹)	Rajshree (₹)	Anshu (₹)
To Deepika's Capital A/c	...	...	24,000	By Anshu's Current A/c	1,500	750	...
To Rajshree's Capital A/c	...	...	12,000	By Balance *c/d*	...	...	38,250
To Deepika's Current A/c	...	...	1,500				
To Rajshree's Current A/c	...	...	750				
To Balance *c/d*	1,500	750	...				
	1,500	750	38,250		1,500	750	38,250

6. *Adjustment of Capital:*

Total Capital of the Firm = ₹ 1,50,000 × 10/3 = ₹ 5,00,000

Thus, Deepika's New Capital = ₹ 5,00,000 × 4/10 = ₹ 2,00,000;

Rajshree's New Capital = ₹ 5,00,000 × 3/10 = ₹ 1,50,000; and

Anshu's Capital = ₹ 1,50,000.

7. *Dr.* BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,25,000	By Rajshree's Capital A/c	10,000
To Bad Debts Recovered A/c	20,000	By Balance *c/d*	2,36,500
To Premium for Goodwill A/c	54,000		
To Deepika's Capital A/c	47,500		
	2,46,500		2,46,500

6. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2018					
April 1	Bank A/c	...Dr.		42,00,000	
	To Debentures Application and Allotment A/c				42,00,000
	(Being the receipt of application money for 40,000 debentures @ ₹ 105 per debentures)				
April 1	Debentures Application and Allotment A/c	...Dr.		42,00,000	
	Loss on Issue of Debentures A/c	...Dr.		4,00,000	
	To 10% Debentures A/c				40,00,000
	To Premium on Redemption of Debentures A/c				4,00,000
	To Securities Premium Reserve A/c				2,00,000
	(Being the issue of 40,000; 10% Debentures at a premium of 5% and redeemable at a premium of 10%)				
April 1	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		10,00,000	
	To Debentures Redemption Reserve A/c				10,00,000
	(Being the creation of DRR as per Rule 18(7))				
April 1	Debentures Redemption Investment A/c	...Dr.		3,00,000	
	To Bank A/c				3,00,000
	(Being the DRI made equal to 15% of face value of debentures to be redeemed)				
2019					
March 31	Securities Premium Reserve A/c	...Dr.		50,000	
	Capital Reserve A/c	...Dr.		1,75,000	
	Statement of Profit and Loss (Finance Cost)	...Dr.		1,75,000	
	To Loss on Issue of Debentures A/c				4,00,000
	(Being the loss on issue of debentures written off)				
March 31	10% Debentures A/c	...Dr.		20,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		2,00,000	
	To Debentureholders' A/c				22,00,000
	(Being the amount due on redemption)				
March 31	Debentureholders' A/c	...Dr.		22,00,000	
	To Bank A/c				22,00,000
	(Being the payment made to debentureholders)				
March 31	Debentures Redemption Reserve A/c	...Dr.		5,00,000	
	To General Reserve A/c				5,00,000
	(Being the one-half of DRR transferred to General Reserve on redemption of one-half debentures)				
2020					
March 31	Bank A/c	...Dr.		3,00,000	
	To Debentures Redemption Investment A/c				3,00,000
	(Being the DRI realised)				

March 31	10% Debentures A/c	...Dr.		20,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		2,00,000	
	To Debentureholders' A/c				22,00,000
	(Being the amount due on redemption)				
March 31	Debentureholders' A/c	...Dr.		22,00,000	
	To Bank A/c				22,00,000
	(Being the payment made to debentureholders)				
	Debentures Redemption Reserve A/c	...Dr.		5,00,000	
	To General Reserve A/c				5,00,000
	(Being the transfer of DRR to General Reserve on redemption of debentures)				

7. (*a*)

Dr. REALISATION ACCOUNT *Cr.*

Particulars	₹	Particulars		₹
To Sundry Assets A/c	2,68,625	By Sundry Creditors A/c		75,000
To Bank A/c (Creditors)	75,000	By Employees' Provident Fund A/c		7,500
To Bank A/c (Employees' Provident Fund)	7,500	By Bank A/c (Sundry Assets)		2,32,500
To Pawan's Capital A/c (₹ 2,325 + ₹ 13,550 (WN))	15,875	By Loss on Realisation transferred to:		
		Saurabh's Capital A/c	20,800	
		Gaurav's Capital A/c	15,600	
		Pawan's Capital A/c	15,600	52,000
	3,67,000			3,67,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Saurabh (₹)	Gaurav (₹)	Pawan (₹)	Particulars	Saurabh (₹)	Gaurav (₹)	Pawan (₹)
To Realisation A/c (Loss)	20,800	15,600	15,600	By Balance *b/d*	55,000	22,500	60,000
To Bank A/c (Bal. Fig.) (Final Payment)	54,200	21,900	75,275	By Workmen Compensation Reserve A/c	20,000	15,000	15,000
				By Realisation A/c	...	...	15,875
	75,000	37,500	90,875		75,000	37,500	90,875

Dr. BANK ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,375	By Realisation A/c (Creditors)	75,000
To Realisation A/c (Assets)	2,32,500	By Realisation A/c (Employees' Provident Fund)	7,500
		By Saurabh's Capital A/c (Final Payment)	54,200
		By Gaurav's Capital A/c (Final Payment)	21,900
		By Pawan's Capital A/c (Final Payment)	75,275
	2,33,875		2,33,875

Working Note: *Calculation of Pawan's Remuneration:*

	₹	₹
A. Total cash available:		
(*i*) Cash at Bank	1,375	
(*ii*) Sale proceeds of assets	2,32,500	2,33,875
B. Total payment (except Pawan's commission of amount distributed and payment to partners):		
(*i*) Payment to Sundry Creditors	75,000	
(*ii*) Payment for Employees' Provident Fund	7,500	
(*iii*) Commission on value of assets realised (1% of ₹ 2,32,500)	2,325	84,825
Payment made to Partners (A – B)		1,49,050

C. Commission on amount distributed to the partners = ₹ 1,49,050 × 10/110 = ₹ 13,550.
Total amount payable to Pawan = ₹ 2,325 + ₹ 13,550 = ₹ 15,875.

(*b*) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Samar's Capital A/c	...Dr.		1,17,200	
	To Realisation A/c				1,17,200
	(Being the Debtors of ₹ 1,20,000 taken over by Samar)				
	Cash/Bank A/c [₹ 1,24,200 – ₹ 1,20,000) × 50/100]	...Dr.		2,100	
	To Realisation A/c				2,100
	(Being the remaining debtors sold to debt collecting agency)				
(*ii*)	Bhanwar's Capital A/c	...Dr.		72,000	
	To Realisation A/c				72,000
	(Being Sundry Assets book value of ₹ 80,000, *i.e.*, ₹ 72,000 × 100/90 taken by Bhanwar)				
	Pratap's Capital A/c [(₹ 1,17,000 – ₹ 80,000) × 80/100]	...Dr.		29,600	
	To Realisation A/c				29,600
	(Being the remaining Sundry Assets taken over by Pratap)				

8. **Lotus Ltd.**

BALANCE SHEET *as at 31st March, 2020* (₹ *in "000*)

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(*a*) Share Capital	1	150
(*b*) Reserves and Surplus		90
2. Share Application Money Pending Allotment		5
3. Non-Current Liabilities		
(*a*) Long-term Borrowings	2	200
(*b*) Long-term Provisions		10
4. Current Liabilities		
(*a*) Short-term Borrowings		45
(*b*) Trade Payables		10
(*c*) Other Current Liabilities	3	5
(*d*) Short-term Provisions	4	45
Total		560
II. ASSETS		
1. Non-Current Assets		
(*a*) Fixed Assets—Tangible	5	300
(*b*) Non-Current Investments		100
2. Current Assets		
(*a*) Current Investments		25
(*b*) Inventories		10
(*c*) Trade Receivables		40
(*d*) Cash and Cash Equivalents	6	30
(*e*) Short-term Loans and Advances	7	50
(*f*) Other Current Assets	8	5
Total		560

Notes to Accounts *(₹ in "000)*

Particulars	₹	₹
1. Share Capital		
Authorised Capital		
20,000 Equity Shares of ₹ 10 each		200
Issued Capital		
15,000 Equity Shares of ₹ 10 each		150
Subscribed Capital		
Subscribed and fully paid-up		
15,000 Equity Shares of ₹ 10 each		150
2. Long-term Borrowings		
10% Debentures		200
3. Other Current Liabilities		
Outstanding Expenses		5
4. Short-term Provisions		
Provision for Tax		45
5. Fixed Assets—Tangible		
Cost	350	
Less: Provision for Depreciation (₹ 40 + ₹ 10)	50	300
6. Cash and Cash Equivalents		
Cash and Bank Balances		30
7. Short-term Loans and Advances		
Advance Payment of Tax		50
8. Other Current Assets		
Prepaid Expenses		5

Contingent Liabilities:

(*i*) Proposed Dividend for the year ended 31st March, 2020 is ₹ 50,000.

(*ii*) Bills discounted but not matured ₹ 40,000.

Section B

9. CASH FLOW STATEMENT (*as per AS–3*) *for the year ended 31st March, 2020*

Particulars	₹	₹
A. Cash Flow from Operating Activities		
Net Profit before Tax (WN 1)	1,68,000	
Add: Depreciation on Machinery (WN 2 and 3)	1,10,000	
Loss on Sale of Machinery (WN 2 and 3)	6,000	
Interest on Debentures	15,000	
[(₹ 1,00,000 × 10/100 × 6/12) + (₹ 2,00,000 × 6/12 × 10/100)]		
Operating Profit before Working Capital Changes	2,99,000	
Add: Decrease in Current Assets and Increase in Current Liabilities:		
Inventories	30,000	
Trade Payables	60,000	
	3,89,000	
Less: Increase in Current Assets:		
Trade Receivables	50,000	
Cash Generated from Operations	3,39,000	
Less: Tax Paid	10,000	
Cash Flow from Operating Activities		3,29,0000

B. Cash Flow from Investing Activities		
Purchase of Machinery (WN 2)	(3,40,000)	
Purchase of Non-Current Investments	(20,000)	
Sale of Machinery (WN 2)	24,000	
Cash Used in Investing Activities		(3,36,000)
C. Cash Flow from Financing Activities		
Proceeds from Issue of Equity Shares [₹ 1,00,000 + ₹ 15,000 (Premium)]	1,15,000	
Proceeds from Issue of Debentures [₹ 1,00,000 – ₹ 10,000 (Discount)]	90,000	
Interim Dividend Paid	(25,000)	
Interest on Debentures Paid	(15,000)	
Dividend Paid	(48,000)	
Cash Flow from Financing Activities		1,17,000
D. Net Increase in Cash and Bank Balances (A + B + C)		1,10,000
Add: Opening Balance of Cash and Bank Balances		1,40,000
E. Closing Balance of Cash and Bank Balances		2,50,000

Working Notes:

1. *Calculation of Net Profit before Tax:*

Particulars	₹
Surplus, *i.e.,* Balance in Statement of Profit and Loss (Closing)	2,15,000
Less: Surplus, *i.e.,* Balance in Statement of Profit and Loss (Opening)	1,70,000
Profit for the Year	45,000
Add: Transfer to General Reserve (₹ 1,00,000 – ₹ 80,000)	20,000
Interim Dividend Paid	25,000
Dividend Paid (Proposed Dividend for 2018–19)	48,000
Provision for Tax (2019–20)	30,000
Net Profit before Tax	1,68,000

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

Particulars	₹	Particulars	₹
To Balance *b/d*	6,10,000	By Accumulated Depreciation A/c	70,000
To Bank A/c (Purchase) (Balancing Figure)	3,40,000	By Bank A/c (Sale Proceeds)*	24,000
		By Loss on Sale of Machinery A/c (Statement of Profit and Loss)	6,000
		By Balance *c/d*	8,50,000
	9,50,000		9,50,000

	₹
*Book value on the date of sale (₹ 1,00,000 – ₹ 70,000)	30,000
Less: Loss on Sale (20% of ₹ 30,000)	6,000
Sale Proceeds	24,000

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

Particulars	₹	Particulars	₹
To Machinery A/c	70,000	By Balance *b/d*	1,10,000
To Balance *c/d*	1,50,000	By Statement of Profit and Loss (Depreciation Provided) (Balancing Figure)	1,10,000
	2,20,000		2,20,000

4. Discount on issue of debentures has been adjusted from Securities Premium Reserve as per Section 52(2) of the Companies Act, 2013. The balance of ₹ 5,000 in Securities Premium Reserve is after writing off Discount on Issue of Debentures of ₹ 10,000.
5. Provision for tax of previous year, *i.e.*, ₹ 10,000 has been paid during the Current Year. So, it is substracted from Cash Generated from Operations to arrive at Cash Flow from Operating Activities. Provision for tax of Current Year ₹ 30,000 is added back to the Current Year's profit to arrive at Net Profit before tax.

10. (*a*) (*i*) Debt to Equity Ratio $= \dfrac{\text{Debt/Long-term Debt}}{\text{Equity/Shareholders' Funds}}$

$$= \frac{₹\ 2,00,000}{₹\ 7,00,000} = 0.29 : 1.$$

Notes: 1. Debt = 9% Debentures = ₹ 2,00,000.

2. Equity = Equity Share Capital + General Reserve + Statement of Profit and Loss (Cr.)
= ₹ 5,50,000 + ₹ 50,000 + ₹ 1,00,000 = ₹ 7,00,000.

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

$$= \frac{₹\ 15,00,000}{₹\ 1,00,000} = 15 \text{ Times.}$$

Note: Working Capital = Current Assets – Current Liabilities
= [Debtors + Cash] – Creditors
= (₹ 1,45,000 + ₹ 55,000) – ₹ 1,00,000 = ₹ 1,00,000.

(*iii*) Return On Investment (ROI) $= \dfrac{\text{Net Profit before Interest and Tax}}{\text{Capital Employed}} \times 100$

$$= \frac{₹\ 2,18,000}{₹\ 9,00,000} \times 100 = 24.22\%.$$

Working Notes:

1. *Calculation of Net Profit before Interest and Tax:*

Profit after Interest and Tax = ₹ 1,00,000
Tax paid = 50%

Profit after interest but before Tax $= \dfrac{₹\ 1,00,000 \times 100}{50}$ = ₹ 2,00,000

Add: Interest on Debentures (9% of ₹ 2,00,000) = ₹ 18,000

Net Profit before Interest and Tax = ₹ 2,18,000

2. Capital Employed = Equity Share Capital + General Reserve + Statement of Profit and Loss + 9% Debentures
= ₹ 5,50,000 + ₹ 50,000 + ₹ 1,00,000 + ₹ 2,00,000 = ₹ 9,00,000.

(*b*) Debt to Total Assets Ratio $= \dfrac{\text{Debt}}{\text{Total Assets}}$

$$= \frac{₹\ 12,00,000}{₹\ 24,00,000} = 0.5 : 1.$$

Working Notes:

1. Debt = Long-term Borrowings + Long-term Provisions
   = ₹ 9,00,000 + ₹ 3,00,000 = ₹ 12,00,000.

2. Total Assets = Fixed Assets (Gross) – Accumulated Depreciation + Non-current Investments + Current Assets + Long-term Loans and Advances
   = ₹ 18,00,000 – ₹ 3,00,000 + ₹ 30,000 + ₹ 7,50,000 + ₹ 1,20,000
   = ₹ 24,00,000.

(*c*) $$\text{Earning Per Share} = \frac{\text{Net Profit after Tax and Preference Dividend}}{\text{Number of Equity Shares}}$$

$$= \frac{₹\ 1,00,000 - ₹\ 20,000}{20,000} = \frac{₹\ 80,000}{20,000} = ₹\ 4 \text{ per share}.$$

Note: Dividend on 10% Preference Shares = 10% of ₹ 2,00,000 = ₹ 20,000.

11. (*a*) Common-size Balance Sheet is a vertical analysis of Balance Sheet in which total of assets is taken as 100 and all other values of Assets, Equity and Liabilities are expressed as percentage of total assets.

(*b*) $$\text{Trade Payables Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Trade Payables}} = \frac{₹\ 3,60,000}{₹\ 90,000} = 4 \text{ Times.}$$

Net Credit Purchases = Total Purchases – Cash Purchases – Purchases Return
= ₹ 4,20,000 – ₹ 40,000 – ₹ 20,000 = ₹ 3,60,000

Average Trade Payables

$$= \frac{\text{Opening Creditors + Opening Bills Payable + Closing Creditors + Closing Bills Payable}}{2}$$

$$= \frac{₹\ 40,000 + ₹\ 50,000 + ₹\ 30,000 + ₹\ 60,000}{2} = \frac{₹\ 1,80,000}{2} = ₹\ 90,000.$$

(*c*) COMPARATIVE STATEMENT OF PROFIT AND LOSS OF SANDALWOOD PRODUCTS LTD.

for the years ended 31st March, 2020 and 2019

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)	Absolute Change (₹)	Percentage Change (%)
I. Revenue from Operations		14,00,000	11,00,000	3,00,000	27.27
II. *Add:* Other Incomes		4,00,000	3,00,000	1,00,000	33.33
III. Total Revenue (I + II)		18,00,000	14,00,000	4,00,000	28.57
IV. *Less:* Expenses		11,00,000	12,00,000	(1,00,000)	(8.33)
V. Profit before Tax (III – IV)		7,00,000	2,00,000	5,00,000	250.00
VI. *Less:* Tax @ 50%		3,50,000	1,00,000	2,50,000	250.00
VII. Profit after Tax (V – VI)		3,50,000	1,00,000	2,50,000	250.00

$$\text{Net Profit Ratio} = \frac{\text{Net Profit after Tax}}{\text{Revenue from Operations}} \times 100$$

$$= \frac{₹\ 3,50,000}{₹\ 14,00,000} \times 100 = 25\%.$$