BATCH: LI – 10, 13, 16

DATE: 06.11.2016 **MAXIMUM MARKS: 50**
TIMING: 3 Hours

Ans 1. **Cash Flow Statement of Priya Ltd.**
for the year ended 31st March, 2015

		Rs.	Rs.
A. Cash flow from Operating Activities			
Net profit before tax (Rs. 54,000 – Rs. 40,000 + Rs. 60,000)		74,000	
Add: Adjustment for depreciation (W.N.1)		24,000	
Interest on debentures (Rs. 1,60,000 x 9%)		14,400	
Loss on sale of machinery (W.N.2)		4,000	
		1,16,400	
Less: Profit on redemption of debentures (Non Operating Income)		(1,600)	
		1,14,800	
Less :Income tax paid		(30,000)	
Operating profit before changes in Working Capital		84,800	
Add: Increase in outstanding expenses	18,000		
Decrease in trade receivables	80,000	98,000	
		1,82,800	
Less: Decrease in trade payables	14,000		
Increase in inventory	28,000		
Increase in prepaid expenses	2,000	(44,000)	
Net cash from operating activities			1,38,800
B. Cash flow from Investing Activities			
Sale of old machinery		10,000	
Purchase of machinery		(46,000)	
Net cash used in investing activities			(36,000)
C. Cash flow from Financing Activities			
Redemption of debentures (Rs. 40,000 – Rs. 1,600)		(38,400)	
Payment of dividend		(60,000)	
Payment of interest on debentures		(14,400)	
Net cash used financing activities			(1,12,800)
Net decrease in cash and cash equivalents during the year			(10,000)
			1,20,000
Cash and cash equivalents at the end of the year			1,10,000

Working Notes:

1. Depreciation Fund

	Rs.		Rs.
To Machinery A/c	16,000	By Balance b/d	80,000
To Balance c/d	88,000	By Profit and Loss A/c (Current year depreciation)	24,000
	1,04,000		1,04,000

2. **Machinery A/c**

		Rs.			Rs.
To	Balance b/d	1,64,000	By	Depreciation Fund	16,000
To	Bank (Purchased)	46,000	By	Bank (realized on sale of old machinery	10,000
			By	Profit and loss A/c (loss on sale) – Balancing Fig	4,000
			By	Balance c/d	1,80,000
		2,10,000			2,10,000

(12 Marks)

Ans 2. **9% Central Government Bonds A/c in the books of Akash**

Date	*Particulars*	*Face Value*	*Interest*	*Amount*	*Date*	*Particulars*	*Face Value*	*Interest*	*Amount*
2014					2014				
Jan 01	To Balance b/d	60,000	1,350	59,000	Mar-31	By Bank A/c	-	3,150	-
Mar-01	To Bank A/c	10,000	375	10,000	Jul-01	By Bank A/c	25,000	563	25,000
Jul-01	To P & L A/c	-	-	417	Sep-30	By Bank A/c	-	2,025	-
Oct-01	To Bank A/c	7,500	-	7,350	Nov-01	By Bank A/c	15,000	112	14,850
Nov-01	To P & L A/c	-	-	100	Dec-31	By Balance c/d	37,500	844	37,017
Dec 31	To P & L A/c Transfer	-	4,969	-					
		77,500	6,694	76,867			77,500	6,694	76,867

Working Note:

Calculation of closing balance

Bonds in hand on 31.12.2014

	Face Value	Cost
From original holding		
(60,000 – 25,000 – 15,000)	20,000	19,667
(59,000/60,000 x 20,000)		
Purchased on 1st March	10,000	10,000
Purchased on 1st October	7,500	7,350
	37,500	37,017

(6 Marks)

Ans.3 **In the books of Fan Ltd.**

Cash Flow Statement for the year ending 31st March, 2016

		Rs.	Rs.
I	**Cash flow from Operating Activities**		
	Net Profit before tax for the year (W.N.1)	67,500	
	Add: Depreciation on machinery (W.N.2)	27,500	
	Depreciation on land & building	10,000	
	Operating profit before change in working capital	1,05,000	
	Add: Decrease in Inventories	10,000	
	Less: Increase in Trade receivables	(10,000)	
	Less: Decrease in Trade payables	(50,000)	
	Cash generated from Operations	55,000	
	Less: Income tax paid (W.N.3)	(22,500)	
	Net cash generated from operating activities		32,500
II	**Cash flow from Investing activities**		
	Purchase of machinery (1,12,500 – 50,000)	(62,500)	
	Sale of investment (W.N. 4)	30,000	
	Net cash used in investing activities		(32,500)
III	**Cash flow from financing activities**		
	Issue of equity shares (1,25,000-50,000)	75,000	
	Repayment of long term loan	(50,000)	
	Net cash generated from financing activities		25,000
	Net increase in cash and cash equivalents		25,000
	Cash and cash equivalents at the beginning of the year (1,00,000 + 1,50,000)		2,50,000
	Cash and cash equivalents at the end of the year (70,000+2,05,000)		2,75,000

Working Notes:

1. **Calculation of Net Profit before tax**

	Rs.
Increase in Profit & Loss (Cr.) balance	40,000
Add: Provision for taxation made during the year	27,500
	67,500

2. **Calculation of Depreciation charged during the year**

Machinery account

Particulars	*Amount (Rs.)*	*Particulars*	*Amount (Rs.)*
To Balance b/d	3,75,000	By Depreciation (Bal.fig.)	27,500
To Bank	62,500	By Balance c/d	4,60,000
To Equity share capital	50,000		
	4,87,500		4,87,500

3. **Calculation of tax paid during the year**

Provision for Taxation A/c

Particulars	*Amount (Rs.)*	*Particulars*	*Amount (Rs.)*
To Cash (Bal.fig.)	22,500	By Balance b/d	25,000
To Balance c/d	30,000	By Profit and Loss A/c	27,500
	52,500		52,500

4. **Calculation of sale value of investment sold**

Investment A/c

Particulars	*Amount (Rs.)*	*Particulars*	*Amount (Rs.)*
To Balance b/d	50,000	By Bank A/c (Bal.fig.)	30,000
To Capital reserve (Profit on sale of investments)	5,000	By Balance c/d	25,000
	55,000		55,000

(12 Marks)

Ans.4 **Memorandum Revaluation Account**

		Rs.			Rs.
To	Stock	80,000	By	Building	3,60,000
To	Plant & machinery	2,40,000	By	Investments	40,000
To	Provision for doubtful debts	30,000			
To	Unrecorded liability	20,000			
To	Profit transferred to Partners' Capital A/cs (in old ratio) Kamal = 20,000 Rani = 10,000	30,000			
		4,00,000			4,00,000
To	Building	3,60,000	By	Stock	80,000
To	Investments	40,000	By	Plant & machinery	2,40,000
			By	Provision for doubtful debts	30,000
			By	Unrecorded liability	20,000
			By	Loss transferred to Partners' Capital A/cs (in new ratio) Kamal = 15,000 Rani = 7,500 Nisha = 7,500	30,000
		4,00,000			4,00,000

Partners' Capital Accounts

	Kamal	Rani	Nisha		Kamal	Rani	Nisha
To Memorandum Revaluation	15,000	7,500	7,500	By Balance b/d	20,00,000	10,00,000	-
To Reserve Fund	9,00,000	4,50,000	4,50,000	By Reserve	12,00,000	6,00,000	-
To Kamal (W.N.3)	-	-	35,000	By Nisha (W.N.3)	35,000	17,500	-
To Rani (W.N.3)	-	-	17,500	By Memorandum Revaluation A/c	20,000	10,000	
To Balance c/d (Refer W.N.2)	23,40,000	11,70,000	11,70,000	By Cash (Bal. Fig.)			16,80,000
	32,55,000	16,27,500	16,80,000		32,55,000	16,27,500	16,80,000

Balance Sheet of newly reconstituted firm as on 31.12.2015

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Accounts		Plant & Machinery	24,00,000
Kamal	23,40,000	Building	18,00,000
Rani	11,70,000	Sundry Debtors	6,00,000
Nisha	11,70,000	Stock	8,00,000
Reserve Fund	18,00,000	Cash (2,00,000 + 16,80,000)	18,80,000
Sundry Creditors	8,00,000		
Bills Payable	2,00,000		
	74,80,000		74,80,000

Working Notes:

1. Calculation of new profit and loss sharing ratio

   Nisha will get 1/4th share in the new profit sharing ratio. Therefore, remaining share will be 1-1/4 =3/4

   Share of Kamal will be 3/4 x 2/3 = 2/4 i.e. 1/2 Share of Rani will be 3/4 x 1/3 = 1/4

   New ratio will be Kamal : Rani :

   Nisha 1/2 : 1/4 : 1/4 2 : 1: 1

2. Calculation of closing capital of Nisha

   Closing capitals of Kamal & Rani after all adjustments are:

   Kamal = Rs. 23,40,000

   Rani = Rs. 11,70,000

   Since Rani's capital is less than Kamal's capital, therefore Rani's capital is taken as base. Hence, Nisha's closing capital should be Rs. 11,70,000 (46,80,000 x ¼) i.e. at par with Rani (as per new profit and loss sharing ratio)

3. Adjustment entry for goodwill*

Partners	*Goodwill as per old ratio*	*Goodwill as per new ratio*	*Effect*	
Kamal	1,40,000	1,05,000	+ 35,000	-
Rani	70,000	52,500	+ 17,500	-
Nisha	-	52,500	-	52,500
	2,10,000	2,10,000	52,500	52,500

Adjustment entry will be:

Nisha's Capital A/c	Dr.	52,500	
To Kamal's Capital A/c			35,000
To Rani's Capital A/c			17,500

(16 Marks)

Ans.5. **Investment Account of Mitthan**

For the year ended 31.3.2016

(Script: 15% Debentures in Seema Industries Ltd.)

(Interest payable on 30th June and 31st December)

Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.	Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.
1.04.15	To Balance A/c	2,00,000	7,500	2,10,000	30.06.15	By Bank A/c	-	22,500	
1.05.15	To Bank A/c	1,00,000	5,000	1,02,000	1.11.15	By Bank A/c	1,20,000	6,000	1,14,600
30.11.15	To Bank A/c	80,000	5,000	76,800	1.11.15	By Profit &	-	-	11,400
						Loss A/c			
31.12.15	To Profit & Loss A/c			20,000	31.12.15	By Bank A/c	80,000	6,000	1,04,000
31.03.16	To Profit & Loss A/c		37,250		31.12.15	By Bank A/c	-	13,500	-
	(Bal.fig..)				31.12.15	By Bank A/c		6,750	-
					31.12.16	By Bal.c/d	1,80,000	-	1,78,800
		3,80,000	54,750	4,08,800			3,80,000	54,750	4,08,800

Working Notes:

(i) Accrued Interest as on 1st April, 2015 = Rs. 2,00,000 x $\frac{15}{100} \times \frac{3}{12}$ = Rs. 7,500

(ii) Accrued Interest as on 1.5.2015 = Rs. 1,00,000 x $\frac{15}{100} \times \frac{4}{12}$ = Rs. 5,000

(iii) Cost of Investment for purchase on 1st May = Rs. 1,07,000 – Rs. 5,000 = Rs. 1,02,000

(iv) Interest received as on 30.6.2015 = Rs. 3,00,000 x $\frac{15}{100} \times \frac{6}{12}$ =Rs. 22,500

v) Accrued Interest on debentures sold on 1.11.2015

$$= \text{Rs. } 1{,}20{,}000 \times \frac{15}{100} \times \frac{4}{12} = \text{Rs. } 6{,}000$$

(vi) Accrued Interest = $\text{R. } 80{,}000 \times \frac{15}{100} \times \frac{5}{12} = \text{R. } 5{,}000$

(vii) Accrued Interest on sold debentures 31.12.2015 = $\text{Rs. } 80{,}000 \times \frac{15}{100} \times \frac{6}{12} = \text{Rs. } 6{,}000$

(viii) Sale Price of Investment on 31st Dec. = RS. 1,10,000- RS. 6,000 = RS. 1,04,000

(ix) Loss on Sale of Debenture on 1.1.2015

Sale Price of debenture	1,14,600
Less: Cost Price of debenture	
$\frac{2{,}10{,}000}{2{,}00{,}000} \times \text{Rs.}1{,}20{,}000$	1,26,000
Loss on sale	11,400

(x) Accrued interest as on 31.12.2015 = $\text{Rs. } 1{,}80{,}000 \times \frac{15}{100} \times \frac{6}{12} = \text{Rs. } 13{,}500$

(xi) Accrued Interest = $\text{Rs. } 1{,}80{,}000 \times \frac{15}{100} \times \frac{3}{12} = \text{Rs. } 6{,}750$

(xii) Cost of investment as on 31st March = Rs. 1,02,000 + Rs. 76,800 = Rs. 1,78,800

(xiii) Profit on debentures sold on 31st December

= Rs. 1,04,000 –(Rs. 2,10,000 x 800 / 2,000) =Rs. 20,000

(4 Marks)