Model Question Paper

6th Semester

Financial Reporting and Financial Statement Analysis

Time: 3 Hours **Full Marks – 80**

Group-A

Answer the following questions: **(3×5=15)**

1. From the following information, prepare a statement showing the changes in working capital during the year:

Assets and Liabilities	31.03.2018	31.03.2019
Fixed Assets	160000	160000
Stock	50000	60000
Debtors	60000	30000
Prepaid Expenses	20000	15000
Cash	10000	45000
Outstanding Expenses	20000	45000
Creditors	130000	60000
Accumulated Depreciation on fixed Assets	30000	35000
Share Capital	100000	100000
Reserve and surplus	20000	10000

2. What are the purposes of developing conceptual framework in respect of International Financial Reporting Standard?
Or,
Discuss about objectives and scope of Indian accounting standard 16

3. A business has a Current Ratio of 3:1. Its Net Working Capital is Rs. 400000 and its Inventories are values at Rs. 250000. Calculate Quick Ratio.

Group-B

Answer the following questions: **(2×10=20)**

4. Explain Diluted earnings per share as per Indian accounting standard 33.

Or,

Define following term as per Indian Accounting Standard 33. (10marks)

a. Anti-dilution
b. Contingent Share Agreement
c. Contingently issue-able Ordinary Share

d. Dilution

5. Prepare Comparative Income Statement for the year ended 2018 and 2019 and comment on that:

Particulars	31.12.2018	31.12.2019
Net Sales	800000	960000
Cost of Goods Sold	536000	640000
Administrative Expenses	96000	112000
Selling Expenses	24000	40000
Non-Operating Incomes	16000	24000
Non-Operating Expenses	8000	12000
Tax Rate	35%	35%

Group-C

Answer the following questions: **(3×15=45)**

6. The following are the Balance Sheets of H ltd. and S ltd. as on 31st march 2020.

Particulars	H ltd. Rs.	S ltd. Rs.
I. Equity and Liabilities		
1. Shareholders' Fund:		
a) Share Capital: Equity Shares of Rs.10 each	1000000	300000
b) Reserves & Surplus:		
General Reserve	300000	150000
Surplus in Profit and Loss Statement	400000	250000
2. Non-Current Liabilities:		
Long-Term Borrowings: 12% Debentures	500000	300000
3. Current Liabilities:		
a) Trade Payables:		
Sundry Creditors	150000	100000
Bills Payables	170000	50000
b) Current Account with H ltd.	--	50000
Total	2520000	1200000

II. Assets		
1. Non-Current Assets:		
a) Fixed Assets:		
Land and Building	850000	500000
Plant and Machinery	500000	200000
Furniture	200000	150000
b) Non-Current Investment:		
Investment in S ltd.:		
12% Debentures (Nominal Value Rs.200000)	220000	--
16000 Equity Shares	280000	--
2. Current Assets:		
a) Inventories	200000	150000
b) Trade Receivables:		
Sundry Debtors	100000	100000
Bills Receivables	50000	50000
c) Current Account with S ltd.	50000	--
d) Cash and Cash Equivalents	70000	50000
Total	2520000	1200000

Additional Information:

i. H ltd. acquired the shares in S ltd. on 1st July 2019.

ii. On 1st April 2019 S ltd. had Rs.130000 and Rs.110000 in General Reserve and Credit balance on Profit and Loss Statement respectively.

iii. On 1st October 2019 S ltd. declared a dividend @ 20% for the year ended 31st March 2019, H ltd. wrongly credited the same in its Profit and Loss Account.

iv. On 1st January 2020, S ltd. issued one fully paid up Equity Share for every two shares held as bonus shares out of balances of its General Reserve as on 31st March 2019.

v. On 31st March 2020, all Bills Payables in S ltd.'s Balance Sheet were acceptances in favour of H ltd. but on that date H ltd. held only Rs.30000 of those acceptances in hands and the rest having been endorsed in favour of its creditors.

vi. On 31st March 2020, S ltd.'s stock includes goods which it had purchased for Rs.100000 from H ltd. on which H ltd. made a profit @ 25%.

7. From the following you're required to prepare either Fund Flow Statement or Cash Flow Statement of ABC ltd. during the year 2018-2019

Balance Sheet of ABC ltd. as on 31.12.2018 and 31.12.2019

Liabilities	2018	2019	Assets	2018	2019
Equity Share Capital			Goodwill	60	45
@Rs.10each	350	450	Patent	30	25
Preference Share Capital			Land and Building	520	580
@Rs.100each	250	120	Plant and Machinery	310	375
General Reserve	150	170	Furniture	70	85
Profit and Loss Account	70	130	Investments	70	90
Share Premium	15	15	Inventories	80	84
Capital Redemption			Sundry Debtors	60	75
Reserve	--	80	Bills Receivables	35	25
15% Debenture	150	200	Cash and Cash Equivalents	27	26
Term-Loan	200	130	Loan and Advances	38	40
Provision for Depreciation	35	45	Misc. Expenditure	23	15
Sundry Creditors	25	35			
Bills Payables	20	17			
Proposed Dividend	30	35			
Provision for Taxation	28	30			
Outstanding Interest on					
Debenture	--	03			
Unclaimed Dividend	--	05			
	1323	1465		1323	1465

Additional Information:

a) An obsolete machine W.D.V Rs.10000 having 50% provision for depreciation was disposed off for Rs.12000

b) Preference Shares are redeemed at 10% premium

c) Opening stock of Rs.55000 which was previously valued at 10% above cost was written up to its original cost

d) Estimated tax liabilities provided for the year Rs.27000

e) Dentures are issued at 5% discount

f) Bonus Shares at one share of every seven Equity Shares were issued out of General Reserve.

8. Zodiac ltd. requests you to project its Profit & Loss Account for the next year ending on 31st March 2021 and to project its Balance Sheet on that date on the basis of following particulars:

Gross Profit Ratio	25%
Stock Turnover Ratio	5 times
Gross Profit Expected	Rs.2500000
Average Debt Collection Period	3 months
Creditors Velocity	3 months
Proprietary Ratio (fixed assets to capital employed)	80%
Current Ratio	2
Capital Gearing Ratio (preference shares and debentures to equity funds)	3:7
Net Profit to Equity Share Capital	10%
General Reserve and Profit & Loss Account to Equity Share Capital	1:4
Preference Share Capital to Debenture	2
Cost of Goods Sold consists 50% for materials and 50% for wages and overhead	

You're requested to comply with the request.

Solution:

1.

Statement Showing Changes in Working capital

Particulars	31.03.2018	31.03.2019	Change in Working Capital	
			Increase	Decrease
Current Assets:				
Stock	50000	60000	10000	---
Debtors	60000	30000	---	30000
Prepaid Expenses	20000	15000	---	5000
Cash	10000	45000	35000	---
Total Current Assets (A)	140000	150000		
Current Liabilities:				
Outstanding Expenses	20000	45000	---	25000
Creditors	130000	60000	70000	---
Total Current Liabilities (B)	150000	105000		
Working Capital (A - B)	(10000)	45000		
Increase in Working Capital	55000	---	---	55000
	45000	45000	115000	115000

2.

The purpose of the Conceptual Framework is summarized as follows:

1. To assist the IASB in the development of future accounting standards and in its review of existing accounting standards, ensuring consistency across standards
2. To assist the IASB in promoting harmonization of regulations, accounting standards and procedures relating to the presentation of financial statements by providing a basis for reducing the number of alternative accounting treatments permitted by accounting standards,
3. To assist national standard-setting bodies in developing national accounting standards;
4. To assist preparers of financial statements in applying international financial reporting standards and in dealing with topics that have yet to form the subject of an accounting standard.
5. To assist users of financial statements in interpreting the information contained in financial statements prepared in compliance with international financial reporting standards;
6. To assist auditors in forming an opinion on whether financial statements comply with international accounting standards; and
7. To provide those who are interested in the work of the IASB with information about its approach to the formulation of accounting standards.

Keep in mind this Conceptual Framework is not an accounting standard itself, and it doesn’t override the requirements of any existing accounting standard.

Or,

Objective of Ind AS16:

One fundamental problem in financial reporting is how to account periodically for performance when many of the expenditures an entity incurs in the current period also contribute to future accounting periods. Expenditure on property, plant and equipment ('PP&E') is the best example of this difficulty.

The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment so that users of the financial statements can discern information about an entity's investment in its property, plant and equipment and the changes in such investment.

Scope:

This Standard shall be applied in accounting for property, plant and equipment except when another Standard requires or permits a different accounting treatment.

All property, plant and equipment are within the scope of Ind AS 16 except as follows:

(a) Property, plant and equipment classified as held for sale in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations.

(b) Biological assets related to agricultural activity other than bearer plants (covered by Ind AS 41, Agriculture). This Standard applies to bearer plants but it does not apply to the produce on bearer plants.

(c) The recognition and measurement of exploration and evaluation assets (covered by Ind AS 106 Exploration for and Evaluation of Mineral Resources).

(d) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources.

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

Or, $\frac{3}{1} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$

Or, Current Assets = 3 × Current Liabilities = 3 Current Liabilities

Again, Working Capital = Current Assets – Current Liabilities

Or, 400000 = Current Assets – Current Liabilities

Or, 400000 = 3 Current Liabilities – Current Liabilities

Or, 2 Current Liabilities = 400000

Or, Current Liabilities = 400000/2 = Rs. 200000

Therefore, Current Assets = 3 Current Liabilities = 3 × 200000 = Rs. 600000

Now, Quick Ratio $= \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}} = \frac{600000 - 250000}{200000} = \frac{350000}{200000} = 1.75: 1$

4.

Diluted earnings per share

An entity shall calculate diluted earnings per share amounts for profit or loss attributable to ordinary equity holders of the parent entity and, if presented, profit or loss from continuing operations attributable to those equity holders.

For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity, and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

The objective of diluted earnings per share is consistent with that of basic earnings per share—to provide a measure of the interest of each ordinary share in the performance of an entity—while giving effect to all dilutive potential ordinary shares outstanding during the period. As a result:

a. profit or loss attributable to ordinary equity holders of the parent entity is increased by the after-tax amount of dividends and interest recognized in the period in respect of the dilutive potential ordinary shares and is adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares; and
b. The weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

$.Antidilution is an increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

A contingent share agreement is an agreement to issue shares that is dependent on the satisfaction of specified conditions.

Contingently issuable ordinary shares are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement.

Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions

For the purpose of calculating diluted earnings per share, an entity shall adjust profit or loss attributable to ordinary equity holders of the parent entity by considering;

Any dividends or other items related to dilutive potential ordinary shares deducted in arriving at profit or loss attributable to ordinary equity holders of the parent entity as calculated in accordance with paragraph12;

Any interest recognized in the period related to dilutive potential ordinary shares; and

Any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.

For the purpose of calculating diluted earnings per share, the number of ordinary shares shall be the weighted average number of ordinary shares calculated in accordance with paragraphs 19 and 26, plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Dilutive potential ordinary shares shall be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares.

Or,

Antidilution is an increase in earnings per share or a reduction in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

A contingent share agreement is an agreement to issue shares that is dependent on the satisfaction of specified conditions.

Contingently issuable ordinary shares are ordinary shares issuable for little or no cash or other consideration upon the satisfaction of specified conditions in a contingent share agreement.

Dilution is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options or warrants are exercised, or that ordinary shares are issued upon the satisfaction of specified conditions.

5.

Comparative Income Statement for year ended on 31.12.2018 and 31.12.2020

Particulars	2018 Rs.	2019 Rs.	Absolute Change Rs.	Percentage Change Rs.
Sales	800000	960000	160000	20.00%
Less: Cost of Goods Sold	536000	640000	104000	19.40%
Gross Profit	264000	320000	56000	21.21%
Less: Operating Expenses:				
Administrative Expenses	96000	112000	16000	16.67%
Selling Expenses	24000	40000	16000	66.67%
Operating Profit	144000	168000	24000	16.67%
Add: Non-Operating Incomes	16000	24000	8000	50.00%
	160000	192000	32000	20.00%
Less: Non-Operating Expenses	8000	12000	4000	50.00%
Profit Before Tax	152000	180000	28000	18.42%
Less: Tax @35%	53200	63000	9800	18.42%
Profit After Tax	98800	117000	16200	16.40%

Comments:

a) **Analysis of Change in Gross Profits:** Over the period of study, sales increased by Rs.160000 whereas the cost of goods sold are Rs.56000 more. In relative terms there has been an increase of 20% as against a rise by 19.4%. So there is an edge of sales over cost of goods sold. The trend of gross profit is showing a healthy and increasing trend.
b) **Change in Operating Expenses:** Operating expenses are expected to remain more or less the same and fully under control for a similar level of operating activities. Here, the operational level might have become more as reflected by the increase in sales volume. However, such change is marginal. But the operating expenses have increased by 16.67% and 66.67%.
c) **Change in Operating Profit:** In 2019, the sales have increased and the gross profit has increased by 21.21% but the percentage increase in operating profit is 16.67%. As already said, the increase in operating profit has been affected by the increase in operating expenses.
d) **Analysis of change in Profit:** The profit before tax has increased by Rs.28000 or by 18.42%. The increase in non-operating income is marginally more than the non-operating expenses. This shows that the profitability of the company over the period of study could improve mainly due to operational efficiency.

6.

Consolidated Balance Sheet of H ltd. and its subsidiary S ltd.

As on 31st March

Particulars	Note No	Amount(Rs.)
I. Equity and Liabilities		
1. Shareholders' Fund:		
a) Share Capital	i	1000000
b) Reserve & Surplus	ii	940000
2. Minority Interest		140000
3. Non-Current Liabilities:		
Long-Term Borrowings: 12% Debentures	iii	600000
4. Current Liabilities:		
Trade Payables	iv	440000
Total		3120000
II. Assets		
1. Non-Current Assets:		
Fixed Assets: Tangible	v	2400000
2. Current Assets:		
a) Inventories	vi	330000
b) Trade Receivables	vii	270000
c) Cash and Cash Equivalents	viii	120000
Total		3120000

Note No:

i. Share Capital:

Particulars	Amount(Rs.)
Authorised Capital	---
Issued and subscribed Capital:	
Equity Shares of Rs.10 each	1000000
	1000000

ii. Reserve & Surplus

Particulars	Amount(Rs.)
Consolidated Balance of General Reserve	372000
Balance of Consolidated Profit and Loss Statement	456000
Capital Reserve	112000
	940000

iii. Long-Term Borrowings

Particulars	Amount(Rs.)
12% Debentures:	
Balance of H ltd.	500000
Balance of S ltd. (Rs.300000 – Rs.200000)	100000
	600000

iv. Trade Payables:

Particulars	Amount(Rs.)	
Sundry Creditors:		
Balance of H ltd.	150000	
Balance of S ltd.	100000	250000
Bills Payables:		
Balance of H ltd.	170000	
Balance of S ltd.	50000	
	220000	
Less: Mutual Debt Set Off	30000	190000
		440000

v. Fixed Assets – Tangible

Particulars	Amount(Rs.)	
Land and Building:		
Balance of H ltd.	850000	
Balance of S ltd.	500000	1350000
Plant and Machinery		
Balance of H ltd.	500000	
Balance of S ltd.	200000	700000
Furniture:		
Balance of H ltd.	200000	
Balance of S ltd.	150000	350000
		2400000

vi. Inventories

Particulars	Amount(Rs.)	
Inventories:		
Balance of H ltd.	200000	
Balance of S ltd.	150000	
		350000
Less: Unrealised Profit included in Stock (100000 × 25/125)		20000
		330000

vii. Trade Receivables

Particulars	Amount(Rs.)	
Sundry Debtors:		
Balance of H ltd.	100000	
Balance of S ltd.	100000	200000
Bills Receivables:		
Balance of H ltd.	50000	
Balance of S ltd.	50000	
	100000	
Less: Mutual Debt Set Off	30000	70000
		270000

viii. Cash and Cash Equivalents

Particulars	Amount(Rs.)	
Cash:		
Balance of H ltd.	70000	
Balance of S ltd.	50000	
		120000

Note: Current Account

Current Account with H ltd.:

Particulars	Amount(Rs.)
Current Account with H ltd.	50000
Less: Mutual Debt Set Off	50000
	Nil

Current Account with S ltd.:

Particulars	Amount(Rs.)
Current Account with S ltd.	50000
Less: Mutual Debt Set Off	50000
	Nil

Working Notes:

a) Date of Acquisition – 1st July 2019

Therefore, Pre-Acquisition Period = 01.04.2019 to 30.06.2019 i.e. 3 months

And, Post-Acquisition Period = 01.07.2019 to 31.03.2020 i.e. 9 months

b) Acquisition and Minority Interest:

S ltd. issued bonus share on 01.01.2020 in the ratio 1:2

Total number of shares after bonus shares issued is = 300000/10 = 30000

So, number of bonus shares issued by S ltd. = 300000/(1+2) = 10000

Therefore, number Equity Shares held by S ltd. before issuing bonus shares = [300000/(1+2)]×2 = 20000

Particulars	S ltd.(Shares)
Number of Equity Shares held by S ltd. at time of Acquisition	20000
Interest of H ltd.	16000 (80%)
Minority Interest	4000 (20%)

c) Analysis of Profit of S ltd.

Particulars	Amount(Rs.)	Pre-Acquisition Profit Or, Capital Profit (Rs.)	Post-Acquisition Portion	
			Revenue Reserve (Rs.)	Revenue Profit (Rs.)
Balance of Profit and Loss Statement as on 01.04.2019	110000			
Less: Pre-Acquisition Dividend for the year ended 31.03.2019	40000	70000		
Profit Earned during the year (250000 – 70000)	180000			
Profit earned during Pre-Acquisition Period (180000×3/12)		45000		
Profit earned during Post-Acquisition Period (180000×9/12)				135000
Balance of General Reserve as on 01.04.2019	130000			
Less: Bonus shares issued out of General Reserve (10000×10)	100000	30000		
Transfer to General Reserve during the year (150000 –30000)	120000			
Transfer to General Reserve during Pre-Acquisition Period (120000×3/12)		30000		
Transfer to General Reserve during Post-Acquisition Period (120000×9/12)			90000	
		175000	90000	135000
Less: Minority Interest @20%		35000	18000	27000
Share of H ltd.		140000	72000	108000

d) Calculation of Minority Interest:

Particulars	Amount(Rs.)	Amount(Rs.)
Face Value of Equity Shares held (4000×10)	40000	
Add: Face Value of Bonus Shares held [(10000×20%)×10]	20000	60000
Add: Share of Capital Profit	35000	
Add: Share of Revenue Reserve	18000	
Add: Share Revenue Profit	27000	80000
		140000

e) Statement showing calculation of Goodwill or Capital Reserve from Cost of Control:

Particulars	Amount(Rs.)	Amount(Rs.)
Cost of Investment in S ltd.:		
In Equity Shares	280000	
In Debentures	220000	500000
Less: Face value of Investment:		
In Equity Shares	160000	
In Debentures	200000	360000
		140000
Less: Face of Bonus Shares Received by H ltd.		80000
		60000
Less: Share of Capital Profit		140000
		(80000)
Less: Share of Pre-Acquisition dividend wrongly credited in its Profit and Loss Account by H Ltd.		32000
Capital Reserve		112000

f) Consolidated Profit and Loss Statement:

Particulars	Amount(Rs.)
Balance of Profit and Loss Statement of H ltd. as on 31.03.2020	400000
Less: Share of Pre-Acquisition dividend wrongly credited	32000
	368000
Add: Share of Post-Acquisition Profit	108000
	476000
Less: Unrealised profit included in stock (100000×25/125)	20000
	456000

g) Consolidated General Reserve:

Particulars	Amount(Rs.)
Balance of General Reserve of H ltd. as on 31.03.2020	300000
Add: Share of Revenue Reserve	72000
	372000

7. **Fund Flow Statement:-**

Fund Flow Statement of ABC ltd. for the year ended 31.12.2019

Sources	Amount(Rs.)	Applications	Amount(Rs.)
Issue of Equity Shares	63	Redemption of Preference Shares	143
Issue of Debentures	47.5	Term Loan paid off	70
Sale proceeds of Plant and Machinery	12	Dividend paid	25
Fund From Operations	325.5	Income Tax paid	25
		Purchase of Plant and Machinery	85
		Purchase of Land and Building	60
		Purchase of Furniture	15
		Purchase of Investments	20
		Increase in Working Capital	05
	448		448

Statement showing changes in Working Capital of ABC ltd. for the year ended 31.12.2019

Particulars	2018	2019	Change in Working Capital	
			Decrease	Increase
Current Assets:				
Inventories [80 – (55×10/110)]	75	84	09	--
Sundry Debtors	60	75	15	--
Bills Receivables	35	25	--	10
Cash and Cash Equivalents	27	26	--	01
Loan and Advances	38	40	02	--
Total Current Assets (A)	235	250		
Current Liabilities:				
Sundry Creditors	25	35	--	10
Bills Payables	20	17	03	--
Outstanding Interest on Debenture	--	03	--	03
Total Current Liabilities (B)	45	55		
Working Capital (A – B)	190	195	29	24
Increase in Working Capital	05	--	--	05
	195	195	29	29

Working Notes:

Dr. **Equity Share Capital A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Share Premium A/C (Premium on Issue)	13	By Balance b/d	350
		By General Reserve A/C (Bonus Share)	50
To Balance c/d	450	By Bank A/C (New Issue)	63
	463		463

Dr. **Preference Share Capital A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Bank A/C (Redemption)	143	By Balance b/d	250
		By Share Premium A/C	13
To Balance c/d	120	(Premium on Redemption)	
		(130×10%)	
	263		263

Dr. **General Reserve A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Equity Share Capital A/C (Bonus Share) [350×1/7]	50	By Balance b/d	150
To Capital Redemption Reserve	80	By Profit and Loss A/C (Transferred to General Reserve)	150
To Balance c/d	170		
	300		300

Dr. **Share Premium A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Preference Share Capital A/C (Premium on Redemption)	13	By Balance b/d	15
		By Equity Share Capital A/C (Premium on Issue)	13
To Balance c/d	15		
	28		28

Dr. **15% Debenture A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
		By Balance b/d	150
		By Bank A/C (New Issue)	47.5
		By Profit and Loss A/C (Discount on Issue) [50 – (50×5%)]	2.5
To Balance c/d	200		
	200		200

Dr. **Term Loan A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Bank A/C (Paid off)	70	By Balance b/d	200
To Balance c/d	130		
	200		200

Dr. Proposed Dividend A/C Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Unclaimed Dividend A/C To Bank A/C (Dividend Paid) To Balance c/d	05 25 35	By Balance b/d By Profit and Loss A/C (Dividend Declared)	30 35
	65		65

Dr. Provision for Taxation A/C Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Bank A/C (Tax Paid) To Balance c/d	25 30	By Balance b/d By Profit and Loss A/C (Tax Provided)	28 27
	55		55

Dr. Plant and Machinery A/C Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Balance b/d To Bank A/C (New Purchase)	310 85	By Assets Disposal A/C (10000×100/50) By Balance c/d	20 375
	395		395

Dr. Provision for Depreciation A/C Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Assets Disposal A/C (20000×50%) To Balance c/d	10 45	By Balance b/d By Profit and Loss A/C (Depreciation)	35 20
	55		55

Dr. Assets Disposal A/C Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Plant and Machinery A/C To Profit and Loss A/C (Profit on sale)	20 02	By Bank A/C By Provision for Depreciation A/C	12 10
	22		22

Dr. **Land and Building A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Balance b/d To Bank A/C (New Purchase)	520 60	By Balance c/d	580
	580		580

Dr. **Furniture A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Balance b/d To Bank A/C (New Purchase)	70 15	By Balance c/d	85
	85		85

Dr. **Investment A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Balance b/d To Bank A/C (New Purchase)	70 20	By Balance c/d	90
	90		90

Dr. **Goodwill A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Balance b/d	60	By Profit and Loss A/C (Written off) By Balance c/d	15 45
	60		60

Dr. **Patent A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Balance b/d	30	By Profit and Loss A/C (Written off) By Balance c/d	05 25
	30		30

Dr. **Misc. Expenditure A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Balance b/d	23	By Profit and Loss A/C (Written off) By Balance c/d	08 15
	23		23

Dr. Adjusted Profit and Loss A/C Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To General Reserve A/C (Transferred)	150	By Balance c/d	70
To discount on issue of Debenture	2.5		
To Proposed Dividend	35		
To Provision for Taxation	27		
To depreciation on Plant and Machinery	20		
To Goodwill written off	15		
To Patent written off	05		
To Misc. Expenditure written off	08	By Fund From Operations	325.5
To Stock (Opening Stock Over Cast)	05		
To Balance c/d	130		
	397.5		397.5

Or, Cash Flow Statement:

Cash Flow Statement of ABC ltd. for the year ended 31.12.2019

Particulars	Amount(Rs.)	Amount(Rs.)	Amount(Rs.)
A. Cash Flow from Operating Activities			
Operating Profit		325.5	
Add: Decrease in Current Assets and Increase in Current Liabilities:			
Bills Receivables (35 – 25)	10		
Sundry Creditors (35 – 25)	10		
Outstanding Interest on Debentures	03	23	
		348.5	
Less: Increase in Current Assets and Decrease in Current Liabilities:			
Stock [84 – {80 – (55×10/110)}]	09		
Sundry Debtors (75 – 60)	15		
Loan and Advances (40 – 38)	02		
Bills Payables (20 – 17)	03	29	
Cash Generated from Operations		319.5	
Less: Tax Paid		25	
Net Cash from Operating Activities			294.5
B. Cash Flow from Investing Activities			
Sale of Plant and Machinery		12	
Less: Purchase of Plant and Machinery	85		
Purchase of Land and Building	60		
Purchase of Furniture	15		
Purchase of Investment	20	180	
Net Cash used in Investing Activities			(168)
C. Cash Flow from Financing Activities			
Issue of Equity Shares	63		
Issue of Debentures	47.5	110.5	
Less: Redemption of Preference Shares	143		
Term Loan Paid off	70		
Dividend paid	25	238	

Net Cash used in Financing Activities			(127.5)
Net Decrease in Cash Balance			(1)
Add: Opening Cash Balance			27
Closing Cash Balance			26

Working Notes:

Dr. **Equity Share Capital A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Share Premium A/C (Premium on Issue)	13	By Balance b/d	350
		By General Reserve A/C (Bonus Share)	50
To Balance c/d	450	By Bank A/C (New Issue)	63
	463		463

Dr. **Preference Share Capital A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Bank A/C (Redemption)	143	By Balance b/d	250
To Balance c/d	120	By Share Premium A/C (Premium on Redemption) (130×10%)	13
	263		263

Dr. **General Reserve A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Equity Share Capital A/C (Bonus Share) [350×1/7]	50	By Balance b/d	150
To Capital Redemption Reserve	80	By Profit and Loss A/C (Transferred to General Reserve)	150
To Balance c/d	170		
	300		300

Dr. **Share Premium A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Preference Share Capital A/C (Premium on Redemption)	13	By Balance b/d	15
To Balance c/d	15	By Equity Share Capital A/C (Premium on Issue)	13
	28		28

Dr. 15% Debenture A/C Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
		By Balance b/d	150
		By Bank A/C (New Issue)	47.5
		By Profit and Loss A/C (Discount on Issue) [50 – (50×5%)]	2.5
To Balance c/d	200		
	200		200

Dr. Term Loan A/C Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Bank A/C (Paid off)	70	By Balance b/d	200
To Balance c/d	130		
	200		200

Dr. Proposed Dividend A/C Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Unclaimed Dividend A/C	05	By Balance b/d	30
To Bank A/C (Dividend Paid)	25	By Profit and Loss A/C (Dividend Declared)	35
To Balance c/d	35		
	65		65

Dr. Provision for Taxation A/C Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Bank A/C (Tax Paid)	25	By Balance b/d	28
		By Profit and Loss A/C (Tax Provided)	27
To Balance c/d	30		
	55		55

Dr. Plant and Machinery A/C Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Balance b/d	310	By Assets Disposal A/C (10000×100/50)	20
To Bank A/C (New Purchase)	85	By Balance c/d	375
	395		395

Dr. **Provision for Depreciation A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Assets Disposal A/C (20000×50%) To Balance c/d	10 45	By Balance b/d By Profit and Loss A/C (Depreciation)	35 20
	55		55

Dr. **Assets Disposal A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Plant and Machinery A/C To Profit and Loss A/C (Profit on sale)	20 02	By Bank A/C By Provision for Depreciation A/C	12 10
	22		22

Dr. **Land and Building A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Balance b/d To Bank A/C (New Purchase)	520 60	By Balance c/d	580
	580		580

Dr. **Furniture A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Balance b/d To Bank A/C (New Purchase)	70 15	By Balance c/d	85
	85		85

Dr. **Investment A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Balance b/d To Bank A/C (New Purchase)	70 20	By Balance c/d	90
	90		90

Dr. **Goodwill A/C** **Cr.**

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Balance b/d	60	By Profit and Loss A/C (Written off) By Balance c/d	15 45
	60		60

Dr. Patent A/C Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Balance b/d	30	By Profit and Loss A/C (Written off)	05
		By Balance c/d	25
	30		30

Dr. Misc. Expenditure A/C Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Balance b/d	23	By Profit and Loss A/C (Written off)	08
		By Balance c/d	15
	23		23

Dr. Adjusted Profit and Loss A/C Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To General Reserve A/C (Transferred)	150	By Balance c/d	70
To discount on issue of Debenture	2.5		
To Proposed Dividend	35		
To Provision for Taxation	27		
To depreciation on Plant and Machinery	20		
To Goodwill written off	15		
To Patent written off	05		
To Misc. Expenditure written off	08	By Operating Profit	325.5
To Stock (Opening Stock Over Cast)	05		
To Balance c/d	130		
	397.5		397.5

8.

In the Books of Zodiac ltd.

Dr. Projected Profit & Loss Account for the year ended 31.03.2021 Cr.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
To Cost of Goods Sold:		By Sales	10000000
Materials	3750000		
Wages	3750000		
To Gross Profit	2500000		
	10000000		10000000
To Sundry Expenses (Bal. Fig.)	1940000	By Gross Profit	2500000
To Net Profit	560000		
	2500000		2500000

Projected Balance Sheet as on 31st March 2021

Liabilities	Amount(Rs.)	Assets	Amount(Rs.)
Share Capital:		Fixed Assets	8000000
Equity Share Capital	5600000	Current Assets:	
Preference Share capital	2000000	Stock	1500000
Reserve & Surplus:		Debtors	2500000
General Reserve	840000		
Profit & Loss	560000		
Secured Loans:			
Debenture	100000		
Current Liabilities:			
Creditors	937500		
Other Current Liabilities	1062500		
	12000000		12000000

Working Notes:

a) Sales

Gross Profit Ratio = 25% $= \frac{1}{4}$

Or, $\frac{\text{Gross Profit}}{\text{Sales}} = \frac{1}{4}$

Therefore, Sales = 4 GP = 4 × Rs.2500000 = Rs.10000000

b) Cost of Goods Sold

COGS = Sales – GP = Rs.10000000 – Rs.2500000 = Rs.7500000

Materials = 50% of Rs.7500000 = Rs.3750000

Wages = 50% of Rs.7500000 = Rs.3750000

c) Stock

Stock Turnover $= \frac{\text{COGS}}{\text{Average Stock}} = 5$

Or, $\frac{\text{Rs.7500000}}{\text{Average Stock}} = 5$

Therefore, Average Stock = Rs.7500000/5 = Rs.1500000

As there is no hint regarding the levels of stock

So, Closing Stock = Rs.1500000

d) Debtors

Debt Collection Period = 3 months

Or, $\frac{\text{Debtors}}{\text{Sales}} \times 12 = 3$

Or, Debtors = $\frac{1}{4}$th of Sales = $\frac{1}{4} \times \text{Rs.}\,10000000 = \text{Rs,}\,2500000$

e) Current Liabilities

Current Ratio = 2

Or, $\frac{\text{Current Assets}}{\text{Current Liabilities}} = 2$

Or, $\frac{\text{Stock+Debtors}}{\text{Current Liabilities}} = 2$ (there is no information about cash and bank balances)

Or, Current Liabilities = $\frac{\text{StocK+Debtors}}{2} = \frac{\text{Rs.1500000+Rs.2500000}}{2}$ = Rs.2000000

f) Creditors

Creditors Velocity = 3 months

Or, $\frac{\text{Creditors}}{\text{Purchase of Materials}} \times 12 = 3$

Or, Creditors = $\frac{3}{12} \times$ Purchase of Material = $\frac{3}{12} \times \text{Rs.}\,3750000$ = Rs.937500

g) Other Current Liabilities

Current Liabilities = Creditors + Other Current Liabilities

Or, Rs.2000000 = Rs.937500 + Other Current Liabilities

Or, Other Current Liabilities = Rs.2000000 – Rs.937500 = Rs.1062500

h) Fixed Assets

Proprietary Ratio = $\frac{\text{Fixed Assets}}{\text{Proprietary Fund}} = 80\%$ or $\frac{4}{5}$

As out of Proprietary Fund Fixed Assets are $\frac{4}{5}$th

Therefore, Balance $\frac{1}{5}$th = Working Capital

Or, $\frac{1}{5}$th = CA – CL = (Stock + Debtors) – Current Liabilities = Rs.4000000 – Rs.2000000 = Rs.2000000

Therefore, Proprietary Fund = Rs.2000000×5 = Rs.10000000

Fixed Assets = 80% of Rs.10000000 = Rs.8000000

i) Preference Share Capital, Debenture and Equity Share Holders' Fund

Capital Gearing Ratio = 3:7

Or, $\frac{\text{Preference Share Capital+Debenture}}{\text{Equity Fund}}$ = 3:7

Therefore, Preference Share Capital + Debenture = $\frac{3}{10}$ of Proprietary Fund

Or, $\frac{3}{10}$ of Rs.10000000 = Rs.3000000

And, Equity Funds = $\frac{7}{10}$ × Rs.10000000 = Rs.7000000

j) Preference Shares and Debentures

$\frac{\text{Preference Share Capital}}{\text{Debenture}} = 2$ [or, 2:1]

Therefore, Preference Share Capital = $\frac{2}{3}$rd of (Preference Share Capital + Debenture)

= $\frac{2}{3}$×Rs.3000000 = Rs.2000000

And, Debenture $\frac{1}{3}$×Rs.3000000 = Rs.1000000

k) Equity Share Capital, Profit & Loss and General Reserve

Equity Shareholders' Fund = Equity Share Capital + Profit & Loss + General Reserve

(Assuming that there is no Fictitious Assets)

$\frac{\text{General Reserve+Profit \& } Loss}{\text{Equity Capital}}$ = 1:4

Therefore, General Reserve + Profit & Loss = $\frac{1}{5}$th of Equity Funds = $\frac{1}{5}$×Rs.7000000 =
. Rs.1400000

And, Equity Share Capital = $\frac{4}{5}$×Rs.7000000 = Rs.5600000

Net Profit = 10% of Equity Capital = 10% of Rs.5600000 = Rs.560000

And, General Reserve = Rs.1400000 – Rs.560000 = Rs.840000