9 Redemption of Debentures

1. Palash Ltd. issued 7,000, 14% Debentures of ₹ 100 each on 1st April, 2018 at a discount of 10%, redeemable at a premium of 5%. The Board of Directors decided to transfer the minimum required amount to Debenture Redemption Reserve on 31st March, 2021. The required investment was made by the company in Government Securities on 30th April, 2021. Give journal entries both at the time of issue and redemption of debentures if the debentures are redeemable in lump-sum at the end of fourth year from the date of issue. Ignore the treatment of loss on issue of debentures and interest.

Soution 1 :

In the Books of Palash Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Surplus i.e. Balance in Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Profit Transferred P & L, of the nominal value of debentures issued)		1,75,000	1,75,000
	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment Made @ 15% of the Face Value of Debentures to be Redeemed)		1,05,000	1,05,000
	Bank A/c Dr. To Debenture Redemption Investment A/c (Amount of Debenture Redemption Investment withdrawn)		1,05,000	1,05,000
	14% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holders A/c (Allotment due on Debenture holders)		7,00,000 35,000	7,35,000
	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holder)		7,35,000	7,35,000
	DRR A/c Dr. To General Reserve A/c (Amount of Debenture Transferred to General Reserve Account)		1,75,000	1,75,000

2. Garima Ltd. (an unlisted company) issued 50,000, 8% Debentures of ₹ 100 each at par on Oct. 1, 2016 redeemable on March, 31, 2021. It was decided to invest 15% of the face value of debentures to be redeemed towards Debenture Redemption Investment on 30th April, 2020. Debentures were redeemed on due date. Record necessary entries for issue and redemption of debentures.

Solution 2 :

In the Books of Garima Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016	Bank A/c Dr. To 8% Debenture Application and Allotment A/c (Application Money Received)		50,00,000	50,00,000

Oct 1.	8% Debenture Application and Allotment A/c Dr. To 8% Debentures A/c (Application Money Transferred to Debenture Account)		50,00,000	 50,00,000
2019	Surplus of Statement of Profit & Loss A/c Dr. To Debenture Redemption Reserve A/c (Transfer of Profits Equal to 25% of the Nominal Value of the Debentures issued)		12,50,000	 12,50,000
30 Apr.	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment Made 15% of the Value of debentues to be Redeemed)		7,50,000	 7,50,000
2020 31 Mar.	Bank A/c Dr. To Debenture Redemption Investment A/c (Investment Encashed)		7,50,000	 7,50,000
31 Mar.	8% Debenture A/c Dr. To Debenture holder A/c (Redemption Amount Due)		50,00,000	 50,00,000
31 Mar.	Debenture holder A/c Dr. To Bank A./c (Payment made to debenture holder)		50,00,000	 50,00,000
31 Mar.	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Amount of Debenture Redemption Reserve Transferred to General Reserve Account)		12,50,000	 12,50,000

3. Punjab National Bank issued 8,000, 8% Debentures of ₹ 100 each at a premium of 6% on 1st April, 2014 redeemable on 31st March, 2021. Record necessary entries for issue and redemption of debentures.

Solution 3 :

In the Books of Punjab National Bank
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2014	Bank A/c Dr. To 8% Debentures Application and Allotment A/c (Amount of Investment receivedin cash)		8,48,000	 8,48,000
01 Apr.	8% Debenture Appliction and Allotment A/c Dr. To 8% Debentures A/c To Securities Premium Reserve A/c (Application Amount Transferred to Debenture Account)		8,48,000	 8,00,000 48,000
2021 31 Mar.	8% Debentures A/c Dr. To Debenture holders A/c (Redemption Amount Due)		8,00,000	 8,00,000
31Mar.	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)		8,00,000	 8,00,000

4. On 1st April, 2015, Kanchan Ltd. (a listed company) issued 60,000, 7% Debentures of ₹ 50 each at par, redeemable at 6% premium after six years. Debentures were redeemed on due. Pass necessary entries for issue and redemption of debentures. It is the policy of the company to write off all capital losses in the first year itself.

Solution 4 :

In the Books of Kanchan Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	No DRR will be created since Kanchan Ltd. is a listed Company.			
	Debenture Redemption investment A/c Dr.		4,50,000	
	To Bank A/c			4,50,000
	(Investment made @ 15% of the Face Value of Debentures to be redeemed)			
	Bank A/c Dr.		4,50,000	
	To Debenture Redemption investment A/c			4,50,000
	(Amount of Debenture Redemption Investment Withdrawn)			
	7% Debentures A/c Dr.		30,00,000	
	Premium on Redemption of Debentures A/c Dr.		1,80,000	
	To Debentureholders A/c			31,80,000
	(Amount of Due on Debenture holders)			
	Debenture Holders A/c Dr.		31,80,000	
	To Bank A/c			31,80,000
	(Amount Paid to Debentureholders)			
	No Entry made for DRR Transferred to General Reserve.			

5. Piya Ltd. (an unlisted company) has issued 30,000, 8% Debentures of ₹ 100 each of which one-third is due for redemption on March 31, 2021.The company has in its Debenture Redemption Reserve Account a balance of ₹ 1,20,000 on 31st March, 2020. Required Investment is made in fixed deposit on 30th April, 2020 bearing interest @ 6% p.a. Record the necessary journal entries for the Redemption of Debentures.

Solution 5 :

In the Books of Kanchan Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	No DRR will be created since Kanchan Ltd. is a listed Company.			
	Debenture Redemption investment A/c Dr.		4,50,000	
	To Bank A/c			4,50,000
	(Investment made @ 15% of the Face Value of Debentures to be redeemed)			
	Bank A/c Dr.		4,50,000	
	To Debenture Redemption investment A/c			4,50,000
	(Amount of Debenture Redemption Investment Withdrawn)			
	7% Debentures A/c Dr.		30,00,000	
	Premium on Redemption of Debentures A/c Dr.		1,80,000	
	To Debentureholders A/c			31,80,000
	(Amount of Due on Debenture holders)			
	Debenture Holders A/c Dr.		31,80,000	
	To Bank A/c			31,80,000
	(Amount Paid to Debentureholders)			
	Bank A/c Dr.		4,50,000	
	To Debenture Redemption investment A/c			4,50,000
	(Amount of Debenture Redemption Investment Withdrawn)			

	7% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders A/c (Amount of Due on Debenture holders)		30,00,000 1,80,000	 31,80,000
	Debenture Holders A/c Dr. To Bank A/c (Amount Paid to Debentureholders)		31,80,000	 31,80,000

6. One-third of Debenture Redemption Reserve will be transferred to General Reserve A/c since one-third debentures are redeemed.

On April 1, 2019 the following were the balances of Webminz Ltd. (an unlinked company)

10% Debentures (redeemable on 31st March, 2021) ₹ 45,00,000

Debenture Redemption Reserve ₹ 1,00,000

Required investment was made earning interest @ 8% p.a.

On 31st March, 2020 the Board of Directors transferred the required amount to DRR and debentures were redeemed.

Pass necessary Journal entries for the above transactions in the books of the company.

Solution 6 :

In the Books of Webminz Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31.	Surplus in Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Profit Transferred P & L of the Nominal Value of Debentures issued)		2,00,000	 2,00,000
Apr. 30	Debenture Redemtpion Investment A/c Dr. To Bank A/c (Investment made @ 15% of the Face Value of Debentures to be redeemed)		6,75,000	 6,75,000
Mar 31.	Bank A/c Dr. To Debenture Redemption Investment A/c To Interest Received A/c (Amount of Debenture Redemption Investment Withdraw)		7,24,500	 6,75,000 49,500
Mar 31.	10% Debentures a/c Dr. To Debenturer holders A/c (Amount due on Debentureholder)		45,00,000	 45,00,000
Mar 31.	Debenture holder a/c Dr. To Bank A/c (Amount paid to Debentureholder)		45,00,000	 45,00,000
Mar 31.	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Amount of Debenture Transferred To General Reserve Account)		3,00,000	 3,00,000
Mar 31.	Intrest Received A/c Dr. To Statement of Profit & Loss A/c (Interest on Investment Transfer)		49,500	 49,500

Amount Transferred to DRR

Threee Equal Installment of ₹ 45,00,000

$$₹\ \frac{4,50,000}{3} = ₹\ 15,00,000$$

20% on ₹ 15,00,000 =	₹ 3,00,000
Amount Already Transferred	(1,00,000)
	2,00,000

7. Raghu Ltd. (an unlisted company) had issued ₹ 8,00,000, 9% debentures which are due to be redeemed out of profits on 1st Oct., 2020 at a premium of 5%. The company had a Debenture Redemption Reserve of ₹ 3,12,000. The Company invested the required amount in fixed deposit in a Bank on 30th April, 2020 earning interest at 10% p.a. Pass necessary journal entries for the redemption of debentures.

Solution 7 :

In the Books of Raghu Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31.	Surplus in Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Debenture Redemption Reserve Transferred to Profit and Loss Account)		4,88,000	 4,88,000
Mar 31.	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment made @ 15% of the face value of debentures to be redeemed)		1,20,000	 1,20,000
Mar 31.	Bank A/c Dr. To Debenture Redeption Investment A/c To Interest Received A/c (Amount of Debenture Redemption Investment Withdraw)		1,25,000	 1,20,000 5,000
Mar 31.	9% Debentures A/c Dr. To Debenture holders A/c To Premium on Redemption of Debentures A/c 40,000 (Amount due on Debenture holders)		8,40,000	 8,00,000
Mar 31.	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)		8,40,000	 8,40,000
Mar 31.	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Amount of Debenture Transferred to General Reserve Account)		8,00,000	 8,00,000
Mar 31.	Interest Received A/c Dr. To Statement of Profit & Loss A/c (Interest on Investment Transferred)		5,000	 5,000

Working Note :

Calculation of Amount of DDR in case of unlisted company :	
10% of ₹ 8,00,000	8,00,000
Amount already transferred	(3,12,000)
Amount of DRR Transferred to Statement of Profit & Loss A/c	4,88,000

8. On 1st April, 2020, Pankhuri Ltd. has following balances :

11% Debentures (redeemable on 31st March, 2021)	₹ 16,00,000
Debenture Redemption Reserve	₹ 2,50,000

The company invested the required amount in Fixed Deposit on 1st April, 2020 earning 10% p.a. interest. Tax was deducted at source (TDS) by bank @ 10%. It redeemed the debentures on due date. Pass necessary journal entries for the above transactions. Tax was also deducted at source @ 10% on Debentures' interest.

Solution 8 : In the Books of Pankhuri ltd.

Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31.	Surplus of Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Debenture Redemption Reserve Transferred to Profit & Loss A/c)		1,50,000	 1,50,00
Apr. 01	Debenture Redemption Investment A/c Dr. To Bank A/c (Investments made @15% of the face value of debentures to be redeemed)		2,40,000	 2,40,000
Mar 31.	Bank A/c Dr. To Collected A/c To Interest Earned A/c To Debenture Redemption Investment A/c (Amount of Debenture Redemption Investment Withdrawn)		26,600	 2400 24,000 2,40,000
Mar. 31	Bank A/c Dr. To Debenture Redemption Investment A/c (Amount of Debenture Redemption Investment Withdrawn)		2,40,000	
Mar 31.	11% Debentures A/c Dr. To Debenture holders A/c (Amount due on Debenture holders)		16,00,000	 16,00,000
	Debenture holders A/c Dr. Intrest Received A/c Dr. To Bank A/c (Payment made to Debenture holders)		16,00,000 1,58,400	 17,58,400
	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (DRR Amount Transferred to Geneal Reserve Account)		4,00,000	 4,00,000

Working Note :

Interest on Debenture After TDS

Amount of Debenture	₹ 16,00,000
Less TDS @ 10%	1,60,000
	14,40,000
Add Interest @ 10%	14,40,000
Add : Interest @ 10%	1,44,000
	15,84,000

Interest on Debenture $= ₹\ 15,84,000 \times \frac{10}{100}$

$= ₹\ 1,58,400$

9. Jagrati Ltd. issued 2,500, 15% Debentures of ₹100 each on 1st April, 2017 at a discount of 10% redeemable at a premium of 20% out of profits. The company decided to transfer the adequate amount to Debenture Redemption Reserve on 31st March, 2018. Give Journal entries both at the time of issue and redemption of debentures. The debentures are redeemable in three equal annual drawings starting from 31st March, 2021. Ignore the treatment of loss on issue of debentures and interest. The company deposited ₹ 37,500 in specified securities on 30th April, 2020 and decided to encash the investment at the time of the last redemption.

Pass necessary journal entries.

Solution 9 :

In the Books of Jagrati Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017 Apr 1	Bank A/c Dr. To 15% Debentures Application and Allotment A/c (Application Money Received on 2.50 15% Debenture)		2,25,000	 2,25,000
	Debentures Application and Allotment A/c Dr. Loss on Discount on issue of Debentures A/c Dr. To 15% Debentures A/c To Securities Premium A/c (Application Money Transferred to Share Capital Account)		2,25,000 75,000	 2,50,000 50,000
Mar 31.	Surplus of Statement of Profit and Loss A/c To Debenture Redemption Investments A/c (Profit and Loss Transferred to Debenture Redemption Reserve A/c)		62,500	 62,500
	Debenture Redemption Investment A/c Dr. To Bank Ac (Investment made equal to 15% of the face value of Debentures to be redeemed)		37,500	 37,500
2020 Apr. 30	Bank A/c To Debenture Redemption Investment A/c (Debenture Redemption Investment encashed)		37,500	 37,500
	15% Debentures A/c Dr. To Debenture holders A/c (Amount due on Debenture holders)		2,50,000	 2,50,000
	Debenture holders A/c Dr. To Bank A/c To Premium on Redemption of Debentures A/c (Amount paid Debenture holders)		3,00,000	 2,50,000 50,000
	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Debenture Redemption Reserve Transferred to General Reserve Account)		62,500	 62,500

10. Pavitra Ltd. issued 9,000, 15% Debentures of ₹ 100 each at a premium of 5% on 1st October, 2018 redeemable @ 5% premium. The debentures are to be redeemed every year through draw of lots—3,000 debentures to be redeemed every year starting from 30th September, 2020. Record the necessary journal entries including the payment of interest on debentures upto the year 2020. The company met the legal requirement with respect to DRR and investment which was invested in fixed deposits of a Bank on 30th April, 2020. The interest is payable on 31st March and 30th September every year. Pavitra Ltd. closes its books of accounts on 30th September every year.

Solution 10 :

In the Books of Pavitra Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 Oct. 1	Bank A/c Dr. To Debenture Application and Allotment A/c (Application Money Received)		9,45,000	 9,45,000

Oct.1	Debenture Application and Allotment A/c Dr. Loss on issue of Debentures A/c Dr. To 15% Debentures A/c To Securities Premium A/c To Premium Redemption of Debentures A/c (Amount Transferred to Share Capital A/c)	9,45,000 45,000	 9,00,000 45,000 45,000
Mar 31.	Securities Premium A/c Dr. To Loss on issue of Debetnrues A/c (Loss on is use of Debentures Adjusted against securities premium)	45,000	 45,000
Mar 31.	Surplus i.e. Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Debenture Redemption Reserve Created on Debentures i.e. 9,000 × ₹ 100 × 25%)	2,25,000	 2,25,000
Mar 31.	Debenture Redemption Investment A/c Dr. To Bank A/c (Invest made 15% of the Face Value of Debenture to be Redeemed)	45,000	 45,000
Apr. 1	Bank A/c Dr. To Debenture Redemption Investment A/c To Interest Received A/c (Debenture Redemption Investment Encashed)	1,12,500	 45,000 67,500
	Premium on Redemption on 15% Debentures A/c Dr. To Debenture holders A/c (Amount due on Debenture holders)	3,00,000	 3,15,000
Apr. 1	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)	3,15,000	 3,15,000
Apr. 1	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (DDR Transferred to General Reserve)	75,000	 75,000
Sept. 30	Bank A/c Dr. To Interest Received A/c (Interest Received)	67,500	 67,500
2019 Mar.31	Debenture Redemption investment A/c Dr. To Bank A/c (Investment made @ 15% of the Face Value of Debentures to be redeemed)	45,000	 45,000
Oct 1.	Bank A/c Dr. To Debenture Redemption Investment A/c To Interest Received A/c (Debenture Investment encashed)	1,12,500	 45,000 67,500
 Apr.1	15% Debentures A/c Dr. Premium redemption of debentures A/c Dr. To Debenture holders A/c (Amount due on Debenture holders)	3,00,000 15,000	 3,15,000
Apr.1	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)	3,15,000 3,15,000	
Apr. 1	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (DRR Transferred to General Reserve)	75,000	 75,000

2020 Oct 1.	Bank A/c Dr. To Interest Received A/c (Interest Received)		67,500	 67,500
Mar 31.	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment made @ 15% of the face value of debentures to be redeemed)		45,000	 45,000
Mar. 1	Bank A/c Dr. To Debenture Redemption Investment A/c To Interest Received A/c (Debenture Redemption Investment encashed)		45,000	 45,000
Mar. 31	15% Debenture A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holders A/c (Amount due on Debenture holders)		3,00,000 15,000	 3,15,000
Mar 31.	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)		3,15,000	 3,15,000
Mar. 31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (DRR Transferred to General Reserve)		75,000	 75,000

11. Lata Ltd. (an unlisted company) issued 30,000, 8% debentures of ₹ 200 each on August 1, 2014 redeemable as follows :

On 31st March, 2018	6,000	Debentures
On 31st March, 2019	7,000	Debentures
On 31st March, 2020	7,000	Debentures
On 31st March, 2021	10,000	Debentures

It was decided to transfer ₹ 1,75,000 each to Debenture Redemption Reserve on March, 31, 2015 and March 31, 2016 and balance required to be transferred to Debenture Redemption Reserve on March 31, 2017. Record necessary journal entries. Ignore entries for payment of interest.

Solution 11 :

In the Books of Lata Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2014 Aug.1	Bank A/c Dr. To 8% Debentures A/c (Application Money Received)		60,00,000	 60,00,000
Aug 01	8% Debenture Redemption Reserve A/c Dr. To 8% Debentures A/c (Application Amount Transferred to 8% Debenture Account)		60,00,000	 60,00,000
2015	Surplus of Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Profit and Loss amount Transfer to Debenture Redemption Reserve)		4,00,000	 4,00,000
2016 Mar 31.	Surplus of Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Profit and Loss Amount Transfer to Debenture Redemption Reserve)		4,00,000	 4,00,000

2017 Mar.31	Surplus of Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Profit and Loss Amount Tansfer to Debenture Redemption Reserve)		7,00,000	 7,00,000
April 30	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment made equal to 15% of First Instalment of ₹ 12,00,000)		1,80,000	 1,80,000
2018 Mar 31.	8% Debentures A/c Dr. To Debenture holders A/c (Redemption amount due)		12,00,000	 12,00,000
Mar. 31	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)		12,00,000	 12,00,000
Mar. 31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Amount of Debenture Redemption Reserve Transfer to General Reserve)		3,00,000	 3,00,000
Mar 31.	Debenture Redemption Investment A/c Dr. To Bank A/c (15% Investment made of additional account of ₹ 2,00,000)		30,000	 30,000
2019 Mar. 31	8% Debentures A/c Dr. To Debenture holders A/c (Redemption Amount due)		14,00,000	 14,00,000
Mar. 31	Debenture Holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)		14,00,000	 14,00,000
Mar. 31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Amount of Debenture Redemption Reserve Tranferredto General Reserve)		3,50,000	 3,50,000
2020 Mar. 31	8% Debentures A/c Dr. To Debenture holders A/c (Redemption Amount due)		15,00,000	 14,00,000
Mar. 31	Debenture holders A/c Dr. To Bank A/c (Amountpaid to Debenture holders)		14,00,000	 14,00,000
Mar. 31	Deenture Redemption Reserve A/c Dr. To General Reserve A/c (Amount of Debenture Redemption Reserve Transferred to General Reserve)		3,50,000	 3,50,000
Apr. 30	Debenture Redemption Investment A/c Dr. To Bank A/c (15% Investment made of additional amount of ₹ 6,00,000)		90,000	 90,000
2021 Mar.31	Bank A/c Dr. To Debenture Redemption Investment A/c (Investment Amount Withdraw)		3,00,000	 3,00,000
Mar. 31	8% Debentures A/c Dr. To Debenture holders A/c (Redemption amount due)		20,00,000	 20,00,000
Mar 31.	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)		20,00,000	 20,00,000

Mar 31	Debenture Redemption eserve A/c Dr. To General Reserve A/c (Amount of Debenture Redemption Reserve Transferred to General Reserve Account)		5,00,000	5,00,000

Working Notes :

Calculation of Debenture Redemption Reserve Account :

$$31\text{st March, } 2018 = \frac{₹\,12,00,000}{₹\,60,00,000} \times ₹\ 15,00,000 = ₹\ 3,00,000$$

$$31\text{st March, } 2019 = \frac{₹\,14,00,000}{₹\,60,00,000} \times ₹\ 15,00,000 = ₹\ 3,50,000$$

$$31\text{st March, } 2020 = \frac{₹\,14,00,000}{₹\,60,00,000} \times ₹\ 15,00,000 = ₹\ 3,50,000$$

$$31\text{st March, } 2021 = \frac{₹\,20,00,000}{₹\,60,00,000} \times ₹\ 15,00,000 = ₹\ 5,00,000$$

12. Tata Ltd. (an unlisted company) issued 90,000, 9% Debentures of ₹ 100 each on July 1, 2015 redeemable at a premium of 5% as under :

On March 31, 2019	30,000 Debentures
On March 31, 2020	25,000 Debentures
On March 31, 2021	35,000 Debentures

It was decided to transfer to Debenture Redemption Reserve ₹ 2,00,000 on March 31, 2016; ₹ 3,00,000 on March 31, 2017 and the balance on March 31, 2018. Record necessary journal entries ignoring for interest.

Solution 12 :

In the Books of Tata Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2015 July 1	Bank A/c Dr. To Debenture Application and Allotment A/c (????)		90,00,000	90,00,000
July 1	9% Debenture Application and Adjustment A/c Dr. Loss on issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Application Amount Transferred to 9% Debenture Account)		90,00,000 4,50,000	 90,00,000 4,50,000
2016 Mar 31	Surplus of Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Profit and Loss Amount Transferred to Debenture redemption Reserve)		2,00,000	2,00,000
2017 Mar. 31	Surplus of Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Profit and Loss Amount Transferred to Debenture Redemption Reserve)		3,00,000	3,00,000
2018 Mar.31	Surplus of Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Profit and Loss Amount Transferred to Debenture Redemption Reserve)		4,00,000	4,00,000
April 30	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment made equal to 15% of First instalment of ₹ 3,00,000)		4,50,000	4,50,000

2019 Mar. 31	Bank A/c Dr. To Deenture Redemption Investment A/c (Interest amount withdrawn)		75,000	75,000
Mar. 31	9% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holders A/c (Amount paid to Debenture holders)		30,00,000 1,50,000	31,50,000
Mar. 31	Debenture Holders A/c Dr. To Bank A/c (Amount Paid to Deentureholders)		31,50,000	31,50,000
Mar. 31	Debeture Redemption Reserve A/c Dr. To General Reserve A/c (Amount of Debenture Redemption Reserve Transferred to General Reserve Account)		7,50,000	7,50,000
2020 Mar. 31	9% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holders A/c (Redemption Amount due)		25,00,000 1,25,000	26,25,000
Mar.31	Debenture holders A/c Dr. To Bank A/c (Amount paid to Deenture holders)		26,25,000	26,25,000
Mar.31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Amount ofdebenture Redemption Reserve Transferred to General Reserve)		6,25,000	6,25,000
Apr. 30	Debenture Redemption Investment A/c Dr. To Bank A/c (Amount paid to Debentureholders)		1,50,000	1,50,000
2021 Mar. 31	Bank A/c Dr. To Debenture Redemption Investment A/c (Investment Amount Withdraw)		5,25,000	5,25,000
Mar. 31	9% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture Holders A/c (Redemption Amount due)		35,800,000 1,75,000	36,75,000
Mar. 31	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)		36,75,000	36,85,000
Mar. 31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Amount of Debenture Redemption Reserve Transferred to General Reserve Account)		8,75,000	8,75,000

Working Notes :

1. Calculation of Debenture Redemption Reserve Account :
   25% of Face Value of Oustanding Debentures = 90,00,000 × 10% = ₹ 9,00,000
   Less : Existing Amount
   (Amount Already Transferred to DRR)
   (₹ 2,00,000 + ₹ 3,00,000) (5,00,000)
   (4,00,000)
2. Value of Debentures to be redeemed = 30,000 × 100 = 30,00,000

   Amount needed to be invested = ₹ 30,00,000 × $\frac{15}{100}$ = ₹ 4,50,000

13. Lalita Ltd. (an unlisted company) had 12,000, 12% Debentures of ₹ 100 each due for redemption at a premium of 5% on March 31, 2021. The Board of Directors of the company decided to transfer the required amount to Debenture Redemption Reserve. Required investment was also made an the debentures were redeemed.

Pass necessary journal entries.

Solution 13 :

In the Books of Lalita Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Surplus *i.e.* Statement of Profit and Loss A/c Dr. To Debentures Redemption Reserve A/c (Profit and Loss Amount Transferred to Debenture Redemption Reserve)		1,20,000	 1,20,000
	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment made @15% of the Face Value of the Debentures to be redeemed)		1,80,000	 1,80,000
	Bank A/c Dr. To Debenture Redemption Investment A/c (Amount of Debenture Redemption Investment Withdrawn)		1,80,000	 1,80,000
	12% Debentures A/c Dr. Premium to redemption of debentures A/c Dr. To Debenture holders A/c (Amount due on Debenture holders)		12,00,000 60,000	 12,60,000
	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)		7,35,000	 7,35,000
	Debenture Redemption Reserve A/c To General Reserve A/c (Amount of Debenture Transferred to General Reserve Account)		1,20,000	 1,20,000

14. Shatabdi Ltd. had an authorised capital of ₹ 10,00,00,000 divided into 10,00,000 equity shares of ₹ 100 each. The company had already issued 2,00,000 shares. The dividend paid per share for the year ended 31st March, 2019 was ₹ 30. The management decided to export its products to African countries. To meet the requirements of additional funds, the finance manager put up the following three alternate proposals before the Board of Directors :

(i) Issue 47,500 equity shares at a premium of ₹ 100 per share.
(ii) Obtain a long-term loan from bank which was available at 12% per annum.
(iii) Issue 9% debentures at a discount of 5%.

After evaluating these alternatives, the company decided to issue 1,00,000, 9% debentures on 1st April, 2020.The face value of each debenture was ₹ 100. These debentures were redeemable in four instalments starting from the end of third year, which was as follows :

Year	₹
III	10,00,000
IV	20,00,000
V	30,00,000
VI	40,00,000

Prepare 9% debentures account from 1st April, 2020 till all the debentures were redeemed.

Solution 14 :

9% Debentures Account

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			(₹)				(₹)
2015 Mar.31	To Balance c/d		1,00,00,000	2014 Apr.1	By Debenture Application A/c		95,00,000
				Apr.1	By Discount on issue of debentures A/c		5,00,000
			1,00,00,000				1,00,00,000
2016 Mar. 31	To Balance c/d		1,00,00,000	2015 Apr. 01	By Balance b/d		1,00,00,000
			1,00,00,000				1,00,00,000
2017 Mar. 31	To Debenture holders A/c		10,00,000	2016 Apr.01	By Balance b/d		1,00,00,000
Mar. 31	To Balance c/d		90,00,000				
			1,00,00,000				1,00,00,000
2018 Mar. 31	To Debenture holders A/c		20,00,000	2017 Apr. 01	By Balance b/d		90,00,000
Mar. 31	To Balance c/d		70,00,000				
			90,00,000				90,00,000
2019 Mar. 31	To Debenture holders A/c		30,00,000	2018 Apr.01	By Balance b/d		70,00,000
Mar. 31	To Balance c/d		40,00,000				
			70,00,000				70,00,000
2020 Mar. 31	To Debenture holders A/c		40,00,000	2019 Apr.01	By Balance b/d		40,00,000
			40,00,000				40,00,000

15. Pooja Ltd. issued 100 Debentures of ₹ 1,000 each at par. These are repayable completely out of profits by annual drawings over five years. Company has made the investments as per law before initiating the redemption of debentures.

You are required to prepare for the first two years : (i) Debentures Account; (ii) Debenture Redemption Reserve Account; (iii) Debenture Redemption Investment Account.

Solution 15 :

Debenture Account

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			(₹)				(₹)
Mar. 31	To Balance c/d		1,00,000	Apr. 1	By Debenture Application & Allotment A/c		1,00,000
			1,00,000				1,00,000
Mar. 31	To Debenture holders A/c		20,000	Apr.1	By Balance b/d		1,00,000
Mar. 31	To Balance c/d		80,0000				
			1,00,000				1,00,000
Mar.31	To Debenture holders A/c		20,000	Apr. 1	By Balance b/d		80,000
			80,000				80,000

Debenture Redemption Reserve Account

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			(₹)				(₹)
Mar. 31	To Balance c/d		1,00,000	Mar. 31	By Surplus		1,00,000
			1,00,000				1,00,000
Mar. 31	To General Reserve A/c		25,000	Mar. 31	By Balanc b/d		1,00,000
Mar. 31	To Balance c/d		75,000				
			1,00,000				1,00,000
Mar. 31	To General Reserve A/c		25,000	Mar.31	By Balance b/d		75,000
Mar. 31	To Balance c/d		50,000				
			75,000				75,000

Debenture Redemption Investment Account

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
Mar. 31	To Bank A/c		3,000	Mar. 31	By Bank A/c		3,000
			3,000				3,000
Mar. 31	To Bank A/c		3,000	Mar. 31	By Bank A/c		3,000
			3,000				3,000
Mar. 31	To Bank A/c		3,000	Mar. 31	By Bank A/c		3,000
			3,000				3,000

16. Roshni Ltd. has 15,000, 14% Debentures of ₹ 100 each, due for redemption in three equal annual instalments starting from 31st March, 2021. Debenture Redemption Reserve has a balance of ₹ 2,00,000 on this date. Prepare necessary journal entries assuming that company has complied with legal requirements with respect to investment made in Government securities on 30th April, 2020 (Ignore Interest)

Solution 16 :

In the Books of Rashi Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2015	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Profit Transferred to Debenture Redemption Reserve Account)		1,75,000	1,75,000
30 Apr.	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment made @ 15% of the face value of debentures to be redeemed)		75,000	75,000
30 June	Bank A/c Dr. To Debentures Redemption Investment A/c (Amount of Debenture Redemption Investment Withdrawn)		75,000	75,000
30 June	14% Debenture A/c Dr. To Debenture holders A/c (Amount Due on Debentureholders)		5,00,000	5,00,000

30 June	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)		5,00,000	5,00,000
30 June	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Amount of Debenture Redemption Reserve Account Transferred to General Reserve Account)		1,25,000	1,25,000

17. Anoop Ltd. (an unlisted company) had issued 20,000, 9% Debentures of ₹ 100 each which is due for redemption on 31st March, 2021. The company has in its Debenture Redemption Reserve Account a balance of ₹ 1,60,000. Record the necessary journal entries for the Redemption of Debentures.

Solution 17 :

In the Books of Anoop ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2015 31 Mar.	Surplus i.e. Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Profit Transferred to Debenture Redemption Reserve Account)		40,000	40,000
30 Apr.	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment made @ 15% of the Face Value of Debentures to be Redeemed)		3,00,000	3,00,000
30 June	Bank A/c Dr. To Debenture Redemption Investment A/c (Amount of Debenture Redemption Investment Withdrawn)		3,00,000	3,00,000
30 June	9% Debentures A/c Dr. To Debentureholders A/c (Amount due on Debenture holders)		20,00,000	20,00,000
30 June	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)		20,00,000	20,00,000
30 June	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Amount DRR Transferred to General Reserve A/c)		40,000	40,000

18. Amit Ltd. (an unlisted company) issued 42,000, 7% Debentures of ₹ 100 each on 1st April, 2017, redeemable at a premium of 8% on 31st March, 2021. The Company decided to create required Debenture Redemption Reserve on 31st March, 2020. The company invested the funds as required by law in a fixed deposit with State Bank of India on 1st April, 2020 earning interest @ 10% per annum. Tax was deducted at source by the bank on interest @ 10%. Pass necessary Journal Entries regarding issue and redemption of debentures.

Solution 18 :

In the Books of Amit Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017 Apr. 01	Bank A/c Dr. To Debenture Application and Allotment A/c (The Application and Allotment money @ ₹ 100 received on issue of 42,000 Debentures)		42,00,000	40,00,000

Apr. 01	Debenture Application and Allotment A/c Dr. Loss on issue of Debenture A/c Dr. To 7% Debenture A/c To Premium on Redemption of Debentures A/c (Profit Transferred to Debenture Redemption Reserve A/c)		40,00,000 3,36,000	 42,00,000 9,36,000
2020	Surplus *i.e.*, Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Profit Transferred to Debenture Redemption Reserve A/c)		4,20,000	 4,20,000
2020 01 Apr.	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment made as fixed deposits as per companies act 2013 earning interest @ 10%)		6,30,000	 6,30,000
2021 Mar.31	Bank A/c Dr. TDS Called (Receivable) A/c Dr. To Debenture Redemption Investment A/c To Interest Earned A/c (The Fixed deposit encahsed on redemption and interest received @ 10% per annum)		6,86,700 6,300	 6,30,000 63,000
	7% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holders A/c (The Fixed deposit encahsed on redemption and interest received @ 7% per annum)		42,00,000 3,36,000	 45,36,000
	Debenture holdrs A/c Dr. To Bank A/c (The Amount due paid on redemption)		45,36,000	 45,36,000
	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Debenture Redemption Reserve Transferred to General Reserve Account)		10,50,000	 10,50,000

19. Richa Ltd. (an unlisted company) issued 10,000, 9% debentures of ₹ 200 each at premium of 5% on June 30, 2010, redeemable on July 1, 2021. The Board of Directors decided to transfer ₹ 75,000 to Debenture Redemption Reserve on March 31, 2019 and balance on March 31, 2020. Record necessary entries for the issue as well as at the time of redemption of debentures. Ignore entries for payment of interest.

Solution 19 :

In the Books of Richa Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2010 30 June	Bank A/c Dr. To 9% Debenture Application and Allotment A/c (Application and Allotment Money received on Debentures)		20,00,000	 20,00,000
30 June	9% Debentures Application and Allotment A/c Dr. Loss on issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption A/c (Debenture Application Amount Transferred to 7% Debentures Account)		20,00,000 1,00,000	 20,00,000 1,00,000
2019 Mar. 31	Surplus of Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Debenture Redemption Reserve Transferred to Profit and Loss Account)		75,000	 75,000

2020 Mar. 31	Surplus of Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Debenture Redemption Reserve Transferred to Profit and Loss Account)		1,25,000	1,25,000
Apr. 30	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment made @ 15% of the Face Value of Debentures to be Redeemed)		3,00,000	3,00,000
2021 July 01	Bank A/c Dr. To Debenture Redemption Reserve A/c (Investment Amount Encashed)		3,00,000	3,00,000
July 01	9% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holders A/c (Redemption amount due)		20,00,000 1,00,000	21,00,000
July 01	Debenture Holders A/c Dr. To Bank A/c (amount paid to Debenture holders)		21,00,000	21,00,000
June 30	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Debenture Redemption Transferred to General Reserve Account)		2,00,000	2,00,000

Working Note :

Calculation of amount to be transferred to DRR :
(Unlisted company)
10% of face value of debentures to be redeemed i.e. 10% of ₹ 20,00,000 = ₹ 2,00,000
31st March, 2019 = ₹ 75,000
31st March 2020 = ₹ 1,25,000
(₹ 2,00,000 – ₹ 75,000)

20. Charu Ltd. (an unlisted company) issued 80,000, 8% debentures of ₹ 100 each on Jun 30, 2017 redeemable at a premium of 6% on July 1, 2021. The Board of Directors have decided to transfer out of profits ₹ 3,00,000 to Debenture Redemption Reserve on March 31, 2019 ₹ 3,00,000 on March 31, 2020 and balance on March 31, 2021. Record necessary journal entries regarding issue and redemption of debentures. Ignore entries relating to writing off loss on issue of debenture and interest paid thereon.

Solution 20 :

In the Books of Charu Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017 30 June	Bank A/c Dr. To Debenture Application and Allotment A/c (Debenture Appication and Allotment Money Received)		80,00,000	80,00,000
	Debenture Application A/c Dr. Loss on issue of Debentures A/c Dr. To 8% Debentures A/c To Premium on Redemption of Debentures A/c (Debentures issued with the term repayable @ 6% premium)		80,00,000 4,80,000	80,00,000 4,80,000
2018 Mar.31	Surplus of Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Debenture Transferred to Profit and Loss Account)		3,00,000	3,00,000

2019	Surplus of Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Debenture Reempetion Reserve Transferred to Profit and Loss Account)		3,00,000	3,00,000
2020 Mar. 31	Surplus of Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve Reserve A/c (Debenture Redemption Reserve Transferred to Profit and Loss Account)		2,00,000	2,00,000
Apr. 30	Debenture Redemption Investment A/c Dr. To Bank A/c (Investments made @ 15% of the Face Value of Debentures to be Redeemed)		12,00,000	12,00,000
July 01	Bank A/c Dr. To Debentures Redemption Investments A/c (Investment Amounts encashed)		12,00,000	12,00,000
July 01	8% Debentures A/c Dr. Premium on Redeption of Debentures A/c Dr. To Debenture Holders A/c (Redemption Amount due)		80,00,000 4,80,000	84,80,000
July 01	Debenture Holders A/c Dr. To Bank A/c (Amount paid to Debenture Holders)		84,80,000	84,80,000
June 30	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Debenture Redemption Reserve Account Transferred to General Reserve Account)		8,00,000	8,00,000
	Profit and Loss A/c Dr. To Interesst A/c (Interest Transferred to P & L A/c)		1,60,000	1,60,000
2020 31 Mar.	Interest A/c Dr. To Bank A/c (Interest paid to Debentures)		1,60,000	1,60,000
31 Mar.	8% Debenture A/c Dr. To Debenture holders A/c (Debenture Allotted To Debenture holder)		1,00,000	1,00,000
	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)		1,00,000	1,00,000
	P & L A/c Dr. To Interest A/c (Amount of Interest Transferred to Profit & Loss Account)		1,60,000	1,60,000
2021	Interest A/c Dr. To Bank A/c (Interest Paid on Debentures)		1,52,000	1,52,000
	Profit and Loss A/c Dr. To Interest A/c (Interest Transferred to Profit and Loss Account)		1,52,000	1,52,000
Mar. 31	Own Debenture A/c (97000 + 300) Dr. To Bank A/c (Debentures Purchased)		97,300	97,300
	8% Debentures A/c Dr. To own Debentures A/c To Profit Cancellation A/c (Purchase for Cancellation 100 debentures at the market price of ₹ 970)		1,00,000	2,700 2,700

21. Parvati Ltd. (an unlisted company) had outstanding ₹ 12,00,000, 9% debentures on 1st April, 2017 redeemable at a premium of 8% in two equal annual instalments starting from 31st March, 2021. The company has sufficient balance in Debenture Redemption Reserve on 31st March, 2020. Pass the necessary journal entries for redemption of debentures in the books of Parvati Ltd. for the year ended 31st March, 2021.

Solution 21 :

In the Books of Parvati ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2021 Mar. 31	Surplus of Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Debenture Redemption Reserve Transferred to Profit and Loss Account)		60,000	 60,000
Mar. 31	Debenture Redemption Reserve A/c Dr. To Bank A/c (Investments made @ 15% of the face value of debentures to be redeemed)		90,000	 90,000
Mar. 31	Bank A/c Dr. To Debentures Redemption Investment A/c (Investments Amount encashed)		90,000	 90,000
Mar. 31	9% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture Holders A/c (Redemption Amount Due)		12,00,000 96,000	 12,96,000
Mar. 31	Debenture Holders A/c Dr. To Bank A/c (Amount paid to Debentureholders)		12,96,000	 12,96,000
Mar. 31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Debenture Redemption Reserve Transferred to General Reserve Account)		60,000	 60,000

Working Notes :

Amount Transferred to DRR

$$₹\ 12{,}00{,}000 \times \frac{10}{100} = ₹\ 1{,}20{,}000$$

$$\text{in two equal installments} = \frac{₹1{,}20{,}000}{2} = ₹\ 60{,}000$$

22. On 1st April, 2021, a company issued 2,000, 8% Debentures of ₹ 100 each at a premium of ₹ 20, repayable at a premium of ₹ 20. The terms of issue provided for the redemption of ₹ 20,000 debentures every year commencing from 31st March, 2021 either by purchase from the open market or by draw of lots at the company's option.

On 31st March, 2014, the company purchased for cancellation its own debentures of the face value of ₹16,000 at ₹ 95 per debenture and of ₹ 4,000 at ₹ 90 per debenture. Show Journal entries for redemption of debentures.

Solution 22 :

In the Books of Company
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2014 Mar. 31	Debentures A/c Dr. To Bank A/c (200 Debentures of ₹ 100 each purchase)		18,800	 18,800
Mar. 31	8% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentures A/c To Gain on Cancellation of Own Debentures A/c (Debentures Cancelled)		20,000 4,000	 18,800 5,200
Mar. 31	Gain on anceellation of Debentures A/c Dr. To Capital Reserve A/c (Amount of Profit on Redemption Transferred to Capital Reserve)		5,200	 5,200

23. On 1st April, 2017 P Ltd. issued 2,000, 8% Debentures of ₹ 1,000 each at ₹ 1,050. The expenses of issue amounted to ₹ 8,000 which were written from Securities Premium Reserve in the year of issue. The terms of issue provided that beginning from 31st March, 2019 debentures of ₹ 1,00,000 should be redeemed either by drawings at par or by purchase from the market every year. In 2019-20, the debentures to be redeemed were repaid at the end of the year by drawings. In 2020-21, the company purchased for cancellation 100 debentures at the market price of ₹ 970 on 31st March, the expenses being ₹ 300. Interest is payable yearly. Ignore income tax.

journal entries from year 2017 to 2021.

Solution 23 :

In the Books of P Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 31 Mar.	Interest A/c Dr. To Bank A/c (Interest Paid on Debentures)		1,60,000	 1,60,000
Mar. 31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Debenture Redemption Reserve Transferred to General Reserve A/c)		30,000	 30,000
Apr. 1	Debenture Redemption Investment A./c Dr. To Bank A/c (Investment made @ 15% of the Face Value of Debentures to be redeemed i.e. ₹ 1200 × 100 × 15%)		18,000	 18,000
2021 Mar. 31	Bank A/c Dr. To Debenture Redemption Investment A/c (Debenture Redemption Investment encashed)		18,000	 18,000
Mar. 31	10% Debenture A/c Dr. Premium on Redemption of Debentures A/c Dr. To Deenture Holders A/c (Amount Due to Deenture Holders)		1,20,000 6,000	 1,26,000
Mar. 31	Debenture Holders A/c Dr. To Bank A/c (Amount paid to Debenture Holders)		1,26,000	 1,26,000

Mar 31.	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Debenture Redemption Reserve Transferred to General Reserve A/c)			30,000	30,000

10% Debentures A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2018 Mar. 31	To Balance c/d	3,00,000	2017 Apr. 1	By Debenture Application & Allotment A/c	3,00,000
		3,00,000			3,00,000
2019 Mar. 31	To Debenture holders A/c	60,000	2019 Apr. 1	By Balance b/d	3,00,000
Mar. 31	To Balance c/d	2,40,000			
		3,00,000			3,00,000
2020 Mar. 31	To Debenture holders A/c	1,20,000	2019 Apr. 1	By Balance b/d	2,40,000
Mar. 31	To Balance c/d	1,20,000			
		2,40,000			2,40,000
2021 Mar. 31	To Debenture holders A/c	1,20,000	2020 Apr. 1	By Balance c/d	1,20,000
		1,20,000			1,20,000

Debenture Redemption Reserve Account

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2018 Mar. 31	To Balance c/d	75,000	2018 Mar 31.	By Surplus	75,000
		75,000			75,000
2019 Mar. 31	To General Reserve A/c To Balance c/d	15,000 60,000	2018	By Balance b/d	75,000
		75,000			75,000
2020 Mar. 31	To General Reserve A/c	30,000	2019 Apr 1	By Balance b/d	60,000
Mar. 31	To Balance b/d	30,000			
		60,000			60,000
2021 Mar. 31	To General Reserve A/c	30,000	2020 Apr 1	By Balance b/d	30,000
		30,000			30,000

Debenture Redemption Investment A/c

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2018 Apr 1	To Bank A/c	9,000	2019	By Bank A/c	9,000
		9,000			9,000

2019 Apr. 1	To Bank A/c	18,000	2019	By Bank A/c	18,000
		18,000			18,000
2020	To Bank A/c	18,000	2021	By Bank A/c	18,000
		18,000			18,000

24. On 1st January, 2011 Nagpur Limited Company issued 5,000, 10% Debentures of ₹ 100 each at par which were repayable at a premium of 10% on 31st March, 2021. On the date of maturity, company decided to redeem the above mentioned 10% Debentures as per the terms of issue, out of profits. The Surplus, *i.e.,* Balance in Statement of Profit and Loss shows a credit balance of ₹ 6,00,000 on this date. The offer was accepted by all the debentureholders and all the debentures were redeemed.

Pass the necessary journal entries in the books of the Nagpur Limited only for the redemption of debentures, if the Company follows Section, 71 (4) of the Companies Act, 2013 along with Rule 18(7) of Companies (Share Capital and Debentures) rules, 2014.

Solution 24 :

In the Books of Nagpur Ltd.
Journal Entries

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2021	Surplus i.e. Balance in Statement of Profit & Loss A/c	Dr.		5,00,000	
	To Debenture Redemption Reserve A/c				5,00,000
	(The Amount Transferred to DRR out of Profit)				
Apr. 30	Debenture Redemption Investment A/c	Dr.		7,50,000	
	To Bank				75,000
	(Amount made to 15% of the Value of Debentures to be Redeemed invested in Government Securities)				
Dec. 31	Bank A/c	Dr.		75,000	
	To Debenture Redemption Investment A/c				75,000
	(The Debenture Redemption Investment encashed)				
	10% Debentures A/c	Dr.		5,00,000	
	Premium Redemption of Debentures A/c	Dr.		50,000	
	To Debenture holders A/c				5,50,000
	(Th Debentures due for Redemption @ 10% premium)				
	Debenture Holders A/c	Dr.		5,50,000	
	To Bank A/c				5,50,000
	(Amount paid to Debenture holders)				
	Debenture Redemption Reserve A/c	Dr.		50,00,000	
	To General Reserve A/c				5,00,000
	(Debenture Redemption Reserve Transferred to General Reserve)				

Note : Debentures are redeemed out of profit, therefore DRR is created for the full face value of debentures outstanding i.e. ₹ 5,00,000.

25. Mahadev Ltd. issued 3,000; 10% Debentures of ₹ 100 each at par on 1st April, 2017 redeemable at 5% premium in three yearly instalments by draw of lots as follows :

On 31st March, 2019	600 Debentures,
On 31st March, 2020	1,200 Debentures,
On 31st March, 2021	1,200 Debentures,

Pass Journal entries for Issue of Debentures, writing off the loss, DRR, DRI and Redemption of Debentures in compliance with the legal requirements with respect to Debenture Redemption Reserve and Debenture Redemption Investment. You are also required to prepare ledger accounts of 10% Debentures, Loss on issue of Debentures, DRR and DRI. Ignore interest paid and received.

Solution:

In the Books of Mahadev Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017 Apr. 01	Bank A/c Dr. To Debenture Application and Allotment A/c (Application Money Received)		3,00,000	 3,00,000
Apr. 01	Debenture Application and Allotment A/c Dr. Loss on issu of Debentures A/c Dr. To 10% Debentures To Premium on Redemption of Debentures A/c (Application Money Transferred to Share Capital Account)		3,00,000 15,000	 3,00,000 15,000
2018 Mar. 31	Statement of Profit and Loss A/c Dr. To Loss on issue of debentures A/c (Loss on issue of Debentures Transferred to Statement of P & L A/c)		15,000	 15,000
Mar. 31	Surplus of Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Profit and Loss Transferred to Debenture Redemption Reserve A/c)		75,000	 75,000
Apr. 01	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment made @15% of the Face Value of the Debentures to be Redeemed) (*i.e.* 600 Debentures × ₹ 100 × 15 %)		9,000	 9,000
2019 Mar.31	Bank A/c Dr. To Debenture Redemption Investment A/c (Debenture Redemption Reserve encashed)		9,000	 9,000
Mar. 31	10% Debentures A/c Dr. Premium on Redemption of Debentures A/c To Debenture holders A/c (Amount due on Debentures holders)		60,000 3,000	 63,000
Mar. 31	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)		63,000	 63,000
Mar. 31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Debenture Redemption Reserve Transferred to General Reserve Account)		15,000	 15,000
Apr.01	Debenture Redemption Investment A/c Dr. To Bank A/c (Investments made @15% of the Face Value of Debentures to be redeemed i.e. 1200 × 100 ×15%)		18,000	 18,000
2020 Mar. 31	Bank A/c Dr. To Debenture Redemption Investment A/c (Debenture Redemption Investment encashed)		18,000	 18,000
Mar. 31	10% Debentures A/c Dr. Premium redemption if debentures A/c Dr. To Debenture Holders A/c (Amount due on Debenture holders)		1,20,000 6,000	 1,26,000
Mar. 31	Debenture holders A/c Dr. To Bank A/c (Amount paid to Debenture holders)		1,26,000	 1,26,000

12 Tools For Financial Statement Analysis : Comparative and Common Size Statement

1. From the summarised Balance Sheets of X Ltd., as 31st March, 2019 and 2020, prepare Comparative Balance Sheet :

Particulars	Note No.	2020 (₹)	2019 (₹)
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds :			
(a) Share Capital		9,00,000	7,50,000
(b) Reserves and Surplus		2,25,000	1,50,000
(2) Non-current Liabilities :			
Long-term Borrowings		3,00,000	4,20,000
(3) Current Liabilities :			
Trade Payables		5,55,000	5,85,000
Total		19,80,000	19,05,000
II. ASSETS			
(1) Non-current Assets :			
Fixed Assets : (i) Tangible		9,55,000	9,45,000
(ii) Intangible		2,00,000	3,00,000
(2) Current Assets :			
(a) Inventories		4,00,000	3,00,000
(b) Trade Receivables		3,25,000	2,50,000
(c) Cash and Cash Equivalents		1,00,000	1,10,000
Total		19,80,000	19,05,000

Solution 1 :

In the Books of X Ltd.
Comparative Balance Sheet For the year ended 2019 & 2020

Particulars	Note No.	2020 (₹)	2019 (₹)	Change (Increase or decrease) (₹)	Change (Increase or Decrease (%)
I. Equity and Liabilities :					
(1) Shareholder's Fund					
(a) Share Capital		9,00,000	7,50,000	1,50,000	20%
(b) Reserve and Surplus		2,25,000	1,50,000	75,000	50%
(2) Non Current Liabilities					
Long Term Borrowings		3,00,000	4,20,000	(1,20,000)	(28.57%)
(3) Current Liabilities					
Trade Payables		5,55,000	5,85,000	(30,000)	(5.13%)
		19,80,000	19,05,000	75,000	3.94%

II. Assets :					
(1) Non Current Assetsq					
Fixed Assets : (i) Tangible		9,55,000	9,45,000	10,000	1.06%
(ii) Intangible		2,00,000	3,00,000	(1,00,000)	(33.33%)
(2) Current Assets					
(a) Inventories		4,00,000	3,00,000	1,00,000	33.33%
(b) Trade Receivables		3,25,000	2,50,000	75,000	30%
(c) Cash and Cash Equivalents		1,00,000	1,10,000	(10,000)	(9.09%)
		19,80,000	19,05,000	75,000	3.94%

2. Following is the Balance Sheet of Preetam 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		15,00,000	10,00,000
(b) Reserves and Surplus		10,00,000	10,00,000
2. Non-Current Liabilities :			
Long-term Borrowings		8,00,000	2,00,000
3. Current Liabilities :			
Trade Payables		5,00,000	31,00,000
Total		38,00,000	25,00,000
II. ASSETS			
1. Non-Current Assets :			
Fixed Assets :			
(i) Tangible Assets		25,00,000	15,00,000
(ii) Intangible Assets		5,00,000	5,00,000
2. Current Assets :			
(a) Trade Receivables		6,00,000	3,50,000
(b) Cash and Cash Equivalents		2,00,000	1,50,000
Total		38,00,000	25,00,000

You are required to prepare Comparative Balance Sheet.

Solution 2 :

In the Books of Preetam Ltd.
Comparative Balance Sheet for the Year ended 2019 & 2020

Particulars	Note No.	2020 (₹)	2019 (₹)	Change (Increase or decrease) (₹)	Change (Increase or Decrease (%)
I. Equity and Liabilities :					
(1) Shareholders' Funds :					
(a) Share Capital		15,00,000	10,00,000	5,00,000	50%
(b) Reserve and Surplus		10,00,000	10,00,000	—	
(2) Non Current Liabilities					
Long-term Borrowings		8,00,000	2,00,000	6,00,000	300%
(3) Current Liabilities					
Trade Payables		5,00,000	3,00,000	2,00,000	66.67%
		38,00,000	25,00,000	13,00,000	52%

II. Assets :					
1. Non Current Assets					
Fixed Assets					
(i) Tangible Assets		25,00,000	15,00,000	10,00,000	66.68%
(ii) Intangible Assets		5,00,000	5,00,000	—	—
2. Current Assets					
(a) Trade Receivables		6,00,000	3,50,000	2,50,000	71.42%
(b) Cash and Cash Equivalents		2,00,000	1,50,000	50,000	33.33%
		38,00,000	25,00,000	13,00,000	52%

3. From the following Balance Sheets of Nisha Ltd., as at 31st March, 2019 and 2020, prepare Comparative Balance Sheet :

Particulars	Note No.	2020 (₹)	2019 (₹)
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds :			
(a) Share Capital		15,00,000	10,00,000
(b) Reserves and Surplus		5,00,000	3,00,000
(2) Non-current Liabilities :			
(a) Long-term Borrowings		8,00,000	6,00,000
(b) Long-term Provisions		1,30,000	1,00,000
(3) Current Liabilities :			
(a) Trade Payables		5,00,000	4,00,000
(b) Short-term Provisions : Provision for Tax		2,50,000	2,00,000
Total		36,80,000	26,00,000
II. ASSETS :			
(1) Non-current Assets :			
(a) Fixed Assets – Tangible		16,50,000	11,00,000
(b) Non-current Investments		4,00,000	2,00,000
(2) Current Assets :			
(a) Inventories		7,15,000	5,50,000
(b) Trade Receivables		8,00,000	6,00,000
(c) Cash and Cash Equivalents		1,15,000	1,50,000
Total		36,80,000	26,00,000

Solution 3 :

In the Books of Nisha Ltd.
For the year ended 2020 and 2019

Particulars	Note No.	2020 (₹)	2019 (₹)	Change (Increase or decrease) (₹)	Change (Increase or Decrease (%)
I. Equity and Liabilities :					
(1) Shareholder's Funds :					
(a) Share Capital		15,00,000	10,00,000	5,00,000	50%
(b) Reserves and Surplus		5,00,000	3,00,000	2,00,000	66.67%
(2) Non Current Liabilities					
(a) Long Term Borrowings		8,00,000	6,00,000	2,00,000	33.33%
(b) Long Term Provisions		1,30,000	1,00,000	30,000	30%

(3) Current Liabilities					
(a) Trade Payables		5,00,000	4,00,000	1,00,000	25%
(b) Short term provisions		2,50,000	2,00,000	50,000	25%
Provision For Tax		36,80,000	26,00,000	20,80,000	41.53%
Assets :					
(1) Current Assets					
(a) Fixed Assets-Tangible		16,50,000	11,00,000	5,50,000	50%
(b) Non Current Investments		4,00,000	2,00,000	2,00,000	100%
(2) Current Assets					
(a) Inventories		7,15,000	5,50,000	1,65,000	30%
(b) Trade Receivables		8,00,000	6,00,000	2,00,000	33.33%
(c) Cash and Cash Equivalents		1,15,000	1,50,000	(35,000)	(23.33%)
		36,80,000	26,00,000	10,80,000	41.53%

4. Following information is extracted from the Statement of Profit and Loss of Security Ltd. for the year ended 31st March, 2020 and 2019 :

Particulars	**31st March, 2020 (₹)**	**31st March, 2019 (₹)**
Revenue from Operations	₹ 60,00,000	₹ 45,00,000
Employees Benefit Expenses	₹ 30,00,000	₹ 22,50,000
Depreciation	₹ 7,50,000	₹ 6,00,000
Other Expenses	₹ 15,50,000	₹ 10,00,000
Tax Rate	30%	30%

Prepare Comparative Statement of Profit and Loss.

Solution 4 :

Comparative Statement of Profit and Loss of Security Ltd.
For the year ended 31st March, 2020 and 2019

Particulars	**Note No.**	**31st March, 2020 (₹)**	**31st March, 2019 (₹)**	**Change (Increase or decrease) (₹)**	**Change (Increase or Decrease (%)**
I. Income					
Revenue From Operations		45,00,000	6,00,000	15,00,000	33.33%
II. Expences					
Employees Benefits Expenses		22,50,000	30,00,000	7,50,000	33.33%
Depreciation		6,00,000	7,50,000	1,50,000	25%
Other Expences		10,00,000	15,00,000	5,50,000	55%
Total		38,50,000	53,00,000	14,50,000	37.70%
III. Net Profit Before Tax (I–II)		6,50,000	7,00,000	50,000	7.69%
Less Tax (30%)		1,95,000	2,10,000	15,000	8.69%
IV. Net Profit after Tax		4,55,000	4,90,000	35,000	8.60%

5. Prepare Comparative Statement of Profit and Loss of X Ltd., for the year ended 31st March, 2019 and 2020 from the following Income Statements :

Particulars	Note No.	2020 (₹)	2019 (₹)
I. Revenue from Operations		30,00,000	25,00,000
II. Other Income		2,00,000	50,000
III. Total Revenue (I + II)		32,00,000	25,50,000
IV. Expenses :			
(a) Cost of Material Purchased		15,00,000	12,00,000
(b) Change in Inventories of Finished Goods and Work-in-progress		1,50,000	1,00,000
(c) Employees Benefit Expenses		6,00,000	4,50,000
(d) Finance Cost		70,000	50,000
(e) Depreciation and Amortization Expenses		1,00,000	80,000
(f) Other Expenses		80,000	60,000
Total Expenses		25,00,000	19,40,000
V. Profit before Tax (III – IV)		7,00,000	6,10,000
Less : Tax Rate 50%		3,50,000	3,05,000
VI. Profit after Tax		3,50,000	3,05,000

Solution 5 :

Comparative Statement of Profit and Loss of X Ltd.
For the year ended 31st March, 2020 and 2019

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)	Change (Increase or decrease) (₹)	Change (Increase or Decrease (%)
I. Income					
Revenue from Operations		30,00,000	25,00,000	(5,00,000)	(20%)
II. Other Income		2,00,000	50,000	1,50,000	(300%)
Total Revenue		32,00,000	25,50,000	(7,50,000)	(29.41%)
II. Expenses					
(a) Cost of Material Purchased		15,00,000	12,00,000	3,00,000	25%
(b) Change in Inventories of Finished Goods and Work in Progress		1,50,000	1,00,000	50,000	50%
(c) Employees Benefit Expenses		6,00,000	4,50,000	1,50,000	33.33%
(d) Finance Cost		70,000	50,000	20,000	40%
(e) Depreciation and Amontization Expences		1,00,000	80,000	20,000	25%
(f) Other Expences		1,00,000	80,000	20,000	25%
Total		25,00,000	19,40,000	5,60,000	28.87%
III. Profit before tax (I-II) 7,00,000		6,10,000	90,000	14.75%	
IV. Less Tax Rate 50%		3,50,000	3,05,000	45,000	14.75%
V. Profit after tax (III - IV)		3,50,000	3,05,000	45,000	14.75%

6. Following information is extracted from the Statement of Profit and Loss of Sidhana Ltd. for the year ended 31st March, 2020 and 2019 :

Particulars	31st March, 2020 (₹)	31st March, 2019 (₹)
Revenue from Operations	60,00,000	45,00,000
Employees Benefit Expenses	30,00,000	22,50,000
Depreciation	7,50,000	6,00,000
Other Expenses	15,50,000	10,00,000
Tax Rate	30%	30%

Prepare Comparative Statement of Profit and Loss.

Solution 6 :

Comparative Statement of Profit and Loss of Sidhana Ltd.
For the year Ended 31st March, 2020 and 2019

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)	Change (Increase or decrease) (₹)	Change (Increase or Decrease (%)
I. Income					
Revenue from Operations		60,00,000	45,00,000	15,00,000	33.33%
II. Expences					
Employee Benefit Expenses		30,00,000	22,50,000	7,50,000	33.33%
Depreciation		7,50,000	6,00,000	1,50,000	25%
		15,50,000	10,00,000	5,50,000	55%
Other Expences					
Total		53,00,000	38,50,000	14,50,000	37.70%
III. Net profit before tax (I- II) 7,00,000		6,50,000	50,000	7.69%	
Less : Tax @ (30%)		2,10,000	1,95,000	15,000	7.69%
IV. Net Profit after Tax		4,00,000	4,55,000	35,000	7.69%

7. Prepare a Common-Size Balance Sheet of Q Ltd. from the following information :

(₹ *in Lakh)*

Particulars	31st March, 2020 (₹)	31st March, 2019 (₹)
Current Assets	28.80	22.80
Non-Current Investments	1.80	1.20
Fixed Assets	41.40	36.00
Share Capital	30.00	30.00
Reserves & Surplus	12.00	7.20
Non-Current Liabilities	12.60	12.00
Current Liabilities	17.40	10.80

Solution 7 :

Common Size Balance Sheet of Q Ltd.
For the year ended 31st March, 2020 and 2019

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)	Change (Increase or decrease) (₹)	Change (Increase or Decrease (%)
I. Equity and Liabilities					
(1) Shareholder's Funds		30.00	41.67%	30.00	50%
(a) Share Capital		12.00	17.5%	7.20	12%
(b) Reserves & Surplus		12.60	17.5%	12.00	20%
(2) Non Current + Liabilities		12.60	17.5%	12.00	20%
(3) Current Liabilities		17.40	24.17%	10.80	18%
Total		72.00	100.00%	60.00	100%
II. Assets :					
(1) Non Current Assets					
(a) Fixed Assets		41.40	57.5%	36.00	60%
(b) Non Current Investments		1.80	2.5%	1.20	2%
(2) Current Assets		28.80	40%	22.80	38%
		72.00	100%	60.00	100%

8. Prepare Common-Size Balance Sheet from the following Balance Sheets of A Ltd., as 31st March, 2019 and 2020 :

Particulars	Note No.	2020 (₹)	2019 (₹)
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds :			
(a) Share Capital		8,00,000	5,95,000
(b) Reserves and Surplus		3,60,000	2,04,000
(2) Non-current Liabilities :			
(a) Long-term Borrowings : 12% Debentures, Secured		3,00,000	3,40,000
(b) Long-term Provisions		1,20,000	85,000
(3) Current Liabilities :			
(a) Short-term Borrowings		3,60,000	3,40,000
(b) Short-term Provision — Tax		60,000	1,36,000
Total		20,00,000	17,00,000
II. ASSETS			
(1) Non-current Assets :			
Fixed Assets — Tangible		12,00,000	10,20,000
(2) Current Assets		8,00,000	6,80,000
Total		20,00,000	17,00,000

Solution 8 :

Common Size Balance Sheet of A Ltd.
For the year ended March 2020 and 2019

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)	Change (Increase or decrease) (₹)	Change (Increase or Decrease (%)
I. Equity and Liabilities					
(1) Shareholder's Funds					
(a) 8,00,000		40%	5,95,000	35%	
(b) Resolves and Surplus		3,60,000	18%	2,04,000	12%
(2) Non Current Liabilities					
(a) Long Term Borrowings					
12% Debentures, Sured		3,00,000	15%	3,40,000	20%
(b) Long Term Provisions		1,20,000	6%	85,000	5%
(3) Current Liabilities					
(a) Short Term Borrowings		8,60,000	18%	3,40,000	20%
(b) Short Term Provision-Tax		60,000	3%	1,36,000	68%
Total		20,00,000	100%	17,00,000	108%
II. Assets					
(1) Non Current Assets					
Fixed Assets -Tangide		12,00,000	60%	10,20,000	60%
(2) Current Assets		8,00,000	40%	6,80,000	40%
Total		20,00,000	100%	17,00,000	100%

9. Prepare a Common-Size Statement of Profit and Loss of Sudha Ltd. from the following information :

Particulars	Note No.	31.3.2020	31.3.2019
		₹	₹
Revenue from Operations		18,00,000	15,00,000
Cost of Materials consumed		10,86,300	9,24,000
Employees Benefit Expenses		2,75,760	2,50,650
Other Expenses		45,000	30,000

Solution 9 :

Common Size Statement of Profit & Loss of Sudha Ltd.
For the year ended 31st March, 2019 and 2020

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)	Change (Increase or decrease) (₹)	Change (Increase or Decrease (%)
I. Income					
Revenue from Operations		18,00,000	100%	15,00,000	100%
II. Expenses					
Cost of Material Consumed		10,86,300	60.35%	9,24,000	61.6%
Employees Benefit Expences		2,75,760	15.32%	2,50,650	16.71%
Other Expences		45,000	2.5%	30,000	2%
Total		14,08,060	78.17%	12,04,650	80.31%

III. Net Profit (I - II)		3,92,940	31.83%	2,95,350	19.69%
IV. Less Tax		—	—	—	—
V. Net Profit After Tax (III -IV)		—	—	—	—

10. Prepare Common-Size Income Statement of Vipasha Ltd. from the following Income Statements :

Particulars	Note No.	31st March, 2020(₹)	31st March 2019 (₹)
I. Income			
Revenue from Operations	1	15,00,000	12,00,000
Other Income		80,000	25,000
Total Revenue		15,80,000	12,25,000
II. Expenses :			
Purchase of Stock-in-Trade		10,20,000	8,00,000
Changes in Inventories of Stock-in-Trade		(20,000)	16,000
Employees Benefit Expenses		3,00,000	2,00,000
Other Expenses	2	70,000	50,000
Total		13,70,000	10,66,000
III. Net Profit (I – II)		2,10,000	1,59,000

Solution 10 :

Common Size Statement of Vipasha Ltd.
For the year ended 31st March, 2020 and 2019

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)	Change (Increase or decrease) (₹)	Change (Increase or Decrease (%)
I. Income					
Tevenue from Operations		15,00,000	100%	12,00,000	100%
Other Income		80,000	6%	25,000	2%
Total Revenue		15,80,000	106%	12,25,000	102%
II. Expenses					
Purchase of Stock-in-Trade		10,20,000	68%	8,00,000	65%
Changes in Inventories of Stock in Trade		(20,000)	(1.0%)	16,000	1.5%
Employees Benefit Expenses		3,00,000	20%	2,00,000	20%
Other Expenses		70,000	4.7%	50,000	4%
Total		13,70,000	91.7%	10,66,000	90.5%
III. Net Profit (I-II)		2,10,000	14.3%	1,59,000	11.5%

13 Accounting Ratios

1. From the following particulars compute the Current Ratio :

Particular	₹
Land & Buildings	5,00,000
Inventory	70,000
Trade Receivables	90,000
Current Investments	35,000
Trade Payables	46,000
Long-term Borrowings	50,000
Short-term Borrowings	20,000
Provision for Tax	10,000
Outstanding Expenses	4,000
Cash and Cash Equivalents	5,000

Solution 1 :

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

Current Assets = Inventory + Trade Receivables + Current Investments + Cash and Cash Equivalents
= ₹ 70,000 + ₹ 90,000 + ₹ 35,000 + ₹ 5,000
= ₹ 2,00,000

Current Liabilities = Trade Payables + Short Term Borrowings + Provision For Tax + Oustanding Expenses
= ₹ 46,000 + ₹ 20,000 + ₹ 10,000 + ₹ 4,000
= ₹ 80,000

$$\text{Current Ratio} = \frac{₹2,00,000}{₹80,000} = 2.5 : 1$$

2. From the following information, calculate :
(a) Operating Profi Ratio; and
(b) Working Captial Turnover Ratio.

Information	₹
(i) Revenue from Operations	2,00,000
(ii) Gross Profit	75,000
(iii) Office Expenses	15,000
(iv) Selling Expenses	26,000
(v) Interest on Debentures	5,000
(vi) Accidental Losses	12,000
(vii) Income from Rent	2,500
(viii) Commission Received	2,000
(ix) Current Assets	60,000
(x) Current Liabilities	10,000

Solution 2 : (a)

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

Operating Profit = Gross Profit – Operating Expences
= ₹ 75,000 – (₹ 15,000 + ₹ 26,000)
= ₹ 75,000 – ₹ 41,000
= ₹ 34,000

Revenue from Operations = ₹ 2,00,000

$$\text{Operating Profit Ratio} = \frac{₹34,000}{₹2,00,000} \times 100 = 17\%$$

(b) $$\text{Working Capital Turnover Ratio} = \frac{\text{Revenue from Operations}}{\text{Working Capital}} \times 100$$

Working Capital = Current Assets – Current Liabilities
= ₹ 50,000 – ₹ 10,000
= ₹ 50,000

$$\text{Working Capital Turnover Ratio} = \frac{₹2,00,000}{₹50,000} = 4 \text{ Times}$$

3. Comment upon the short-term financial position of the Company on the basis of the following :

Goodwill ₹ 1,00,000; Sundry Debtors ₹ 2,50,000; Machinery ₹ 4,00,000; Inventory ₹ 5,00,000; Bills Payable ₹ 30,000; Sundry Creditors ₹ 4,20,000; Prepaid Expenses ₹ 25,000; Cash ₹ 40,000; Marketable Securities ₹ 80,000; Bills Receivable ₹ 30,000; Debentures ₹ 1,00,000; Expenses Payable ₹ 10,000; Live stock ₹ 50,000; Patent ₹ 20,000; Provision for Taxation ₹ 40,000.

Solution 3 :

Short term financial position can be commented upon with the help of liquidity ratios. Liquidity Ratios includes the following two ratios :

(a) Current Ratio and (b) Quick Ratio

(a) Current Ratio = Sundry Debtors + Inventory + Prepaid Expences + Cash + Marketable Securities + Bills Receivables
= ₹ 2.50,000 + ₹ 5,00,000 + ₹ 25,000 + ₹ 40,000 + ₹ 80,000 + ₹ 30,000
= ₹ 9,25,000

Current Liabilities = Bills Payable + Sundry Creditors + Expenses Payable + Provision for Taxation
= ₹ 30,000 + ₹ 4,20,000 + ₹ 10,000 + ₹ 40,000
= ₹ 5,00,000

$$\text{Current Ratio} = \frac{₹9,25,000}{₹5,00,000} = 1.85 : 1$$

(b) $$\text{Quick Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

Liquid Assets = Sundry Debtors + Cash + Marketable Securities + Bills Receivables
= ₹ 2,50,000 + ₹ 40,000 + ₹ 80,000 + ₹ 30,000
= ₹ 4,00,000

$$\text{Quick Ratio} = \frac{₹4,00,000}{₹5,00,000} = 0.8 : 1$$

Comments : Short term Financial Position of the company is unsatisfactory because its current ratio is 1.85 : 1 which is less than the ideal ratio of 2 : 1 and Quick Ratio is 0.8 : 1 which is less than the ideal Ratio of 1 : 1.

4. The Quick ratio of a company is 0.8 : 1. State with reason whether the following transactions will increase, decrease or not change the quick ratio :

(1) Purchase of loose tools ₹ 2,000.

(2) Insurance premium paid in advance ₹ 500.

(3) Sale of goods on credit ₹ 3,000.

(4) Honoured a bills payable of ₹ 5,000 on maturity.

Solution 4 :

(i) Decrerase —Quick Assets have decreased but current liabilities remain unchanged.

(ii) Decrease—Quick Assets, have decreased but currernt liabilities remain unchanged.

(iii) Increase—Quick Assets have increased but current liabilities remain unchanged.

(iv) Decrease—Both Quick Assets and Current Liabilities have decreased by the same amount.

5. The quick ratio of a company is 1 : 1. State giving reasons, which of the following would improve, reduce or not change the ratio ?

(i) Purchase of machinery for cash

(ii) Purchase of goods on credit

(iii) Sale of furniture at cost

(iv) Sale of goods at a profit

(v) Redemption of Debentures

(vi) Cash received from Debtors.

Solution 5 :

(i) Reduce—Quick Assets have decreased without affecting current liabilities.

(ii) Reduce—Current Liabilities will increase without affecting Quick Assets.

(iii) Improve—Quick Assets have increased without affecting Current Liabilities.

(iv) Improve—Quick Assets have increased without affecting Current Liabilities.

(v) No Charge—Both the Quick Assets (Cash) and Current Liabilities are decreased because redeemable debentures are included in Current Liabilities.

(vi) No Change—One Quick Assets (Debtors) is converted into another Quick Assets. (Cash)

6. Compute (i) Revenue from Operations, (ii) Cost of Revenue from Operations and (iii) Closing Stock from the following information :

Trade Receivables Turnover Ratio : 4 Times; Inventory Turnover Ratio : 6 Times; Current Ratio 2.5 : 1, Working Capital Turnover Ratio : 5 Times; Average Trade Receivables ₹ 1,50,000; Cash Revenue from Operations was 20% of Net Revenue from Operations, Gross Profit Ratio 25% and Closing Stock was ₹ 20,000 less than the Opening Stock.

Solution 6 :

Trade Receivable Turnover Ratio

$$= \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

$$4 \text{ Times} = \frac{\text{Net Credit Sales}}{₹ 1,50,000}$$

Net Credit Revenue From Operation = ₹ 6,00,000

Net Revenue from operation = 100

Credit Revenue from operation = 80

Cash Revenue from operation = 20

Thus, Net Revenue from operation

$$= \frac{₹ 6,00,000}{80} \times 100 = ₹ 7,50,000$$

(i) Revenue from operation = ₹ 7,50,000

(ii) Cost of Revenue from operation = Net Revenue from operations – Gross Profit

Gross Profit = 25% On Net Revenue from Operations

= 25 of ₹ 7,50,000

= ₹ 1,87,500

Thus, cost of Revenue from operation = ₹ 7,50,000 – ₹ 1,87,500
= ₹ 5,62,500

(iii) **Calculation of Closing Stock**

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

$$6 \text{ Times} = \frac{₹ 5,62,500}{\text{Average Inventory}}$$

$$\text{Average Inventory} = \frac{₹ 5,62,500}{6}$$

= ₹ 93,750

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

$$₹ 93,750 = \frac{\text{Opening Inventory + Closing Inventory}}{2}$$

Opening Inventory + Closing Inventory = ₹ 93,750 × 2
= ₹ 1,87,500

Opening stock is more than ₹ 20,000 closing stock.

Thus closing stock will be = ₹ 1,87,500 – ₹ 20,000
= ₹ 1,67,500

$$\text{Closing Stock} = \frac{₹ 1,67,500}{2}$$

= ₹ 83,750

Opening Stock = ₹ 83,750 + ₹ 20,000
= ₹ 1,03,750

7. From the given information, calculate all the following ratios :
(i) Current Ratio, (ii) Debt-Equity Ratio, (iii) Inventory Turnover Ratio.
Information : Net Revenue from Operations ₹ 5,00,000; Opening Stock ₹ 27,000; Closing Stock ₹ 4,000 more than the Opening Stock; Net Purchases ₹ 1,00,000 less than Net Revenue from Operations; Operating Expenses ₹ 30,000; Liquid Assets ₹ 95,000; Prepaid Expenses ₹ 2,000; Current Liabilities ₹ 60,000; 9% Debentures ₹ 3,00,000; Long-term Loan from Bank ₹ 1,00,000; Equity Sahre Capital ₹ 8,00,000; 8% Preference Capital ₹ 2,00,000.

Solution 7 :

Opening Stock = ₹ 27,000
Closing Stock = ₹ 27,000 + ₹ 4,000
= ₹ 31,000

Net Revenue from operations (Net Sales)
= ₹ 5,00,000

Net purchase = ₹ 5,00,000 – ₹ 1,00,000
= ₹ 4,00,000

(i) $$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Cost of Goods Sold = Opening Stock + Purchases – Closing Srock
= ₹ 27,000 + ₹ 5,00,000 – ₹ 31,000
= ₹ 3,96,000

$$\text{Average Inventory} = \frac{₹ 27,000 + ₹ 31,000}{2} = ₹ 29,000$$

$$\text{Inventory Turnover Ratio} = \frac{₹ 3,96,000}{₹ 29,000}$$

= 13.66 Times

(ii)

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

Current Assets = Inventory + Liquid Assets + Prepaid Expences
= ₹ 31,000 + ₹ 95,000 + ₹ 2,000
= ₹ 1,28,000

Current Liabilities = ₹ 60,000

$$\text{Current Ratio} = \frac{₹1,28,000}{₹60,000} = 2.13 : 1$$

(iii)

$$\text{Debt Equity Ratio} = \frac{\text{Long Term Debt}}{\text{Shareholder's Funds}}$$

Long term debt = 9% Debenture + Longterm Loan from Bank
= ₹ 3,00,000 + + ₹ 1,00,000 + ₹ 40,000

Shareholder's fund = equity share capital + 8% preference share capital
= ₹ 8,00,000 + ₹ 2,00,000
= ₹ 10,00,000

$$\text{Debt Equity Ratio} = \frac{₹4,00,000}{₹10,00,000} = 0{\cdot}4 : 1$$

8. From the following information, calculate Debt to Equity Ratio :

	₹
10,000 Equity Shares of ₹ 10 each fully paid	1,00,000
5,000, 9% Preference Shares of ₹ 10 each fully paid	50,000
General Reserve	45,000
Surplus, *i.e.*, Balance in Statement of Profit and Loss	20,000
10% Debentures	75,000
Current Liabilities	50,000

Solution 8

$$\text{Debt Equtity Ratio} = \frac{\text{Long Term Debt}}{\text{Shareholder's Funds}}$$

Long Term Debt = 10% Debentures
= ₹ 75,000

Shareholder's Fund = Equity Share Capital + Preference Share Capital + General Reserve + Balance in Statement of Profit & Loss A/c
= ₹ 1,00,000 + ₹ 50,000 + ₹ 45,000 + ₹ 20,000
= ₹ 2,15,000

$$\text{Debt Equity Ratio} = \frac{₹75,000}{₹2,15,000} = 0.35 : 1$$

9. Balance Sheet had the following accounts as at 31st March, 2020 :

	₹		₹
10% Preference Share Capital	5,00,000	Current Assets	12,00,000
Equity Share Capital	15,00,000	Current Liabilities	8,00,000
Securities Premium Reserve	1,00,000	Investments (in other companies)	2,00,000
Reserves and Surplus	4,00,000	Fixed Assets—Cost	60,00,000
Long-term Loan from IDBI @ 9%	30,00,000	Depreciation written off	14,00,000

Calculate ratios indicating the Long-term and the Short-term financial position of the company.

Solution 9 :

$$\text{Debt Equity Ratio} = \frac{\text{Long Term Debt}}{\text{Shareholder's Funds}}$$

Long Term Debts = Long Term Long From IDBI
= ₹ 30,00,000

Equity Shareholder's Funds = Equity Share Capital + Preference Share Capital + Reserves and Surplus
= ₹ 15,00,000 + ₹ 5,00,000 + ₹ 4,00,000
= ₹ 24,00,000

$$\text{Debt to Equity Ratio} = \frac{₹\,30,00,000}{₹\,24,00,000} = 1.25 : 1$$

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

Current Liabilities = ₹ 8,00,000
Current Assets = ₹ 12,00,000

$$\text{Current Ratio} = \frac{₹\,12,00,000}{₹\,8,00,000} = 1.5 : 1$$

10. Calculate Current Ratio from the following Balance Sheet of Suraj Ltd., as on 31st March, 2020 :

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
(1) Shareholders' Funds :		
(a) Share Capital		4,00,000
(b) Reserves and Surplus		1,20,000
(2) Non-current Liabilities :		
Long-term Borrowings		2,00,000
(3) Current Liabilities		
(a) Trade Payables		2,00,000
(b) Other Current Liabilities		50,000
(c) Short-term Provisions		30,000
Total		10,00,000
II. ASSETS		
(1) Non-current Assets :		
(a) Fixed Assets :		
(i) Tangible Fixed Assets		3,00,000
(ii) Intangible Fixed Assets		40,000
(b) Non-current Investments		50,000
(2) Current Assets :		
(a) Inventories		2,40,000
(b) Trade Receivables		2,00,000
(c) Cash and Cash Equivalents		1,10,000
(d) Short-term Loans and Advances		40,000
(e) Other Current Assets		20,000
Total		10,00,000

Additional Information :

1. Short-term Provisions include Provision for Doubtful Debts ₹ 10,000.
2. Inventories include Loose Tools for ₹ 25,000.
3. Other Current Assets include Prepaid Expenses.

Solution 10 :

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

Current Assets = Inventories + Trade Receivables + Cash and Cash Equivalents + Short Term Loans and Advances + Other Current Assets

= (₹ 2,40,000 – ₹ 25,000) + (₹ 2,00,000 – ₹ 10,000) + ₹ 1,10,000 + ₹ 40,000 + ₹ 20,000

= ₹ 2,15,000 + ₹ 1,90,000 + ₹ 1,10,000 + ₹ 40,000 + ₹ 20,000

= ₹ 5,75,000

Current Liabilities = Trade Payables + Other Current Liabilities + Short Term Provisions

= ₹ 2,00,000 + ₹ 50,000 + (₹ 30,000 – ₹ 10,000)

= ₹ 2,00,000 + ₹ 50,000 + ₹ 20,000

= ₹ 2,70,000

$$\text{Current Ratio} = \frac{₹5,75,000}{₹2,70,000} = 2.13 : 1$$

11. From the following information, calculate Proprietary Ratio :

	₹
Equity Share Capital	3,00,000
Preference Share Capital	1,50,000
Reserves and Surplus	75,000
Debentures	1,80,000
Trade Payables	45,000
	7,50,000
Fixed Assets	3,75,000
Short-term Investments	2,25,000
Other Current Assets	1,50,000
	7,50,000

Solution 11 : Prprietary Ratio = $\frac{\text{Shareholder's Funds}}{\text{Total Assets}}$

Shareholder's Funds = Equity Share Capital + Preference Share Capital + Reserves & Surplus

= ₹ 3,00,000 + ₹ 1,50,000 + ₹ 75,000

= ₹ 5,25,000

Total Assets = Fixed Assets + Short Term Investments + Other Current Assets

= ₹ 3,75,000 + ₹ 2,25,000 + ₹ 1,50,000

= ₹ 7,50,000

$$\text{Proprietory Ratio} = \frac{₹5,25,000}{₹7,50,000} = 0.70 : 1$$

12. From the following information, calculate the Debt-Equity Ratio and Current Ratio :

Particulars	₹
Share Capital	2,50,000
Trade Payables	60,000
Trade Receivables	60,000
12% Debentures	2,80,000
Cash & Cash Equivalents	30,000
Long-term Loan	1,10,000
General Reserve	25,000

Solution 12 :

$$\text{Debt Equity Ratio} = \frac{\text{Long Term Debt}}{\text{Equity Shareholders Fund}}$$

Long Term Debt = 12% Debentures + Long Term Loan
= ₹ 2,80,000 + ₹ 1,10,000
= ₹ 3,90,000

Equity Shareholder's Funds = Share Capital + General Reserve
= ₹ 2,50,000 + ₹ 25,000
= ₹ 2,75,000

$$\text{Debt Equity Ratio} = \frac{₹\,3,90,000}{₹\,2,75,000} = 1.42 : 1$$

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

Current Assets = Trade Receivables + Cash & Cash Equivalents
= ₹ 60,000 + ₹ 30,000
= ₹ 90,000

Current Liabilities = Trade Payables
= ₹ 60,000

$$\text{Current Ratio} = \frac{₹\,90,000}{₹\,60,000} = 1.5 : 1$$

13. Compute Return on Investment (ROI) from the following information of Wye Ltd. : Revenue from Operations (Sales) ₹ 25,00,000; Gross Profit Ratio 30%; Administrative Expenses ₹1,70,000; Selling and Distribution Expenses ₹ 1,30,000; Interest Paid on Long-term Borrowings ₹ 30,000; Depreciation ₹ 40,000; Provision for Doubtful Debts ₹ 5,000. Tax Rate was 30%. Wye Ltd., has Non-current Assets ₹ 12,00,000; Current Assets ₹ 8,00,000; Current Liabilities ₹ 3,50,000.

Solution 13 :

$$\text{Return on Investment} = \frac{\text{Profit Before Interest, Tax and Dividend}}{\text{Capital Employed}} \times 100$$

Profit Before Interest, Tax and Dividend = Gross Profit – Adm. Expences – Selling & Distribution Expenses – Depreciation – Provision for Doubtful Debts
= ₹ 7,50,000 – (₹ 1,70,000 + ₹ 1,30,000 + ₹ 40,000 + ₹ 5,000)
= ₹ 7,50,000 – ₹ 3,45,000
= ₹ 4,05,000

Capital Employed = Share Capital + Reserves and Surplus + LongTerm Borrowings

Total Liabilities = Capital Employed + Current Liabilities

₹ 20,00,000 = x + ₹ 3,50,000

x = ₹ 16,50,000

Capital Employed = ₹ 16,50,000

$$\text{Return on Investment} = \frac{₹\,4,05,000}{₹\,16,50,000} \times 100$$

= 24.55%

14. Calculate (i) Debt-Equity Ratio, (ii) Proprietary Ratio and (iii) Total Assets to Debt Ratio from the following data :

Particulars	₹
I. Equity and Liabilities :	
Share Capital	8,00,000
Reserves and Surplus	3,00,000
8% Debentures	4,00,000
Mortgage Loan	2,00,000
Bank Loan	1,00,000
Bank Overdraft	70,000
Creditors	3,30,000
II. Assets :	
Goodwill	2,00,000
Fixed Assets	15,00,000
Current Assets	4,50,000
Non-current Investments	50,000

Solution 14 :

(i) Debt Equity Ratio $= \dfrac{\text{Long Term Debt}}{\text{Equity Shreholders Fund}}$

Long Term Debt = 8% Debentures + Mortgage Loan + Bank Loan
= ₹ 4,00,000 + ₹ 2,00,000 + ₹ 1,00,000
= ₹ 7,00,000

Equity shareholder fund = Equity share capital + Reserves and Surplus
= ₹ 8,00,000 + ₹ 3,00,000
= ₹ 11,00,000

Debt Equity Ratio $= \dfrac{₹7,00,000}{₹11,00,000} = 0.64 : 1$

(ii) Proprietary Ratio $= \dfrac{\text{Shareholder's Fund}}{\text{Total Assets}}$

Total Assets = Goodwill + Fixed Assets + Current Assets + Non Current Investments
= ₹ 2,00,000 + ₹ 15,00,000 + ₹ 4,50,000 + ₹ 50,000
= ₹ 22,00,000

Shareholder's Fund = ₹ 11,00,000

Proprietary Ratio $= \dfrac{₹11,00,000}{₹22,00,000} = 0.5 : 1$

(iii) Total Assets to Debt Ratio $= \dfrac{\text{Total Assets}}{\text{Long Term Debt}}$

Total Assets = ₹ 7,00,000

Total Assets to Debt Ratio $= \dfrac{₹22,00,000}{₹7,00,000}$

= 3.14 : 1

15. From the following information, calculate Interest Coverage Ratio :

Particulars	₹
10,000 Equity Shares of 10 each	1,00,000
8% Preference Shares	70,000
10% Debentures	50,000
Long-term Loans from Bank	50,000
Interest on Long-term Loans from Bank	5,000
Net Profit after tax	75,000
Tax	9,000

Solution 15 :

$$\text{Interest Coverage Ratio} = \frac{\text{Profit Before Interest and Taxes}}{\text{Interest}}$$

Profit before Interest and Taxes = Profit after Tax & Taxst Interest from Long term Loan from Bank + Interest + On Debentures

= ₹ 75,000 + ₹ 9,000 + ₹ 5,000 + (₹ 50,000 × 10%)

= ₹ 75,000 + ₹ 9,000 + ₹ 5,000 + ₹ 5,000

= ₹ 94,000

Interest = Interest from Long Term Loan From Bank + Interest on Debentures

= ₹ 5,000 + ₹ 5,000

= ₹ 10,000

$$\text{Interest Coverage Ratio} = \frac{₹94,000}{₹10,000}$$

= 9.4 Times

16. From the following information, calculate the following ratios :

(i) Gross Loss Ratio, (ii) Working Capital Turnover Ratio, (iii) Proprietary Ratio.

Information :

Particulars	₹
Paid up Capital	8,00,000
Current Assets	5,00,000
Credit Revenue from Operations	3,00,000
Cash Revenue from Operations	75% of Credit Sales
9% Debentures	3,40,000
Current Liabilities	2,90,000
Cost of Revenue from Operations	6,80,000

Solution 16 :

(i) $$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Revenue from operations}} \times 100$$

Total Revenue from Operations= Cash Revenue from operations + Credit Revenue from operations

= ₹ 3,00,000 + (₹ 3,00,000 × 75%)

= ₹ 3,00,000 + ₹ 2,25,000

= ₹ 5,25,000

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

= ₹ 5,25,000 – ₹ 6,80,000

= ₹ 1,55,000

$$\text{Gross Profit Ratio} = \frac{₹1,55,000}{₹5,25,000} \times 100 = 29.52\%$$

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

Working Capital = Current Assets – Current Liabilities
= ₹ 5,00,000 – ₹ 2,90,000
= ₹ 2,10,000

Working Capital Turnover Ratio $= \dfrac{₹5,25,000}{₹2,10,000}$

= 2.5 Times

(iii) Proprietary Ratio $= \dfrac{\text{Sharenolder's Fund}}{\text{Total Assets}}$

Shareholder's Funds = Paid Up Capital
= ₹ 8,00,000

Total Assets = Total Liabilities

Total Liabilities = Paid Up Capital + 9% Debentures + Current Liabilities
= ₹ 8,00,000 + ₹ 3,40,000 + ₹ 2,90,000
= ₹ 14,30,000

₹ 14,30,000 = ₹ 14,30,000

Proprietary Ratio $= \dfrac{₹8,00,000}{₹14,30,000} = 0.56 : 1$

17. From the following information, calculate Inventory Turnover Ratio :

	₹		₹
Opening Inventory	40,000	Closing Inventory	12,000
Purchases	92,000	Wages	6,000
Carriage Inward	4,000	Frieght Outward	7,500

Solution 17 :

Inventory Turnover Ratio $= \dfrac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$

Cost of Goods Sold = Opening Inventory + Purchases + Carriage Inward + Wages – Closing Inventory
= ₹ 40,000 + ₹ 92,000 + ₹ 4,000 + ₹ 6,000 – ₹ 12,000
= ₹ 1,30,000

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

$= \dfrac{₹40,000 + ₹12,000}{2}$

$= \dfrac{₹52,000}{2} = ₹\ 26,000$

Inventory Turnover Ratio $= \dfrac{₹1,30,000}{₹26,000} = 5$ Times

18. Calculate Inventory Turnover Ratio from the following :

	₹
Opening Inventory	29,000
Closing Inventory	31,000
Revenue from Operations, *i.e.*, Net Sales	3,20,000
Gross Profit Ratio 25%.	

Solution 18 :

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

$$\text{Cost of Goods Sold} = \text{Net Sales} - \text{Gross Profit}$$
$$= ₹\ 3{,}20{,}000 - ₹\ 80{,}000$$
$$= ₹\ 2{,}40{,}00$$

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

$$= \frac{₹\,29{,}000 + ₹\,31{,}000}{2}$$

$$= \frac{₹\,60{,}000}{2} = ₹\ 30{,}000$$

$$\text{Inventory Turnover Ratio} = \frac{₹\,2{,}40{,}000}{₹\,30{,}000} = 8 \text{ Times}$$

19. Calculate Inventory Turnover Ratio from the following information :
Opening Inventory ₹ 40,000; Purchases ₹ 3,20,000; and Closing Inventory ₹ 1,20,000. State, giving reason, which of the following transactions would (i) increase, (ii) decrease, (iii) neither increase nor decrease the Inventory Turnover Ratio :

(a) Sale of goods for ₹ 40,000 (Cost ₹ 32,000).
(b) Increase in the value of Closing Inventory by ₹ 40,000.
(c) Goods purchased for ₹ 80,000.
(d) Purchase Return ₹ 20,000.
(e) Goods costing ₹ 10,000 withdrawn for personal use.
(f) Goods costing ₹ 20,000 distributed as free samples.

Solution 19 :

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

$$\text{Cost of Goods Sold} = \text{Opening Inventory} + \text{Purchases} - \text{Closing Inventory}$$
$$= ₹\ 40{,}000 + ₹\ 3{,}20{,}000 - ₹\ 1{,}20{,}000$$
$$= ₹\ 2{,}40{,}000$$

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

$$= \frac{₹\,40{,}000 + ₹\,1{,}20{,}000}{2}$$

$$= \frac{₹\,1{,}60{,}000}{2}$$

$$= ₹\ 80{,}000$$

$$\text{Inventory Turnover Ratio} = \frac{₹\,2{,}40{,}000}{₹\,80{,}000} = 3 \text{ Times}$$

(a) Increase = Because "Cost of Rev." will increase and "Closing Inventory" will decrease by same amount
(b) Decrease = Because the value of "Closing Inventory" will increase only.,
(c) Decrease = Because the value of "Closing and Average Inventory" will increase.
(d) Increase = Because the value of "Average Inventory" will decrease.
(e) Increase = Because the value of "Closing and Average Inventory" will decrease.
(f) Increase = Because the value of "Closing and Average Inventory" will decrease.

20. State with reasons whether the Operating Ratio of a company will increase, decrease or not change due to the following transactions :

Particulars	₹
(i) Paid wages	1,000
(ii) Issued 12% debentures	1,00,000
(iii) Sold Goods on Credit	15,000
(iv) Paid commission on sales	5,000
(v) Paid for advertisement	4,000
(vi) Credit purchases of goods	5,000
(vii) Sales returns	200
(viii) Payment to creditors	1,000
(ix) Cash sales	10,000
(x) Purchases returns	100

Solution 20 :

(i) Paid Wages ₹ 1,000 – Increase
Reasons : If wages paid than it will decrease the cost of goods sold of company and operating cost will also decrease. Thus operating ratio will increase.

(ii) Issued 12% Debentures – No Change
Reasons : Issue of Debentures does not affect operating cost or cost of goods sold of company, it is wither a operating expenses nor an operating income. Thus, it will not affect the operating ratio of the company.

(iii) Goods sold on credit – ₹ 15,000 – Decrease
Reasons : If company sold goods on credit then cost of goods sold of company will increase and operating cost will also increase. Hence, the operation Ratio of Company will decrease.

(iv) Commission paid on sales – 5,000 – Increase
Reason : Commission paid is an non operating expense. It will decrease the operating cost. Thus operating ratio of company will increase.

(v) Paid for Advertisement – ₹ 4,000 – Increase
Reason : It is also an non operating expense. It will reduce the net profit of company. Thus operating ratio will increase.

(vi) Credit Purchase of Goods : ₹ 5000 – Increase
Reason :Credit Purchase of Goods will reduce the cost of goods sold of company. Thus operating ratio will be increased.

(vii) Sale Return of ₹ 200 – Increase
Reason : Sale Return will reduce the cost of goods sold of company. Hence, operating ratio will be increased.

(viii) Payment to Creditors – ₹ 1,000 – No Change
Reason : it is neither a operating expense nor a perating income. Thus it cn not affect the operating cost therefore no changes will be in operating ratio.

(ix) Cash sales of ₹ 10,000 – Decrease
Reason : Cash sale will increase cost of Goods sold of company and also increased the operating cost. Thus, operating ratio will decreased.

(x) Purchase Return of ₹ 100 – Decrease
Reasons : Purchase Return will increase the cost of goods sold of company. It will increased the operating cost. Thus, operating ratio will be decreased.

21. Following details of Y Ltd. are given :

Particulars	**2020 (₹)**
Revenue from Operations (Sales)	4,00,000
Less : Cost of Revenue from Operations	3,00,000
Gross Profit	1,00,000
Less : Operating Expenses	30,000
Less : Non-operating Loss	10,000
Net Profit	60,000

Other Information :

Total Debts	5,00,000
Fixed Assets	3,00,000
Current Liabilities	1,00,000
Proprietors' Fund	2,50,000

Compute the following ratios :

(i) Gross Profit Ratio (ii) Net Profit Ratio
(iii) Operating Ratio (iv) Working Capital Turnover Ratio
(iv) Debt-Equity Ratio (vi) Proprietary Ratio

Solution 21 :

(i) Gross Profit Ratio $= \frac{\text{Gross Profit}}{\text{Sales}} \times 100$

$= \frac{₹1,00,000}{₹4,00,000} \times 100 = 25\%$

(ii) Net Profit Ratio $= \frac{\text{Net Profit}}{\text{Sales}} \times 100$

$= \frac{₹60,000}{₹4,00,000} \times 100 = 15\%$

(iii) Operating Profit Ratio $= \frac{\text{Operating Profit}}{\text{Sales}} \times 100$

Operating Profit = Sales – Operating Expences
= ₹ 4,00,000 – ₹ 30,000
= ₹ 3,30,000

Operating Profit Ratio $= \frac{₹3,30,000}{₹4,00,000} \times 100 = 82.5\ \%$

(iv) Working Capital Turnover Ratio $= \frac{\text{Sales}}{\text{Working Capital}}$

Working Capital = Current Assets – Current Liabilities
= ₹ 4,50,000 – ₹ 1,00,000
= ₹ 3,50,000

Working Capital Turnover Ratio $= \frac{₹400,000}{₹3,50,000} = 1.14$ Times

(v) Debt Equity Ratio $= \frac{\text{Long Term Debt}}{\text{Equity Shareholder's Funds}}$

Long Term Debt = Total Debts – Current Liabilities
= ₹ 5,00,000 – ₹ 1,00,000
= ₹ 4,00,000

Equity Shareholder's Fund = Proprietor's Fund
= ₹ 2,50,000

Debt Equity Ratio $= \frac{₹400,000}{₹2,50,000} = 1.6 : 1$

(vi) Proprietary Ratio $= \frac{\text{Proprietor's Fund}}{\text{Total Assets}}$

Proprietor's Fund = ₹ 2,50,000
Total Assets = ₹ 7,50,000

Proprietary Ratio $= \frac{₹2.50,000}{₹7,50,000} = 0.33 : 1$

22. The following balances are extracted from the books of Samantha Ltd. as at 31st March, 2020 :

Particulars	₹
Share Capital	2,40,000
Reserves & Surplus (including current year's profit)	1,40,000
15% Mortgage Loan	1,60,000
Trade Payables	1,20,000
Bank Overdraft	60,000
Tangible Fixed Assets	4,20,000
Intangible Fixed Assets	50,000
Inventory	90,000
Cash & Cash Equivalents	1,20,000
Short-term Investments	40,000

Net Profit after payment of interest and income tax amounted to ₹ 60,000, Rate of Income Tax 50%.

Calculate the following ratios and give your comments :

(i) Current Ratio;

(ii) Proprietary Ratio;

(iii) Total Assets to Debt Ratio,

(iv) Interest Coverage Ratio.

Solution 22 :

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

Current Assets = Inventory + Cash and Cash Equivalnts + Short Term Investments
= ₹ 90,000 + ₹ 1,20,000 + ₹ 40,000
= ₹ 2,50,000

Current Liabilities = Trade Payables + Bank Overdraft
= ₹ 1,20,000 + ₹ 60,000
= ₹ 1,80,000

Current Ratio $= \dfrac{₹2.50,000}{₹1,80,000} = 1.39 : 1$

Comment : Short Term Financial Position of the company is not satisfatory because its current ratio is less then the ideal ratio of 2 : 1.

(ii) Proprietary Ratio $= \dfrac{\text{Shareholder's Funds}}{\text{Total Assets}} \times 100$

Shareholder's Funds = Share Capital + Reserves & Surplus
= ₹ 2,40,000 + ₹ 1,40,000
= ₹ 3,80,000

Total Assets = Non Current Assets + Reserves & Surplus
= ₹ 2,40,000 + ₹ 1,40,000
= ₹ 3,80,000

Total Assets = Non Current Assets + Current Assets + Tangible Fixed Assets + Intangible Fixed Assets + Inventory + Cash & Cash Equivalents + Short Term Investments
= ₹ 4,20,000 + ₹ 50,000 + ₹ 90,000 + ₹ 1,20,000 + ₹ 40,000
= ₹ 7,20,000

Proprietary Ratio $= \dfrac{₹3.80,000}{₹7,20,000} \times 100 = 52.78\%$

Comments : Long Term Financial Position of company is satisfactory because 52.78% of the total assets are acquired by the company by equity.

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

Long Term Debts = 15% Mortgage Loan
= ₹ 1,60,000

Total Assets = ₹ 7,20,000

Total Assets to Debt Ratio $= \dfrac{₹7.20,000}{₹1,60,000} = 4.5 : 1$

Comments : Total assets of the company are 4.5 times of the long term debts which indicates the use of lower debts in financing the assets which means a larger safety margins for lenders.

(iv) Interest Coverage Ratio $= \dfrac{\text{Net Profit Before Interest and Tax}}{\text{Fixed Interest Charges}}$

Net Profit After Interest and Tax = ₹ 60,000

Net Profit Before Payment of Tax $= 60,000 \times \dfrac{100}{50} =$ ₹ 1,20,000

Net Profit Before Interest and Tax = ₹ 1,20,000 + Fixed Interest Charges
= ₹ 1,20,000 + ₹ 24,000
= ₹ 1,44,000

Interest Coverage Ratio $= \dfrac{₹1,44,000}{₹24,000} =$ 6 Times

Comments : Interest Coverage Ratio of the company is satisfactory because it is just equal to the normally acceptable interest coverage ratio of 60 × 7 times. It denotes that the company will be able to pay the interest on long term loans regularly.

23. Calculate (i) Inventory Turnover Ratio; (ii) Average Age of Inventory and (iii) Working Capital Turnover Ratio from the following details :

Particulars		₹
Revenue from Operations (Sales)		8,00,000
Less : Purchases	4,00,000	
Changes in Inventories (Opening Inventory – Closing Inventory)		
(40,000 – 80,000)	(–) 40,000	
Carriage	30,000	
Direct Expenses	2,10,000	6,00,000
Gross Profit		2,00,000

Additional Information :

	₹
Trade Receivables	1,15,000
Trade Payables	75,000
Cash at Bank	1,00,000
Outstanding Expenses	20,000

Solution 23 :

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

Cost of Revenue from Operations = Revenue from Operations – Gross Profit
=₹ 8,00,000 – ₹ 2,00,000
= ₹ 6,00,000

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

$$= \frac{₹40,000 + ₹80,000}{2}$$

$$= \frac{₹1,20,000}{2} = ₹\ 60,000$$

$$\text{Inventory Turnovr Ratio} = \frac{₹6,00,000}{₹60,000} = 10 \text{ Times}$$

(ii) $$\text{Average Age of Inventory} = \frac{\text{Days in a year}}{\text{Inventory Turnover Ratio}}$$

$$= \frac{365 \text{ Days}}{10 \text{ Times}} = 37 \text{ Days}$$

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

Net Revenue from Operations = ₹ 8,00,000
Working Capital = Current Assets – Current Liabilities
Current Assets = Trade Receivables + Closing Inventory + Cash & Cash Equivalents
= ₹ 1,15,000 + ₹ 80,000 + ₹ 1,00,000
= ₹ 2,95,000
Current Liabilities = Trade Payable + Oustanding Expenses
= ₹ 75,000 + ₹ 20,000 = ₹ 95,000
= ₹ 2,00,000

$$\text{Working Capital Turnover Ratio} = \frac{₹8,00,000}{₹2,00,000} = 4 \text{ Times}$$

24. From the details given below, calculate the following ratios :
(i) Current Ratio (ii) Quick Ratio (iii) Working Capital Turnover Ratio.
Information :

Particulars	₹
Trade Receivables	4,00,000
Stock	1,60,000
Current Investments	80,000
Cash	1,20,000
Prepaid Expenses	40,000
Bills Payable	80,000
Trade Creditors	1,60,000
Debentures	2,00,000
Expenses Payable	1,60,000
Net Revenue from Operations (Sales)	20,00,000

Solution 24 :

(i) $$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Current Assets = Trade Receivables + Stock + Current Investments + Cash + Prepaid Expenses
= ₹ 4,00,000 + ₹ 1,60,000 + ₹ 80,000 + ₹ 1,20,000 + ₹ 40,000
= ₹ 8,00,000

Current Liabilities = Bills Payable + Trade Creditors + Expenses Payable
= ₹ 80,000 + ₹ 1,60,000 + ₹ 1,60,000
= ₹ 4,00,000

Current Ratio $= \frac{₹8,00,000}{₹4,00,000} = 2:1$

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

Quick Assets = Current Assets – (Inventory + Prepaid Expenses)
= ₹ 8,00,000 –(₹ 1,60,000 + ₹ 40,000)
= ₹ 6,00,000

Quick Ratio $= \frac{₹6,00,000}{₹4,00,000} = 1.5:1$

(iii) Working Capital Turnover Ratio

$= \frac{\text{Sales}}{\text{Working Capital}}$

Working Capital = Current Assets – Current Liabilities
= ₹ 8,00,000 – ₹ 4,00,000
= ₹ 4,00,000

Working Capital Turnover Ratio $= \frac{₹20,00,000}{₹4,00,000}$

= 5 Times

25. On the basis of the following informations, calculate :
(i) Debt-Equity Ratio and (ii) Working Capital Turnover Ratio

Information :

Particulars	₹
Cash Revenue from Operations	40,00,000
Credit Revenue from Operations	20,00,000
Cost of Revenue from Operations	35,00,000
Current Assets Except Inventories	8,00,000
Current Liabilities	4,00,000
Paidup Capital	17,00,000
6% Debentures	3,00,000
9% Loan from Bank	7,00,000
Debenture Redemption Reserve	3,00,000
Closing Stock	1,00,000

Solution 25 :

(i) Debt Equity Ratio $= \frac{\text{Long Term Debt}}{\text{Equity Shareholders Fund}}$

Long Term Debt = 6% Debentures + 9% Loan from Bank
= ₹ 3,00,000 + ₹ 1,00,000
= ₹ 3,00,000 + ₹ 1,00,000
= ₹ 10,00,000

Equity Share Holder's Fund = Paid Up Capital + Debenture Redemption Reserve
= ₹ 17,00,000 + ₹ 3,00,000
= ₹ 20,00,000

$$\text{Debt Equity Ratio} = \frac{₹\,10,00,000}{₹\,20,00,000}$$
$$= 0.5 : 1$$

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

Total Revenue from Operations = Cash Revenue from Operations + Credit Revenue from Operations
= ₹ 40,00,000 + ₹ 20,00,000
= ₹ 60,00,000

Working Capital = Current Assets – Current Liabilities
= (₹ 8,00,000 + ₹ 1,00,000) – ₹ 4,00,000
= ₹ 5,00,000

$$\text{Working Capital Turnover Ratio} = \frac{₹\,60,00,000}{₹\,5,00,000} = 12 \text{ Times}$$

26. Credit Revenue from Operations, *i.e.*, Net Credit Sales for the year ₹ 1,20,000
Debtors ₹ 12,000
Bills Receivable ₹ 8,000
Calculate Trade Receivables Turnover Ratio.

Solution 26 :

$$\text{Trade Receivable Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

Net Credit Sales = ₹ 1,20,000
Average Trade Receivables = Debtors + Bills Receivables
= ₹ 12,000 + ₹ 8,000
= ₹ 20,000

$$\text{Trade Receivables Turnover Ratio} = \frac{₹\,1,20,000}{₹\,20,000} = 6 \text{ Times}$$

27. Compute Trade Receivables Turnover Ratio from the following :

	31st March, 2019 (₹)	*31st March, 2020 (₹)*
Revenue from Operations (Net Sales)	8,00,000	7,00,000
Debtors in the beginning of year	83,000	1,17,000
Debtors at the end of year	1,17,000	83,000
Sales Returns	1,00,000	50,000

Solution 27 :

$$\text{Trade Receivables Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

$$\text{For 2019} = \frac{₹\,8,00,000}{₹\,1,00,000} = 8 \text{ Times}$$

$$\text{For 2020} = \frac{₹\,7,00,000}{₹\,1,00,000} = 7 \text{ Times}$$

Average Trade Receivables

$$2019 = \frac{₹\,83,000 + ₹\,117,000}{2} = ₹\,1,00,000$$

$$2020 = \frac{₹\,1,17,000 + ₹\,83,000}{2} = ₹\,1,00,000$$

28. Find Net Profit Ratio, Operating Ratio and Operating Profit Ratio from the following information :

Particulars	₹
Revenue from Operations (Sales)	6,00,000
Gross Profit 25% on Cost	
Operating Expenses	20,000
Non-operating Expenses	12,000
Non-operating Incomes	8,000

Solution 28 :

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Sales}} \times 100$$

Net Profit = Gross Profit – Operating Expenses – Non Operating Expenses + Non Operating Income
= ₹ 1,20,000 – (₹ 20,000 + ₹ 12,000) + 8,000
= ₹ 1,20,000 – ₹ 32,000 + ₹ 8,000
= ₹ 96,000

$$\text{Net Profit Ratio} = \frac{₹\,96,000}{₹\,6,00,000} \times 100 = 16\%$$

$$\text{Operating Ratio} = \frac{\text{Operating Expenses}}{\text{Net Sales}} \times 100$$

Operating Expenses = Cost of Goods Sold + Operating Expenses
= ₹ 4,80,000 + ₹ 20,000
= ₹ 5,00,000

$$\text{Working Ratio} = \frac{₹\,5,00,000}{₹\,6,00,000} \times 100 = 83.33\%$$

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Net Sales}} \times 100$$

Operating Profit = Net Profit + Non Operating Expenses – Net Operating Incomes
= ₹ 96,000 + ₹ 12,000 – ₹ 8,000
= ₹ 1,00,000

$$\text{Operating Profit Ratio} = \frac{₹\,1,00,000}{₹\,6,00,000} \times 100 = 16.67\%$$

29. Calculate current assets of a company from the following information :
(i) Inventory turnover 4 times.
(ii) Inventory in the end is ₹ 20,000 more than inventory in the beginning.
(iii) Revenue from Operations ₹ 3,00,000.
(iv) Gross profit ratio 20%.
(v) Current liabilities ₹ 40,000
(vi) Quick ratio 0.75.

Solution 29 :

Current Assets = Liquid Assets + Closing Inventory

With the help of Quick Ratio, we can find out Liquid Assets.

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

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

or Liquid Assets = ₹ 40,000 × 0.75 = ₹ 30,000 with the help of Inventory Turnover Rati, we can find out closing Inventory :

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

$$4 \text{ (Given)} = \frac{(\text{Revenue from Operations} - \text{Gross Profit})}{\text{Average Inventory}}$$

$$\text{Average Inventory} = \frac{(₹\,3,00,000 - 20\% \text{ of } ₹\,3,00,000)}{4}$$

$$\text{Average Inventory} = \frac{₹\,2,40,000}{4} = ₹\ 60,000$$

$$\text{Closing Inventory} = ₹\ 60,000 + \frac{1}{2} \text{ of } ₹\ 20,000$$

$$= ₹\ 60,000 + ₹\ 10,000$$

$$= ₹\ 70,000$$

$$\text{Current Assets} = \text{Liquid Assets} + \text{Inventory}$$

$$= ₹\ 30,000 + ₹\ 70,000$$

$$= ₹\ 1,00,000$$

30. From the following information, calculate Trade Receivables Turnover Ratio :

Particulars	₹
Opening Trade Receivables	37,000
Closing Trade Receivables	43,000
Revenue from Operations (Sales)	6,00,000
Cash Revenue from Operations (Cash Sales)	80,000

Solution 30 :

$$\text{Trade Receivable Turnover Ratio} = \frac{\text{Credit Revenue from Operations}}{\text{Average Trade Receivables}}$$

Credit Revenue from Operations = Total Revenue from Operations – Cash Revenue from Operations

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

$$= \frac{₹\,37,000 + ₹\,43,000}{2} = \frac{₹\,80,000}{2}$$

$$= ₹\ 40,000$$

$$\text{Trade Receivables Turnover Ratio} = \frac{₹\,5,20,000}{₹\,40,000} = 13 \text{ Times}$$

31. Compute Trade Receivables Turnover Ratio from the following information :

Particulars		₹
Gross Revenue from Operations		10,00,000
Cash Revenue from Operations		1,80,000
Revenue from Operations Return		20,000
Debtors : 1st April	80,000	
Less : Provision	5,000	75,000
Debtors : 31st March	90,000	
Less : Provision	7,000	83,000

Solution 31 :

Trade Receivables Turnover Ratio

$$= \frac{\text{Credit Revenue from Operations}}{\text{Average Trade Receivables}}$$

Credit Revenue from Operations = (Gross Revenue from Operations – Revenue from Operations Return) – Cash Revenue from Operations

= (₹ 10,00,000 – ₹ 20,000) – ₹ 1,80,000

= ₹ 9,80,000 – ₹ 1,80,000

= ₹ 8,00,000

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

$$= \frac{₹80{,}000 + ₹90{,}000}{2} = \frac{₹1{,}70{,}000}{2}$$

= ₹ 85,000

$$\text{Trade Receivables Turnover Ratio} = \frac{₹80{,}00{,}000}{₹85{,}000} = 9.41 \text{ Times}$$

32. Rate of Gross profit on Revenue from operations of a company is 2.5%. Its Gross profit is ₹ 5,00,000. Its Shareholder's Funds are ₹ 25,00,000; Non-current Liabilities are ₹ 8,00,000 and Non-current Assets are ₹ 23,00,000.

Calculate its Working Capital Turnover Ratio.

Solution 32 :

$$\text{Working Capital Turnover Ratio} = \frac{\text{Revenue from Operation}}{\text{Working Capital}}$$

$$\text{Revenue from Operation} = \frac{\text{Gross Profit}}{\text{Gross Profit on Revenue from Operations}}$$

$$= \frac{₹50{,}000}{2.5\%} = ₹\ 20{,}00{,}000$$

Working Capital = Current Assets – Current Liabilities

Current Assets = Total Liabilities – Non Current Assets

= ₹ 33,00,000 – ₹ 23,00,000

= ₹ 10,00,000

Current Liabilities = 0

Total Assets = Total Liabilities

Total Liabilities = Shareholders Fund + Non Current Liabilities

= ₹ 25,00,000 + ₹ 8,00,000

= ₹ 33,00,000

$$\text{Working Capital Turnover Ratio} = \frac{₹20{,}00{,}000}{₹10{,}00{,}000} = 2 \text{ Times}$$

33. Calculate G. P. Ratio from the following :

Particulars	₹
Credit Revenue from Operations	6,00,000
Cash Revenue from Operations (Being 25% of Ttal Revenue from Operations)	
Purchases	6,90,000
Excess of Closing Inventory over Opening Inventory	50,000

Solution 33 :

If Total Revenue from operations is ₹ 100, Can revenue from operations will be ₹ 25 and credit Revenue from operations ₹ 75.

Hence, if the credit Revenue from operations is ₹ 75

Total Revenue from operation will be = ₹ 100

If credit Revenue from operation is ₹ 6,00,000.

$$\text{Total Revenue from operations will be} = \frac{100}{75} \times 6{,}00{,}000$$

$$= ₹\ 8{,}00{,}000$$

Cost of Revenue from operations = Purchase – Excess of Closing Inventory over opening inventory

= ₹ 8,00,000 – ₹ 6,40,000 = ₹ 1,60,000

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Revenue from Operations}}$$

$$= 20\%$$

34. From the following Balance Sheet of Sudha Ltd. you are required to calculate Return on Investment for the year 2019-20 :

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

Particulars	Note No.	₹
1. EQUITY AND LIABILITIES		
1. Shareholders' Funds :		
(a) Share Capital—Equity Shares of ₹ 10 each fully paid		5,00,000
(b) Reserves and Surplus		4,20,000
2. Non-Current Liabilities :		
15% Long-term Borrowings		16,00,000
3. Current Liabilities		8,00,000
Total		33,20,000
II. ASSETS		
1. Non-Current Assets :		
(a) Fixed Assets		16,00,000
(b) Non-Current Investments :		
(i) 10% Investments		2,00,000
(ii) 10% Non-trade Investments		1,20,000
2. Current Assets		14,00,000
Total		33,20,000

Additionl Information : Net Profit before Tax for the year eneded 31st March, 2020 is ₹ 9,72,000.

Solution 34 :

$$\text{Return on Investment} = \frac{\text{Net Profit Before Interest}}{\text{Capital Employed}} \times 100$$

Net Profit Before Interest = [₹ 9,72,000 + (₹ 16,00,000 × 5%)] – (₹ 1,20,000 × 10%)

= [₹ 9,72,000 + ₹ 2,40,000 – ₹ 12,000]

= ₹ 12,00,000

Capital Employed = [Shareholder's Funds + Non Current Liabilities] – Non Trade Investments

= [₹ 5,00,000 + ₹ 4,20,000 + ₹ 16,00,000] – ₹ 1,20,000

= ₹ 24,00,000

$$\text{Return on Investment} = \frac{₹\,12{,}00{,}000}{₹\,24{,}00{,}000} \times 100 = 50\%$$

35. Following is the Balance Sheet of the Sanjeev Prakashan as at 31st March, 2020 :

Particulars		Note No.	₹
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds :			
(a) Share Capital			
(b) Reserves and Surplus :			7,50,000
Surplus, *i.e.,* Balance in Statement of Profit and Loss :			
Opening Balance	6,30,000		
Add : Transfer from Statement of Profit and Loss	14,58,000		20,88,000
2. Non-Current Liabilities :			
15% Long-term Borrowings			24,00,000
3. Current Liabilities			12,00,000
Total			64,38,000
II. ASSETS			
1. Non-Current Assets :			
(a) Fixed Assets			27,00,000
(b) Non-current Investments :			
(i) 10% Investments			3,00,000
(ii) 10% Non-trade Investments			1,80,000
2. Current Assets			32,58,000
Total			64,38,000

You are required to calculate Return on Investment for the year ended 31st March, 2020 with reference to Opening Captial Employed.

Solution 35 :

$$\text{Return on Investment} = \frac{\text{Net Profit Before Interest and Tax}}{\text{Capital Employed}}$$

$$\begin{aligned}
\text{Net Profit Before Interest and Tax} &= [₹\ 14{,}58{,}000 + (₹\ 24{,}00{,}000 \times 15\%)] - (₹\ 1{,}80{,}000 \times 10\%) \\
&= [₹\ 14{,}58{,}000 + (₹\ 24{,}00{,}000 \times 15\%)] - (₹\ 1{,}80{,}000 \times 10\%) \\
&= [₹\ 14{,}58{,}000 + ₹\ 3{,}60{,}000 - ₹\ 18{,}000] \\
&= ₹\ 18{,}00{,}000 \\
\text{Capital Employed} &= [₹\ 7{,}50{,}000 + ₹\ 6{,}30{,}000 + ₹\ 24{,}00{,}000] - ₹\ 1{,}80{,}000 \\
&= ₹\ 36{,}00{,}000
\end{aligned}$$

$$\text{Return on Investment} = \frac{₹18{,}00{,}000}{₹36{,}00{,}000} \times 100 = 50\%$$

36. Compute Gross Profit Ratio, Operating Ratio, Operating Profit Ratio and Net Profit Ratio from the following information :

Particulars		₹
Cost of Material Purchased		7,50,000
Change in Inventories of Finished Goods and Work-in-Progress		90,000
Employees Benefit Expenses :		
Wages	1,00,000	
Salaries	60,000	1,60,000
Depreciation		30,000

Other Expenses :		
Carriage	10,000	
Frieght	20,000	
Administrative Expenses	60,000	
Selling Expenses	80,000	
Provision for Doubtful Debts	5,000	
Loss on Sale of Investments	10,000	1,85,000
Revenue from Operations (Sales)		16,00,000
Other Income		50,000
Tax Provisions		70,000

Solution 36 :

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

Gross Profit = [Revenue from Operation – (Cost of Material Consumed + Change in Inventories of Finished Goods and WIP + Wages + Carriage + Freight)]

= [₹ 16,00,000 – (₹ 7,50,000 + ₹ 90,000 + ₹ 1,00,000 + ₹ 10,000 + ₹ 20,000)]

= [₹ 16,00,000 – ₹ 9,70,000]

= ₹ 6,30,000

$$\text{Gross Profit Ratio} = \frac{₹6,30,000}{₹16,00,000} \times 100 = 39.37\%$$

$$\text{Operating Ratio} = \frac{\text{Operating Expenses}}{\text{Sales}} \times 100$$

Operating Expenses = Sales – Non Operating Expenses + Non Operating Income

= [₹ 16,00,000 – ₹ 4,45,000 + ₹ 50,000]

= ₹ 12,05,000

Non Operating Expenses = Wages + Salaries + Depreciation + Carriage + Freight + Administrative Expenses + Selling Expenses + Provision for Doubtful Debts + Loss on Sale of Investments + Tax Provision

= ₹ 1,00,000 + ₹ 60,000 + ₹ 30,000 + ₹ 10,000 + ₹ 20,000 + ₹ 60,000 + ₹ 80,000 + ₹ 5,000 + ₹ 10,000 + ₹ 70,000

= ₹ 4,45,000

Non Operating Income = Other Income

= ₹ 50,000

Operating Profit = Non Operating Expenses – Non Operating Income

= ₹ 4,45,000 – ₹ 50,000

= ₹ 3,95,000

(iii) $$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Sales}} \times 100$$

$$= \frac{₹3,95,000}{₹16,00,000} \times 100 = 24.69\%$$

$$\text{Operating Ratio} = \frac{\text{Operating Expenses}}{\text{Sales}} \times 100$$

$$= \frac{₹12,05,000}{₹16,00,000} \times 100 = 75.31\%$$

(iv) $$\text{Net Profit Ratio (Before Tax)} = \frac{\text{Net Profit Before Tax}}{\text{Sales}} \times 100$$

Net Profit Before Tax = Gross Profit – (Non Operating Charges + Non Operating Income)
= (₹ 6,30,000 – ₹ 2,75,000) + ₹ 50,000
= ₹ 4,35,000

Net Profit Ratio (Before Tax) $= \frac{₹4,35,000}{₹16,00,000} \times 100 = 27.18\%$

Net Profit (After Tax) $= \frac{\text{Net Profit After Tax}}{\text{Sales}}$

Net Profit After Tax = (₹ 6,30,000 – ₹ 3,15,000) + ₹ 50,000
= ₹ 3,65,000

Net Profit Ratio (After Tax) $= \frac{₹3,65,000}{₹16,00,000} \times 100 = 22.81\ \%$

37. From the following information, calculate the following ratios :
(a) Debt-Equity Ratio;
(b) Working Captial Turnover Ratio;
(c) Return on Investment.

Information :

Equity Sahre Capital ₹ 9,00,000; General Reserve ₹ 1,00,000; Statement of Profit and Loss Balance after Tax and Interest ₹ 3,00,000; 12% Debentures ₹ 4,00,000; Trade Payables ₹ 3,00,000; Land and Building ₹ 13,00,000; Furniture ₹ 3,00,000; Trade Receivables ₹ 2,90,000; Cash ₹ 1,10,000.

Revenue from Operations for the year ended 31.3.2020 was ₹ 30,00,000 and Tax paid 50%.

Solution 37 :

(a) Debt Equity Ratio $= \frac{\text{Long Term Debt}}{\text{Shareholder's Funds}}$

Long Term Debt = 12% Debentures
= ₹ 4,00,000

Share holder's Funds = Equity Share Capital + General Reserve + Statement of profit and loss + Balance After Tax and Interest
= ₹ 9,00,000 + ₹ 1,00,000 + ₹ 3,00,000
= ₹ 13,00,000

Debt Equity Ratio $= \frac{₹4,00,000}{₹13,00,000} = 0.31 : 1.$

(b) Working Capital Turnover Ratio $= \frac{\text{Revenue From Operations}}{\text{Working Capital}}$

Revenue from Operations = ₹ 30,00,000
Working Capital = Current Assets – Current Liabilities
Current Liabilities = Trade Payables
= 3,00,000
Current Assets = Trade Receivables + Cash
= ₹ 2,90,000 + ₹ 1,10,000
= ₹ 4,00,000
Working Capital = ₹ 4,00,000 – ₹ 3,00,000
= ₹ 1,00,000

Working Capital Turnover Ratio $= \frac{₹30,00,000}{₹3,00,000}$

= 30 Times

(c) $$\text{Return on Investment} = \frac{\text{Net Profit Before Tax and Interest}}{\text{Capital Employed}} \times 100$$

Net Profit Before Tax and Interest = Net Profit After Tax and Interest + Tax Paid + Interest
= ₹ 3,00,000 + ₹ 3,00,000 + ₹ 48,000
= ₹ 6,48,000

Capital Employed = Equity Share Capital + General Reserve + Balance of P & L + 12% Debentures
= ₹ 9,00,000 + ₹ 1,00,000 + ₹ 3,00,000 + ₹ 4,00,000
= ₹ 17,00,000

$$\text{Return on Investment} = \frac{₹6,48,000}{₹17,00,000} \times 100$$

= 38.12%

38. From the following informations, calculate Return on Investment (or Return on Capital Employed) :

Particulars	₹
Share Capital	5,00,000
Reserves and Surplus	2,50,000
Net Fixed Assets	22,50,000
Non-current Trade Investments	2,50,000
Current Assets	11,00,000
10% Long-term Borrowings	20,00,000
Current Liabilities	8,50,000

Net Profit before Tax ₹ 6,00,000.

Solution 38 :

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

Net Profit Before Interest and Tax = Net profit Before Tax + Interest
= ₹ 6,00,000 + (₹ 20,00,000 × 10%)
= ₹ 6,00,000 + ₹ 2,00,000
= ₹ 8,00,000

Capital Employed = Share Capital + Reserve and Surplus + 10% Long Term Borrowings
= ₹ 5,00,000 + ₹ 2,50,000 + ₹ 20,00,000
= ₹ 27,50,000

$$\text{Return on Investment} = \frac{₹8,00,000}{₹27,50,000} \times 100$$

= 29.09 %

39. Houseful Ltd. in the business of manufacturing and selling FMCC decided to set up a new manufacturing unit in economically backward area of Uttaranchal. It decided to employ factory staff from the local population. But before that it imparted training to them for six months and gave each trainee a stipend of ₹ 5,000 per month. Given below is its Comparative Balance Sheet :

COMPARATIVE BALANCE SHEET *as at 31st March, 2019 and 2020*

Particulars	Note No.	31st March, 2019 ₹	31st March, 2020 ₹	Absolute Change (Increase/ Decrease) ₹	Percentage Change (Increase/ Decrease) %
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds :					
Share Capital :					
Equity Share Capital		12,00,000	18,00,000	6,00,000	50.00
2. Non-Current Liabilities :					
Long-term Borrowings :					
Secured Loan—8% Debentures		6,00,000	6,00,000	...	...
3. Current Liabilities :					
Trade Payables		3,00,000	6,00,000	3,00,000	100.00
Total		21,00,000	30,00,000	9,00,000	42.86
II. ASSETS					
1. Non-Current Assets :					
Fixed Assets (Tangible)		15,00,000	18,00,000	3,00,000	20.00
2. Current Assets :					
(a) Trade Receivables		5,00,000	10,00,000	5,00,000	100.00
(b) Cash and Cash Equivalents		1,00,000	2,00,000	1,00,000	100.00
Total		21,00,000	30,00,000	9,00,000	42.86

Calculate : (i) Debt to Equity Ratio, (ii) Total Assets to Debt Ratio, and (iii) Proprietary Ratio, from the above. **[Ans.** Debt-equity Ratio : 2019 = 0.5 : 1, 2020 = 0.33 : 1; Total Assets to Debt Ratio : 2019 = 3.5 : 1, 2020 = 5 : 1, Proprietary Ratio : 2019 = 0.57 : 1, 2020 = 0.6 : 1.**]**

Solution 39 :

(i) $$\text{Debt Equity Ratio} = \frac{\text{Long Term Debit}}{\text{Shareholder's Funds}}$$

Long Term Debt = Secured Loan – 8% Debentures
= 6,00,000

Shareholder's Fund = Equity Share Capital
= ₹ 12,00,000

$$\text{Debt Equity Ratio} = 2019 = \frac{₹6,00,000}{₹12,00,000} = 0.5 : 1$$

$$2020 = \frac{₹6,00,000}{₹18,00,000} = 0.33 : 1$$

(ii) $$\text{Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Long Term Debt}}$$

$$2019 = \frac{₹21,00,000}{₹6,00,000} = 3.5 : 1$$

$$2020 = \frac{₹30,00,000}{₹6,00,000} = 5 : 1$$

(iii)

$$\text{Proprietary Ratio} = \frac{\text{Proprietary Fund}}{\text{Total Assets}}$$

$$\text{Proprietary Fund} = \text{Equity Share Capital}$$

$$2019 = ₹\ 12{,}00{,}000$$

$$2020 = ₹\ 18{,}00{,}000$$

$$\text{Proprietary Ratio} = 2019 = \frac{₹12{,}00{,}000}{₹21{,}00{,}000} = 0.57 : 1$$

$$2020 = \frac{₹18{,}00{,}000}{₹30{,}00{,}000} = 0.6 : 1$$

40. From the following Statement of Profit and Loss of Rama Ltd., for the year ended 31st March, 2020 compute Gross Profit Ratio and Operating Ratio :

Particulars	Note No.	₹
I. Revenue from Operations		25,00,000
II. Other Incomes		60,000
III. Total Revenue (I + II)		25,60,000
IV. Expenses :		
Cost of Material Consumed		15,00,000
Changes in Inventoris of Stock-in-Trade, Finished Goods & WIP		1,00,000
Employees Benefits Expenses	1	2,70,000
Finance Cost		60,000
Othere Expenses	2	1,70,000
Total Expenses		21,00,000
V. Profit before Tax (III – IV)		4,60,000

Notes to Accounts

Particulars	₹
1. Employees Benefit Expenses :	
Wages	1,50,000
Salaries	1,20,000
	2,70,000
2. Other Expenses :	
Administrative Expenses	60,000
Selling and Distribution Expenses	80,000
Loss on Sales of Investments	30,000
	1,70,000

Solution 40 :

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

Gross Profit = Revenue from Operations – (Cost of Material Consumed + Changes in Inventories of Stock in Trade, Finished Goods WIP + Wages)

= ₹ 25,00,000 –(₹ 15,00,000 + ₹ 1,00,000 + ₹ 1,50,000)
= ₹ 25,00,000 – ₹ 17,50,000
= ₹ 7,50,000

Revenue from operations = Sales
= ₹ 25,00,000

$$\text{Gross Profit Ratio} = \frac{₹ 7,50,000}{₹ 25,00,000} \times 100 = 30\%$$

(ii)

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

Operating Expenses = (Revenue from Operations – Non Operating – Expenses) + Non Operating Income
= (₹ 25,00,000 – ₹ 3,50,000) + ₹ 60,000
= ₹ 22,10,000

$$\text{Operating Ratio} = \frac{₹ 22,10,000}{₹ 25,00,000} \times 100 = 88.4\%$$

41. Compute Operating Ratio and Operating Profit Ratio from the following information :

Particulars	₹
Gross Revenue from Operations	9,40,000
Revenue from Operations (Returns)	40,000
Cost of Revenue from Operations	4,90,000
Finance Cost – Debentures Interest	40,000
Depreciation	50,000
Profit on Sale of Investments	30,000
Other Expenses :	
Administrative Expenses	80,000
Selling and Distributing Expenses	1,00,000
General Expenses	30,000
Loss on Sale of Fixed Assets	20,000

Solution 41 :

$$\text{Operating Ratio} = \frac{\text{Operating Expenses}}{\text{Net Revenue From Operations}} \times 100$$

Net Revenue from operations = Gross Revenue from operations– Revenue from operations (Returns)
= ₹ 9,40,000 – ₹ 40,000 = ₹ 9,00,000

Operating Expenses = Net Revenue from Operations – (Administrative Expenses + Selling and Distribution Expenses) + Profit on Sale of Investment
= ₹ 9,00,000 – (₹ 80,000 + ₹ 1,00,000) + ₹ 30,000
= (₹ 9,00,000 – ₹ 1,80,000) + ₹ 30,000
= ₹ 7,20,000 + ₹ 30,000
= ₹ 7,50,000

$$\text{Operating Ratio} = \frac{\text{Operating Profit}}{\text{Net Revenue From Operations}} \times 100 = 83.33\%$$

Operating Profit = Operating Expenses – Operating Income
= ₹ 1,80,000 – ₹ 30,000
= ₹ 1,50,000

$$\text{Operating Profit Ratio} = \frac{₹ 1,50,000}{₹ 1,00,000} \times 100 = 16.67\%$$

Solution 42 :

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue From Operations}} \times 100$$

Revenue from operations = 2019 = ₹ 10,00,000
2020 = ₹ 12,50,000

Gross Profit = Revenue from operations – (Purchase of Stock in Trade + Change in Inventories of Stock in Trade)

2019 = ₹ 10,00,000 –(₹ 7,20,000 + ₹ 30,000)
= ₹ 10,00,000 – ₹ 7,50,000
= ₹ 2,50,000

2020 = ₹ 12,50,000 – (₹ 8,70,000 + ₹ 20,000)
= ₹ 12,50,000 – ₹ 8,50,000
= ₹ 4,00,000

$$\text{Gross Profit Ratio} = 2019 = \frac{₹\,2,50,000}{₹\,10,00,000} = 25\%$$

$$2020 = \frac{₹\,4,00,000}{₹\,12,50,000} = 32\%$$

42. **Shinemax Ltd.**

COMMON-SIZE STATEMENT OF PROFIT AND LOSS

for the years ended 2019 and 2020

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from Operations (Net Sales)	
		31st March, 2019 (₹)	31st March, 2020 (₹)	31st March, 2019 (%)	31st March, 2020 (%)
I. Revenue from Operations (Net Sales)		10,00,000	12,50,000	100.00	100.00
II. **Expenses**					
(a) Purchases of Stock-in-Trade		7,20,000	8,70,000	72.00	69.60
(b) Change in Inventories of Stock-in-Trade		30,000	(20,000)	3.00	(1.60)
(c) Depreciation and Amortisation Expenses		20,000	30,000	2.00	2.40
(d) Other Expenses		30,000	50,000	3.00	4.00
Total Expenses		8,00,000	9,30,000	80.00	74.40
III. **Profit before Tax (I – II)**		2,00,000	3,20,000	20.000	25.60
IV. *Less :* Income Tax		60,000	96,000	6.00	7.68
V. **Profit after Tax (III –IV)**		1,40,000	2,24,000	14.00	17.92

From the above Common-size Statement of Profit and Loss for the years ended 31st March, 2019 and 31st March, 2020, compute Gross Profit Ratio.

43. You are given the following information :

Cash Revenue from Operations *i.e.,* Sales ₹ 2,00,000
Credit Revenue from Operations *i.e.*, Sales ₹ 4,00,000
Inventory Turnover Ratio = 5 Times
Gross Profit Ratio = 20%

Compute the value of Opening and Closing Stock in the following cases :

(i) Opening Stock is ₹ 20,000 more than the Closing Stock

(ii) Closing Stock is 1.5 times of Opening Stock

(iii) Closing Stock is 1.5 times more than the Opening Stock.

Solution 43 :

Cost of Revenue from Operations = Cash Revenue from Operations + Credit Revenue from Operations – Gross Profit

= ₹ 2,00,000 + ₹ 4,00,000 – ₹ 1,20,000

= ₹ 4,80,000

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

$$5 \text{ (given)} = \frac{₹ 4,80,000}{\text{Average Inventory}}$$

$$\text{Average Inventory} = \frac{₹ 4,80,000}{5} = ₹ 96,000$$

Case I : Opening Inventory $= ₹ 96,000 - \frac{1}{2}$ of ₹ 20,000

= ₹ 86,000

Case II : Opening Inventory = ₹ 96,000 × 2

= ₹ 1,92,000

Since closing stock was 1.5 times than that in the openin, ratio between opening and closing inventory will be = 1 : 1.5

$$\text{Opening Inventory} = ₹ 1,92,000 \times \frac{1}{2.5} = ₹ 76,800$$

$$\text{Closing Inventory} = ₹ 1,92,000 \times \frac{1.5}{2.5} = ₹ 1,15,200$$

Case III : Since closing inventory was 1.5 more than that in the opening, ratio between opening inventory and closing inventory will be 1 : 2.5.

$$\text{Opening Inventory} = ₹ 1,92,000 \times \frac{1}{3.5} = ₹ 54,857$$

$$\text{Closing Stock} = ₹ 1,92,000 \times \frac{2.5}{3.5} = ₹ 1,37,143$$

44. Compute Inventory Turnover Ratio from the following information :

Purchases ₹ 3,00,000; Opening Inventory was ₹ 20,000 more than the Closing Inventory which was 20% of Purchases.

State giving reasons whether the following transactions would (i) increase, (ii) decrease or (iii) not alter the inventory turnover ratio :

(i) Goods for ₹ 20,000 bought on credit.

(ii) Goods costing ₹ 10,000 (market price ₹ 15,000) was given as donation.

(iii) Closing Inventory was decreased by ₹ 15,000.

Solution 44 :

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$$

Cost of Goods Sold = Opening Stock + Purchases – Closing Stock

= ₹ 80,000 + ₹ 3,00,000 – ₹ 60,000

= ₹ 3,20,000

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

$$= \frac{₹80,000 + ₹60,000}{2} = ₹\ 70,000$$

Closing Inventory = Purchase × 20%
= ₹ 3,00,000 × 20%
= ₹ 60,000

Opening Inventory = Closing Inventory + ₹ 20,000
= ₹ 60,000 + ₹ 20,000
= ₹ 80,000

$$\text{Inventory Turnover Ratio} = \frac{₹3,20,000}{₹70,000} = 4.57 \text{ Times}$$

(i) Goods purchase ₹ 20,000 on credit = Reduce
Reason : The transaction increases the amount of closing stock. Increase in closing stock reduces the proportion of cost of goods sold and increase in Average stock.

(ii) Goods of ₹ 10,000 was given as donation – increase
Reason : Goods given as donation decreases closing stock. Reduction in closing stock will result increase in ost of goods sold and decrease in average stock.

(iii) Closing inventory decreased by ₹ 15,000 – Increase
Reason : Decrease in closing stock results increase in cost of goods sold and decrease in average stock.

45. Following is the comparative statement of profit and loss of the company for the year ended 31st March, 2019 and 2020 :

COMPARATIVE STATEMENT OF PROFIT AND LOSS

Particulars	**Note No.**	**2018-19** ₹	**2019-20** ₹	**Absolute Change** ₹	**Percentage Change** (%)
Revenue from Operations		10,00,000	15,00,000	5,00,000	50.00
Less : Employees Benefit Expenses		6,00,000	7,00,000	1,00,000	16.67
Profit before Tax		4,00,000	8,00,000	4,00,000	100.00
Less : Tax Rate 25%		1,00,000	2,00,000	1,00,000	100.00
Profit after Tax		3,00,000	6,00,000	3,00,000	100.00

Calculate Net Profit Ratio for the years ending 31st March, 2019 and 2020.

Solution 45 :

$$\text{Net Profit Ratio} = \frac{\text{Net Profit After Tax}}{\text{Revenue From Operations}}$$

2018 – 2019 $\dfrac{₹3,00,000}{₹10,00,000} \times 100 = 30\%$

2019 – 2020 $\dfrac{₹6,00,000}{₹15,00,000} \times 100 = 40\%$

❑

14

Cash Flow Statement

1. Identify the following transactions as belonging to (i) Operating, (ii) Investing, (iii) Financing Activities and (iv) Cash Equivalents :

1. Interest paid
2. Interest paid on long-term loans by
   (a) Finance Company
   (b) Non-finance Company
3. Interest received
4. Interest received on Investment by a bank
5. Interest received on investments by a manufacturing company
6. Dividend received
7. Dividend received by a Mutual Fund Company
8. Purchase of Investments
9. Purchase of Investments by a finance company
10. Purchase of Invesments by a non-finance company
11. Bank balance
12. Short-term deposits in banks
13. Bank Overdraft
14. Maketable Securities

Solution 1 :

(i) Operating Activities :
2 (a). Interest paid on Long Term Loans by Financing Companies.
4. Interest received on Investments by a Bank.
7. Dividend Received by a Mutual Fund Company.
9. Purchase of Investments by a Financing Company.

(ii) Investing Activities :
3. Interest received
5. Interest received on investments by a manufacturing company.
6. Dividend Received
8. Purchase of Investments
10. Purchase of Investments by a Non Finance Company.

(iii) Financing Activities :
1. Interest Paid
2. Interest paid on long term loan by Non Financing Company
11. Bank Overdraft

(iv) Cash Equivalents :
Bank Balance
Short Term Deposit in Banks
Marketable Securities

2. State the nature of cash flow for the amount *i.e.*, (i) operating (ii) investing and (iii) financing activity for each of the following :

1. Bought plant for ₹ 3,00,000 on 1st January, 2012 paying 20% down payment and balance in 4 equal annual instalment.
2. Issued 10% preference shares for ₹ 2,00,000 at a premium of 10%.
3. Bought shares of Cipla Ltd. for ₹ 1,50,000 and later received dividend ₹ 15,000.
4. Increase in goodwill during year ₹ 20,000.
5. Decrease in Branding expenses during the years ₹ 5,000.

Solution 2 :

1. Payment of ₹ 60,000 [20% of ₹ 3,00,000] down payment is the "outflow" of Cash and 60,000 yearly installment is also "outflow" it is the part of investing activity.
2. Inssurance of preference shares with securities premium *i.e.* ₹ 2,20,000 is an "inflow" and part of financing activities.
3. Purchase of shares less dividend *i.e.* (₹ 1,50,000 – ₹ 15,000) ₹ 1,35,000 is an "outflow" and part of investing activities.
4. Increase in goodwill of ₹ 20,000 is an "outflow" and part of investing activity.
5. Decreae in Branding Expenses ₹ 5,000 in an "inflow". It would be added in net profit and it is a part of operating activity.

3. Calculate Cash flow from operating activities from the following :

Particulars	**31.3.3017** ₹	**31.3.3018** ₹
P & L Balance	75,000	60,000
Cash and Bank Balance	35,000	12,000
Inventory	3,00,000	2,30,000
Trade Receivables	2,00,000	2,40,000
Trade Payables	60,000	80,000
Prepaid Expenses	3,000	10,000
Goodwill	30,000	20,000
Provision for Doubtful Debts	10,000	12,000

Solution 3 : Cash Flow from Operating Activities for the year ended 31st March, 2018

Particulars	**Details** (₹)	**Amt.** (₹)
Net Profit Tax :		(15000)
Adjustments for Non-cash and Non-operating Items :		
Add Goodwill written off	10,000	
Provision for Doubtful Debts	2000	12000
Operating Loss before working capital changes		(3000)
Add : Decrease in current assets		
Inventory	70,000	
Add : Increase in current Liabilities		
Trade Payable	20,000	90,000
	87,000	
Less : Decrease in Current Assets		
Trade Receivables	40,000	47,000
Prepaid Expences	7,000	40,000
Net Cash flow from operating activities		

Working Note :

	₹	
Profit and Loss Balance of 31st March, 2018		60,000
Less : Profit and Loss Balance on 31st March, 2017		75,000
Net Profit before Tax	(15,000)	

4. The following balances appeared in Plant Account and Accumulated Depreciation Account in the books of Bharat Ltd. :

Balance as at	31.3.2015 ₹	31.3.2016 ₹
Plant	7,50,000	9,70,000
Accumulated Depreciation	1,80,000	2,40,000

Additional Informations :

Plant costing ₹ 1,45,000; accumulated depreciation thereon ₹ 70,000, was sold for ₹ 35,000.
You are required to :

(i) Compute the amount of Plant purchased, depreciation charged for the year and loss on sale of plant.

(ii) Show how each of the items related to the plant will be shown in the cash flow statement.

Solution : 4

(i) **Plant Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	7,50,000	By Depreciation A/c	35,000
To Bank A/c		By Accumulated Dep.	70,000
(Purchase)	3,65,000	By Statement of Profit & Loss A/c	
		(₹ 75,000 – ₹ 35,000)	40,000
		By Balance c/d	9,70,000
	11,15,000		11,15,000

Accumulated Depreciation Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Plant	70,000	By Balance b/d	1,80,000
To Balance c/d	2,40,000	By Statement of Profit & Loss	1,30,000
	3,10,000		3,10,000

(ii) **Cash Flow Statement**

For the year ending 31st March, 2016

Particulars	Amt. (₹)	Amt. (₹)
Cash Flow from Operating Activities :		
Net Profit		—
Add : Depreciation Charged on Plant	1,30,000	
Loss on Sale of Plant	40,000	1,70,000
		1,70,000

5. From the following Balance Sheets of X Ltd., find out the cash from operating activities only as on 31st March, 2019 :

Particulars	Note No.	2019 (₹)	2018 (₹))
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds :			
(a) Share Capital		45,000	40,000
(b) Reserves and Surplus	1	25,000	5,000
(2) Non-current Liabilities :			
(a) Long-term Borrowings	2	28,000	30,000
(b) Long-term Provisions	3	13,000	7,000
(3) Current Liabilities :			
Trade Payables		26,000	21,000
Total		1,37,000	1,03,000

II. ASSETS			
(1) Non-current Assets :			
(a) Fixed Assets :			
(i) Tangible Assets		40,000	30,000
(ii) Intangible Assets	4	23,000	32,000
(b) Non-current Investments	5	8,000	5,000
(2) Current Assets :			
(a) Inventories		27,000	15,000
(b) Trade Receivables		26,000	10,000
(c) Cash and Cash Equivalents		13,000	11,000
Total		1,37,000	1,03,000

Notes to Accounts

Particulars	2019 (₹)	2018 (₹))
1. Reserves and Surplus :		
Current Reserve	17,000	12,000
Balance in Statement of Profit and Loss	8,000	(7,000)
	25,000	5,000
2. Long-term Borrowings :		
10% Debentures	28,000	30,000
3. Long-term Provisions :		
Provision for Depreciation	13,000	7,000
4. Fixed Assets – Intangible :		
Goodwill	8,000	12,000
Branding	8,000	10,000
Trade Mark	7,000	10,000
	23,000	32,000
5. Non-current Investment :		
8% Investments	8,000	5,000

Note : ( ) represent negative item.

Additional Information :

Debentures were paid and investments were bought on 31-3-2019.

Solution 5 :

Cash Flow Statement

Particulars	Amt. (₹)	Amt. (₹)
A. Operating Activities :		
Net Profit (Balance in Statement of Profit & Loss)		15,000
Depreciation	6,000	
Current Reserve	5,000	
Interest on Debentures	3,000	
Goodwill	4,000	
Branding	3,000	23,000
Trade Mark		38,000
Less : Interest on Investment	(400)	(400)

	Net Profit Before Working Capital Charges		37,600
Add :	Increase in Trade Payables	5,000	5,000
			42,600
Less :	Increase in Inventories	(12,000)	
	Increase in Trade Receivables	(16,000)	(28,000)
	Net Cash Flow from Operating Activities		14,600

Working Note :

Depreciation Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance c/d	13,000	By Balance b/d	7,000
		By P & L (B/F)	6,000
	13,000		13,000

6. Following is the Balance Sheet of Spine Products 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 : Equity Share Capital		3,50,000	3,00,000
(b) Reserves and Surplus	1	57,000	38,000
2. Current Liabilities :			
(a) Trade Payables		53,000	35,000
(b) Other Current Liabilities		6,000	8,000
(c) Short-term Provisions	2	32,000	28,000
Total		4,98,000	4,09,000
II. ASSETS			
1. Non-current Assets :			
(a) Fixed Assets :			
(i) Tangible Assets	3	2,48,000	2,00,000
(ii) Intangible Assets (Goodwill)		40,000	50,000
(b) Non-Current Investments		35,000	10,000
2. Current Assets :			
(a) Inventories		39,000	57,000
(b) Trade Receivables		1,08,000	75,000
(c) Cash and Bank Balances		28,000	17,000
Total		4,98,000	4,09,000

Notes to Accounts :

Particulars	31st March, 2020 (₹)	31st March, 2019 (₹)
1. Reserves and Surplus :		
General Reserve	30,000	20,000
Surplus, *i.e.*, Balance in Statement of Profit and Loss	27,000	18,000
	57,000	38,000

2. Short-term Provisions :		
Provision for Tax	32,000	28,000
3. Tangible Fixed Assets :		
Land and Building	57,000	1,10,000
Plant and Machinery	1,91,000	90,000
	2,48,000	2,00,000

Note : Proposed dividend on equity for the years ended 31st March, 2019 and 2020 are ₹ 39,000 and ₹ 45,000 respectively.

You are required to prepare Cash Flow Statement for the year ended 31st March, 2020.

Solution 6 :

Cash Flow Statement
For the year ended 31st March, 2019

Particulars	Amt. (₹)	Amt. (₹)
A. Operating Activities :		
Profit as per Statement of Profit and Loss		
ites to be added :		9000
Genereal Reserve	10,000	
Goodwill	10,000	
Provision for Taxation	32,000	
Proposed Dividend	39,000	91,000
Operating Profit Before Working Capital Adjustment	1,00,000	
Less : Increase in current assets Trade Receivables (33,000)		
Less : Decrease in Current Liabilities		
Other Current Liabilities	(2,000)	
Add : Decrease in Current Assets		
Inventoris	18,000	
Add : Increase in Current Liabilities		
Trade Payable	18,000	1,000
Cash Generated from Operations		1,01,000
Less : Tax Paid		(28,000)
Net Cash flows from operating Activities	(A)	37,000
B. Investing Activities :		
Purchase of Non Current Investments	(25,000)	
(₹ 35,000 – ₹ 10,000)		
Sale of Land and Building		
(₹ 1,10,000 – ₹ 57,000)		53,000
Less : Purchase of Plant & Machinery		
(₹ 1,91,000 – ₹ 90,000)	(1,01,000)	(1,26,000)
Net Cash Used in Investing Activities (B)		(73,000)
C Financing Activities		50,000
Issue of Share Capital		(39,000)
Less : Dividend paid during the year		
Net Cash flow from financing activities (C)		11,000
Total of all activities (A + B + C)		
[₹ 73,000 + (₹ 73,000) + ₹ 11,000]		11,000
Add : Opening cash and cashequivalents		17,000
Closing cash and Cash equivalents		28,000

7. Following is the Balance Sheet of X Ltd. as at 31st March, 2018 :

BALANCE SHEET OF X 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		19,00,000	17,00,000
(b) Reserves and Surplus	1	6,00,000	3,00,000
2. Non-Current Liabilities :			
Long-term Borrowings	2	5,00,000	4,00,000
3. Current Liabilities :			
(a) Short-term Borrowings	3	1,70,000	1,75,000
(b) Short-term Provisions	4	2,00,000	1,65,000
Total		33,70,000	27,40,000
II. ASSETS			
1. Non-Current Assets :			
(a) Fixed Assets :			
(i) Tangible Assets	5	24,00,000	19,00,000
(ii) Intangible Assets	6	2,00,000	3,00,000
(b) Non-current Investmetns		3,00,000	2,00,000
2. Current Assets :			
(a) Current Investments		1,40,000	1,70,000
(b) Inventories		2,60,000	1,30,000
(c) Cash and Cash Equivalents		70,000	40,000
Total		33,70,000	27,40,000

Notes to Accounts

Particulars	31st March, 2020 (₹)	31st March, 2019 (₹)
1. Reserves and Surplus :		
Surplus *i.e.*, Balance in Statement of Profit and Loss	6,00,000	3,00,000
	6,00,000	3,00,000
2. Long-term Borrowings :		
12% Debentures	5,00,000	4,00,000
	5,00,000	4,00,000
3. Short-term Borrowings :		
Bank Overdraft	1,70,000	1,75,000
	1,70,000	1,75,000
4. Short-term Provisions :		
Provision for Tax	2,00,000	1,65,000
	2,00,000	1,65,000
5. Tangible Assets :		
Machinery	26,00,000	20,00,000
Less : Accumulated Depreciation	(2,00,000)	(1,00,000)
	24,00,000	19,00,000
6. Intangible Assets :		
Goodwill	2,00,000	3,00,000
	2,00,000	

Additional Informations :

(i) ₹ 1,00,000, 12% Debentures were issued on 1st April, 2019.

(ii) During the year, a piece of machinery costing ₹ 80,000 on which accumulated depreciation was ₹ 40,000 was sold at a gain of ₹ 10,000.

Prepare a Cash Flow Statement.

Solution 7 :

Cash Flow Statement
as at March 31, 2018

Particulars	Amt. (₹)	Amt. (₹)
A. Operating Activities :		
Net Profit as per statement of profit & loss :		3,00,000
Add : Provision For Tax		2,00,000
Net profit before tax and extra ordinary items		5,00,000
Add : Interest @ on 12% debentures	60,000	
Depreciation on Machinery	1,40,000	
Amortisation of Goodwill	1,00,000	3,00,000
		8,00,000
Less : Gain on Sale of Machinery		(10,000)
Net Profit before working Capital Charges		7,90,000
Less : Increase in inventories		(1,30,000)
Net Cash Generation from Operations		6,60,000
Less : Tax Paid		(1,65,000)
Net Cash flow from operating Activities (A)		4,95,000
B. Investing Activities :		
Sale of Machinery		50,000
Less : Purchase of Machinery	6,80,000	
Investment	1,00,000	7,80,000
Net Cash used in Investing Activities (B)		(7,30,000)
C. Financial Activities :		
Issued of Share Capital	2,00,000	
12% Debentures	1,00,000	3,00,000
Less : Interest on 12% Debentures		(60,000)
Net Cash Flow Financing Activities (c)		2,40,000
Total of All Activities (A + B + C) [₹ 4,95,000 + (₹ 7,30,000) + ₹ 2,40,000]		5,000
Add : Opening Cash and Cash Equivalents [₹ 40,000 + ₹ 1,70,000 + (₹ 1,75,000)]		35,000
Closing Cash & Cash Equivalents		40,000
[₹ 70,000 + ₹ 1,40,000 + (₹ 1,70,000)]		
Here, Cash & Cash Equivalents = Cash + Current Investments – Bank Overdraft		

Machinery Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	20,00,000	By Accumulated Depreciation A/c	40,000
To Statement of Profit & Loss (Gain)	10,000	By Bank A/c (Sale)	50,000
To Bank A/c	6,80,000	By Balance c/d	26,00,000
(Purchases) (B/F)	26,90,000		26,90,000

Accumulated Depreciation Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Machinery A/c	40,000	By Balance b/d	1,00,000
To Balance c/d	2,00,000	By Depreciation A/c	1,40,000
	2,40,000		2,40,000

8. From the following Balance Sheets of E.F. Ltd. as at 31-3-2018 and 31-3-2017 prepare a Cash Flow Statement :

Particulars	Note No.	31.3.2018	31.3.2017
I. EQUITY AND LIABILITIES		₹	₹
(1) Shareholders' Funds :			
(a) Share Capital	1	3,25,000	2,30,000
(b) Reserves & Surplus	2	1,85,000	1,20,000
(2) Non-Current Liabilities :			
Long-term Borrowings	3	90,000	1,00,000
Total		6,00,000	4,50,000
II. ASSETS			
(1) Non-Current Assets :			
Fixed Assets		3,50,000	2,50,000
(2) Current Assets :			
(a) Inventories		1,25,000	1,05,000
(b) Trade Receivables		95,000	70,000
(c) Cash & Cash Equivalents		30,000	25,000
Total		6,00,000	4,50,000

Notes		31.3.2018 (₹)	31.3.2017 (₹)
Notes : (1)	**Share Capital :**		
	Equity Share Capital	2,75,000	2,00,000
	8% Preference Share Capital	50,000	30,000
		3,25,000	2,30,000
(2)	**Reserves & Surplus :**		
	General Reserve	25,000	35,000
	Profit & Loss Balance	1,60,000	85,000
		1,85,000	1,20,000
(3)	**Long-term Borrowings :**		
	10% Debentures	90,000	1,00,000

Additional Informations :

(i) During the year machine of the book value of ₹ 50,000 was sold for ₹ 15,000.

(ii) Interim dividend paid on equity share capital ₹ 20,000.

Solution 8 :

Cash Flow Statement (Indirect Method)
for the year ended 3st March, 2018

Particulars		Amt. (₹)	Amt. (₹)
A. Operating Activities :			
Net Profit after Tax (Note 1)		87,400	
Adjustments for non cash and non operating items :			
Add : Interest on Debentures		10,000	
Loss on sale of machinery		35,000	45,000
Operating Profit before Working Capital Changes			1,32,400
Less : Increase in Current Assets :			
Inventory	20,000		
Trade Receivables	25,000	45,000	87,400
Net Cash flow from operating Activities (A) :			87,400
B. Investing Activities :			
Sale of Ficed Assets		15,000	
Purchase of Fixed Assets (Note 2)		(1,50,000)	(1,35,000)
Net Cash used in Investing Activities (B)			(1,35,000)
C. Financing Activities :			
Issue of Equity Share Capital		75,000	
Issue of Preference Share Capital		20,000	
Redemption of Debentures (Note 3)		(10,000)	
Preference dividend for previous year		(2,400)	
Interim dividend on equity shares		(20,000)	
Interest paid on Debentures		(10,000)	52,600
			52,600
Net Cash Flow from, Financing Activities (C)			
Total of All Activities (A + B + C) (₹ 87,400 + (₹ 1,35,000) + ₹ 52,600)			5,000
Add : Opening cash & Cash equivalents			25,000
Closing cash & Cash Equivalents			30,000

Working Notes :

1. Calculation of Net Profit before Tax (₹)

Profit & Loss Balance on 31st March, 2018	1,60,000
Less : Profit & Loss Balance of 31st March, 2017	(85,000)
	75,000
Add : Preference dividend for previous year (8% of ₹ 30,000)	2,400
Interim dividend on Equity Capital	97,400
Less : Decrease in General Reserve (₹ 25,000 – ₹ 35,000)	(10,000)
Net Profit before Tax	87,400

Dividend on Preference shares is paid before payment of dividend on equity shares. The company has paid interim dividend on equity shares. Hence, it must have paid previous year's dividend ₹ 2,400 on preference shares.

2. **Fixed Assets Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance Ltd.	2,50,000	By Bank A/c (Sales)	15,000
To Bank A/c (B/F) (Purchases)	1,50,000	By Statement of Profit & Loss A/c (Loss on Sale)	35,000
		By Balance c/d	3,50,000
	4,00,000		4,00,000

3. It is assumed that debentures have been redeemed atthe end of the year *i.e.*on 31st March, 2018.

9. Calculate Cash Flow from Operating Activities from the following information as on 31st March :

Particulars	2018 (₹)	2019 (₹)
Debtors	42,000	46,000
Prepaid Expenses	2,000	2,700
Accrued Income	1,500	1,200
Income Received in Advance	800	1,000
Creditors	26,000	28,000
B/P	13,000	11,000
Outstanding Expenses	8,000	6,000

Profit made during 2019 amounted to ₹ 1,00,000 after taking into account the following adjustments :

Particulars	₹
Profit on Sale of Investment	2,000
Loss on sale of Machine	900
Goodwill Amortized	3,000
Depreciation Charged	2,900

Solution 9 :

Cash Flow Statement
as on..........

Particulars	Amt. (₹)	Amt. (₹)
Net Profit after all adjustments		1,00,000
Adjustments for non cash and non operating items :		
Goodwill Amortized	3,000	
Loss on sale of machine	900	
Depreciation charged	2,900	
	6,800	
Less : Profit on Sale of Investment	(2,000)	4,800
Operating Profit Before Working Capital Changes		1,04,800
Less : Increase in Current Assets :		
Debtors	(4,000)	
Prepaid Expenses	(700)	(4,700)
		1,00,100
Less : Decrease in Current Liabilities		
B/P	(2,000)	
Outstanding Expenses	(2,000)	4,000
		96,100

Add : Increase in current Liabilities		
Income Received in advance	200	
Creditors	2,000	2,200
		98,300
Add : Decrease in Current Assets		
Accured Income	300	300
	98,600	98,600
Cash inflow from operating Activities :		98,600

10. From the following Balance Sheets of B.C.R. Ltd. as at 31-3-2018 and 31-3-2017, prepare a Cash Flow Statement :

Particulars	Note No.	31st March, 2018	31st March, 2017
I. EQUITY AND LIABILITIES		₹	₹
(1) Shareholders' Funds :			
(a) Share Capital		7,00,000	5,00,000
(b) Reserves & Surplus		3,50,000	2,00,000
(2) Non-Current Liabilities :			
Long-term Borrowings		50,000	1,00,000
(3) Current Liabilities :			
(a) Trade Payables		1,22,000	1,05,000
(b) Short-term Provisions (Provision for Tax)		50,000	30,000
Total		12,72,000	9,35,000
II. ASSETS			
(1) Non-Current Assets :			
(a) Fixed Assets :			
(i) Tangible Assets	1	5,00,000	5,00,000
(ii) Intangible Assets	2	95,000	1,00,000
(b) Non-Current Investments		1,00,000	—
(2) Current Assets :			
(a) Inventory		1,30,000	55,000
(b) Trade Receivables		1,47,000	80,000
(c) Cash & Cash Equivalents		3,00,000	2,00,000
Total		12,72,000	9,35,000

Notes :	31.3.2018 (₹)	31.3.2017 (₹)
1. Tangible Assets :		
Equipment	5,00,000	5,00,000
2. Intangible Assets :		
Goodwill	95,000	1,00,000

Additional Informations :

(i) Proposed Dividend for the year ended 31st March, 2018 was 12% and for the year ended 31st March, 2017 was 10%.

(ii) During the year Equipment costing ₹ 1,00,000 was purchased. Loss on sale of Equipment amounted to ₹ 12,000. ₹ 18,000 depreciation was charged on Equipment.

Solution 10 :

Cash Flow Statement
For the year ended 31st March, 2018

Particulars		Amt. (₹)	Amt. (₹)
A. Operating Activities :			
Net Profit Before Tax (Note 1)		2,50,000	
Add : Non Cash & Non Operating Items :			
Depreciation on Equipments		18,000	
Goodwill written off		5,000	
Loss on sale of Equipment		12,000	
Operating profit before working Capital Changes :		2,85,000	
Add : Increase in Current Liabilities			
Trade Payable		17,000	
		3,02,000	
Less : Increase in Current Assets :			
Inventory	75,000		
Trade Receivables	67,000	1,42,000	
Net Cash flow from operating activities before tax		1,60,000	
Less : Tax Paid		30,000	1,30,000
Net Cash Flow from Operating Activities (A)			1,30,000
B. Investing Activities :			
Sale of Equipment (Note 2)		70,000	
Equipment Purchased		(1,00,000)	(1,30,000)
Net Cash used in investing Activities (B)			(1,30,000)
Financing Activities			
Cash Proceeds from Equity Shares		2,00,000	
Repayment of Long Term Borrowings		(50,000)	
Payment of Proposed Dividend of Last Year		(50,000)	1,00,000
Net Cash flow from Financing Activities (C)			1,00,000
Net Cash flow from all the activities (A + B + C) *i.e.*, (₹ 1,30,000 + (₹ 1,30,000 + ₹ 1,00,000)			1,00,000
Add : Opening Balancing of Cash & Cash Equivalents			2,00,000
Closing Balance of Cash & Cash Equivalents			3,00,000

Working Notes :

1. Calculation of Net Profit before Tax :

Particulars	₹
Balance as per Reserve & surplus (₹ 3,50,000 – ₹ 2,00,000)	1,50,000
Add : Provision for Tax (Current year)	50,000
Proposed Dividend (Previous year) (10% of ₹ 5,00,000)	50,000
Net Profit Before Tax	2,50,000

2. Calculation of Purchase of Equipment :

Equipment Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	5,00,000	By Depreciation A/c	18,000
To Bank A/c	1,00,000	By Bank A/c (Sale) (B/F)	70,000
		By Loss on Sale A/c	12,000
		By Balance c/d	5,00,000
	6,00,000		6,00,000

11. The Balance Sheet of Virendra Paper Ltd. as 31st March, 2020 is given below :

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds :			
(a) Share Capital		7,20,000	6,00,000
(b) Reserves and Surplus : Surplus, *i.e.*, Balance in Statement of Profit and Loss		4,80,000	3,75,000
2. Non-Current Liabilities :			
Long-term Borrowings : 10% Debentures		2,70,000	4,50,000
3. Current Liabilities :			
Trade Payables		1,20,000	90,000
Total		15,90,000	15,15,000
II. ASSETS			
1. Non-Current Assets :			
Fixed Assets (Tangible)		7,50,000	7,20,000
2. Current Assets :			
(a) Inventories		3,60,000	4,20,000
(b) Trade Receivables		3,00,000	2,25,000
(c) Cash and Cash Equivalents		1,80,000	1,50,000
Total		15,90,000	15,15,000

Notes to Accounts

Particulars			31st March, 2020 (₹)	31st March, 2019 (₹)
1. Fixed Assets (Tangible)				
Land			2,40,000	3,00,000
	31st March, 2020 (₹)	31st March, 2019 (₹)		
Plant and Machinery	7,50,000	6,00,000		
Less : Accumulated Depreciation	2,40,000	1,80,000		
	5,10,000	4,20,000	5,10,000	4,20,000
			7,50,000	7,20,000

Additional Informations :

1. Interim Dividend of ₹ 75,000 has been paid during the year.
2. Debenture Interest paid during the year ₹ 27,000.

You are required to prepare Cash Flow Statement.

Solution 11 :

**Cash Flow Statement of Virendra Paper Ltd.
as at March 31, 2020**

Particulars	Amt. (₹)	Amt. (₹)
A. Operating Activities :		
Net Profit as per statement of P & L A/c		1,05,000
Add : Interim Dividend paid		
Net Operating Profit before Tax and Extra Ordinary items :		1,80,000
Add : Debenture Interest	27,000	
Depreciation	60,000	87,000
Operating profit before working capital changes		2,67,000
Add : Increase in Trade Payables	30,000	
Decrease in inventories	60,000	90,000
		3,57,000
Less : Increase in Trade Receivables		(75,000)
Net cash flow from operating activities (A)		2,82,000
B. Investing Activities :		60,000
Land Sold		(1,50,000)
Less : Purchase of Plant & Machinery		(90,000)
Net Cash flow from investing activities (b)		
C. Financing Activities :		
Issue of Share Capital		1,20,000
Less : Redemption of Debentures	(1,80,000)	
Debenture Interest Paid	(27,000)	
Interim Dividend Paid	(75,000)	(2,82,000)
Net Cash used in Financing Activities (c)		(1,62,000)
Total of all Activities (A + B + C)		
[2,82,000 + (₹ 90,000) + (₹ 1,62,000)]		(30,000)
Add : Operating cash & Cash Equivalents		1,80,000
Closing Cash & Cash Equivalents		1,50,000

Working Notes :

Plant & Machinery Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	6,00,000	By Balance c/d	7,50,000
To Bank A/c (Purchase) (B/F)	1,50,000		
	7,50,000		7,50,000

12. Following are the Balance Sheets of Pawan Ltd. :

Particulars	Note No.	31.3.2018	31.3.2017
I. EQUITY AND LIABILITIES		₹	₹
(1) Shareholders' Funds :			
(a) Share Capital		3,00,000	2,50,000
(b) Reserves and Surplus	1	2,07,000	1,75,000
(2) Current Liabilities :			
(a) Short-term Borrowings	2	20,000	15,000
(b) Trade Payables		31,000	54,000
(c) Short-term Provision	3	84,000	81,000
Total		6,42,000	5,75,000
II. ASSETS			
(1) Non-Current Assets :			
(a) Fixed Assets :			
(i) Tangible Assets	4	2,70,000	2,70,000
(ii) Intangible Assets		50,000	30,000
(b) Non-Current Investments		45,000	50,000
(2) Current Assets :			
(a) Trade Receivables		2,67,000	2,19,000
(b) Cash & Cash Equivalents		10,000	6,000
Total		6,42,000	5,75,000

Notes :

		31.3.2018	31.3.2017
		₹	₹
(1)	Reserves & Surplus	1,97,000	1,75,000
	Securities Premium	10,000	—
		2,07,000	1,75,000
(2)	**Short-term Provision :**		
	Bank Overdraft	20,000	15,000
(3)	**Short-term Provision :**		
	Provision for Tax	62,000	65,000
	Provision for Doubtful Debts	22,000	16,000
		84,000	81,000
(4)	**Tangible Assets :**		
	Land	1,50,000	70,000
	Machinery	1,20,000	2,00,000
		2,70,000	2,70,000

Additional Informations :

(I) Machinery of the book value of ₹ 60,000 was sold for ₹ 18,000 during the year.
(II) Interim Dividend paid during the year ₹ 25,000.
(III) During the year Company sold 40% of its original non-current investments at a loss of 20%.

You are required to prepare Cash Flow Statement.

Solution 12 :

Cash Flow Statement
For the year ended 31st March, 2018

Particulars		Amt. (₹)	Amt. (₹)
A. Operating Activities :			
Net Profit before tax (Note 1)		1,09,000	
Adjustments for non-cash and non operating items :			
Add : Depreciation on machinery (Note 2)		20,000	
Loss on sale of machinery		42,000	
Loss on sale of non-current investments		4,000	
Provision for Doubtful Debts		6,000	72,000
Operating Profit before working capital changes			1,81,000
Less : Increase in Current Assets :			
Trade Receivables		48,000	
Less : Decrease in Current Liabilities :			
Trade Payables	23,000	71,000	
		1,10,000	
Payment of Tax (For 2017)		65,000	
Net Cash flow from operating Activities (A)		45,000	45,000
B. Investing Activities			
Sale of Machinery		18,000	
Sale of Non Current-Investments		16,000	
Purchase of Non-current Investments (Note 5)		(15000)	
Purchase of Intangible Assets		(20,000)	
Purchase of Land		(80,000)	
Net Cash used in investing Activities (B)		(8,000)	(81,000)
C. Financing Activities :			
Issue of Share Capital		50,000	
Premium Received on issue of equity shares		10,000	
Interim Dividend Paid		(25,000)	
Increase in Bank Overdraft		5,000	
Net cash flow from financing Activities (C)		40,000	40,000
Total of All Activities (A + B + C) [₹ 45,000 + (₹ 81,000) + ₹ 40,000]			4,000
Add : Opening Cash & Cash Equivalents			6,000
Closing Cash and Cash Equivalents			10,000

Working Notes :

1. Calculation of Net Profit before Tax :

	₹
Reserves & Surplus Balance on 31st March, 2018	1,97,000
Less : Reserve & Surplus Balance on 31st March, 2017	1,75,000
	22,000
Add : Interim Dividend Paid	25,000
Provision for Tax made during the Current year	62,000
Net Profit before Tax	1,09,000

2. **Machinery Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	2,00,000	By Bank A/c (Sale)	18,000
		By Statement of P & L (Loss)	42,000
		By Current year's Depreciation (B/F)	20,000
		By Balance c/d	1,20,000
	2,00,000		2,00,000

3. **Non Current Investments Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	50,000	By Bank A/c	16,000
To Bank A/c (B/F)		P & L (Loss on Sale of Investments)	4,000
		By Balance c/d	45,000
	65,000		65,000

Book Value of Investments Sold = (40% of ₹ 50,000)	20,000
Less : Loss on Sale (20% of ₹ 20,000)	(4,000)
Sale Price of Investments	16,000

13. From the following details relating to Grow More Ltd., prepare Cash Flow Statement :

BALANCE SHEET OF GROW MORE 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	1	20,00,000	16,00,000
(b) Reserves and Surplus	2	6,00,000	4,20,000
2. Non-Current Liabilities :			
Long-term Borrowings : 10% Debentures		4,00,000	...
3. Current Liabilities :			
(a) Trade Payables		14,00,000	16,40,000
(b) Short-term Provision	3	2,00,000	1,40,000
Total		46,00,000	38,00,000
II. ASSETS			
1. Non-Current Assets :			
(a) Fixed Assets (Tangible Assets)	4	26,00,000	18,00,000
(b) Non-current Investments		2,00,000	....
2. Current Assets :			
(a) Inventories		8,00,000	4,00,000
(b) Trade Receivables		10,00,000	14,00,000
(c) Cash and Cash Equivalents		....	2,00,000
Total		46,00,000	38,00,000

Notes to Accounts :

Particulars	31st March, 2020 (₹)	31st March, 2019 (₹)
1. Share Capital :		
Issued Subscribed and Paid up :		
Equity Shares of ₹ 100 each fully paid	20,00,000	16,00,000
2. Reserves and Surplus :		
General Reserves	4,00,000	3,00,000
Surplus *i.e.*, Balance in Statement of Profit and Loss	2,00,000	1,20,000
	6,00,000	4,20,000
3. Short-term Provisions :		
Provision for Tax	2,00,000	1,40,000
4. Tangible Assets :		
Plant and Machinery	14,00,000	10,00,000
Land and Building	12,00,000	8,00,000
	26,00,000	18,00,000

Additional Informations :

1. Depreciation @ 25% was charged on the opening value of Plant and Machinery.
2. During the year one old machine costing ₹ 1,00,000 (Written Down Value ₹ 40,000) was sold for ₹ 70,000.
3. ₹ 1,00,000 was paid as Income tax during the year.
4. Proposed dividend for the year ended 31st March, 2020 was ₹ 4,00,000 and for the year ended 31st March, 2019 was ₹ 2,00,000.
5. During the current year new debentures were issued on 1st October, 2019.

Solution 13 :

Cash Flow Statement
as at 31st March, 2020

Particulars	Amt. (₹)	Amt. (₹)
(A) Operating Activities :		
Net Profit as per statement of profit & loss		80,000
Add : Transfer to General Reserve	1,00,000	
Proposed dividend of previou year	2,00,000	
Provision For Tax made	1,60,000	4,60,000
Net profit before tax and extra ordinary items :		5,40,000
Add : Depreciation on plant & machinery	2,50,000	
Interest on 10% Debentures for 6 months	20,000	2,70,000
		8,10,000
Less : Profit on sale of machinery		(30,000)
Net profit before working capital changes		7,80,000
Add : Decrease in Trade Receivables		4,00,000
		11,80,000
Less : Decrease in Trade Payables	2,40,000	
Increase in Inventories	4,00,000	6,40,000
Net Cash Generated from Operation		5,40,000
Less : Tax Paid		(1,00,000)
Net Cash flow from Operating Activities (A)		4,40,000

(B) Investing Activities		
Sale of Machinery	70,000	
Less : Purchase of : Machinery	6,90,000	
Land & Building	4,00,000	
Investment	2,00,000	(12,90,000)
Net cash used in investing activities (B)		(12,20,000)
(C) Financing Activities		
Proceeds from : Share Capital	4,00,000	
10% Debentures	4,00,000	8,00,000
Less : Payment of : Interest on Debentures	(20,000)	
Proposed dividend	(2,00,000)	(2,20,000)
Net Cash flow from Financing Activities (C)		5,80,000
Total of All Activities (A + B + C)		
(₹ 4,40,000 + (₹ 12,20,000) + ₹ 5,80,000)		(2,00,000)
Add : Opening Cash & Cash Equivalents		2,00,000
Closing Cash & Cash Equivalents		Nil

Working Notes :

1. **Provision For Tax Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Bank A/c (Tax paid)	1,00,000	By Balance b/d	1,40,000
To Balance c/d	2,00,000	By Statement of profit & loss A/c (B/F)	1,60,000
	3,00,000		3,00,000

Plant and Machinery Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	10,00,000	By Bank A/c (Sale)	70,000
To Statement of Profit and Loss (Profit)	30,000	By Depreciation A/c [25% of ₹ 10,000]	2,50,000
To Bank A/c (Purchase) (B/F)	6,90,000	By Balance c/d	14,00,000
	17,20,000		17,20,000

14. Calculate Cash Flow from Operating Activities from the following Information :

STATEMENT OF PROFIT AND LOSS
for the year ended 31st March, 2019

Particulars	Note No.	₹
I. Revenue from Operations		10,00,000
II. Other Incomes	1	20,000
III. Total Revenue (I + II)		10,20,000
IV. Expenses :		
Cost of Material Purchased		6,70,000
Changes in Inventories of Finished Goods and Work-in-Progress		(10,000)
Depreciation and Amortization Expenses	2	34,000
Other Expenses	3	81,000
Total Expenses		7,75,000

V.	**Profit before Tax (III – IV)**		2,45,000
	Less : Tax		40,000
VI.	**Profit after Tax**		2,05,000

Notes to Accounts :

Particulars	₹
1. Other Income :	
Dividend Received	12,000
Profit from Sale of Investment	8,000
	20,000
2. Depreciation and Amortization Expenses :	
Depreciation	10,000
Goodwill written off	8,000
Trade Mark written off	10,000
Computer Software written off	6,000
	34,000
3. Other Expenses :	
Office Expenses	42,000
Selling Expenses	35,000
Discount Allowed	4,000
	51,000

Other Informations :

Particulars	31.3.2018	31.3.2019
	₹	₹
Inventory	60,000	70,000
Debtors	80,000	75,000
B/R	20,000	35,000
Creditors	60,000	72,000
B/P	10,000	8,000
Expenses Outstanding	4,000	5,000

Solution 14 :

Cash Flow Statement

Particulars	Amt. (₹)	Amt. (₹)
A. Operating Activities :		
Net Profit after Tax		2,05,000
Add : Depreciation	10,000	
Goodwill written off	8,000	
Trademark Written off	10,000	
Computer Software Written off	6,000	34,000
		2,39,000
Less : Dividend Received	(12,000)	
Profit on Sale of Investment	(8,000)	(20,000)
		2,91,000

Net Profit before working capital changes :		
Less : Increase in inventories	(10,000)	
Increase in B/R	(15,000)	
Decrease in B/P	(2000)	(27,000)
		1,92,000
Add : Decrease in Debtors	5,000	
Increase in Creditors	12,000	
Increase in Expenses Outstanding	1,000	18,000
		2,10,000
Net Cash flow from Operating Activities (A)		

15. Prepare Cash Flow Statement from the following information :

BALANCE SHEETS

at at 31-3-2019

Particulars	Note No.	2019 (₹)	2018 (₹)
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds :			
(a) Share Capital		2,60,000	2,00,000
(b) Reserves and Surplus		80,000	55,000
(2) Current Liabilities :		22,000	10,000
Total		3,62,000	2,65,000
II. ASSETS			
(1) Non-current Assets :			
(a) Fixed Assets—Tangible	1	2,06,000	1,40,000
(b) Non-current Investments		60,000	40,000
(2) Current Assets			
(a) Current Investments	2	15,000	12,000
(b) Inventories		25,000	30,000
(c) Trade Receivables		30,000	21,000
(d) Cash and Cash Equivalents		26,000	22,000
Total		3,62,000	2,65,000

Notes to Accounts :

Particulars	2019 (₹)	2018 (₹)
1. Fixed Assets—Tangible Assets :		
Plant	2,06,000	1,40,000
2. Current Investments :		
Short-term Investments (Non-Marketable ₹ 3,000 of 2019)	15,000	12,000

Solution 15 :

Cash Flow Statement
as at 31st March, 2019

Particulars	Amt. (₹)	Amt. (₹)
A. Operating Activities :		
Net Profit After Tax	25,000	
Add : Increasing in Current Liabilities	12,000	
Decrease in Inventories	5,000	17,000
		42,000
Less : Increase in Trade Receivables	9,000	9,000
		33,000
Net Cash inflow from operating Activities (A)		
B. Investing Activities :		
Less : Purchase of Fixed Assets	(66,000)	
Non current investments	(20,000)	
Non marketable investments	(3,000)	(89,000)
Net cash used in Investing Ativities (B)		(89,000)
C. Financing Activities :		
Issue of Share Captial	60,000	60,000
		60,000
Net Cash inflow from financing Activities (C)		
Total of all Activities (A + B + C)		
[₹ 33,000 + (₹ 89,000) + ₹ 60,000]		4,000
Add : Opening Cash & Cash Equivalents		22,000
Closing Cash & Cash Equivalents		26,000

16. Following is the Balance Sheet of Mevanca Limited as at 31st March, 2017 and 2016 :

Particulars	Note No.	31.3.2017	31.3.2016
I. EQUITY AND LIABILITIES		₹	₹
1. Shareholder's Funds :			
(a) Share Capital		3,00,000	1,00,000
(b) Reserves and Surplus	1	25,000	1,20,000
2. Non-Current Liabilities :			
Long-term Borrowings	2	80,000	60,000
3. Current Liabilities :			
(a) Trade Payables		6,000	20,000
(b) Short-term Provisions	3	68,000	70,000
Total		4,79,000	3,70,000
II. ASSETS			
1. Non-Current Assets :			
Fixed Assets	4	3,36,000	1,92,000
2. Current Assets :			
(a) Inventories		67,000	60,000
(b) Trade Receivables		51,000	65,000
(c) Cash and Bank Balances		25,000	49,000
(d) Other Current Assets		—	4,000
Total		4,79,000	3,70,000

Notes to Accounts

Particulars	31st March, 2017 (₹)	31st March, 2016 (₹)
1. Reserves and Surplus :		
Surplus *i.e.*, Balance in Statement of Profit & Loss	25,000	1,20,000
2. Long-term Borrowings :		
10% Long term Loan	80,000	60,000
3. Short-term Provisions :		
Provision for Tax	68,000	70,000
4. Fixed Assets :		
Machinery	3,84,000	2,15,000
Less : Accumulated Depreciation	(48,000)	(23,000)
	3,36,000	1,92,000

Additional informations :

(i) Additional loan was taken on 1st July, 2016.

(ii) Tax of ₹ 53,000 was paid during the year.

(iii) Machinery of the book value of ₹ 80,000 (Accumulated Depreciation ₹ 20,000) was sold at a loss of ₹ 18,000.

Prepare Cash Flow Statement.

Solution 16 :

Cash Flow Statement of Nevance Ltd.
as at 31st March, 2017

Particulars	Amt. (₹)	Amt. (₹)
A. Operating Activities :		
Net Profit After Tax		
Add : Depreciation of the year (25,000 + 20,000)	45,000	
Provision for Tax	51,000	
Loss on Sale of Machinery	18,000	1,14,000
		19,000
Add : Interest on Long Term Loan (Working Note)		7,500
Net Profit before working capital changes		26,500
Add : Decrease in Trade Receivables	14,000	
Decrease in other current assets	4,000	18,000
		44,500
Less : Increase in inventories	(7000)	
Decrease in Trade Payables	(14,000)	(21,000)
Net Cash from operations		23,500
Less : Tax paid during the year		(53,000)
Net cash flow from operating Activities (A)		(29,500)
B. Investing Activities :		
Less : Purchase of Fixed Assets	(2,69,000)	
Add : Sale of Fixed Assets	62,000	(2,07,000)
Net Cash used from Investing Activities (B)		(2,07,000)

C. Financing Activities :			
Issue of Share Capital		2,00,000	
Long Term Borrowings	20,000		
Less : Interest	(7500)	12,500	2,12,500
Net cash flow from Financing Activities (C)			2,12,500
Total of All Ativities (A + B + C)			
(₹ 29,500) + ₹ (2,07,000) + ₹ 2,12,5000			(24,000)
Opening Cash & Cash Equivalents			49,000
Closing Cash and Cash Equivalents			25,000

Working Notes :

1. **Machinery Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	2,15,000	By Bank A/c	62,000
To Bank (B/F)		By Depreciation A/c	20,000
(Purchase)	2,69,000	By Loss on Sale of Machinery A/c	18,000
		By Balance c/d	3,84,000
	4,84,000		4,84,000

2. Interest on Loan	₹
Interest on Loan taken on 1st July, 2016	
$\left(₹ 20,000 \times \frac{10}{100} \times \frac{9}{12}\right)$	1,500
Interest on Loan as on 31st March, 2016	
$\left(₹ 60,000 \times \frac{10}{100}\right)$	6,000
Total Interest paid on Loan	7,500

17. Following is the Balance Sheet of Akash Ltd. as on 31st March, 2014 :

Particulars	Note No.	31st March, 2014 (₹)	31st March, 2013 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds :			
(a) Share Capital		15,00,000	14,00,000
(b) Reserves and Surplus	1	2,50,000	1,10,000
2. Non-Current Liabilities :			
Long-term Borrowings		2,00,000	1,25,000
3. Current Liabilities :			
(a) Short-term Borrowings	2	12,000	10,000
(b) Trade Payables		15,000	83,000
(c) Short-term Provisions	3	18,000	11,000
Total		19,95,000	17,39,000
II. ASSETS			
1. Non-Current Assets :			
Fixed Assets :			
(i) Tangible Assets	4	18,60,000	16,10,000
(ii) Intangible Assets	5	50,000	30,000

2. Current Assets :			
(a) Current Investments		8,000	5,000
(b) Inventories		37,000	59,000
(c) Trade Receivables		26,000	23,000
(d) Cash and Cash Equivalents		14,000	12,000
Total		19,95,000	17,39,000

Notes to Accounts

Particulars	31st March, 2014 (₹)	31st March, 2013 (₹)
1. Reserves and Surplus :		
Surplus, *i.e.*, Balance in Statement of Profit and Loss	2,50,000	1,10,000
2. Short-term Borrowings :		
Bank Overdraft	12,000	10,000
3. Short-term Provisions :		
Provision for Tax	18,000	11,000
4. Tangible Assets :		
Machinery	20,00,000	17,00,000
Less : Accumulated Depreciation	(1,40,000)	(90,000)
	18,60,000	16,10,000
5. Intangible Assets :		
Patents	50,000	30,000

Additional Informations :

(i) Tax paid during the year amounted to ₹ 16,000.

(ii) Machine with a net book value of ₹ 10,000 (Accumulated Depreciation ₹ 40,000) was sold for ₹ 2,000.

Prepare Cash Flow Statement.

Solution 17 :

Cash Flow Statement of Akash Ltd.
as on 31st March, 2014

Particulars	Amt. (₹)	Amt. (₹)
(A) Operating Activities :		
Net Profit for the year		1,40,000
(₹ 2,50,000 – ₹ 1,10,000)		23,000
Add : Provision for Tax (Working Note)		1,63,000
Net Profit Before Tax and Extra Ordinary Items		
Add : Depreciation for the year (Working Note)	90,000	
Loss on sale of machinery (Working Note)	8,000	98,000
Net Profit before working capital changes		2,61,000
Add : Decrease in Inventories		22,000
		2,83,000
Less : Decrease in Trade Payable	68,000	
Increase in Trade Receivables	3,000	(71,000)
Net Cash from Operatings		2,12,000
Less : Tax Paid		(16,000)
		1,96,000
Net Cash from operating Activities (A)		

(B) Investing Activities		
Sale of Machinery (Working Note)		2,000
Less : Machinery Purchased (Working Note)	(3,50,000)	
Patent Purchased	(20,000)	(3,70,000)
Net Cash used in investing Activities (B)		368,000
(C) Financing Activities		
Issue of Share Capital		1,00,000
Add : Increase in Long Term Borrowings	75,000	
Increase in Bank Overdraft	2,000	77,000
		1,77,000
Net Cash flow from Financing Activities (C)		
Total of All Activities (A + B + C)		
[₹ 1,96,000 + (₹ 3,68,000) + ₹ 1,77,000]		5,000
Add : Opening Cash & Cash Equivalents		17,000
(₹ 12,000 + ₹ 5,000)		22,000
Closing Cash and Cash Equivalents		
(₹ 14,000 + ₹ 8,000)		

Working Notes :

1. **Provision for Tax Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Bank A/c	16,000	By Balance b/d	11,000
To Balanc c/d (Tax made) (B/F)	18,000	By P & L A/c	23,000
	34,000		34,000

2. **Machinery Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	17,00,000	By Accumulated Depreciation A/c	40,000
To Bank A/c (Purchase) (B/F)	3,50,000	By Bank A/c (Sale)	2,000
		By P & L A/c (Loss)	8,000
		By Balance c/d	20,00,000
	20,50,000		20,50,000

3. **Accumulated Depreciation Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Machinery A/c	40,000	By Balance b/d	90,000
To Balance c/d	1,40,000	By P & L A/c (B/F)	90,000
	1,80,000		1,80,000

18. From the following Balance Sheet of Mayur Ltd. and the additional information as at 31st March, 2018, prepare a Cash Flow Statement :

Mayur Ltd.
BALANCE SHEET
as at 31st March, 2018

Particulars	Note No.	31.3.2018	31.3.2017
I. EQUITY AND LIABILITIES		₹	₹
(1) Shareholders' Funds :			
(a) Share Capital		30,00,000	20,00,000
(b) Reserves & Surplus	1	3,00,000	4,00,000
(2) Non-Current Liabilities :			
Long-term Borrowings	2	4,00,000	3,00,000
(3) Current Liabilities :			
(a) Trade Payables		1,70,000	2,50,000
(b) Short-term Provisions	3	76,000	64,000
Total		39,46,000	30,14,000
II. ASSETS			
(1) Non-Current Assets :			
Fixed Assets :			
(i) Tangible Assets	4	29,00,000	23,00,000
(ii) Intangible Assets	5	2,70,000	1,60,000
(2) Current Assets :			
(a) Inventories		2,20,000	2,30,000
(b) Trade Receivables		1,10,000	1,30,000
(c) Cash and Cash Equivalents		4,46,000	1,94,000
Total		39,46,000	30,14,000

Note No.	Particulars	31.3.2018	31.3.2017
		₹	₹
1.	**Reserves and Surplus :**		
	Surplus (Balance in Statement of Profit and Loss)	3,00,000	4,00,000
2.	**Long-term Borrowings :**		
	9% Debentures	4,00,000	3,00,000
3.	**Short-term Provisions :**		
	Provision for Tax	76,000	64,000
4.	**Tangible Assets :**		
	Machinery	36,00,000	28,00,000
	Less : Accumulated Depreciation	(7,00,000)	(5,00,000)
		29,00,000	23,00,000
5.	**Intangible Assets :**		
	Goodwill	2,70,000	1,60,000

Additional Informations :

(i) During the year, a piece of machinery costing ₹ 4,00,000 on which accumulated depreciation was ₹ 73,000 was sold for ₹ 3,10,000.

(ii) 9% Debentures of ₹ 1,00,000 were issued on 31st March, 2018.

Solution 18 :

Provision for Tax Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Cash A/c	53,000	By Balance b/d	70,000
To Balance c/d	68,000	By Statement of Profit & Loss A/c	51,000
	1,21,000		1,21,000

4. **Accumulated Depreciation Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Machinery A/c	20,000	By Balance b/d	23,000
To Balance c/d	48,000	By P & L A/c (B/F)	45,000
	68,000		68,000

Cash Flow Statement of Mayur Ltd.
as on 31st March, 2017

Particulars		Amt. (₹)	Amt. (₹)
A. Operating Activities :			
Net profit (Balance in Statement) of Profit and Loss			(1,00,000)
Loss on Sale of machinery		17,000	
Add : Depreciation (Working Note)		2,73,000	
Interest (Working Note)		27,000	
Provision For Tax		76,000	3,93,000
Net profit before working capital changes			2,93,000
Less : Decrease to Trade Payable		(80,000)	(80,000)
Add : Decrease in inventories		10,000	2,13,000
Decrease in Trade Receivables		20,000	30,000
Cash from Operations			2,43,000
Less Tax Paid			(64,000)
			1,79,000
Net Cash flowfrom operating activities (A)			
B. Investing Activities			
Add : Sale of Machinery		3,10,000	
Less : Purchase of Machinery		(12,00,000)	
Goodwill		(1,10,000)	(10,00,000)
Net Cash used in Investing Activities (B)			(10,00,000)
C. Financing Activities :			
Issue of Share Capital		10,00,000	
Debenture	1,00,000		
Less : Interest	(27,000)	73,000	10,73,000
			10,73,000
Net Cash flow from financing Activities (C)			
Total of All Activities (A + B + C) [₹ 1,79,000 + (₹ 10,00,000) + ₹ 10,73,000]			2,52,000
Add : Opening Cash & Cash Equivalents			1,94,000
Closing cash & Cash Equivalents			4,46,000

Working Notes :

1. **Provision For Tax Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Bank A/c (Payment)	64,000	By Balance b/d	64,000
To Balance c/d	76,000	By P & L A/c (B/F)	76,000
	1,40,000		1,40,000

2. **Accumulated Depreiation Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Machinery A/c (Depreciation)	73,000	By Balance b/d	3,00,000
To Balance c/d 7,00,000		By P & L A/c (B/F)	2,73,000
	7,73,000		7,73,000

3. Interest on Debentures :

$$₹\ 3{,}00{,}000 \times 9\% = ₹\ 27{,}000$$

4. **Machinery Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	28,00,000	By Depreciation	73,000
To Bank A/c		By Loss on Sale of Machinery	17,000
(Purchase) (B/F)	12,00,000	By Bank A/c	3,10,000
		By Balance c/d	36,00,000
	40,00,000		40,00,000

19. From the following Balance Sheets of M/s V.S. Electronics Ltd. as on 31-12-2018 and 31-12-2019, prepare a 'Cash Flow Statement' :

Particulars	Note No.	2019 (₹)	2018 (₹)
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds :			
(a) Share Capital	1	1,90,000	1,50,000
(b) Reserves and Surplus	2	90,000	80,000
(2) Non-current Liabilities :			
Long-term Borrowings	3	1,69,000	1,31,000
(3) Current Liabilities :			
(a) Short-term Borrowings (Loan)		20,000	—
(b) Trade Payables	4	14,000	14,000
(c) Other Current Liabilities	5	1,000	3,000
Total		4,84,000	3,78,000

II. ASSETS			
(1) Non-current Assets :			
Fixed Assets			
(i) Tangible Assets	6	3,20,000	2,30,000
(ii) Intangible Assets	7	5,000	10,000
(2) Current Assets :			
(a) Inventories		75,000	60,000
(b) Trade Receivables	8	26,000	28,000
(c) Other Current Assets	9	8,000	10,000
(d) Cash and Cash Equivalents		50,000	40,000
Total		4,84,000	3,78,000

Notes to Accounts :

Particulars	2019 (₹)	2018 (₹)
1. Share Capital :		
Equity Share Capital	1,50,000	1,00,000
9% Preference Share Capital	40,000	50,000
	1,90,000	1,50,000
2. Reserves and Surplus :		
General Reserve	20,000	30,000
Balance in Statement of Profit and Loss	70,000	50,000
	90,000	80,000
3. Long-term Borrowings :		
12% Public Deposits	1,00,000	80,000
12% Debentures	69,000	51,000
	1,69,000	1,31,000
4. Trade Payables :		
Creditors	10,000	8,000
B/P	4,000	6,000
	14,000	14,000
5. Other current Liabilities :		
Expenses Outstanding	1,000	3,000
6. Fixed Assets — Tangible :		
Building	2,20,000	1,50,000
Plant	1,00,000	80,000
	3,20,000	2,30,000
7. Fixed Assets —Intangible :		
Goodwill	5,000	10,000
8. Trade Receivables :		
Debtors	17,000	20,000
B/R	9,000	8,000
	26,000	28,000
9. Other Current Assets :		
Accrued Income	6,000	10,000
Prepaid Expenses	2,000	—
	8,000	10,000

Solution 19 :

Cash Flow Statement of M/s V.S Electronics Ltd.
as on 31st March, 2019

Particulars	Amt. (₹)	Amt. (₹)
A. Operating Activities :		
Net Profit (Balance in Statement of Profit and Loss)	20,000	
Add : Goodwill written off	5,000	
Interest on 12% Public Deposits	9,600	
Interest on 12% Debentures	6,120	
Dividend on preference shares	4,500	25,220
		45,220
Less : General Reserve	(10,000)	(10,000)
Net Profit before working capital changes		35,220
Add : Decrease in Trade Receivables	2,000	
Decrease in other Current Assets	2,000	4,000
		39,220
Less : Increase in Inventories	(15,000)	
Decrease in other Current Liabilities	(2,000)	(17,000)
		22,220
B. Investing Activities :		
Purchase of Fixed Assets	(90,000)	(90,000)
		(90,000)
Net Cash used investing Activities (B)		
C. Financing Activities :		
Issue of Share Capital	50,000	
Issue of prefence Share Capital	(10,000)	
12% Public Deposits	18,000	
12% Debentures	20,000	98,000
Short Term Borrowings		98,000
Less : Interest paid on 12% Public Deposits	(9,600)	
Interest paid on 12% Debentures	(6,120)	
Dividend paid on 9% Preference Share Capital	(45,000)	(20,220)
Net Cash Flow from Financing Activities (C)		77,780
Total of All Activities (A + B + C) [₹ 22,220 + (₹ 90,000) + ₹ 77,780]		10,000
Add : Opening Cash & Cash Equivalents		40,000
Closing Cash & Cash Equivalents		50,000

Working Notes :

1. Interest on 12% Public Deposits :
   12% on Opening Balance of Public Deposits i.e.
   12% on ₹ 80,000
   = ₹ 9,600
2. Interest on 12% Debentures
   12% on Opening Balance of Debentures
   i.e., 12% on ₹ 51,000
   = 6,120
3. Dividend on 9% Preference Share Capital
   9% on Opening Balance of Preference Share Capital *i.e*. 9% on ₹ 50,000
   = ₹ 4,500
4. Purchase of Fixed Assets

Fixed Assets Account

Particulars		Amt. (₹)	Particulars		Amt. (₹)
To Balance b/d					
Building	1,50,000				
Plant	80,000	2,30,000	By Balance c/d		
To Bank A/c			Building	2,20,000	
(Purchase)			Land	1,00,000	3,20,000
(B/F)		90,000			
		3,20,000			3,20,000

20. From the following Balance Sheet of Mishi Ltd as at 31st March, 2020, prepare Cash Flow Statement :

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds :			
(a) Share Capital		16,00,000	12,00,000
(b) Reserves and Surplus	1	6,60,000	4,40,000
2. Non-Current Liabilities :			
Long-term Borrowings (10% Debentures)		3,20,000	2,00,000
3. Current Liabilities :			
(a) Short-term Borrowings (Bank Loan)		80,000	1,10,000
(b) Trade Payables		1,50,000	1,80,000
Total		28,10,000	21,30,000
II. ASSETS			
1. Non-Current Assets :			
(a) Fixed Assets—Tangible	2	19,00,000	12,10,000
(b) Non-current Investments		2,70,000	2,00,000
2. Current Assets :			
(a) Current Investments		1,60,000	80,000
(b) Trade Receivables		1,80,000	4,00,000
(c) Cash and Cash Equivalents	3	3,00,000	2,40,000
Total		28,10,000	21,30,000

Notes to Accounts

Particulars	31st March, 2020 (₹)	31st March, 2019 (₹)
1. Reserves and Surplus :		
Securities Premium Reserve	20,000	—
General Reserve	3,00,000	2,40,000
Surplus, *i.e.*, Balance in Statement of Profit and Loss	3,40,000	2,00,000
	6,60,000	4,40,000

2. Fixed Assets—Tangible :		
Machinery (Cost)	21,40,000	14,00,000
Less : Accumulated Depreciation	2,40,000	1,90,000
	19,00,000	12,10,000
3. Cash and Cash Equivalents :		
Cash in hand	1,40,000	1,10,000
Bank Balance	1,60,000	1,30,000
	3,00,000	2,40,000

Additional Informations :

(i) During the year, Machinery costing ₹ 1,40,000 (accumulated depreciation provided there on ₹ 1,10,000) was sold for ₹ 20,000.

(ii) During the year, Non-current Investments costing ₹ 80,000 were sold at a profit of ₹ 16,000.

Solution 20 :

Cash Flow Statement of Mishi Ltd.
as on 31st March, 2020

Particulars	Amt. (₹)	Amt. (₹)
A. Operating Activities :		
Net Profit for the year		1,40,000
Add : General Reserve		60,000
		2,00,000
Net Profit before Tax and Extra Ordinary Items :		
Add : Depreciation of Machine (Working Note)	1,60,000	
Loss on Sale of Machine (Working Note)	10,000	
Interest on Debentures	20,000	1,90,000
		3,90,000
Less : Profit on Sale of Investments		(16,000)
Net profit before working capital changes		3,74,000
Add : Decrease in Trade Receivables		2,20,000
		5,94,000
Less : Decrease in Trade Payables		(30,000)
Net Cash flow from Operating Activities (A)		5,64,000
B. Investing Activities :		
Add : Machinery Sold	20,000	
Investment Sold	96,000	1,16,000
Less : Purchase of Machine	(8,80,000)	
Purchase of Investments	(1,50,000)	(10,30,000)
Net Cash used in investing Activities (B)		(9,14,000)
C. Financing Activities :		
Add : Issue of Share Capital with Securities Premium	4,20,000	
Issue of 10% Debentures	1,20,000	5,40,000
Less : Bank Loan Paid	(30,000)	
Interest on Debentures Paid	(20,000)	(50,000)
Net Cash flow from financing Activities (C)		4,90,000
Total of All Activities (A + B + C)		
(₹ 2,40,000 + ₹ 80,000)		140,000
Add : opening cash cash equivalents		320,000
(₹ 2,40,000 + ₹ 80,000)		
Closing Cash & Cash Equivalents		4,60,000
(₹ 300,00 + ₹ 1,60,00)		

Working Notes :

1. **Machinery Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	14,00,000	By Accumulated Depreciation A/c	1,10,000
To Bank A/c (Purchase) (B/F)	8,80,000	By Bank A/c (Sales)	20,000
		By P & L A/c (Loss)	10,000
		By Balance c/d	21,40,000
	22,80,000		22,80,000

2. **Accumulated Depreciation Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Machinery A/c	1,10,000	By Balance b/d	1,90,000
To Balance c/d	2,40,000	By P & L A/c (Current year's Depreciation)	1,60,000
	3,50,000		3,50,000

3. **Non Current Investment Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	2,00,000	By Bank A/c (Sales)	96,000
To P & L (Profit)	16,000	By Balance c/d	2,70,000
To Bank A/c (Purchase)	1,50,000		
	3,66,000		3,66,000

21. From the following Balance Sheet as at 31st March, 2020 and Statement of Profit and Loss for the year ended 31st March, 2019 of RSB Ltd. and additional information, prepare Cash Flow Statement :

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds :			
(a) Share Capital		7,50,000	5,00,000
(b) Reserves and Surplus	1	9,50,000	3,00,000
2. Non-Current Liabilities :			
Long-term Borrowings (5% Debentures)		7,00,000	4,00,000
3. Current Liabilities :			
(a) Trade Payables		1,10,000	90,000
(b) Other Current Liabilities	2	39,000	25,000
(c) Short-term Provisions (Provision for Tax)		2,60,000	2,25,000
Total		28,09,000	15,40,000

II. ASSETS			
1. Non-Current Assets :			
(a) Fixed Assets—Tangible Assets	3	6,85,000	7,45,000
(b) Non-current Investments		7,50,000	2,50,000
2. Current Assets :			
(a) Current Investments		6,74,000	95,000
(b) Inventories		1,00,000	2,00,000
(c) Trade Receivables		4,00,000	1,50,000
(d) Cash and Cash Equivalents		2,00,000	1,00,000
Total		28,09,000	15,40,000

STATEMENT OF PROFIT AND LOSS

for the year ended 31st March, 2020

Particulars	Note No.	31st March, 2020 (₹)	31st March, 2019 (₹)
I. Revenue from Operations	4	40,00,000	35,00,000
II. Other Income	5	35,000	30,000
III. Total Revenue (I + II)		40,35,000	35,30,000
IV. *Expenses :*			
Purchases of Stock-in-Trade		27,00,000	24,70,000
Charge in Inventories of Stock-in-Trade	6	1,00,000	50,000
Finance Cost		27,500	20,000
Depreciation		40,000	45,000
Other Expenses		22,500	20,000
Total Expenses		28,90,000	26,05,000
V. Profit before Tax (III – IV)		11,45,000	9,25,000
VI. *Less :* Tax		3,45,000	2,25,000
VII. Profit after Tax (V – VI)		8,00,000	7,00,000

Notes to Accounts

Particulars	31st March, 2020 (₹)	31st March, 2019 (₹)
1. Reserves and Surplus :		
Debenture Redemption Reserve	1,00,000	1,00,000
Surplus, *i.e.*, Balance in Statement of Profit and Loss	8,50,000	2,00,000
	9,50,000	3,00,000
2. Other Current Liabilities :		
Interest on Debentures	35,000	20,000
Outstanding Expenses	4,000	5,000
	39,000	25,000
3. Fixed Assets—Tangible Assets :		
Cost	8,90,000	9,90,000
Less : Accumulated Depreciation	2,05,000	2,45,000
	6,85,000	7,45,000

4. Revenue from Operations :		
Sales	42,00,000	35,75,000
Less : Sales Returns	2,00,000	75,000
	40,00,000	35,00,000
5. Other Income :		
Interest on Deposits	15,000	12,500
Dividend on Investments	10,000	17,500
Gain (Profit) on Sale of Fixed Assets	10,000	...
	35,000	30,000
6. Change in Inventories of Stock-in-Trade :		
Opening Stock	2,00,000	2,50,000
Less : Closing Stock	1,00,000	2,00,000
	1,00,000	50,000

Additional Informations :

(i) Additional debentures were issued on 1st October, 2019 of ₹ 5,00,000. On the same date, part of outstanding debentures were redeemed and interest was paid, whereas interest on outstanding debentures was paid on 10th April, 2020.

(ii) Board of Directors proposed dividend in both the years @ 10%.

(iii) Interim Dividend of ₹ 1,00,000 was paid during the year.

(iv) A fixed asset with original cost of ₹ 1,00,000 on which depreciation till date was provided of ₹ 80,000 was sold at a profit of ₹ 10,000.

Solution 21 :

Cash Flow Statement
as at March, 31st, 2020

Particulars	Amt. (₹)	Amt. (₹)
(A) Operating Activities :		
Net Profit As Per Statement of Profit and Loss	6,50,000	
Add : Interim Dividend Paid	1,00,000	
Proposed Dividend for Previous year	50,000	
Provision for Tax	3,45,000	3,95,000
		11,45,000
Net Profit before Tax and Extra Ordinary Items :		
Add : Non operating and Non-cash expenses		40,000
Depreciation on Fixed Assets	27,500	67,500
		12,12,500
Less : Profit on Sale of Fixed Assets	10,000	
Dividend Received	10,000	
Interest on Deposits	15,000	(35,000)
Cash flow before working capita changes		11,77,500
Add : Increase in Trade Payable	20,000	
Decrease in Inventories	1,00,000	1,20,000
		12,97,500
Less : Decrease in Oustanding Expense	1000	
Increase in Trade Receivables	2,50,000	(2,51,000)
Net Cash flow from operations		10,46,500
Less : Tax Paid		(3,10,000)
Net Cash flow from operating Activities (A)		7,36,500

(B) Investing Activities :		
Sale of Fixed Assets	30,000	
Interest on Deposit Received	15,000	
Dividend Received	10,000	55,000
Less : Purchase of Investments		(5,00,000)
Net Cash flow from investing Activities (B)		(4,45,000)
(C) Financing Activities		
Issue of Share Capital	2,50,000	
Issue of 5% Debentures	5,00,000	7,50,000
Less : Redemption of 5% Debentures	(2,00,000)	
Interest paid (₹ 27,500 – ₹ 15,000))	(12,500)	
Interest divided paid	(1,00,000)	
Proposed dividend of previous year	(50,000)	(3,62,500)
Net Cash flow from Financing Activities (C)		3,87,500
Total of All Activities (A + B + C) [₹ 7,36,500 + (₹ 4,45,000) + ₹ 3,87,500]		6,79,000
Opening Cash and Cash Equivalents (₹ 1,00,000 + ₹ 95,000)		1,95,000
Closing Cash and Cash Equivalents		8,74,000

Working Notes :

1. **5% Debentures Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Bank A/c (Redeem) (B/F)	2,00,000	By Balance c/d	4,00,000
To Balance c/d	7,00,000	By Bank A/c (Issue)	5,00,000
	9,00,000		9,00,000

Provision For Tax Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Bank A/c (Tax Paid)	3,10,000	By Balance b/d	2,25,000
To Balance c/d	2,60,000	By Statement of Profit & Loss A/c	3,45,000
	5,70,000		5,70,000

Fixed Assets Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	9,90,000	By Accumulated Depreciation A/c	80,000
To Statement of Profit & Loss A/c (Profit)	10,000	By Bank A/c (Sale)	30,000
		By Balance c/d	8,90,000
	10,00,000		10,00,000

Accumulated Depreciation Account

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Fixed Assets A/c	80,000	By Balance b/d	2,45,000
To Balance c/d	2,05,000	By Statement of Profit & Loss A/c	40,000
	2,85,000		2,85,000

22. Prepare Cash Flow Statement of Alpha Ltd., from the following Balance Sheets as at 31.3.2019 :

Particulars	Note No.	2019 (₹)	2018 (₹)
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds :			
(a) Share Capital		5,00,000	3,00,000
(b) Reserves and Surplus		80,000	60,000
(2) Non-current Liabilities :			
Long-term Borrowings	1	1,00,000	1,00,000
(3) Current Liabilities :			
(a) Trade Payables		1,00,000	1,20,000
(b) Short-term Provisions	2	30,000	20,000
Total		8,10,000	6,00,000
II. ASSETS			
(1) Non-current Assets :			
(a) Fixed Assets			
(i) Tangible Assets		3,00,000	2,50,000
(ii) Intangible Assets	3	40,000	50,000
(b) Non-current Investments		2,00,000	1,00,000
(2) Current Assets :			
(a) Current Investments	4	30,000	20,000
(b) Inventories		1,20,000	1,00,000
(c) Trade Receivables		80,000	50,000
(d) Cash and Cash Equivalents		40,000	30,000
Total		8,10,000	6,00,000

Notes to Accounts

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
1. Long-term Borrowings :		
12% Loan	1,00,000	1,00,000
2. Short-term Provisions :		
Provisions for Tax	30,000	20,000
3. Fixed Assets — Intangible (Goodwill) :	40,000	50,000
4. Current Investments :		
Marketable Securities	30,000	20,000

Additional Informations :

(i) Depreciation charged on Fixed Assets was ₹ 25,000.
(ii) An assets of book value ₹ 50,000 was sold for ₹ 30,000.
(iii) Interest received on investment was ₹ 10,000.

Solution 22 :

**Cash Flow Statement of Alpha Ltd.
as on 31st March, 2019**

Particulars		Amt. (₹)	Amt. (₹)
A. Operating Activities :			
Net Profit After Tax			20,000
Add : Depreciation		25,000	
Interest on Loan		12,000	
Provision for Tax		30,000	
Goodwill write off		10,000	
Loss on Sale of Assets		20,000	97,000
			1,17,000
Less : Interest on Investments		(10,000)	(10,000)
Net profit before working capital changes			1,07,000
Less : Increase in marketable securities		(10,000)	
Increase in Inventories		(20,000)	
Increase in Trade Receivables		(30,000)	
Decrease in Trade Payables		(20,000)	(80,000)
Net Flow from Operations			37,000
Less : Tax paid			(20,000)
Interest on Investments			(10,000)
Net Cash flow from operating Activities (A)			7,000
B. Investing Activities :			
Purchase of Fixed Assets		(1,25,000)	
Sale of Assets		30,000	
Loss on sale of fixed assets		20,000	
Purchase of Investments	1,00,000		
Add : Interest on Investment	10,000	(1,10,000)	(1,85,000)
Net Cash used in investing Activities (B)			(1,85,000)
C. Financing Activities :			
Issue of Share Capital		2,00,000	
Interest on 12% Loan (12,000)			1,88,000
Net Cash flowfrom financing Activities (C)			1,88,000
Total of All Activities (A + B + C)			
[₹ 1,000 + (₹ 1,85,000) + ₹ 1,88,000]			10,000
Add : Opening Cash & Cash Equivalents			30,000
Closing Cash & Cash Equivalents			40,000

Working Notes :

1. **Fixed Assets Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	2,50,000	By Bank A/c (Sale)	30,000
To Bank A/c		By P & L A/c (Loss	
(Purchase)	1,25,000	On Sale of Fixed Assets)	20,000
(B/F)		By Depreciation A/c	25,000
		By Balance c/d	3,00,000
	3,75,000		3,75,000

2. **Non Current Investments**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	1,00,000	By Interest	10,000
To Bank A/c		By Balance c/d	2,00,000
(Purchase)	1,10,000		
	2,10,000		2,10,000

3. **Provision For Tax Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Bank A/c		By Balance b/d	20,000
(Payment)	20,000	By P & L (B/F)	30,000
To Balance c/d	30,000		
	50,000		50,000

4. Interest on 12% Loan
12% on ₹ 1,00,000 = ₹ 12,000

23. From the following Balance Sheets of X Ltd, prepare Cash Flow Statement as at 31st March :

Particulars	Note No.	2019 (₹)	2018 (₹)
I. EQUITY AND LIABILITIES			
(1) Shareholders' Fund :			
(a) Share Capital		3,00,000	3,00,000
(b) Reserves and Surplus		1,20,000	80,000
(2) Non-current Liabilities :			
Long-term Borrowings	1	2,00,000	1,00,000
(3) Current Liabilities			
(a) Trade Payables		1,00,000	80,000
(b) Other Current Liabilities	2	10,000	25,000
(c) Short-term Provisions	3	20,000	15,000
Total		7,50,000	6,00,000
II. ASSETS			
(1) Non-current Assets :			
(a) Fixed Assets			
(i) Tangible		3,90,000	3,00,000
(ii) Intangible	4	20,000	30,000
(b) Non-current Investment (10%)	5	1,00,000	1,00,000
(2) Current Assets :			
(a) Inventories		80,000	60,000
(b) Trade Receivables		70,000	85,000
(c) Cash and Cash Equivalents		90,000	25,000
Total		7,50,000	6,00,000

Notes to Accounts :

Particulars	2019 (₹)	2018 (₹)
1. Long-term Borrowings :		
12% Debentures	2,00,000	1,00,000
2. Other Current Liabilities :		
Unclaimed Dividend	10,000	25,000
3. Short-term Provisions :		
Prov. for Doubtful Debts	20,000	15,000
4. Fixed Assets—Intangible :		
Trade Mark	20,000	30,000
5. Non-Current Investments :		
10% Investments	1,00,000	1,00,000

Additional Informations :

(i) Interim Dividend paid @ 15%.

(ii) Addition in Debentures were made on 31-3-2019.

(iii) Depreciation provided during the year ₹ 30,000.

Solution 23 :

Cash Flow Statement of X Ltd.
as at 31st March, 2019

Particulars	Amt. (₹)	Amt. (₹)
A. Operating Activities :		
Net Profit		40,000
Add : Depreciation	30,000	
Provision for Doubtful Debts	5,000	
Dividend	45,000	
Interest on 12% Debentures	12,000	
Trademark write off	10,000	1,02,000
		1,42,000
Less : Interest on 10% Investments	(10,000)	(10,000)
Net Cash Flow from Operating Activities (A)		1,32,000
B. Investing Activities :		
Purchase of Fixed Assets	(1,20,000)	
Interest on Investment	10,000	(1,10,000)
Net Cash used in Investing Activities (B)		(1,10,000)
C. Financing Activities :		
Long Term Borrowings	1,00,000	
Interest on 12% Debentures	(12,000)	
Unclaimed Dividend	(15,000)	
Dividend Paid	(45,000)	28,000
		28,000
Net Cash flow from financing Activities (C)		
Total of all Activities (A + B + C)		
[₹ 1,47,000 + (₹ 1,10,000) + ₹ 2,80,000]		65,000
Add : Opening cash & Cash Equivalents		25,000
Closing Cash and Cash Equivalents		90,000

Working Notes :

1. Interest on 12% Debentures
   12% on ₹ 1,00,000 = ₹ 12,000
2. Interest on Investments
   10% on Opening Balance *i.e.*,
   10% on ₹ 1,00,000 = ₹ 10,000
3. **Fixed Assets**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	3,00,000	By Depreciation	30,000
To Bank A/c (Purchase) (B/F)	1,20,000	By Balance c/d	3,90,000
	4,20,000		4,20,000

4. Dividend paid @ 15%
   15% on Opening Balance of Share Capital
   i.e. 15% on ₹ 3,00,000 = ₹ 45,000
5. **Provision for Doubtful Debts Accounts**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
		By Balance b/d	15,000
To Balance c/d	20,000	By P & L (B/F)	5,000
	20,000		20,000

24. Calculate Cash Flow from Investing Activities from the following information :

(i) Machinery costing ₹ 5,00,000 (Book Value ₹ 3,50,000) was sold at a loss of 10%.
(ii) Dividend received @ 10% from Long-term Investments of ₹ 2,00,000.
(iii) Receipt for permission granted for use of Trade Mark ₹ 1,20,000.
(iv) Non-Current Investments purchased ₹ 1,75,000.
(v) Non-Current Investment costing ₹ 3,00,000 was sold at a profit of 20%.
(vi) Land was sold for ₹ 6,00,000 of which 40% is profit.

Solution 24 :

Cash Flow Statement of X Ltd.
as at 31st March, 2019

Particulars	Amt. (₹)	Amt. (₹)
Cash flow from investing Activities		3,15,000
Proceeds from sale of machinery		
Receipt of divident		20,000
Receipt for permission granted fro use of trademark		1,20,000
Payment for purchase of non-curretn Investment		(1,75,000)
Proceeds from sale of non-current investments		3,60,000
prodeeds from sale of land		6,00,000
Net cash flow from investing activities		12,40,000

25. The following information has been extracted from the books of Pure Con Company. Using the information, calculate the Cash Flow from Investing Activities :

Particulars	₹
Land acquired during the year	6,00,000
Non-Current Investments purchased	2,90,000
Machinery purchased	4,00,000
Sale of Building	5,20,000
Sale of Non-Current Investments	1,50,000
Sale of Machinery	1,70,000
Receipt for permission of use of patent	90,000
Interest received on debentures held as investments	30,000
Dividend received on shares as investments	30,000

Solution 25 :

Cash Flow Statement of X Ltd.
as at 31st March, 2019

Particulars	Amt. (₹)	Amt. (₹)
Cash flow from investing Activities		
Purchase of Land		6,00,000
Purchase of non-current investments		2,90,000
Purchase of Machinery		4,00,000
Sales of Building		5,20,000
Sale of Non-current investments		1,50,000
Sale of Machinery		1,70,00
Receipt for permission of use of patent		90,000
Interest Received		30,000
Dividend Received		20,000
Net cash used in investing activities		3,00,000

26. Prepare Cash Flow Statement from the following Balance Sheets of Star Ltd. for the year ended 31st March :

Particulars	Note No.	2019 (₹)	2018 (₹)
I. EQUITY AND LIABILITIES			
(1) Shareholders' Fund :			
(a) Share Capital		3,00,000	3,00,000
(b) Reserves and Surplus	1	1,30,000	50,000
(2) Non-current Liabilities :			
Long-term Borrowings	2	50,000	50,000
(3) Current Liabilities :			
(a) Short-term Borrowings	3	25,000	20,000
(b) Trade Payables	4	55,000	50,000
(c) Other Current Liabilities	5	5,000	—
(d) Short-term Provisions	6	35,000	30,000
Total		6,00,000	5,00,000

II. ASSETS			
(1) Non-current Assets :			
(a) Fixed Assets			
(i) Tangible Assets	7	2,35,000	2,00,000
(ii) Intangible Assets	8	30,000	40,000
(b) Non-current Investments	9	1,50,000	1,00,000
(2) Current Assets :			
(a) Inventories		70,000	60,000
(b) Trade Receivables	10	90,000	90,000
(c) Cash and Cash Equivalents		25,000	10,000
Total		6,00,000	5,00,000

Notes to Accounts :

Particulars	2019 (₹)	2018 (₹)
1. Reserves and Surplus :		
General Reserve	30,000	10,000
Balance in Statement of Profit and Loss	1,00,000	40,000
	1,30,000	50,000
2. Long-term Borrowings :		
12% Mortgage Loan	50,000	50,000
3. Short-term Borrowings :		
Cash Credit	25,000	20,000
4. Trade Payables :		
Creditors	45,000	30,000
B/P	10,000	20,000
	55,000	50,000
5. Other Current Liabilities :		
Unclaimed Dividend	5,000	—
6. Short-term Provisions :		
Provision for Tax	35,000	30,000
7. Fixed Assets — Tangible :		
Plant and Machinery	2,35,000	2,00,000
8. Fixed Assets—Intangible :		
Trade Mark	30,000	40,000
9. Non-current Investments :		
Trade Investments	1,50,000	1,00,000
10. Trade Receivables :		
Debtors	70,000	50,000
B/R	20,000	40,000
	90,000	90,000

Additional Informations :

(i) Depreciation ₹ 30,000.

(ii) Dividend declared and paid @ 10%.

(iii) Tax paid during year ₹ 28,000.

(iv) Interest received on Investment ₹ 9,000.

(v) Investments costing ₹ 50,000 was sold at a profit of 20%.

Solution 26 :

Cash Flow Statement of X Ltd.
as at 31st March, 2019

Particulars	Amt. (₹)	Amt. (₹)
A. Operating Activities :		
Net Profit (Balance in statement of profit and Loss)		60,000
Add : General Reserve	20,000	
Depreciation	30,000	
Dividend	30,000	
Provision for	33,000	
Trademark write off	10,000	
Interest on loan	6,000	1,29,00
		1,82,000
Less : Pfofit on sales of Investment	(10,000)	(19,000)
Interest received on investment	(9,000)	
Net Profit before warking capital changes		1,70,000
Less : Increase in inventory	(10,000)	(10,000)
		1,60,000
Add : Decrease in trade payables	5,000	5,000
Net cash from operation		16,5,000
Less : Tax Paid	(28,000)	(28,000)
Net cash flow from operating activities (A)		1,37,000
B. Investing Activities :		
Purchase of Plant and Machinery	(65,000)	
Purchase of trade investments	(1,00,000)	
Purchase of Investment	9,000	
Sal of Trade Investment	50,000	
Profit on Sale of Investment	10,000	(96,000)
Net Cash used in investing Activities (B)		(96,000)
C. Financing Activities		
Dividend on Share Capital	(30,000)	
Interest on Mortgage Loan	(6000)	
Cash Credit	5,000	
Unclaimed Dividend	5,000	(26,000)
		26,000
Net Cash flow from financing Activities (C)		
Total of All Activities (A + B + C)		
[₹ 1,37,000 + (₹ 96,000) + (₹ 26,000)]		15,000
Add : Opening Cash & Cash Equivalents		10,000
Closing Cash & Cash Equivalents		25,000

Working Notes :

1. **Provision For Tax Accout**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Bank	28,000	By Balance b/d	30,000
To Balance c/d (B/F)	35,000	By P & L A/c	33,000
	63,000		63,000

2. **Plant and Machinery Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	2,00,000	By Depreciation	30,000
To Bank A/c (Purchase) (B/F)	65,000	By Balance c/d	2,35,000
	2,65,000		2,65,000

3. **Trade Investment Account**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
To Balance b/d	1,00,000	By Bank A/c	60,000
To P & L A/c (Profit on Sale of Investment)	10,000	By Balance c/d	1,50,000
To Bank A/c (Purchase) (B/F)	1,00,000		
	2,10,000		2,10,000

4. Interest of 12% Mortgage Loan
   12% on ₹ 50,000 = ₹ 6,000
5. Dividend on Share Capital
   10% on ₹ 3,00,000 = ₹ 30,000

❑