

CBSE 12th – 2022-23

Accounts I-Financial Statement

Answers

Part A

Section A

1. Correct Answer: A

Computation of sacrificing ratio and new profit sharing ratio

$$\text{Share sacrificed} = \frac{1}{5}, \frac{1}{5}$$

Sacrificing ratio of Hameed and Govind is 1 : 1

$$\text{Old ratio is } 5 : 3 \text{ that is } \frac{5}{8} : \frac{3}{8}$$

New share of old partner = Old share – Share sacrificed

$$\text{Hameed} = \frac{5}{8} - \frac{1}{5} = 25 - \frac{8}{40} = \frac{17}{40}$$

$$\text{Govind} = \frac{3}{8} - \frac{1}{5} = 15 - \frac{8}{40} = \frac{7}{40}$$

Share of new partner

John = Sum of shares sacrificed by old partners

$$= \frac{1}{5} + \frac{1}{5} = \frac{2}{5}$$

In order to equalise the denominator of John's share, multiply and divide by 8

$$\text{John's share} = \frac{2}{5} \times \frac{8}{8} = \frac{16}{40}$$

New profit sharing ratio of Hameed, Govind and John is $\frac{17}{40} : \frac{7}{40} : \frac{16}{40}$ or

17:7:16

2. Correct Answer: C

Commission provided to partner is charge against profits and is to be provided at fixed rate and hence, is to be debited to profit & Loss Account.

3. Correct Answer: C

Particulars	Amount (₹)
Share capital A/C Dr	$(8 \times 20) = 160$
To share forfeiture A/C	$(5 \times 20) = 100$
To Calls in arrears A/C	$(3 \times 20) = 60$

Particulars	Amount (₹)
Bank A/C Dr	$(6 \times 15) = 90$
Share forfeiture A/C Dr	$(4 \times 15) = 60$
To share capital A/C	$(10 \times 15) = 150$

Particulars	Amount (₹)
Share forfeiture A/C Dr	15
To share capital reserve A/C	15

Working notes:

Total capital = $10 \times 15 = 150$

Receive capital = $5 \times 15 = 75$

Newly received capital = $6 \times 15 = 90$

Capital reserve = 15

OR

Correct Answer: C

Face value = ₹. 50,00,000

Redeemable value = ₹. 55,00,000 (10% Premium on Redemption)

Loss on redemption = ₹. 5,00,000

Since, loss on issue of debentures debited to Profit & Loss A/c = ₹. 2,00,000

Loss adjusted is only ₹. 2,00,000 .

Company issued shares at premium of balance amount ₹. 3,00,000 .

(Loss on redemption – loss on issue debited to P/L A/c.

$$\text{Percentage of premium} = \frac{3,00,000}{50,00,000} \times 100 = 6\%$$

Securities premium = ₹. 5,00,000

Amount of loss written off at the time of issue = 2,00,000

Total Loss written off on issue of debentures = ₹. 20,00,000 .

Which includes ₹. 16,00,000 which was premium at the time of redemption of debentures

Balance ₹. 4,00,000 would treated as Discount on issue of debentures.

$$\text{Percentage of discount on issue of debenture} = \frac{4,00,000}{80,00,000} \times 100 = 5\%$$

4. Correct Answer: D

$$G's \text{ Share of Profit as per } PSR = 312000 \times \frac{2}{8} = 78000$$

Guaranteed amount of profit to *G* = 80000

Hence, Deficiency Needs to be borne by *E* is 2000

OR

Correct Answer: A

	Anubhav	Shagun	Pulkit
OLD PSR	2	2	1
NEW PSR	5	5	2
OLD PSR – NEW PSR	$\frac{1}{10}$ Gain	$\frac{1}{10}$ Sacrifice	0

So after applying gain & sacrifice ratio

Shagun's capital account will be debited by 3,000 and Anubhav's capital account credited by 3,000

5. Correct Answer: D

Particulars	Vihan	Mann
Closing Capital	4,00,000	4,65,000
Add Drawings	65,000	65,000
	4,65,000	5,30,000
Less Profit (3:2)	1,35,000	90,000
Opening Capital after interest (110)	3,30,000	3,10,000
Less Interest on capital (10)	30,000	28,182
Opening Capital Before Interest (100)	3,00,000	2,81,818

6. Correct Answer: D

Irredeemable debentures are also known as Perpetual Debentures because the company does not give any undertaking for the repayment of money borrowed by issuing such debentures. These debentures are repayable on the winding-up of a company or on the expiry of a long period.

OR

Basis Equity Shares Debentures Risk involved Shareholders are at a greater risk. They can even lose the amount invested in shares. Debentures are relatively safe and secured. Debentures are almost risk free.

7. Correct Answer: A

As per companies Act Securities premium can be utilised only for:

- (a) issuing fully paid bonus shares to members
- (b) writing off the balance of preliminary expenses of the company
- (c) writing off commission paid/discount allowed/expenses incurred on issue of shares or debentures of the company

(d) for providing for the premium payable on redemption of preference shares

(e) for purchase of its own shares.

8. Correct Answer: D

In absence of information, it is assumed that profit sharing ratio as equal

Amount payable to retiring partner A may:

Capital contributed = 50,000

Share of General reserve = $7500 \times \frac{1}{3} = 2,500$

Share of gain on revaluation = $24000 \times \frac{1}{3} = 8,000$

Goodwill of firm = ₹ 30,000

Share of retiring partner = $30,000 \times \frac{1}{3} = 10,000$

Total Payable = 70,500

OR

Correct Answer: D

When the firm maintains fluctuating capital accounts, Salary to a partner should be Debited to P & L Appropriation A/c and Credited to Partner's Capital A/c.

9. Correct Answer: C

Paresh to get a commission of 10% on the net profit before charging any commission

Paresh's Commission (Given) = ₹ 44,000

So, Profit = $44,000 \times \frac{100}{10} = 4,40,000$

Ramesh to get a commission of 10% on the net profit after charging all commission.

So, Profit after Paresh's Commission

$$= 4,40,000 - 44,000 = 3,96,000$$

$$\text{So, Ramesh's Commission} = 3,96,000 \times \frac{10}{110} = 36,000$$

10. Correct Answer: A

Net Profit Before Commission = ₹. 4, 40,000

Less: Paresh Commission = ₹. (44,000)

Less: Rameshs Commission = ₹. (36,000)

Net Profit After Commission = ₹. 3,60,000

PSR is not Given Hence, its considered Equal

So, Paresh Share of Profit

$$= 3,60,000 \times \frac{1}{2} = 1,80,000.$$

11. Correct Answer. A

Interest on Partner's Loan is charge against profit that we have to record under profit & Loss A/c Partner's Salary, Interest on Partner's Capital, Partner's Commission are distributions need to made out of profit and that we have to record in Profit & Loss Appropriation A/c.

12. Correct Answer: C

Particular	Amount (₹)
Share capital A/C Dr	(8×20)=160
To share forfeiture A/C	(5×20)=100
To Calls in arrears A/C	(3×20)=60
Bank A/C Dr	(6×15)=90
Share forfeiture A/C Dr	(4×15)=60
To share capital A/C	(10×15)=150
Share forfeiture A/C Dr	15
To share capital reserve A/C	15

Working notes:

$$\text{Total capital} = 10 \times 15 = 150$$

$$\text{Receive capital} = 10 \times 15 = 150$$

$$\text{Newly received capital} = 6 \times 15 = 90$$

$$\text{Capital reserve} = 15$$

13. Correct Answer. C

i) Default on Calls

ii) Forfeiture of shares

iii) Re-issue of shares

Amount transferred to capital reserve.

14. Correct Answer: D

$$C = \frac{1}{4} + \frac{3}{16} = \frac{7}{16}$$

15. Correct Answer: D

$$\text{Interest} = \text{Total Amount of Drawings} \times \text{Rate} \times \frac{7.5}{12}$$

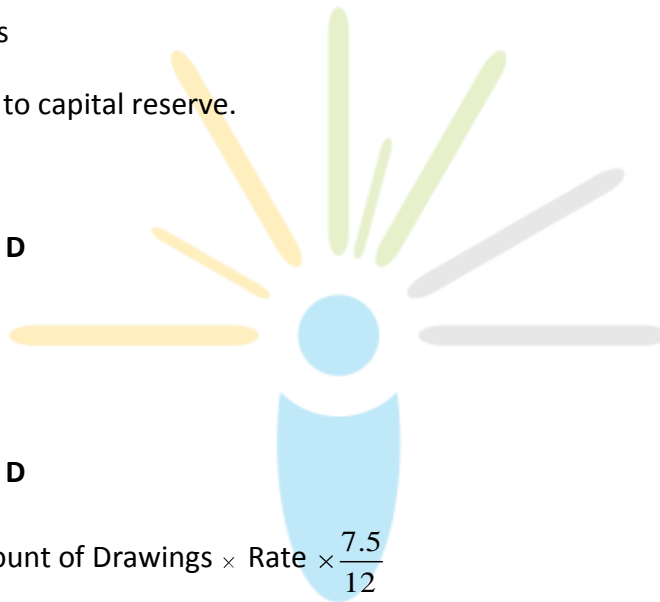
$$1500 = (5000 \times 4) \times \text{Rate} \times \frac{7.5}{12}$$

$$1500 = (5000 \times 4) \times \text{Rate} \times \frac{7.5}{12}$$

$$1500 = 20,000 \times \text{Rate} \times \frac{7.5}{12}$$

$$1500 \times \frac{12}{7.5} = 20,000 \times \text{Rate}$$

$$2400 = 20,000 \times \text{Rate}$$



$$\text{Rate} = \frac{2400}{20,000} \times 100$$

So, Rate = 12%

OR

Correct Answer: D

$$G's \text{ Share of Profit as per } PSR = 312000 \times \frac{2}{8} = 78000$$

Guaranteed amount of profit to $G = 80000$

Hence, Deficiency Needs to be borne by E is 2000 .

16. In case of dissolution of partnership, the firm continue to do business but with a changed agreement. In case of dissolution of partnership firm, the firm ceases to exist, the assets of the firm are realised and its liabilities are discharged.

Section B

17.

Dr		R's Capital A/c				Cr	
Date 2017	Particulars	JF	Amount (₹)	Date 2017	Particulars	JF	Amount (₹)
Jun 30	To Drawings A/C		60,000	Apr 1	By Balance b/d		6,50,000
Jun 30	To Interest on Drawings A/C		900	Jun 30	By Interest on Capital A/c		16,250
Jun 30	To R's Executor's A/c		6,35,350	Jun 30	By Profit & Loss Suspense A/C		30,000
			<u>6,96,250</u>				<u>6,96,250</u>

18.

Particulars	L.F	Debit	Credit
Ajay's Capital A/c		52,000	
To Manish's Capital A/c			4,000
To Sachin's Capital A/c			48,000

Working Notes

Particulars	Ajay		Manish		Sachin		Firm	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Profit taken back	100000		60000		40000			200000
Interest on capital to be credited		48000		64000		88000	200000	
	100000	48000	60000	64000	40000	88000	200000	200000
	52000 Dr		4000 Cr		48000 Cr			

OR

Profit and Loss Appropriation A/c.					
Particulars	Amount (₹)	Amt	Particulars	Amt	Amt
To interest on capital			By Profit & Loss A/c		1,38,000
Amay's Current A/c	9000				
Amol's Current A/c	4500				
Rohan's Current A/c	4500	18000			
To Partner's Current A/c					
Amay	53000				
Amol	40000				
Rohan	27000	120000			
		<u>138000</u>			<u>138000</u>

19. An extract of Balance sheet of A Ltd. as at –

Particulars	Note No.	Amount (₹)
Equity and Liabilities		
Non-current liabilities		
Long Term Borrowings	1	1,00,000

Notes to Accounts:

Note No.	Particulars	Amount (₹)
1	Long Term Borrowings	
	Loan from Indian Bank	1,00,000
	1200,10% Debentures of 100 each issued as Collateral Security	1,00,000
	1,20,000	
	Less: Debenture Suspense Account (1,20,000)	-
		<u><u>1,00,000</u></u>

OR

Particulars	LF	Amount (₹)	Amount (₹)
Equity Share Capital A/c Dr.		500	
To Equity shares forfeited A/c			350
To Calls in Arrears A/c			150
(Being 50 shares forfeited for non-payment of calls)			
(Being Mr. M's shares forfeited)			
Bank A/c Dr		160	
Share Forfeited A/c Dr		40	
To Share Capital A/c			200
(Being 20 shares reissued for Rs.8 per share)			
Forfeited Share A/c Dr.		100	
To Capital Reserve A/c			100
(Being gain on reissue of forfeited shares transferred to Capital Reserve)			

20. Rekha surrenders for Samiksha

$$= \frac{1}{4} \times \frac{3}{6} = \frac{3}{24}$$

Sunita surrenders for Samiksha

$$= \frac{1}{3} \times \frac{2}{6} = \frac{2}{18}$$

Teena surrenders for Samiksha

$$= \frac{1}{5} \times \frac{1}{6} = \frac{1}{30}$$

New share of Rekha

$$= \frac{3}{6} - \frac{3}{24} = \frac{9}{24}$$

New share of Sunita

$$= \frac{2}{6} - \frac{2}{18} = \frac{4}{18}$$

New share of Teena

$$= \frac{1}{6} - \frac{1}{30} = \frac{4}{30}$$

Share of Samiksha

$$= \frac{3}{24} + \frac{2}{18} + \frac{1}{30} = \frac{97}{360}$$

$$\text{New Ratio :- } \frac{9}{24} : \frac{4}{18} : \frac{4}{30} : \frac{97}{360}$$

$$135 : 80 : 48 : 97$$

Section C

21.

Books of Altaur Ltd.		
Balance sheet (extracts) as at		
Particulars	Note	Amount (₹)
Equity and liabilities		
Shareholder's Fund		
Share Capital		63,25,000

Notes to accounts:

Note	Particulars	Amount (₹)
	Share Capital	-
	Authorised share capital	-
	25,00,000 equity shares of Rs.10 each	2,50,000,000
	1,50,000 9% Preference shares @ Rs.100 each	1,50,000,000
		4,00,000,000
	Issued share capital	-
	8,00,000 equity shares of Rs. 10 each	80,00,000
	Subscribed share capital	-
	Subscribed and fully paid up	-
	Subscribed but not fully paid up	-
	8,00,000 equity shares of ₹.8 64,00,000	-
	Less: Calls in arrears (75,000)	63,25,000

22.

E,F and G Journal				
Date	Particulars	L F	Dr. Amount (₹)	Cr. Amount (₹)
	Realisation Account Dr		2,76,500	
	To Land & Building			1,00,000
	To Machinery Account			50,000
	To Furniture Account			90,000
	To Debtors Account			36,500
	(Individual Assets accounts closed by transferring their balances to Realisation Account)			
	Creditors Account Dr.		45,000	
	Outstanding Expenses A/c Dr.		17,000	
	To Realisation Account			62,000
	(Individual External Liabilities Accounts closed by transferring their balances to Realisation Account)			
	Bank Account Dr.		1,66,900	
	To Realisation Account			1,66,900
	(Assets realized and debtors collected)			
	Realisation Account Dr.		59,750	
	To Bank Account			59,750
	(Creditors paid at a discount of 5% and payment of outstanding expenses)			
	Realisation Account Dr.		5,000	
	To F's Capital Account			5,000
	(Remuneration paid to F for undertaking dissolution process)			
	E's Capital Account Dr.		44,940	
	F's Capital Account Dr.		44,940	
	G's Capital Account Dr		22,470	
	To Realisation Account			1,12,350
	(Loss on Realisation transferred to partners' Capital Accounts)			
	E's Capital Account Dr.		4,000	
	F's Capital Account Dr.		4,000	
	G's Capital Account Dr.		2,000	
	To Profit & Loss Account			10,000
	(Profit & Loss Account transferred to partners' Capital Accounts)			
	Bank Account Dr.		24,970	
	To G's Capital Account			24,970
	(Final payment received from G)			
	E's Capital Account Dr.		81,060	

F's Capital Account	Dr.	56,060	
To Bank Account			1,37,120
(Final payment made to <i>E</i> and <i>F</i>)			

Section D

23.

Date	Particulars	LF.	Amount (₹)	Amount
	Bank A/c	Dr.	34,00,000	
	To Equity Share Application A/c			34,00,000
	(Application money received on 85,000 shares)			
	Equity Share Application A/c	Dr.	34,00,000	
	To Equity Share Capital A/c			24,00,000
	To Equity Share Allotment A/c			6,00,000
	To Bank A/c			4,00,000
	(Application money transferred to share capital, share allotment and refunded)			
	Equity Share Allotment A/c	Dr.	51,00,000	
	To Equity Share Capital A/c			36,00,000
	To Securities Premium A/c			15,00,000
	(Allotment due on 60,000 shares with Premium)			
	Bank A/c	Dr.	42,00,000	
	Calls in Arrears A/c	Dr.	3,00,000	
	To Equity Share Allotment A/c			45,00,000
	(Allotment received on 56,000 shares)			
	Equity Share Capital A/c	Dr.	4,00,000	
	Securities Premium A/c	Dr.	1,00,000	
	To Share Forfeited A/c			2,00,000
	To Calls in Arrears A/c			3,00,000
	(4,000 shares forfeited for non-payment of allotment money)			
	Bank A/c Dr.		2,40,000	
	Share Forfeited A/c	Dr.	60,000	
	To Equity Share Capital A/c			3,00,000
	(3,000 shares re-issued @ ₹ 80 per share)			
	Share Forfeited A/c	Dr.	90,000	
	To Capital Reserve A/c			90,000
	(Gain on re-issue of forfeited shares transferred to capital reserve)			

	To Pranav's Capital A/C			100000
	To Premium for Goodwill A/C			10000
	(Being capital and premium brought in by new partner)			
1 st April 20	Premium for Goodwill A/C	Dr.	10000	
	To Sunaina's current A/Cs			6000
	To Tamanna's current A/C			4000
	(Being Premium distributed among sacrificing partners)			
1 st April 20	General Reserve A/C	Dr.	120000	
	To sunaina's current A/C			72000
	To Tamanna's current A/C			48000
	(Being reserve distributed among old partners)			
1 st April 20	Workmen Compensation Reserve A/C	Dr.	50000	
	To Claim for workmen compensation			20000
	To Sunaina's current A/C			18000
	To Tamanna's current A/C			12000
	(Being provision for workmen compensation provided and balance reserve distributed among old partners)			

OR

Dr.		Revaluation A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Provision for Doubtful Debts	400	By Building A/c	7,000		
To Partner's Capital A/c:					
P 3,300					
Q 2,200					
R 1,100	6,600				
	<u>7,000</u>				
				<u>7,000</u>	

Dr		Partners Capital A/c				Cr.	
Particulars	P	Q	R	Particulars	P	Q	R
Goodwill A/c	13,500		4,500	Balance b/d	15,000	10,000	10,000
Profit & Loss	600	400	200	Revaluation A/c	3,300	2,200	1,100
Cash		2,800		Goodwill A/c	9,000	6,000	3,000

Q's Loan		15,000		R's Current A/c			1,900
P's Current A/c	1,900						
Balance c/d	11,300		11,300				
	<u>27,300</u>	<u>18,200</u>	<u>16,000</u>		<u>27,300</u>	<u>18,200</u>	<u>16,000</u>

Dr		Revaluation A/c		Cr	
Particulars	Amount	Particulars	Amount		
To Machinery	4,000	By Patents	4,000		
To profit distributed:		By Buildings	20,000		
Punit 10,000					
Rahul 6,000					
Seema 4,000			20,000		
			<u>24,000</u>		<u>24,000</u>

25.

Dr		Seema's Capital A/c		Cr	
Date	Particulars	Amt		Particulars	Amt
2015			2015		
Oct 1	To Seema's Executor A/c	55,500	April 1	By Balance b/d	30,000
			Oct 1	By Reserves	4,000
			Oct 1	By Punit's Capital a/c	7,500
		20,000	Oct 1	By Rahul's Capital a/c	4,500
			Oct 1	By Revaluation a/c	4,000
			Oct 1	By P/L Suspense a/c	4,000
			Oct 1	By Interest on Capital	1,500
		<u>55,500</u>			<u>55,500</u>

Dr		Seema's Executor's A/c		Cr	
Date	Particulars	Amt		Particulars	Amt
2015			2015		
Oct 1	To Bank A/c	15,500	Oct 1	By Seema's Capital a/c	55,500
Oct 1	To Seema's executor's loan a/c	40,000			
		<u>55,500</u>			<u>55,500</u>

Working Note:

$$\text{Average Profit} = \frac{(30,000 + 26,000 + 24,000 + 30,000 + 40,000)}{5} = 30,000 \text{ Goodwill}$$

$$= 30,000 \times 2 = 60,000$$

$$\text{Seema's share of Profit for 6 months} = 40,000 \times \frac{6}{12} \times \frac{2}{10} = 4,000 \text{ Interest on Seema's}$$

$$\text{Capital} = 30,000 \times \frac{10}{100} \times \frac{6}{12} = 1,500$$

26.

Ruchi Ltd Journal Issue of Debentures				
Date	Particulars	LF	Amount	Amount
2011 April 1	Bank A/c Dr.		42,00,000	
	To Debenture Application & Allotment A/c			42,00,000
	(Being the Application and allotment money received on issue of Debentures)			
June 30	Debenture Application & Allotment A/c Dr.		42,00,000	
	Loss on Issue of Debenture A/c Dr.		3,36,000	
	To 7% debenture A/c			42,00,000
	To Premium on Redemption of Debenture A/c			3,36,000
	(Being allotment of Debentures redeemable at 8% premium)			

Redemption of Debentures:				
Date	Particulars	LF	Amount	Amount
2014 Mar 31	Surplus i.e. balance in Statement of Profit & Loss Dr.		10,50,000	
	To Debenture redemption Reserve A/c			10,50,000
	(Being the profits transferred to Debenture Redemption Reserve)			
April 1	Debenture Redemption Investment A/c Dr.		6,30,000	
	To Bank A/c			6,30,000
	(Being the Investment made as fixed deposit as per Companies Act, 2013 earning Interest @10%)			

2015 Mar 31	Bank A/c	Dr.	6,86,700	
	TDS collected A/c	Dr.	6,300	
	To Debenture Redemption Investment A/c			6,30,000
	To Interest Earned A/c			63,000
	(Being the fixed deposit encashed on Redemption and interest received @ 10% p.a.)			
Mar 31	7% Debenture A/c -	Dr	42,00,000	
	Premium on Redemption of Debenture A/c ---	---	3,36,000	
	---	Dr.		
	To Debenture holder's A/c			45,36,000
	(Being amount due to Debenture holders)			
Mar 31	Debenture holder's A/c	Dr.	45,36,000	
	To Bank A/c			45,36,000
	(Being the amount due paid on redemption)			
Mar 31	Debenture Redemption Reserve A/c	Dr.	10,50,000	
	To General Reserve A/c			10,50,000
	(Being Debenture Redemption Reserve transferred to General Reserve)			

Part B

Section A

27. Correct Answer. C

Financial statements are prepared on certain basic assumptions (pre-requisites) known as Postulates.

OR

Correct Answer: C

If the firm has inventory, it will be high for companies that are heavily involved in selling inventory. Current ratio would be more than quick ratio. High Inventory Turnover ratio is good for the organisation, except when goods are bought in small lots or sold quickly at low margins to realise cash. Sum of Operating Ratio and Operating Profit ratio is always 100% .

28. Answer.

Purchase of fixed asset on long term deferred payment basis with increase the debt of the company therefore Debt Equity Ratio would also increase.

29. Correct Answer: C

Added ₹ 1,30,000 under Operating Activities as Loss on Issue of Debentures written off and Inflow of ₹ 18,00,000 under Financing Activities.

OR

Correct Answer: D

Subtracted under Operating Activities as Extraordinary Item and Inflow under Investing Activities also.

30. Correct Answer: B

Dr.		Office Equipment		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)	Particulars	Amount (₹)
To balance b/d	3,00,000	By Bank A/c (bal fig.)	1,02,000		
To Bank A/c	30,000	By Depreciation A/c	40,000		
To Gain on sale A/c	12,000	By balance c/d	2,00,000		
	<u>3,42,000</u>				<u>3,42,000</u>

Section B

31.

	Item	Heading	Sub – Heading
(i).	Current maturities of long term debts	Current Liabilities	Short term borrowings
(ii).	Furniture and Fixtures	Non – Current Assets	Property, Plant and Equipments and Intangible Assets Property, Plant and Equipments
(iii).	Provision for warranties	Non – Current Liabilities	Long Term Provisions
(iv).	Income received in advance	Current Liabilities	Other Current Liabilities

(v).	Capital Advances	Non – Current Assets	Long Term Loans and Advances
(vi).	Advances recoverable in cash within the operation	Current Assets	Short Term Loans and Advances

32. Net Profit Before Tax – Tax paid = Net Profit After Tax

$$x - \frac{30}{100}(x) = ₹ 7,00,000$$

$$x = ₹ 7,00,000 \left(\frac{100}{70} \right) x = ₹ 10,00,000$$

Net Profit Before Tax = ₹ 10,00,000

$$\text{Interest Payment} = \frac{6}{100} (\text{₹ } 20,00,000) = ₹ 1,20,000$$

Earnings Before Interest and Tax = Net Profit Before Tax + Interest Payment

$$= ₹ 10,00,000 + ₹ 1,20,000 = ₹ 11,20,000$$

Interest Coverage ratio = $\frac{\text{Earning Before Interest and Tax}}{\text{Interest Expense}}$

$$\text{Coverage Ratio} = ₹ \frac{11,20,000}{1,20,000} \text{ Interest Coverage Ratio} = 9.33 \text{ times}$$

Section C

$$33. \text{Return on Investment} = \frac{\text{EBIT}}{\text{Capital Employed}} \times 100$$

$$= \frac{15,00,000}{1,20,00,000} \times 100 = 12.5\%$$

Capital Employed = 12% Preference Share Capital + Equity Share Capital + Reserves and

Surplus +15% Debentures +10% Bank Loan

$$= 30,00,000 + 40,00,000 + 10,00,000 + 20,00,000 + 20,00,000 = ₹ 1,20,00,000$$

$$\text{EBIT} = \text{Profits after Tax} + \text{Tax} + \text{Interest} = 6,00,000 + 4,00,000 + 5,00,000 = ₹ 15,00,000$$

$$\text{Net Assets Turnover ratio} = \frac{\text{Revenue from Operations}}{\text{Capital Employed}} = \frac{3,60,00,000}{1,20,00,000} = 3 \text{ times.}$$

OR

Interest Coverage Ratio = Net Profit before Interest and Tax/ Interest on Long Term Debts

Net Profit after Tax = ₹ 6,00,000 Tax Rate = 40%

$$\text{Net Profit before tax} = \frac{100}{(100 - \text{Tax})} \times \text{Net Profit after tax}$$

$$= \frac{100}{60} \times 6,00,000 = 10,00,000$$

$$\text{Interest Coverage Ratio} = \frac{\text{Net Profit before Interest and Tax}}{\text{Interest on Long Term Debts}} = \frac{14,80,000}{4,80,000} = 3.08 \text{ Times}$$

Significance of Interest Coverage Ratio: It reveals the number of times Interest on Long Term Debts is covered by the profits available. A higher ratio ensures safety of interest on Long Term Debts.

The Interest coverage ratio will improve if the company decides to redeem ₹ 5,00,000 debentures assuming that Net Profit after interest and the tax rate will be same.

Section D

34. 1. Net Profit before tax and extraordinary items = Net Profit for the year + Interim Dividend + Loss of

assets due to fire + Provision for Tax + Proposed Dividend – Insurance claim received for Loss due

$$\text{to Fire – Tax refund} = 7,50,000 + 90,000 + 20,000 + 80,000 + 1,60,000 - 10,000 - 20,000 = ₹ 10,70,000$$

2. Operating profit before working capital changes = Net Profit before tax and extraordinary items + Adjustments for non-cash and non-operating expenses and goodwill amortised – Adjustments for non-cash and non-operating incomes
 $= 10,70,000 + 40,000 + 70,000^{**} - 30,000 = 11,50,000$

Goodwill amortised = Opening goodwill + Good will purchased – Closing goodwill

3. Cash flow from Investing Activities = Interest on Non-Current Investments + Insurance claim for loss of assets due to fire – Purchase of Investments – Purchase of Machinery – Goodwill purchased = $30,000 + 10,000 - 1,00,000 - 1,60,000 - 20,000 = ₹ (2,40,000)$

Outflow

4. Cash flow from Financing Activities: Raise of Bank overdraft – Interim Dividend Paid – Final Dividend paid = $50,000 - 90,000 - 1,60,000 = ₹ (2,00,000)$ Outflow

5. Closing Cash and Cash Equivalents : Cash in Hand + Investment in Marketable Securities = $2,00,000 + 1,50,000 = 3,50,000$

