

# Solutions to Mock Paper

1. A's share 4/10.

Balance 6/10 shared equally between C and D.

Therefore C and D each share =  $1/2$  of  $6/10 = 3/10$ .

New Profit sharing ratio of A, C and D is 4 : 3 : 3.

2.

### In the Books of Aarti and Aparna Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Realisation A/c <span style="float: right;">Dr.</span> To Aparna's Capital A/c (Being amount paid by Aparna to a creditor on dissolution of the firm)		4,000	4,000

3. As Ahmed is working on behalf of the other partners, it is his moral duty to work for the benefit of the firm. Ahmed has violated the value of Honesty, Integrity, Truth and Breach of Trust.

4. The preliminary expenses may be written off against the Securities Premium Reserve as permitted by Section 52 of the Companies Act, 2015.

5. The accountant is not correct. Excess application money during prorata is adjusted towards allotment, but the excess will first be adjusted against Share Capital and any excess over and above that, will then be adjusted against Securities Premium Account.

6.

### In the Books of... Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Workmen Compensation Reserve A/c <span style="float: right;">Dr.</span> To Workmen Compensation Claim A/c To Old Partners Capital A/c (old ratio) (Being WCR adjusted on admission of a partner.)		10,000	6,000 4,000

7.

### In the Books of Manohar, Kailash and Prakash Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Cash <span style="float: right;">Dr.</span> To Prakash's Capital A/c To Premium for Goodwill A/c (Being profit on revaluation transferred to partner's capital)		59,000	50,000 9,000
	Premium for Goodwill A/c <span style="float: right;">Dr.</span> Prakash's Capital A/c <span style="float: right;">Dr.</span> Kailash's Capital A/c <span style="float: right;">Dr.</span> To Manohar's Capital A/c (Being premium for goodwill adjusted)		15,000	30,000

#### Working Notes:

(i)

#### Calculation of gain/sacrifice

	Manohar	Kailash	Prakash
Old Share	2/5	3/5	.....
New Share	.....	4/5	1/5
	2/5 Sacrifice	1/5 Gain	1/5 Gain

(ii)

**Calculation of share of goodwill**

For 1/5 share the value of goodwill is ₹ 15,000.

Total value of goodwill of the firm ₹ 15,000 × 5/1 = ₹ 75,000.

Manohar share of goodwill  $2/5 \times ₹ 75,000 = ₹ 30,000$ .

Kailash share of gain  $1/5 \times ₹ 75,000 = ₹ 15,000$ .

Value highlighted:

Paying it back to the society and fulfilling Social Responsibility.

Sensitivity towards weaker section of the society.

(any one)

8.

**In the Books of Angad Ltd.  
Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Land and Building A/c Dr.		2,20,000	
	Plant and Machinery A/c Dr.		2,10,000	
	Furniture A/c Dr.		60,000	
	Goodwill A/c Dr.		1,00,000	
	To Liabilities A/c			40,000
	To Avinash & Co.			5,50,000
	(Being purchase of assets and liabilities taken over for a purchase consideration.)			
	Avinash & Co. Dr.		5,50,000	
	To 10% Debentures A/c			5,00,000
	To Securities Premium A/c			50,000
	(Being issue of 5000 10% debentures to the Vendor as purchase consideration at a premium of 10%.)			
	Bank A/c Dr.		1,00,000	
	To Bank Loan A/c			1,00,000
	(Being Loan taken from Bank)			
	Debenture Suspense A/c Dr.		1,00,000	
	To 8% Debentures A/c			1,00,000
	(Being issue of debentures to bank as collateral security)			

9.

**Ashwin Ltd.  
Balance Sheet (extract)  
as at...**

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
<b>I. EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' Funds:</b>			
Share Capital	1	2,77,000	

**Notes to Accounts:**

Particulars	₹
1. Share Capital	
Authorized Capital:	
50,000 Equity shares of ₹ 10 each	5,00,000
Issued Capital:	
30,000 Equity shares of ₹ 10 each	3,00,000
Subscribed Capital:	
(a) Subscribed and fully paid up:	
27,000 equity shares fully called and Paid-up	2,70,000
Add: Forfeited shares A/c (1,000 × ₹ 7)	7,000
	2,77,000

10.

**In the books of Rajaram Ltd.  
Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Year 1	Employees Compensation Expense A/c Dr. To Share Option Outstanding A/c (Being 1/3 <sup>rd</sup> amount of difference between Market Value and Issue Price recognized as an expense) (50 – 20 = 30 × 1000 × 50 = 15,00,000/3 = 5,00,000)		5,00,000	5,00,000
Year 2	Employees Compensation Expense A/c Dr. To Share Option Outstanding A/c (Being 1/3 <sup>rd</sup> amount of difference between Market Value and Issue Price recognized as an expense)		5,00,000	5,00,000
Year 3	Employees Compensation Expense A/c Dr. To Share Option Outstanding A/c (Being 1/3 <sup>rd</sup> amount of difference between Market Value and Issue Price recognized as an expense)		5,00,000	5,00,000
Year 4	Bank A/c (40 × 1,000 × 20) Dr. Share Option Outstanding A/c Dr. To Share Capital A/c (40 × 1,000 × 10) To Securities Premium Reserve A/c (40 × 1,000 × 10) + (40 × 1,000 × 30) To General Reserve A/c (10 × 1,000 × 30) (Being 1,000 shares each allotted to 40 employees who exercised the option, related amount transferred from share option outstanding to Securities Premium account. Balance amount, i.e., amount relating to 10 employees who did not exercise option transferred to General Reserve)		8,00,000 15,00,000	4,00,000 16,00,000 3,00,000

11.

**In the books of Tanvi and Aashi  
Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Revaluation A/c Dr. To Tanvi's Capital A/c To Aashi's Capital A/c (Being profit on revaluation transferred to partner's capital)		2,000	1,200 800
	Aashi's Capital A/c Dr. To Tanvi's Capital A/c (Being adjustment for goodwill and accumulated profits and losses)		9,000	9,000

**Working Notes:**

(i) Calculation of Gain/Sacrifice

Sacrifice Ratio = Old ratio – New ratio

Tanvi  $3/5 - 1/2 = 1/10$ Aashi  $2/5 - 1/2 = -1/10$  (gain)

(ii) Revaluation:

Land and Building ₹ 20,000

Machinery ₹ (18,000)

Profit on revaluation ₹ 2,000

Goodwill ₹ 1,00,000

Profit and Loss A/c ₹ 30,000

Advertisement Suspense A/c ₹ (40,000)

₹ 90,000

12.

**Profit and Loss Appropriation A/c***for the year ended 31<sup>st</sup> March, 2015*

Particulars	₹	Particulars	₹
To Interest on Capital:		By Profit and Loss A/c (Working Note 1)	64,400
Anju	2,000	By Interest of Drawings	
Manju	2,800	Anju (12,000 + 4,000) × 6% × 6/12	480
To Partners' Current A/c		Manju (18,000 + 6,000) × 6% × 6/12	720
Anju	30,400		
Manju	30,400		
	65,600		65,600

**Partners' Current A/c**

Particulars	Anju	Manju	Particulars	Anju	Manju
To Balance b/d	4,400		By Balance b/d	–	5,400
To Drawings	12,000	18,000	By Interest on Capital	2,000	2,800
To Interest on Drawings	480	720	By Profit & Loss Appropriation	30,400	30,400
To Insurance	4,000				
To Trade Expenses		6,000			
To Balance c/d	11,520	13,880			
	32,400	38,600		32,400	38,600

**Working Note**

Calculation of Net distributable profit:	₹	₹
Profit		64,000
Add: Personal Accident Insurance of Anju	4,000	
Drawings of Manju debited to Trade Expenses	<u>6,000</u>	<u>10,000</u>
		74,000
Less: Repair to Plant and Machinery	12,000	
Adjustment of Depreciation @ 20%	<u>(2,400)</u>	<u>9,600</u>
Distributable Profit		<u><u>64,400</u></u>

13.

**In the books of Aztec Ltd.****Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2013 March 31	Surplus, i.e., Balance in Statement of Profit & Loss To Debenture Redemption Reserve A/c (Being 1/3 <sup>rd</sup> of 25% of total redeemable debentures transferred to create DRR)	Dr.	2,50,000	2,50,000
2014 March 31	Surplus, i.e., Balance in Statement of Profit & Loss To Debenture Redemption Reserve A/c (Being 1/3 <sup>rd</sup> of 25% of total redeemable debentures transferred)	Dr.	2,50,000	2,50,000
2014 April 30	Debenture Redemption Investment A/c To Bank A/c (Being amount equal to 15% of the redeemable debentures invested in Government Securities)	Dr.	4,50,000	4,50,000
2015 March 31	Surplus, i.e., Balance in Statement of Profit & Loss To Debenture Redemption Reserve A/c (Being 1/3 <sup>rd</sup> of 25% of total redeemable debentures transferred)	Dr.	2,50,000	2,50,000

2015	Bank A/c	Dr.		4,87,125	
March 31	TDS Collected A/c	Dr.		4,125	
	To Debenture Redemption Investment A/c				4,50,000
	To Interest Earned A/c				41,250
	(Being investment encashed and interest received for eleven months)				
March 31	10% Debenture A/c	Dr.		30,00,000	
	Premium of Redemption of Debenture A/c	Dr.		1,50,000	
	To Debentureholders A/c				31,50,000
	(Being amount payable to Debentureholders on redemption)				
March 31	Debentureholders A/c	Dr.		31,50,000	
	To Bank A/c				31,50,000
	(Being amount paid to Debentureholders)				
March 31	Debenture Redemption Reserve A/c	Dr.		7,50,000	
	To General Reserve A/c				7,50,000
	(Being amount of Debenture Redemption Reserve transferred to General Reserve on redemption)				

**14. Dr. Realisation A/c Cr.**

Particulars	₹	Particulars	₹
To Sundry Debtors	1,20,000	By Creditors	70,000
To Inventory	60,000	By Loan	40,000
To Investments	32,000	By Employees Provident Fund	12,000
To Plant & Machinery	60,000	By Investment Fluctuation Fund	16,000
To A's Capital (Commission)	11,150	By Advance Rent Received	10,000
To Bank:		By Bank:	
Creditors	70,000	Sundry Debtors	1,00,000
Loan	40,000	Inventory	55,000
Employees Provident Fund	12,000	Plant & Machinery	48,000
Advance Rent Received	8,000	Investments	20,000
Unrecorded claim	5,000		
Employee's compensation	20,000	By Realisation Loss transferred:	
Outstanding wages	8,000	A's Capital	15,030
		B's Capital	30,060
		C's Capital	30,060
	1,63,000		75,150
	4,46,150		4,46,150

**Dr. Partners' Capital A/cs Cr.**

Particulars	A	B	C	Particulars	A	B	C
To Profit & Loss A/c	1,200	2,400	2,400	By Balance b/d	80,000	60,000	50,000
To Realisation A/c	15,030	30,060	30,060	By Realisation A/c	11,150		
To Bank A/c	74,920	27,540	17,540				
	91,150	60,000	50,000		91,150	60,000	50,000

**Dr. Bank A/c Cr.**

Particulars	₹	Particulars	₹
To Balance b/d	60,000	By Realisation A/c	1,63,000
To Realisation A/c	2,23,000	By A's Capital A/c	74,920
		By B's Capital A/c	27,540
		By C's Capital A/c	17,540
	2,83,000		2,83,000

15. Dr.

## Revaluation A/c

Cr.

Particulars	₹	Particulars	₹
To Stock	11,000	By Unclaimed Liability	4,400
To Plant & Machinery	28,600	By Land and Building	88,000
To Provision for D/D	8,800		
To Profit Transferred to:			
Ish	22,000		
Shiva	13,200		
Binu	8,800		
	44,000		
	92,400		92,400

Dr.

## Partner's Capital A/c

Cr.

Particulars	Ish	Shiva	Binu	Particulars	Ish	Shiva	Binu
To Ish's Capital	–	1,58,400	1,05,600	By Balance b/d	1,10,000	1,32,000	44,000
To Deferred Revenue Expense	27,500	16,500	11,000	By Revaluation A/c	22,000	13,200	8,800
To Bills Payable	1,43,000	–	–	By Shiva's Capital	1,58,400	–	–
To Goodwill	99,000	59,400	39,600	By Binu's Capital	1,05,600	–	–
To Ish's Loan A/c	2,20,000	–	–	By Reserves	60,500	36,300	24,200
To Balance c/d		2,640,00	1,76,000	By Workmen Compensation Fund	33,000	19,800	13,200
				By Cash A/c		2,97,000	2,42,000
	4,89,500	4,98,300	3,32,200		4,89,500	4,98,300	3,32,200

## Balance Sheet of Ish, Shiva and Binu

as at 31<sup>st</sup> March, 2015

Liabilities	₹	Assets	₹
Capital A/c:		Land & Building (1,76,000 + 88,000)	2,64,000
Shiva	2,64,000	Machinery	70,400
Binu	1,76,000	Stock (1,59,500 – 11,000)	1,48,500
Ish's Loan		Debtors	1,76,000
Employees Provident Fund	77,000	Less: Provision for D/D	8,800
Bills Payable	1,43,000	Cash at Bank	
Trade Creditors (3,30,000 – 4,400)	3,25,600		
	12,05,600		12,05,600

16. Dr.

## Revaluation A/c

Cr.

Particulars	₹	Particulars	₹
To Plant & Machinery	1,800	By Provision for D/D	40
To Furniture	6,000	By Profit on Revaluation transferred to:	
To Debtors	800	Shiv	6,036
To Investments	1,500	Aashi	4,024
	10,100		10,100

Dr.

## Partners' Capital A/cs

Cr.

Particulars	Shiva	Aashi	Vikram	Particulars	Shiva	Aashi	Vikram
To Revaluation A/c	6,036	4,024		By Balance b/d	1,50,000	1,20,000	
To Bank A/c		9,976		By General Reserve A/c	3,000	2,000	
To Balance c/d	2,25,000	1,20,000	1,05,000	By Premium A/c	4,500	6,000	
				By Vikram Current A/c	4,500	6,000	
				By Bank A/c	69,036		1,05,000
	2,31,036	1,34,000	1,05,000		2,31,036	1,34,000	1,05,000

## Balance Sheet of Shiv, Aashi and Vikram

as at 31<sup>st</sup> March, 2015

Liabilities	₹	Assets	₹
Creditors	6,200	Cash at Bank	1,98,200
Employees' Provident Fund	7,300	Debtors	8,000
Loan	4,000	Less: Provision for D/D	400
Capital A/c:		Investments	45,000
Shiv	2,25,000	Land & Building	1,80,000
Aashi	1,20,000	Plant & Machinery	16,200
Vikram	1,05,000	Furniture	10,000
	4,50,000	Vikram's Current A/c	10,500
	4,67,500		4,67,500

### Working Notes:

Shiv's Sacrifice  $1/6$  of  $3/5 = 3/30$ .

Shiv's new share  $3/5 - 3/30 = 15/30$ .

Aashi's sacrifice  $1/3$  of  $2/5 = 2/15$  or  $4/30$ .

Aashi's new share  $2/5 - 4/30 = 8/30$

Sacrificing ratio = 3 : 4.

Vikram's share  $3/30 + 4/30 = 7/30$ .

Total Capital of the firm  $1,05,000 \times 30/7 = 4,50,000$ .

Shiv's share of capital =  $4,50,000 \times 1/2 = 2,25,000$ .

Aashi's share of capital =  $4,50,000 \times 8/30 = 1,20,000$ .

Or

### Dr. Shyam's Capital A/c Cr.

Particulars	₹	Particulars	₹
To Shyam's Loan	16,000	By Balance b/d	90,000
To Shyam's Executors A/c	2,32,000	By General Reserve	8,000
		By Interest on Capital $(90,000 \times 10\%) \times 4/12$	3,000
		By Profit & Loss Suspense A/c	42,000
		By Rahul's Capital A/c	63,000
		By Karishma's Capital A/c	42,000
	2,48,000		2,48,000

### Dr. Shyam's Executors A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
2015			2015		
July 31	To Bank A/c	32,000	July 31	By Shyam's Capital	2,32,000
2016			2016		
March 31	To Balance c/d	2,16,000	March 31	By Interest	16,000
		2,48,000			2,48,000
2016			2016		
July 31	To Bank A/c	1,24,000	April 1	By Balance b/d	2,16,000
2017			July 31	By Interest	8,000
March 31	To Balance c/d	1,08,000	2017		
		2,32,000	March 31	By Interest	8,000
2017					2,32,000
July 31	To Bank A/c	1,12,000	2017		
		1,12,000	April 1	By Balance b/d	1,08,000
			July 31	By Interest	4,000
					1,12,000

**Working Notes:**

(a) Calculation of Profit payable to Shyam.

Percentage of profit earned in the previous year = ₹ 1,95,000/ ₹ 6,50,000 × 100 = 30%

Estimated current years profit ₹ 2,80,000 × 30% = ₹ 84,000.

Shyam's share ₹ 84,000 × 5/10 = ₹ 42,000.

(b) Calculation of Goodwill

(₹ 1,95,000 + ₹ 1,45,000 + ₹ 80,000)/3 × 1.5 = ₹ 2,10,000.

Shyam's share ₹ 2,10,000 × 5/10 = ₹ 1,05,000.

Goodwill to be contributed by the remaining partners Rahul and Karishma in the ratio of 3 : 2.

Rahul's share ₹ 1,05,000 × 3/5 = ₹ 63,000.

Karishma's share ₹ 1,05,000 × 2/5 = ₹ 42,000.

17.

**In the books of Raaga Ltd.**

**Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To Share Application A/c (Being application money received for 18,000 shares)		36,000	36,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Share First Call A/c To Share Second & Final Call A/c (Being application money transferred to share capital and excess adjusted against allotments and calls)		36,000	20,000 10,000 4,500 1,500
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Being Allotment money due on 10,000 shares)		40,000	20,000 20,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment money received) (40,000 – 10,000 with application – 1,500 unpaid by B)		28,500	28,500
	Share First Call A/c Dr. To Share Capital A/c (Being first call money due on 10,000 share)		30,000	30,000
	Bank A/c Dr. To Share First Call A/c (Being call money received) (30,000 – 4,500 with application – 1,200 due from B)		24,300	24,300
	Share Capital A/c Dr. Securities Premium A/c Dr. To Share Allotment A/c To Share First Call A/c To Share Forfeited A/c (Being 400 shares of B forfeited for non-payment of allotment and first call)		2,800 800	1,500 1,200 900
	Share Second & Final Call A/c Dr. To Share Capital A/c (Being second & final call amount due on 9,600 shares)		28,800	28,800



Bank A/c To Share Second & Final Call A/c (Being call money received) (28,800 – 1,500 with application – 300 due from C)	Dr.	27,000	27,000
Share Capital A/c To Share Second & Final Call A/c To Forfeited shares A/c (Being 100 shares of B forfeited for non-payment of second & final call)	Dr.	1,000	300 700
Bank A/c To Share Capital A/c To Securities Premium A/c (Being re-issue of 100 shares of C and 200 shares of B @ ₹ 11 per share)	Dr.	3,300	3,000 300
Share Forfeited A/c To Capital Reserve A/c (Being profit on re-issued forfeited shares transferred to Capital Reserve) (C 700 + B 900/2)	Dr.	1,150	1,150

Or

**In the books of Jagriti Ltd.  
Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Share Capital A/c To Share Forfeited A/c To Call-in-Arrears A/c (Being 1,000 shares forfeited)	Dr.	7,000	5,000 2,000
	Bank A/c Share Forfeited A/c To Share Capital A/c (Being 600 shares forfeited re-issued at 7 per share as ₹ 8 paid up)	Dr. Dr.	4,200 600	4,800
	Share Forfeited A/c To Capital Reserve A/c (Being profit on re-issue transferred) (5,000/1,000) × 600 = 3,000 – 600 = 2,400	Dr.	2,400	2,400

**In the books of Deep Ltd.  
Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(b)	Sundry Assets To Nimit & Co. (Being assets purchases from Nimit & Co.)	Dr.	6,00,000	6,00,000
	Nimit & Co To Share Capital A/c To Securities Premium A/c (Being 50,000 shares of 10 each issued at a premium of 20% against assets purchased) (6,00,000/12 = 50,000 shares)	Dr.	6,00,000	5,00,000 1,00,000

**In the books of Raj Ltd.  
Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(c)	Incorporation Expenses A/c Dr. To Share Capital A/c (Being issue 2,000 shares of ₹ 10 each to promoters)		20,000	20,000
	Underwriting Commission A/c Dr. To Underwriters A/c (Being the underwriting commission due)		10,000	10,000
	Underwriters A/c Dr. To Share Capital A/c (Being issue of 1,000 shares of ₹ 10 each to underwriters)		10,000	10,000

18. The accountant is not correct as there is no inflow or outflow of cash in the transaction.
19. Bank Overdraft will be treated as short term borrowing and will be shown under Financing Activities in Cash Flow Statement.
20. (a)

**Shagun Limited  
Common Size Statement  
for the year ended 31<sup>st</sup> March, 2015**

Particulars	₹	Absolute Percentage of Net Revenue
I. Revenue from Operations	6,00,000	100%
II. Other Incomes	50,000	8.33%
III. Total Revenue	6,50,000	108.33%
IV. Less: Expenses:		
Cost of revenue from operations	3,60,000	60%
Operating Expenses	30,000	5%
V. Total Expenses	3,90,000	65%
VI. Profit (III-IV)	2,60,000	43.33%
Less: Tax	1,04,000	17.33%
VII. Profit after tax	1,56,000	26%

- (b) (i) **Security Analysis:** In this type of analysis the investor is able to know whether his return on investment is as per expectation, whether his money is secured and his future prospects of capital appreciation.
- (ii) **Debt Analysis:** Such analysis enables the firm to know its borrowing capacity, the relationship of debt and equity and its capacity to pay off its debts.

**21. Note to Accounts:**

Particulars	₹	Year ended 31 <sup>st</sup> March, 2015 (₹)
Changes in Inventory of Finished Goods, WIP and Stock-in Trade		
(a) Finished Goods		
Opening Inventory	4,00,000	
Less: Closing Inventory	3,20,000	
Sub-Total		80,000
(b) Work-in-Progress		
Opening Inventory	3,75,000	
Less: Closing Inventory	4,40,000	
Sub-Total		(65,000)

(c) Stock-in-Trade		
Opening Inventory	6,25,000	
Less: Closing Inventory	5,80,000	
Sub-Total		45,000
Total (a + b + c)		60,000

₹ 60,000 will be shown in the Statement of Profit and Loss against Change in Inventories of Finished Goods, Work-in-Progress and Stock-in-Trade.

22. (a) Cost of revenue from Operations: ₹

Opening Inventory	40,000
Add: Purchases	4,76,000
Add: Carriage on purchase	20,000
	<u>5,36,000</u>
Less: Closing Inventory	(56,000)
Cost of revenue from operation	<u>4,80,000</u>

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

$$= \frac{40,000 + 56,000}{2} = ₹ 48,000$$

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

$$= \frac{4,80,000}{48,000} = 10 \text{ times}$$

(b) Sl. No.	Effect on Debt-Equity Ratio	Reason
(i)	Decrease	Debt remains unchanged but Equity (shareholders' fund) increases.
(ii)	No change	Both Debt and Equity remain unchanged.
(iii)	Decrease	Debt decreases and Equity (shareholders' fund) increases by the same amount.
(iv)	Decrease	Debt remains unchanged but Equity (shareholders' fund) increases.

23. **Cash Flow Statement Continental Containers Ltd.**  
for the year ended 31<sup>st</sup> March, 2015

Particulars	₹	₹
<b>Cash Flow from Operating Activities</b>		
I. Net Profit before Tax & Extraordinary Items (Note 1)	58,000	
Adjustment for Non Cash and Non-Operating Items:		
Add: Depreciation on Machinery	25,500	
Add: Loss on sale of Machinery	4,000	
Operating Profit before Working Capital changes	87,500	
Add: Increase in Current Liabilities and Decrease in Assets		
Increase in Accounts Payable	16,000	
Less: Increase in Current Assets and Decrease in Current Liabilities		
Increase in Inventories	(10,000)	
Increase in Trade Receivables	(1,000)	
Net Cash used in Operating Activities before Tax	92,500	
Less: Tax Paid	(16,000)	
Net Cash Flow from Operating Activity		76,500

II. Cash Flow from Investing Activities		
Proceeds from sale of Machinery	31,000	
Purchase of Machinery	(2,92,500)	
Purchase of Goodwill	(20,000)	
Net Cash used in Investing Activity		(2,81,500)
III. Cash Flow from Financing Activities		
Issue of Share Capital	2,50,000	
Dividend Paid	(22,000)	
Interim Dividend Paid	(20,000)	
Net Cash Inflow from Financing Activity		2,08,000
IV. Net Increase in Cash and Cash Equivalent (I + II + III)		3,000
V. Cash and Cash Equivalent at the beginning of the year		1,07,000
VI. Cash and Cash Equivalent at the end of the period (IV + V)		1,10,000

### Working notes

#### 1. Calculation of Profit before Tax

Particulars	₹
Balance as per statement of Profit & Loss (32,000 – 18,000)	14,000
Add: Provision for Tax	14,000
Proposed Dividend	15,000
Interim Dividend	20,000
Transfer from General Reserve	(5,000)
Net profit before Tax	58,000

#### 2.

#### Machinery A/c

Particulars	₹	Particulars	₹
To Balance b/d	2,38,000	By Depreciation A/c	25,500
To Bank A/c (Purchase) (Bal. fig.)	2,92,500	By Bank A/c (sales)	31,000
		By Statement of Profit and Loss	4,000
		By Balance c/d	4,70,000
	5,30,500		5,30,500