Illustration 18. From the following information, prepare a Balance Sheet of Mumbai Ltd. as on 31.03.2020.

Current Ratio - 2 : 1
Liquidity Ratio - 1.25 : 1
Fixed Assets to Proprietorship Ratio - 0.75 : 1
Gearing Ratio (Preference Share Capital to Equity Share Capital) - 5 : 1
Working Capital - ₹ 8,000
Surplus - ₹ 2,000
Bank Overdraft (not payable immediately) - ₹ 2,000.
Long - term Loan - NIL

[**C.U. B.Com (Hons.), 2014**]

Solution :

In the Books of Mumbai Ltd.
Balance Sheet
as at 31.03.2020

Particulars	***Note No.***	***Amount***
		₹
I. EQUITY AND LIABILITIES :		
1. Shareholders' Funds :		
(a) Share Capital	1	30,000
(b) Surplus		2,000
2. Share Application Money Pending Allotment		—
3. Non-current Liabilities		—
4. Current Liabilities :		
(a) Short-term Borrowings (Bank Overdraft)		2,000
(b) Other Current Liabilities (Quick Liabilities)		6,000
Total		**40,000**
II. ASSETS :		
1. Non-current Assets :		
(a) Property, Plant and Equipment–Tangible Assets		24,000
2. Current Assets :		
(a) Inventories (Stock)		8,500
(b) Other Current Assets (Quick Assets)		7,500
Total		**40,000**

Notes to Accounts :

Particulars	***Amount***
	₹
1. Share Capital :	
(i) Authorised and Issued	—
(ii) Subscribed :	
(a) Subscribed and Fully Paid :	
Equity Share Capital	5,000
Preference Share Capital	25,000
	30,000

Working Notes :

(i) Here Current Ratio = 2 : 1

$$\text{Or,} \quad \frac{\text{Current Assets (CA)}}{\text{Current Liabilities (CL)}} = 2/1$$

$$\text{Or,} \quad CA = 2CL \qquad \text{(i)}$$

Again, Working Capital = ₹ 8,000

$$\text{Or, } CA - CL = ₹\ 8,000$$

$$\text{Or,} \quad 2CL - CL = ₹\ 8,000$$

$$\therefore \quad CL = ₹\ 8,000$$

Now, Current Assets (CA) = 2CL = 2×₹ 8,000 = ₹ 16,000,

(ii) Here Liquidity Ratio : 1.25:1

$$\text{Or,} \quad \frac{\text{Quick Assets}}{\text{Quick Liabilities}} = \frac{1.25}{1}$$

$$\text{Or,} \quad \frac{\text{CA} - \text{Stock}}{\text{CL} - \text{Bank Overdraft}} = 1.25$$

$$\text{Or,} \quad \frac{₹16,000 - \text{Stock}}{₹8,000 - ₹2,000} = 1.25$$

$$\text{Or,} \quad \frac{₹16,000 - \text{Stock}}{₹6,000} = 1.25$$

Or, ₹ 16,000 – Stock = 1.25×₹ 6,000

Or, ₹ 16,000 – Stock = ₹ 7,500

Or, Stock = ₹ 16,000 – ₹ 7,500

∴ Stock = ₹ 8,500

Thus, Quick Liabilities (i.e. Other than Bank Overdraft)

= ₹ 8,000 – ₹ 2,000

= ₹ 6,000

Again Quick Assets = CA – Stock

= ₹ 16,000 – ₹ 8,500

= ₹ 7,500

(iii) Fixed Assets to Proprietorship Ratio = 0.75:1

$$\text{Or,} \quad \frac{\text{Fixed Assets}}{\text{Proprietorship Fund}} = 0.75$$

$$\text{Or,} \quad \frac{\text{Total Assets} - \text{Current Assets}}{\text{Total Assets} - (\text{Current Liabilities} + \text{Long - term Liabilities})} = 0.75$$

$$\text{Or,} \quad \frac{TA - CA}{TA - (CL + LTL)} = 0.75$$

$$\text{Or,} \quad \frac{TA - ₹16,000}{TA - ₹8,000} = 0.75$$

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Or, TA – ₹ 16,000 = 0.75 TA – ₹ 6,000

Or, 0.25TA = ₹ 10,000

$$\therefore \text{TA} = \frac{₹10,000}{0.25} = ₹\ 40,000$$

and Fixed Assets = TA–CA = ₹ 40,000 – ₹ 16,000 = ₹ 24,000

$$\text{Again ; } \frac{₹24,000}{\text{Proprietorship Fund}} = 0.75$$

$$\therefore \text{Proprietorship Fund} = \frac{₹24,000}{0.75} = ₹\ 32,000$$

Here, Surplus is given as ₹ 2,000

(Now, Surplus is replaced by the wood 'surplus' As per Companies Act, 2013 (Revised)

Thus, Total Share Capital = Proprietorship fund – Surplus = ₹ 32,000 – ₹ 2,000 = ₹ 30,000.

(iv) Here, Gearing Ratio = 5:1

$$\text{Or, } \frac{\text{Fixed Interest bearing Securities}}{\text{Equity Share Capital}} = \frac{5}{1}$$

$$\text{Or, } \frac{\text{Preference Share Capital}}{\text{Equity Share Capital}} = \frac{5}{1}$$

$$\text{Or, } \frac{\text{Total Share Capital – Equity Share Capital}}{\text{Equity Share Capital}} = 5$$

$$\text{Or, } \frac{₹\ 30,000 - \text{E.S.C}}{\text{E.S.C}} = 5$$

Or, 5 E.S.C. = ₹ 30,000 – E.S.C.

$$\text{Or, } 6\ \text{E.S.C} = ₹\ 30,000\ \therefore \text{ESC} = \frac{₹\ 30,000}{6} = ₹\ 5,000$$

Thus, Preference Share Capital =₹ 30,000 – ₹ 5,000 = ₹ 25,000

[**Note** : As per Companies Act, 2013 (Revised), the term 'Fixed Assets' has been replaced by "Property, Plant and Equipment and Reserve and Surplus by 'Surplus']

Illustration 22. From the following information, prepare the Projected Statement of Profit and Loss for the next Financial year ending December 31, 2019 and the project balance Sheet as on that date:

Rate of Gross Profit	25%
Net profit to Equity Capital	10%
Stock Turnover Ratio	5 times
Average Debt Collection period	3 months
Creditors Velocity	3 months
Current Ratio	2
Proprietary ratio (Fixed Assets to Capital Employed)	80%
Capital Gearing Ratio (Preference Shares and Debentures to Equity)	3 : 7
General Reserves and Profit and Loss to issued Equity Capital	25%
Preference Share Capital to Debentures	2

Cost of Sales consists of 40% for materials and balance for wages and overheads. Gross Profit ₹ 6,00,000. Working notes should be shown clearly.

(Here, Schedule III is not mandatory for the preparation of Projected Statement of Profit and Loss and Projected Balance Sheet) **[C.U. B.Com.(Hons.) 2016]**

Solution :

Projected Profit & Loss Account

For the year ended : 31.12.2019

Dr. Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Cost of Goods Sold		By Slaes	24,00,000
Materials	7,20,000		
Wages & Overhead	10,80,000		
To Gross Profit c/d	6,00,000		
	24,00,000		**24,00,000**
To Sundry Expenses (Balancing)	4,65,600	By Gross Profit b/d	6,00,000
To Net profit	1,34,400		
	6,00,000		**6,00,000**

Projected Balance Sheet

as at : 31.12.2019

Liabilities	Amount	Amount	Assets	Amount	Amount
	₹	₹		₹	₹
Share Capital :			**Fixed Assets**		19,20,000
Equity Share Capital	13,44,000		**Current Assets**		
Preference share Capital	4,80,000	18,24,000	Stock	3,60,000	
Reserves & Surplus :			Debtors	6,00,000	9,60,000
General Reserve	2,01,000				
Profit & Loss A/c	1,34,400	3,36,000			
Secured Loans					
Debentures		2,40,000			
Current Liabilities		4,80,000			
		28,80,000			**28,80,000**

Workings :

(1) Calculation of Amount of Sales :

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

$$\text{or } 25 = \frac{₹\,6,00,000}{\text{Sales}} \times 100$$

$$\therefore \text{ Sales} = \frac{₹\,6,00,000}{25} \times 100 = ₹\,24,00,000$$

[N.B. Assuming all sales are made on creadit]

2. Calculation of Amount of Cost of Goods Sold :

			₹
	Sales	=	24,00,000
Less:	Gross Profit	=	6,00,000
	Cost of Goods Sold		**18,00,000**

Materials = 40% of ₹ 18,00,000 = ₹ 7,20,000 and wages & overhead = ₹ 10,80,000.

3. Calculation of Value of Closing Stock :

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

$$\text{or } 5 = \frac{₹\,18,00,000}{\text{Average Stock}}$$

$$\therefore \text{ Average Stock} = \frac{₹\,18,00,000}{5} = ₹\,3,60,000$$

It is assumed that the value of opening stock is equal to the value of closing stock.

∴ Value of Average stock = Value of closing stock = ₹ 3,60,000.

4. Calculation of amount of Debtors

$$\text{Average Debt Calculation Period} = \frac{\text{Debtors}}{\text{Credit Sales}} \times 12$$

$$\text{or } 3 = \frac{\text{Debtors}}{₹\,24,00,000} \times 12$$

$$\therefore \text{ Amount of Debtors} = \frac{3 \times ₹\,24,00,000}{12} = ₹\,6,00,000$$

[N.B.: Assuming all sales are made on Credit]

5. **Calculation of Amount of Creditors :**

$$\text{Creditors Velicity} = \frac{\text{Creditors}}{\text{Purchase of Materials}} \times 12$$

$$\text{or} \quad 3 = \frac{\text{Creditors}}{₹\,7,20,000} \times 12$$

$$\therefore \text{Creditors} = \frac{3 \times ₹\,7,20,000}{12} = ₹\,1,80,000$$

6. **Calculation of Amount of Current Liabilities :**

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

$$\text{or} \quad 2 = \frac{\text{Stock + Debtors}}{\text{Current Liabilities}}$$

$$\text{or Current Liabilities} = \frac{\text{Stock + Debtors}}{2}$$

$$= \frac{₹\,3,60,000 + ₹\,6,00,000}{2} = \frac{₹\,9,60,000}{2} = ₹\,4,80,000$$

[N.B. : Since there is no mention about Cash and Bank

∴ Current Assets = Stock + Debtors]

7. **Calculation of Fixed Assets :**

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

$$\text{or} \quad \frac{4}{5} = \frac{\text{Fixed Assets}}{\text{Fixed Assets + working Capital}}$$

$$\text{or} \quad \frac{4}{5} = \frac{FA}{FA + CA - CL}$$

$$\text{or} \quad \frac{4}{5} = \frac{FA}{FA + ₹\,4,80,000}$$

or $4FA + ₹\,19,20,000 = 5\,FA$

or $FA = ₹\,19,20,000$

∴ Amount of Fixed Assets = ₹ 19,20,000

$$\text{and Proprietor Fund} = ₹\,19,20,000 \times 5/4 = ₹\,24,00,000$$

8. **Calculation of Preference Share Capital, Debentures and Equity shareholder Fund :**

$$\text{Capital Gearing Ratio} = \frac{\text{Pref. Share Capital + Debentures}}{\text{Equity Shareholder' Fund}}$$

$$\frac{3}{7} = \frac{\text{Pref. Share Capital + Debentures}}{\text{Equity Shareholder' Fund}}$$

$$\therefore \text{Preference share Capital + Debentures} = \frac{3}{10} \text{ of Proprietor Fund}$$

$$= \frac{3}{10} \times ₹\,24,00,000 = ₹\,7,20,000$$

and Equity Shareholders' Fund = $\frac{7}{10} \times$ ₹ 24,00,000= ₹ 16,80,000

9. Calculation of Preference share Capital and Debentures

$$\frac{\text{Preference share Capital}}{\text{Debentures}} = 2 \qquad \text{(or } 2:1\text{)}$$

Preference share Capital = $\frac{2}{3}$ of (Preference share Capital + Debentures)

$= \frac{2}{3} \times$ ₹ 7,20,000= ₹ 4,80,000

and Debentures = $\frac{1}{3} \times$ ₹ 7,20,000= ₹ 2,40,000

10. Calculation of Equity Share Capital. Profit & Loss Account and General Reserve

$$\frac{\text{General Reserve + Profit \& Loss A/c}}{\text{Equity Share Capital}} = 25\% \qquad \text{(or } 1:4\text{)}$$

∴ General Reserve + Profit & Loss A/c = $\frac{1}{5}$ (Equity Shareholder fund)

$= \frac{1}{5} \times$ ₹ 16,80,000= ₹ 3,36,000

and Equity share Capital = $\frac{4}{5} \times$ ₹ 16,80,000= ₹ 13,44,000

Now, Net Profit = 10% of Equity Capital = 10% of = ₹ 13,44,000= ₹ 1,34,400
and General Reserve = ₹ 3,36,000 – ₹ 1,34,400= ₹ 2,01,600

Illustration 6 : Presented below are the Balance Sheets of Joy Ltd. as at 31st March, 2019 and 2020 :

	2019	2020
	₹	₹
I. EQUITY AND LIABILITIES :		
1. Shareholders' Funds :		
(a) Share Capital		
Equity Share Capital	40,00,000	43,00,000
(b) Surplus	9,80,000	6,40,000
2. Non-current Liabilities :		
(a) Long-term Borrowings: (Debentures)	22,00,000	20,50,000
(b) Long-term Provisions:		
Provision for Depreciation (Equipments)	2,00,000	3,00,000
Provision for Depreciation (Buildings)	5,00,000	6,00,000
3. Current Liabilities :		
(a) Trade Payables (Trade Creditors)	8,00,000	6,50,000
(b) Short-term provision:		
Provision for Taxation	1,00,000	1,25,000
Total	**87,80,000**	**86,65,000**
II. ASSETS :		
1. Non-current Assets :		
(a) Property, Plant & Equipment :		
(i) Land	18,00,000	15,00,000
(ii) Buildings	25,00,000	25,00,000
(iii) Equipments	16,00,000	20,00,000
2. Current Assets :		
(a) Inventories	15,50,000	14,00,000
(b) Trade Receivables (Trade Debtors)	6,50,000	8,00,000
(c) Cash & Cash Equivalents	6,00,000	4,00,000
(d) Other Current Assets (Prepaid Expenses)	80,000	65,000
Total	**87,80,000**	**86,65,000**

Additional Information:

(a) Land was sold for cash at a profit of ₹ 50,000.

(b) Dividend paid during the year ₹ 4,50,000.

(c) Net Profit for the year ₹ 1,60,000.

(d) Equipment costing ₹ 6,00,000 was purchased and costing ₹ 2,00,000 with a book value of ₹ 40,000 was sold for ₹ 30,000.

(e) Debentures were redeemed at face value by issuing shares at par.

(f) Amount transferred to provision for taxation during the year ₹ 1,60,000.

Prepare a Statement of Cash Flow as per Ind AS-7 for the year ended March 31, 2020.

[C.U., B.Com. (Hons.), 2015]

Solution :

In the Books of Joy Ltd.

CASH FLOW STATEMENT

for the year ended : 31st March, 2020

Particulars	Amount	Amount	Amount
	₹	₹	₹
A. Cash Flows from Operating Activities :			

Operating Profit before adjustment of Working Capital changes		5,90,000	
***Add:* Decrease in Current Assets :**			
Inventories (15,50,000 – 14,00,000)	1,50,000		
Prepaid Expenses (80,000 – 65,000)	15,000	1,65,000	
		7,55,000	
***Less:* Decrease in Current Liabilities and Increase in Current Assets :**			
Trade Creditors (8,00,000 – 6,50,000)	1,50,000		
Trade Debtors (6,50,000 – 8,00,000)	1,50,000	3,00,000	
Cash Generated from Operation		4,55,000	
Less: Payment of Tax		1,35,000	
Net Cash from Operating Activities			3,20,000
B. Cash Flows from Investing Activities :			
Sale of Land		3,50,000	
Sale of Equipment		30,000	
		3,80,000	
Less: Purchase of Equipment			
Net Cash used in Invensting Activities		6,00,000	(2,20,000)
C. Cash Flows from Financing Activities :			
Issue of Equity Shares		3,00,000	
Less: Redemption of Debentures	1,50,000		
" Payment of Dividend	4,50,000	6,00,000	
Net Cash used in Financing Activities			(3,00,000)
Net decrease in Cash and Cash Equivalents			(2,00,000)
Add: Cash and Cash Equivalents in the beginning of the year			6,00,000
Cash and Cash Equivalents at the end of the year			**4,00,000**

Workings :

Dr. **Land Account** **Cr.**

Particulars	***Amount***	***Particulars***	***Amount***
	₹		₹
To Balance b/f	18,00,000	By Bank A/c —Sale proceed	3,50,000
To Statement of Adjusted Profit & Loss (Profit on Sale)	50,000	By Balance c/f	15,00,000
	18,50,000		**18,50,000**

Dr. **Equipments Account** **Cr.**

Particulars	***Amount***	***Particulars***	***Amount***
	₹		₹
To Balance b/f	16,00,000	By Bank A/c —Sale proceed	30,000
To Bank A/c —Purchase	6,00,000	By Adjusted Statement of Profit & Loss—Loss on Sale	10,000
		By Provision for Depreciation A/c	1,60,000
		By Balance c/f	20,00,000
	22,00,000		**22,00,000**

Provision for Depreciation (Equipment) Account

Dr. Particulars	Amount	Particulars	Cr. Amount
	₹		₹
To Equipment A/c —Accumulated Depreciation	1,60,000	By Balance b/f	2,00,000
To Balance c/f	3,00,000	By Statement of Adjusted Profit & Loss— —Depreciation charged (Balancing)	2,60,000
	4,60,000		**4,60,000**

Dividend Account

Dr. Particulars	Amount	Particulars	Cr. Amount
	₹		₹
To Bank A/c —Payment of Dividend	4,50,000	By Statement of Adjusted Profit & Loss	4,50,000
	4,50,000		**4,50,000**

Provision for Taxation Account

Dr. Particulars	Amount	Particulars	Cr. Amount
	₹		₹
To Bank A/c —Payment of Tax (Balancing)	1,35,000	By Balance b/f	1,00,000
		By Statement of Adjusted Profit & Loss	1,60,000
To Balance c/f	1,25,000		
	2,60,000		**2,60,000**

Statement of Adjusted Profit & Loss

Particulars	Amount	Amount
	₹	₹
Net Loss as per Statement of Profit & Loss		(3,40,000)
Add **:Non-cash and Non-trading Debit Items charged to Statement of Profit & Loss :**		
(a) Provision for Depreciation on Building	1,00,000	
(b) Provision for Depreciation on Equipment	2,60,000	
(c) Loss on Sale of Equipment	10,000	
(d) Provision for Taxation	1,60,000	
(e) Dividend	4,50,000	9,80,000
		6,40,000
Less: **Non-trading Income** Profit on Sale of Land		50,000
Operating Profit		**5,90,000**