Series : BVM/2 **Paper Set Code : SET–1**

Code No. : 67/2/1

2019

ACCOUNTANCY

Time : 3 Hours **Maximum Marks 80**

Instructions for the Candidates :

- Please check that this question paper contains ______ printed pages .
- Code Number given on the right hand side of the question paper should be written on the title pages of the answer book by the candidate .
- Please check that this question paper contains 23 questions .
- Please write down the Serial Number of the question before attempting it .
- 15 Minutes time has been allotted to read this question paper .

General Instructions:

- This question paper contains Two Parts : A and B .
- Part A is Compulsory for All .
- Part B has Two Options : Analysis of Financial Statements and Computerized Accounting .
- Attempt ONLY ONE Option of Part B .
- All parts of a question should be attempted at one place .

PART – A

Accounting for Not-for-Profit Organizations , Partnership Firms and Companies

Q 1. Pass the necessary Journal Entry for Treatment of Partner's Loan appearing on the Asset Side of the Balance Sheet in case of Dissolution of a Partnership Firm .

[1 Mark]

Sol.

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Date	Particular	Dr. (₹)	Cr. (₹)
(i)	Bank A/c. / Partner's Capital A/c. Dr. To Loan to Partner's A/c. (Being Amount Received of Loan to Partner or Debited to Partner's Capital A/c. as Per Situation)	xxxx	xxxx

Q 2. A New Partner Acquires Two Main Rights in the Partnership Firm , which he joins . State one of these Rights .

OR

How does "Nature of Business" affect the Value of Goodwill of a Firm ?

[1 Mark]

Sol.

Two Main Rights Acquired by a New Partner in a Partnership Firm are :

- Share in Profit .
- Share in Net Assets .

OR

A Firm which Produces Goods having a Stable Demand will be able to Earn More Profits and Hence will have More Goodwill .

Q 3. State the Main Aim of a Not-for-Profit Organization .

OR

How is “Life Membership Fee” treated while preparing the Financial Statements of a Not-for-Profit Organization ?

[1 Mark]

Sol.

The Main Aim of a Not-for-Profit Organization is :

- To provide Service to the Society at a Concessional Rate , Minimum Price or at Times, Even Free of Cost .
- To Carry out Operations without Expectations of Earning Profit .

OR

Balance Sheet

Liabilities		**(₹)**	**Assets**	**(₹)**
Capital Fund	xxxx			
Add : Life Membership Fee	xxxx	Xxxx		
		xxxx		

Q 4. Kiya and Leela are Partners , Sharing Profits in the ratio of 3 : 2 . Kiran was Admitted as a New Partner with $\frac{1}{5}^{th}$ Share in the Profits and Brought in ₹ 24,000 as Her Share of Goodwill Premium that was Credited to the Capital Accounts of Kiya and Leela respectively with ₹ 18,000 and ₹ 6,000 . Calculate the New Profit Sharing Ratio of Kiya , Leela and Kiran .

[1 Mark]

Sol.

Kiya		Leela	Kiran
3	:	2	1/5

Sacrifice Ratio = 18,000 : 6,000

Base as Premium for Goodwill = 3 : 1

Sacrifice by Old Partners ,

Kiya $= \frac{1}{5} \times \frac{3}{4} = \frac{3}{20}$ Leela $= \frac{1}{5} \times \frac{1}{4} = \frac{1}{20}$

New Ratio = Old Ratio – Sacrificing Ratio

Kiya $= \frac{3}{5} - \frac{3}{20} = \frac{12-3}{20} = \frac{9}{20}$

Leela $= \frac{2}{5} - \frac{1}{20} = \frac{8-1}{20} = \frac{7}{20}$

Kiran $= \frac{1}{5} \times \frac{4}{4} = \frac{4}{20}$

New Profit Sharing Ratio = 9 : 7 : 4

Q 5. Dinkar , Navita and Vani were Partners , Sharing Profit and Losses in the Ratio of 3 : 2 : 1 . Navita Died on 30th June , 2017 . Her Share of Profit for the intervening period was based on the Sales during that period , which were ₹ 6,00,000 . The Rate of Profit during the Past Four years had been 10 % on Sales . The Firm Closes its books on 31st March every year .

Calculate Navita's Share of Profit . .

[1 Mark]

Sol.

Dinker	**:**	**Navita**	**:**	**Vani**	**Death (Navita)**
3	:	2	:	1	30th June , 2017

Profit for 3 Months on Sales $= \frac{10}{100} \times$ ₹ 6,00,000

= ₹ 60,000

Navita's Share of Profit $= \frac{2}{6} \times$ ₹ 60,000

= ₹ 20,000

Q 6. What is meant by "Private Placement of Shares" ?

OR

What is meant by "Reserve Capital" ?

[1 Mark]

Sol.

Private Placement means any Offer of Securities or Invitation to Subscribe Securities to a Selected Group of Investors through Issue of a Private Placement Offer by a Company (Other than Public Subscription) .

OR

Reserve Capital : According to Section 65 of the Companies Act , 2013 , only an Unlimited Company having Share Capital while Converting into a Limited Company , may have a Reserve Capital . The part of the Uncalled Capital which is Never Asked for or Called-up by the Company during its Existence , but only at the Time of Winding Up or Liquidation of a Company , so that it remains as a Cushion or Additional Security for making any Payments to its Creditors is called Reserve Capital .

Q 7. Average Profits of a Firm during the last few years are ₹ 80,000 and the Normal Rate of Returns in a similar business is 10 % . If the Goodwill of the Firm is ₹ 1,00,000 at 4 years' Purchase of Super Profit, find the Capital Employed by the Firm .

[3 Marks]

Sol.

Average Profit = ₹ 80,000 ; Rate of Return = 10 %

Goodwill = Super Profit x 4

₹ 1,00,000 = Super Profit x 4

Super Profit = $\frac{₹\ 1,00,000}{4}$ = ₹ 25,000

Super Profit = Average Profit – Normal Profit

₹ 25,000 = ₹ 80,000 – Normal Profit

Normal Profit = ₹ 80,000 – ₹ 25,000 = **₹ 55,000**

Normal Profit = Capital Employed x $\frac{\text{Rate of Return}}{100}$

₹ 55,000 = Capital Employed x $\frac{10}{100}$

Capital Employed by the Firm = $\frac{₹\ 55,000}{10}$ x 100 = **₹ 5,50,000**

Q 8. "UZ" Ltd. Purchased Plant and Machinery from Elk Machinery Ltd. for ₹ 6,90,000 . Elk Ltd. was paid by accepting a Draft of ₹ 90,000 payable after three months and the Balance by Issue of 6 % Debentures of ₹ 100 each at a Discount of 20 % .

Pass necessary Journal Entries for the above transactions in the Books of "UZ" Ltd.

OR

"ZK" Ltd. Issued ₹ 4,00,000 , 9 % Debentures of ₹ 100 each at a Discount of 5 % , Redeemable at a Premium of 10 % . Pass necessary Journal Entries for the above transactions in the Books of "ZK" Ltd.

[3 Marks]

Sol.

Working Note :

Plant and Machinery	₹ 6,90,000
Less : Bills Payable	₹ 90,000
Balance	**₹ 6,00,000**

Issue Price Per Debenture = ₹ 100 – ₹ 20 = ₹ 80

Number of Debentures Issued = $\frac{₹\ 6,00,000}{80}$

= 7,500 Debentures

Journal of UZ Ltd.

Date	Particular	Dr. (₹)	Cr. (₹)
(i)	Plant and Machinery A/c. Dr. To Elk Machine Ltd. ( )	6,90,000	 6,90,000
(ii)	Elk Machine Ltd. A/c Dr. To Bills Payable A/c. ( )	90,000	 90,000
(iii)	Elk Machine Ltd. A/c Dr. Discount on Issue of Debentures A/c. Dr. (7,500 x ₹ 20) To 6 % Debentures A/c. (7,500 x ₹ 100) ( )	6,00,000 1,50,000	 7,50,000

OR

Working Note :

Loss on Issue of Debentures

= Discount ₹ 5 + Premium on Redemption ₹ 10

= ₹ 15

= 4,000 x ₹ 15 = ` 60,000

Journal of ZK Ltd.

Date	Particular	Dr. (₹)	Cr. (₹)
(i)	**Issue of Debentures** Bank A/c. Dr. To 9 % Debenture Application and Allotment A/c. Dr. ( )	 3,80,000	 3,80,000
(ii)	9 % Debenture Application and Allotment A/c Dr. Loss on Issue of Debenture A/c. Dr. To 9 % Debenture A/c. To Premium on Redemption of Debentures ( )	 3,80,000 60,000	 4,00,000 40,000

Q 9. Willow Ltd. was Registered with an Authorized Capital of ₹ 10,00,000 , Divided into 1,00,000 Equity Shares of ₹ 10 each . The Company offered 80,000 Shares for Subscription to the Public , out of which 75,000 Shares were Subscribed . All Amounts were Received , Except the Final Call of ₹ 2 Per Share on 3,000 Shares . Fill in the Missing Figures in the Balance Sheet of Willow Ltd. as Per the Provisions of Schedule III , Part I of the Companies Act , 2013 .

Balance Sheet as at 31st March , 2018 (An Extract)

Particulars	Note No.	Amount (₹)
EQUITY AND LIABILITIES : **1.** Shareholders Funds **(a)** Share Capital	1	________
		________

Notes to Account :

Note No.	Particulars		Amount (₹)
1	**Share Capital :**		
	Authorized Capital		
			________
	Issued Capital		
			________
	Subscribed Capital		
	Subscribed and Fully Paid		
	________ Shares of ₹ 10 each		
	Subscribed , but Not Fully Paid		
	________ Shares of ₹ 10 each	________	________
	Less ________	________	________

[3 Marks]

Sol.

Balance Sheet as at 31st March , 2018 (An Extract)

Particulars	Note No.	Amount (₹)
EQUITY AND LIABILITIES : **2.** Shareholders Funds **(b)** Share Capital	1	7,44,000
		7,44,000

Notes to Account :

Note No.	Particulars		Amount (₹)
1	**Share Capital :**		
	Authorized Capital		
	1,00,000 Equity Shares @ ₹ 10 Per Share		10,00,000
	Issued Capital		
	80,000 Equity Shares @ ₹ 10 Per Share		8,00,000
	Subscribed Capital		
	Subscribed and Fully Paid		
	72,000 Shares of ₹ 10 each		7,20,000
	Subscribed , but Not Fully Paid		
	3,000 Shares of ₹ 10 each	30,000	
	Less : Calls in Arrears	6,000	24,000
			7,44,000

Q 10. Janta Kalayan Club has 1,250 Members each paying an Annual Subscription of ₹ 150 . During the year ended 31st March , 2018 the Club did not Receive Subscription from 45 Members and Received Subscriptions in Advance from 46 Members for the year ending 31st March , 2019 . On 31st March , 2017, Outstanding Subscription were ₹ 15,000 and Subscription Received in Advance were ₹ 3,000 . Calculate the Amount of Subscription that will be Debited to the "Receipts and Payments Account" for the year ended 31st March , 2018 .

[3 Marks]

Sol.

Balance Sheet as at 31st March , 2017

Liabilities	(₹)	Assets	(₹)
Advance Subscription (2018)	3,000	Outstanding Subscription	15,000

Balance Sheet as at 31st March , 2018

Liabilities	(₹)	Assets	(₹)
Advance Subscription (2019) (46 x ₹ 150)	6,900	Outstanding Subscription (45 x ₹ 150)	6,750

Income and Expenditure Account

	(₹)	Income	(₹)
		By Subs. Received during the year ₹ 1,99,650	
		Add : C. Y O/S ₹ 6,750	
		Adv. In P.Y ₹ 3,000	(Meb x Sub)
		Less : P.Y. O/S ₹ 15,000	1,250 x 150
		Adv. In C.Y. ₹ 6,900	1,87,500

Receipts and Payment Account

Dr. **31st March , 2018** **Cr.**

Receipts	(₹)	Payments	(₹)
To Subscription : 2017 15,000 2018 1,77,750 2019 6,900	1,99,650		

Q 11. Hari , Kunal and Uma are Partners in a Firm , Sharing Profit and Losses in the Ratio of 5 : 3 : 2 . From 1st April , 2018 they decided to Share Future Profits and Losses in the Ratio of 2 : 5 : 3 . Their Balance Sheet showed a Balance of ₹ 75,000 in the Profit and Loss Account and a Balance of ₹ 15,000 in Investment Fluctuation Fund . For this purpose , it was Agreed that :

(i) Goodwill of the Firm was Valued at ₹ 3,00,000 .

(ii) That Investments (Having a Book Value of ₹ 50,000) were Valued at ₹ 35,000 .

(iii) That Stock having a Book Value of ₹ 50,000 be Depreciated by 10 % .

Pass the necessary Journal Entries for the above in the Books of the Firm .

[4 Marks]

Sol.

		Hari		**Kunal**		**Uma**
Old Ratio	=	5	:	3	:	2
New Ratio	=	2	:	5	:	3

Calculation of Gain / Loss Ratio = Old – New = + Sacrifice – Gain

Hari $= \frac{5}{10} - \frac{2}{10} = \frac{3}{10}$ Sacrifice x ₹ 3,00,000 = ₹ 90,000

Kunal $= \frac{3}{10} - \frac{5}{10} = \frac{2}{10}$ Gain x ₹ 3,00,000 = ₹ 60,000

Uma $= \frac{2}{10} - \frac{3}{10} = \frac{1}{10}$ Gain x ₹ 3,00,000 = ₹ 30,000

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Date	Particular	Dr. (₹)	Cr. (₹)
(i)	Kunal's Capital A/c. Dr. Uma's Capital A/c. Dr. To Hari's Capital A/c. ( )	60,000 30,000	 90,000
(ii)	Investment Fluctuation Fund A/c. Dr. To Investment A/c. ( )	15,000	 15,000
(iii)	Profit and Loss A/c. Dr. To Hari's Capital A/c. (5/10 x ₹ 75,000) To Kunal's Capital A/c. (3/10 x ₹ 75,000) To Uma's Capital A/c. (2/10 x ₹ 75,000)	75,000	 37,500 22,500 15,000

	( )		
(iv)	Revaluation A/c. Dr. To Stock A/c. ( )	5,000	 5,000
(v)	Hari's Capital A/c. Dr. Kunal's Capital A/c. Dr. Uma's Capital A/c. Dr. To Revaluation A/c. ( )	2,500 1,500 1,000	 5,000

Q 12. Meera , Sarthak and Rohit were Partners , Sharing Profits in the Ratio of 2 : 2 : 1 . Their Balance Sheet as at 31st March , 2018 was as follows :

Liabilities		(₹)	Assets	(₹)
Creditors		3,00,000	Fixed Assets	7,00,000
Contingency Reserve		1,00,000	Stock	2,00,000
Partners' Capital A/cs. :			Debtors	1,50,000
Meera	4,00,000		Cash at Bank	3,50,000
Sarthak	3,50,000			
Rohit	2,50,000	10,00,000		
		14,00,000		**14,00,000**

Sarthak Died on 15th June , 2018 . According to the Partnership Deed, His Executors were Entitled to :

(i) Balance in His Capital Account .

(ii) His Share of Goodwill will be Calculated on the Basis of Thrice the Average of the Past 4 Years' Profits .

(iii) His Share in Profits upto the Date of Death on the basis of Average Profits of the Last Two Years . The Time Period for which He Survived in the Year of Death will be calculated in Months .

(iv) Interest on Capital @ 12 % Per Annum upto the Date of His Death .

The Firm's Profits for the Last Four Years were :

2014 – 15 ₹ 1,20,000 ; 2015 – 16 ₹ 2,00,000 ;

2016 – 17 ₹ 2,60,000 and 2017 – 18 ₹ 2,20,000

Sarthak's Executors were Paid the Amount Due immediately .

Prepare Sarthak's Capital Account to be Presented to His Executors .

[4 Marks]

Sol.

	Meera		**Sarthak**		**Rohit**
	2	:	2	:	1

Sarthak Died 15th June , 2018 Period = 2.5 Months

Calculation of Goodwill =

$$\text{Average Profit of 4 years Profit} = \frac{₹\ 2{,}20{,}000 + ₹\ 2{,}60{,}000 + ₹\ 2{,}00{,}000 + ₹\ 1{,}20{,}000}{4}$$

$$= \frac{₹\ 8{,}00{,}000}{4} = ₹\ 2{,}00{,}000$$

Goodwill = Average Profit x 3 years of Purchase

= ₹ 2,00,000 x 3 = ₹ 6,00,000

Sarthak's Share in Goodwill = $\frac{2}{5}$ x ₹ 6,00,000 = ₹ 2,40,000

Meera's Share = $\frac{2}{3}$ x ₹ 2,40,000 = ₹ 1,60,000

Rohit's Share = $\frac{1}{3}$ x ₹ 2,40,000 = ₹ 80,000

Sarthak's Share in Profit upto Date of His Death :

Average Profit of Last Two Years

$$= \frac{₹\,2{,}20{,}000 + ₹\,2{,}60{,}000}{2} = \frac{₹\,4{,}80{,}000}{2} = ₹\,2{,}40{,}000$$

Share in Profit = ₹ 2,40,000 x $\frac{2.5}{12}$ x $\frac{2}{5}$ = ₹ 20,000

Interest on Sarthak's Capital = ₹ 3,50,000 x $\frac{12}{100}$ x $\frac{2.5}{12}$ = ₹ 8,750

Share in Contingency Reserve = ₹ 1,00,000 x $\frac{2}{5}$ = ₹ 40,000

Dr. **Sarthak's Capital Account** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Sarthak's Executors A/c..	4,58,750	By Balance b/d.	3,50,000
		By Meera's Capital A/c.	1,60,000
		By Rohit's Capital A/c.	80,000
		By P & L Suspense A/c.	20,000
		By Interest on Capital A/c.	8,750
		By Contingency Reserve A/c.	40,000
	6,58,750		**6,58,,750**

Q 13. From the following information of Gems Club , Prepare Income and Expenditure Account for the year ended 31st March , 2018 .

Receipts and Payments Account of Gems Club

For the year ended 31st March , 2018

Particulars	(₹)	Particulars	(₹)
To Balance b/d.	50,000	By Furniture	1,30,000
To Interest on Investments	2,400	By Salaries	64,500
To Donations	17,000	By Misc. Expenses	52,000
To Subscriptions	3,00,000	By Telephone Charges	12,000
To Rent Received	70,000	By Fax Machine	6,000
To Sale of Old Machinery	600	By 6 % Investments (On 01-08-2017)	1,00,000
		By Printing and Stationery	19,000
		By Balance c/d.	56,500
	4,40,000		**4,40,,000**

Additional Information :

Subscription Received Included ₹ 15,000 for 2018 – 19 . The Amount of Subscription Outstanding on 31st March , 2018 were ₹ 20,000 . Salaries Unpaid on 31st March , 2018 were ₹ 8,000 and Rent Receivable was ₹ 2,000 . Opening Stock of Printing and Stationery was ₹ 12,000 whereas Closing Stock was ₹ 15,000 .

[6 Marks]

Sol.

Interest on Investment = ₹ 1,00,000 x $\frac{6}{100}$ x $\frac{8}{12}$ = ₹ 4,000

1st August , 2017 to 31st March , 2018

Income and Expenditure Account of Gems Club

For the year ended 31st March , 2018

Expenditure	(₹)	Income	(₹)
To Salaries 64,500 Add : O/s. Salaries 8,000	72,500	By Int. on Investment 2,400 Add : Accrued Int. 1,600	4,000
To Miscellaneous Expenses	52,000	By Donations	17,000
To Telephone Charges	12,000	By Rent Received 70,000 Add : Accrued Rent 2,000	72,000
To Consumption of Printing And Stationery Opening Stock 12,000 Add : Purchases 19,000 31,000 Less : Closing Stock 15,000	16,000	By Sale of Old Newspapers	600
To Surplus (Bal. Fig.) (Excess of Income over Expenditure)	2,46,100	By Subscription Received During the year 3,00,000 Add : Advance Subscription 15,000 2,85,000 Add : Outstanding Subscription 20,000	3,05,000
	3,98,600		**3,98,,600**

Q 14. Ashish and Kanav were Partners in a Firm , Sharing Profits and Losses in the Ratio of 3 : 2 . Their Balance Sheet on 31st March , 2018 was as follows :

Balance Sheet of Ashish and Kanav

As at 31st March , 2018

Liabilities	(₹)	Assets	(₹)
Trade Creditors	42,000	Bank	35,000
Employees' Provident Fund	60,000	Stock	24,000
Mrs. Ashish's Loan	9,000	Debtors	19,000
Kanav's Loan	35,000	Furniture	40,000
Workmen's Compensation Fund	20,000	Plant	2,10,000
Investment Fluctuation Reserve	4,000	Investments	32,000
Partners' Capital A/cs. :		Profit and Loss Account	10,000
Ashish 1,20,000			
Kanav 80,000	2,00,000		
	3,70,000		**3,70,000**

On the Above Date they Decided to Dissolve the Firm .

(i) Ashish Agreed to take over Furniture at ₹ 38,000 and Pay Off Mrs. Ashish's Loan .

(ii) Debtors Realized ₹ 18,500 and Plant Realized 10 % More .

(iii) Kanav took over 40 % of the Stock at 20 % Less than the Book Value . Remaining Stock was Sold at a Gain of 10 % .

(iv) Trade Creditors took over Investments in Full Settlement .

(v) Kanav Agreed to take over the Responsibility of Completing Dissolution at an Agreed Remuneration of ₹ 12,000 and to Bear Realization Expenses . Actual Expenses of Realization Amounted to ₹ 8,000 .

Prepare Revaluation Account .

[6 Marks]

Sol.

Dr. **Realization Account** **Cr.**

Particulars	(₹)	Particulars		(₹)
To Stock A/c.	24,000	By Trade Creditors A/c.		42,000
To Debtors A/c.	19,000	By Employee Provident Fund		60,000
To Furniture A/c.	40,000	By Mrs. Ashish's Loan A/c.		9,000
To Plant A/c.	2,10,000	By Investment Fluctuation Reserve A/c.		4,000
To Investment A/c.	32,000			
To Bank A/c. (Employee Provident Fund)	60,000	By Bank A/c.		
		Debtors	18,500	
To Kanav's Capital A/c. (Remuneration)	12,000	Plant	2,31,000	
		Stock		
To Ashish's Capital A/c. (Mrs. Ashish's Loan)	9,000	60 % of 24,000	14,400	

To Partners' Capital A/c. : Ashish 12,012 Kanav 8,008 (Profit Trans.In Ratio 3 : 2)	20,020	Add : 10 % Of 14,400 1,440 15,840 By Ashish's Capital A/c. (Furniture) By Kanav's Capital A/c. (Stock) 40 % of 24,000 9,600 Less : 20 % of 9,600 1,920	2,65,340 38,000 7,680
	4,26,020		**4,26,,020**

Working Note :

₹ 20,020 x $\frac{3}{5}$ = ₹ 12,012 and ₹ 20,020 x $\frac{2}{5}$ = ₹ 8,008

Note :

As there is No Workmen Compensation Contingency , so Workmen Compensation Reserve will be Credited to Partner's Capital Account (In Profit Sharing Ratio) .

Q 15. Naveen , Qadir and Rajesh were Partners doing an Electronic Goods Business in Uttarakhand . After the accounts of partnership were drawn up and closed , it was discovered that interest on capital has been allowed to Partners @ 6 % Per Annum for the years ending 31st March , 2017 and 2018 , although there is no provision for interest on capital in the partnership deed . On the other hand , Naveen and Qadir were entitled to a Salary of ₹ 3,500 and ₹ 4,000 Per Quarter respectively , which has not been taken into consideration . Their respective Fixed Capitals were ₹ 4,00,000 , ₹ 3,60,000 and ₹ 2,40,000 . During the last two years , they had shared the Profits and Losses as follows :

Year Ended	Ratio
31st March , 2017	3 : 2 : 1
31st March , 2018	5 : 3 : 2

Pass necessary Adjusting Entry for the above Adjustments in the Books of the Firm on 1st April , 2018 . Show your workings clearly .

OR

On 31st March , 2018 the Balance in the Capital Accounts of Abhir , Bobby and Vineet after making adjustments for Profits and Drawings were ₹ 8,00,000 , ₹ 6,00,000 and ₹ 4,00,000 respectively .

Subsequently , it was discovered that Interest on Capital and Interest on Drawings had been Omitted . The Parterns were entitled to Interest on Capital @ 10 % Per Annum and were to be charged Interest on Drawings @ 6 % Per Annum . The Drawings during the year were : Abhir ₹ 20,000 drawn at the end of each month ; Bobby ₹ 50,000 drawn at the beginning of every half year and Vineet ₹ 1,00,000 withdrawn on 31st October , 2017 . The Net Profit for the year ended 31st March , 2018 was ₹ 1,50,000 . The Profit Sharing Ratio was 2 : 2 : 1 .

Pass necessary Adjusting Entry for the above Adjustments in the Books of the Firm . Also show your workings clearly .

[6 Marks]

Sol.

Table Showing Final Adjustment

Particulars	Naveen		Qadir		Rajesh	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
31st March , 2017						
Interest on Capital	24,000	—	21,600	—	14,400	—
Salary	—	14,000 (3,500 x 4)	—	16,000 (4,000 x 4)	—	—
Excess Dr. Now Cr, in 3 : 2 : 1	—	15,000	—	10,000	—	5,000
31st March , 2018						
Interest on Capital	24,000	—	21,600	—	14,400	—
Salary	—	14,000	—	16,000	—	—
Excess Dr. Now Cr. in 5 : 3 : 2	—	15,000	—	9,000	—	6,000
Total of Each Column	**48,000**	**58,000**	**43,200**	**51,000**	**28,800**	**11,000**
		10,000 (Cr.)		**7,800 (Cr.)**	**17,800 (Dr.)**	

31st March 2017 : **Total Dr.** ₹ 60,000 **Total Cr.** ₹ 30,000

Excess Dr. = ₹ 30,000 [3 : 2 : 1]

Naveen $= \frac{3}{6} \times$ ₹ 30,000 = ₹ 15,000

Qadir $= \frac{2}{6} \times$ ₹ 30,000 = ₹ 10,000

Rajesh $= \frac{1}{6} \times$ ₹ 30,000 = ₹ 5,000

31st March 2018 : **Total Dr.** ₹ 60,000 **Total Cr.** ₹ 30,000

Excess Dr. = ₹ 30,000 [5 : 3 : 2]

Naveen $= \frac{5}{10} \times$ ₹ 30,000 = ₹ 15,000

Qadir $= \frac{3}{10} \times$ ₹ 30,000 = ₹ 9,000

Rajesh $= \frac{2}{10} \times$ ₹ 30,000 = ₹ 6,000

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Date	Particular	Dr. (₹)	Cr. (₹)
2018 Apr. 1	Rajesh's Current A/c. Dr. To Naveen's Current A/c. To Qadir's Current A/c. ( )	17,800	 10,000 7,800

OR

Calculation of Opening Capital of Partners

Particulars	Abhir (₹)	Bobby (₹)	Vineet (₹)
Closing Capital (31st March , 2018)	8,00,000	6,00,000	4,00,000
Add : Drawings	2,40,000	1,00,000	1,40,000
	(20,000 x 12)	(50,000 x 2)	
	10,40,000	**7,00,000**	**5,00,000**
Less : Profit (₹ 1,50,000) (2 : 2 : 1)	60,000	60,000	30,000
Opening Capital	**9,80,000**	**6,40,000**	**4,70,000**
Interest on Capital @ 10 % Per Annum	98,000	64,000	47,000

Interest on Drawings :

Abhir = ₹ 20,000 x 12 = ₹ 2,40,000

$= ₹\ 2,40,000 \times \frac{6}{100} \times \frac{5.5}{12} = ₹\ 6,600$

Bobby = ₹ 50,000 x 2 = ₹ 1,00,000

$= ₹\ 1,00,000 \times \frac{6}{100} \times \frac{9}{12} = ₹\ 4,500$

Vineet $= ₹\ 1,00,000 \times \frac{6}{100} \times \frac{5}{12} = ₹\ 2,500$ (1st Nov. 2017 to 31st March , 2018)

Table Showing Final Adjustment

Particulars	Abhir		Bobby		Vineet	
	Dr.	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**
Interest on Capital	—	98,000	—	64,000	—	47,000
Interest on Drawings	6,600	—	4,500	—	2,500	—
Excess Cr. Now Dr. in (2 : 2 : 1)	78,160	—	78,160	—	39,080	—
Total of Each Column	**84,760**	**98,000**	**82,660**	**64,000**	**41,580**	**47,000**
		13,240 (Cr.)	**18,660 (Dr.)**			**5,420 (Cr.)**

Total Cr.	=	₹ 98,000 + ₹ 64,000 + ₹ 47,000	=	₹ 2,09,000
Total Dr.	=	₹ 6,600 + ₹ 4,500 + ₹ 2,500	=	₹ 13,600
		Excess Cr.	**=**	**₹ 1,95,400**

Abhir $= \frac{2}{5} \times$ ₹ 1,95,400 = ₹ 78,160

Bobby $= \frac{2}{5} \times$ ₹ 1,95,400 = ₹ 78,160

Vineet $= \frac{1}{5} \times$ ₹ 1,95,400 = ₹ 39,080

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Date	Particular	Dr. (₹)	Cr. (₹)
2018 Apr. 1	Bobby's Capital A/c. Dr. To Abhir's Capital A/c. To Vineet's Capital A/c. ( )	18,660	 13,240 5,420

Q 16. Denspar Ltd. invited Applications for Issuing 2,00,000 Equity Shares of ₹ 10 each at a Premium of ₹ 20 Per Share . The amount was Payable as follows :

– On Application ₹ 2 Per Share
– On Allotment ₹ 13 Per Share (Including ₹ 10 Premium)
– On First Call ₹ 7 Per Share (Including ₹ 5 Premium)
– On Final Call ₹ 8 Per Share (Including ₹ 5 Premium)

Applications for 1,80,000 Shares were received . Shares were Allotted to all the Applicants . Yogesh , a Shareholder holding 5,000 Shares paid his entire Share Money along with the Allotment Money . Vishesh , a holder of 7,000 Shares , Failed to pay the Allotment Money . Afterwards the First Call was made . Vishesh paid the Allotment Money along with the First Call Money . Samyesh , holding 2,000 Shares did not pay the Final Call . Samyesh's Shares were Forfeited immediately after the Final Call . Out of the Forfeited Shares , 1,500 Shares were Re-issued at ₹ 8 Per Share , Fully Paid up .

Pass the necessary Journal Entries for the above transactions in the Books of Denspar Ltd.

OR

"KLN Ltd." invited Applications for Issuing 1,00,000 Shares of ₹ 10 each at a Premium of ₹ 2 Per Share . The amount was payable as follows :

– On Application ₹ 3 Per Share (Including Premium ₹ 1)
– On Allotment ₹ 4 Per Share (Including Premium ₹ 1)
– On First Call ₹ 3 Per Share
– On Second and Final Call Balance Amount

Applications for 1,90,000 Shares were Received . Allotment was made to the Applicants as follows

Category	No. of Shares Applied	No. of Shares Allotted
I	50,000	40,000
II	1,00,000	60,000

Remaining Applications were Rejected .

Rajat a Shareholder belonging to Category I who had Applied for 2,500 Shares , Failed to pay the amount due on Allotment and First Call . His Shares were immediately Forfeited .

Reema , a Shareholder belonging to Category II who was holding 3,000 Shares Failed to pay the First Call and Second Call Money . Her shares were also Forfeited . Afterwards 4,000 Shares were Re-issued @ ₹ 8 Per Share Fully Paid up . These included All the Forfeited Shares of Reema .

Pass necessary Journal Entries for the above transactions in the Books of "KLN Ltd.." .

[8 Marks]

Sol.

2,00,000 Equity Shares of ₹ 10 each ; Premium ₹ 20 Per Share .

Issue Price = ₹ 10 + ₹ 20 = ₹ 30

- Application ₹ 2
- Allotment ₹ 13 (₹ 3 + ₹ 10)
- First Call ₹ 7 (₹ 2 + ₹ 5)
- Final Call ₹ 8 (₹ 3 + ₹ 5)

₹ 30

JOURNAL OF DENSPAR Ltd.

Date	Particular	Dr. (₹)	Cr. (₹)
(i)	Bank A/c. Dr. To Equity Share Application A/c. (1,80,000 x ₹ 2) ( )	3,60,000	3,60,000
(ii)	Equity Share Application A/c. Dr. To Equity Share Capital A/c. ( )	3,60,000	3,60,000
(iii)	Equity Share Allotment A/c. Dr. To Equity Share Capital A/c. (1,80,000 x ₹ 3) To Securities Premium Reserve A/c. (1,80,000 x ₹ 10) ( )	23,40,000	5,40,000 18,00,000
(iv)	Bank A/c. Dr. To Equity Share Allotment A/c. [₹ 23,40,000 – ₹ 91,000 (7,000 x ₹ 13)] To Calls in Advance A/c. I Call = 5,000 x 7 = 35,000 II Call = 5,000 x 8 = 40,000 = 75,000 ( )	23,24,000	22,49,000 75,000
(v)	Equity Share First Call A/c. Dr. To Equity Share Capital A/c. (1,80,000 x ₹ 2) To Securities Premium Reserve A/c. (1,80,000 x ₹ 5) ( )	12,60,000	3,60,000 9,00,000
(vi)	Calls in Advance A/c. Dr. To Equity Share First Call A/c. ( )	35,000	35,000
	Bank A/c. Dr. To Equity Share First Call A/c.	13,16,000	12,25,000

(vii)	(₹ 12,60,000 – ₹ 35,000) To Equity Share Allotment A/c. ( )		91,000
(viii)	Equity Final Call A/c. Dr. To Equity Share Capital A/c. (1,80,000 x ₹ 3) To Securities Premium Reserve A/c. (1,80,000 x ₹ 5) ( )	14,40,000	5,40,000 9,00,000
(ix)	Calls in Advance A/c. Dr. To Equity Share Final Call A/c. ( )	40,000	40,000
(x)	Bank A/c. Dr. To Equity Share Final Call A/c. (₹ 14,40,000 – ₹ 40,000 – ₹ 16,000) Samyesh 2,000 x ₹ 8 ( )	13,84,000	13,84,000
(xi)	Equity Share Capital A/c. Dr. Securities Premium Reserve A/c. Dr. To Equity Share Final Call A/c. To Share Forfeiture A/c. (2 + 3 + 2) x 2,000 ( )	20,000 10,000	16,000 14,000
(xii)	Bank A/c. Dr. Share Forfeiture A/c. Dr. To Equity Share Capital A/c. ( )	12,000 3,000	15,000
(xiii)	Share Forfeiture A/c. Dr. To Capital Reserve A/c. ( )	7,500	7,500

Share Forfeiture Account

Particulars	(₹)	Particulars	(₹)
To Equity Share Capital To Capital Reserve To Balance c/d. $\left(\frac{14{,}000}{2{,}000} \times 500\right)$	3,000 7,500 3,500	By Equity Share Capital (2,000)	14,000
	14, 000		**14,,000**

OR

KLN Ltd. 1,00,000 Shares of ₹ 10 Per Share ; Premium ₹ 2 Per Share

Issue Price = ₹ 10 + ₹ 2 = ₹ 12 Per Share

- Application ₹ 3 Per Share (2 + 1)
- Allotment ₹ 4 Per Share (3 + 1)
- First Call ₹ 3 Per Share
- Second and Final Call ₹ 2 Per Share

TOTAL ₹ 12 Per Share

<table>
<tr><th colspan="2">Application Received = 1,90,000</th></tr>
<tr><th>Category I</th><th>Category II</th></tr>
<tr><td>Applications 50,000
Allotment 40,000
10,000 x 3
Excess on Application = ₹ 30,000
Due on Allotment 40,000 x ₹ 4 = ₹ 1,60,000
Rajat Applied = 2,500 Shares
Allotment = $\frac{40,000}{50,000}$ x 2,500 = 2,000 Shares
Due on Allotment : 2,000 x ₹ 4 = ₹ 8,000
Less : Part in Excess
$\frac{30,000}{40,000}$ x 2,000 = ₹ 1,500
Arrear on Allotment = ₹ 6,500
Arrear on First Call = 2,000 x ₹ 3 = ₹ 6,000</td><td>Applications 1,00,000
Allotment 60,000
40,000 x 3
Excess on Application = ₹ 1,20,000
Due on Allotment 60,000 x ₹ 4 = ₹ 2,40,000
Reema Allotted = 3,000 Shares
Arrear on I Call = 3,000 x ₹ 3 = ₹ 9,000
Arrear on Second and Final Call
= 3,000 x ₹ 2 = ₹ 6,000</td></tr>
</table>

JOURNAL OF KLN Ltd.

Date	Particular	Dr. (₹)	Cr. (₹)
(i)	Bank A/c. Dr. To Equity Share Application A/c. (1,90,000 x ₹ 3) ( )	5,70,000	 5,70,000
(ii)	Equity Share Application A/c. Dr. To Equity Share Capital A/c. (1,00,000 x ₹ 2) To Securities Premium Reserve A/c. (1,00,000 x ₹ 1) To Equity Share Allotment A/c. (Cat. I ₹ 30,000 + Cat. II ₹ 1,20,000) To Bank A/c. (40,000 x ₹ 3) ( )	5,70,000	 2,00,000 1,00,000 1,50,000 1,20,000
(iii)	Equity Share Allotment A/c. Dr. To Equity Share Capital A/c. To Securities Premium Reserve A/c. ( )	4,00,000	 3,00,000 1,00,000
(iv)	Bank A/c. Dr. To Equity Share Allotment A/c. (₹ 4,00,000 – ₹ 1,50,000 – – ₹ 6,500) ( )	2,43,500	 2,43,500
(v)	Equity Share First Call A/c. Dr. To Equity Share Capital A/c. ( )	3,00,000	 3,00,000
(vi)	Bank A/c. Dr. To Equity Share First Call A/c. (₹ 3,00,000 – ₹ 6,000 – ₹ 9,000) Rajat Reema	2,85,000	 2,85,000

	( )		
(vii)	Equity Share Capital A/c. Dr. Securities Premium Reserve A/c. Dr. To Equity Share Allotment A/c. To Equity Share First Call A/c. To Share Forfeiture A/c. ( )	16,000 2,000	 6,500 6,000 5,500
(viii)	Eq. Share Second and Final Call A/c. Dr. To Equity Share Capital A/c. (98,000 x ₹ 2) ( )	1,96,000	 1,96,000
(ix)	Bank A/c. Dr. To Eq. Share Second and Final Call A/c. (₹ 1,96,000 – ₹ 6,000) ( )	1,90,000	 1,90,000
(x)	Equity Share Capital A/c. Dr. To Equity Share First Call A/c. To Eq. Share Second and Final Call A/c. To Share Forfeiture A/c. ( )	30,000	 9,000 6,000 15,000
(xi)	Bank A/c. Dr. Share Forfeiture A/c. Dr. To Equity Share First Call A/c. ( )	32,000 8,000	 40,000
(xii)	Share Forfeiture A/c. Dr. To Capital Reserve A/c. ( )	9,750	 9,750

Share Forfeiture Account

Particulars	(₹)	Particulars	(₹)
To Equity Share Capital A/c. To Capital Reserve A/c. (₹ 17,750 – ₹ 8,000) To Balance c/d. $\left(\frac{5,500}{2,000} \times 1,000\right)$	8,000 9,750 2,750	By Equity Share Capital (Rajat – 2,000 Shares) By Equity Share Capital A/c. (Reema – 3,000 Shares).	5,500 15,000
	20, 500		**20,,500**

Q 17. Mohan , Vinay and Nitya were Partners in a Firm , Sharing Profits and Losses in the respective Proportion of $\frac{1}{2}$, $\frac{1}{3}$ and $\frac{1}{6}$. On 31st March , 2018 their Balance Sheet was as follows :

Balance Sheet of Mohan , Vinay and Nitya as at 31st March , 2018

Liabilities	(₹)	Assets	(₹)
Creditors	48,000	Cash at Bank	31,000
Employees Provident Fund	1,70,000	Bills Receivable	54,000
Contingency Reserve	30,000	Book Debts 63,000	
Partners' Capital Accounts :		Less : P.B.D. 2,000	61,000
Mohan 1,20,000		Plant and Machinery	1,20,000
Vinay 1,00,000		Land and Building	2,92,000
Nitya 90,000	3,10,000		
	5,58,000		**5,58,000**

Mohan Retired on the above date and it was agreed that :

(i) Plant and Machinery will be Depreciated by 5 % .

(ii) An Old Computer previously Written Off was Sold for ₹ 4,000 .

(iii) Bad Debts amounting to ₹ 3,000 will be Written Off and a Provision of 5 % on Debtors for Bad and Doubtful Debts will be maintained .

(iv) Goodwill of the Firm was Valued at ₹ 1,80,000 and Mohan's Share of the same was Credited in His Account by Debiting Vinay's and Nitya's Accounts .

(v) The Capital of the New Firm was to be Fixed at ₹ 90,000 and necessary adjustments were to be made by bringing in or paying off cash as the case may be .

(vi) Vinay and Nitya will share Future Profits in the Ratio of 3 : 2 .

Prepare : Revaluation Account , Partners' Capital Accounts and
The Balance Sheet of the Reconstituted Firm .

OR

Leena and Rohit are Partners in a Firm , Sharing Profits in the Ratio of 3 : 2 . On 31st March , 2018 their Balance Sheet was as follows :

Balance Sheet of Leena and Rohit as at 31st March , 2018

Liabilities	(₹)	Assets	(₹)
Sundry Creditors	80,000	Cash	42,000
Bills Payable	38,000	Debtors 1,32,000	
General Reserve	50,000	Less : P.B.D. 2,000	1,30,000
Partners' Capital Accounts :		Stock	1,46,000
Leena 1,60,000		Plant and Machinery	1,50,000
Rohit 1,40,000	3,00,000		
	4,68,000		**4,68,000**

On the above date Manoj was Admitted as a New Partner for $\frac{1}{5}^{th}$ Share in the Profits of the Firm on the following terms :

(i) Manoj brought Proportionate Capital . He also brought His Share of Goodwill Premium of ₹ 80,000 in Cash .

(ii) 10 % of the General Reserve was to be Transferred to Provision for Doubtful Debts .

(iii) Claim on Account of Workmen's Compensation amounted to ₹ 40,000 .

(iv) Stock was Overvalued by ₹ 16,000 .

(v) Leena , Rohit and Manoj will Share Future Profits in the Ratio of 5 : 3 : 2 .

Prepare : Revaluation Account , Partners' Capital Accounts and The Balance Sheet of the Reconstituted Firm .

[8 Marks]

Sol.

$$\frac{1}{2} : \frac{1}{3} : \frac{1}{6} = \frac{3:2:1}{6} \qquad \text{Ratio} = 3:2:1$$

Dr. **Revaluation Account** **Cr.**

Particulars	(₹)	Particulars		(₹)
To Plant and Machinery A/c.	6,000	By Bank (Computer)		4,000
To Profit and Loss A/c..	4,000	By Loss Transferred to		
		Partners' Capital A/cs. :		
		Mohan	3,000	
		Vinay	2,000	
		Nitya	1,000.	6,000
	10,000			**10,,000**

Dr. **Partners' Capital Account** **Cr.**

Particulars	Mohan (₹)	Vinay (₹)	Nitya (₹)	Particulars	Mohan (₹)	Vinay (₹)	Nitya (₹)
To Revaluation A/c.	3,000	2,000	1,000	By Balance b/d.	1,20,000	1,00,000	90,000
To Mohan's Capital A/c.	—	48,000	42,000	By Contingency Reserve	15,000	10,000	5,000
To Mohan's Loan A/c.	2,22,000	6,000	16,000	By Revaluation A/c. (Profit)	—	—	—
To Bank A/c.	—	54,000	36,000	By Vinay's Capital A/c.	48,000	—	—
To Balance c/d.	—	—	—	By Nitya's Capital A/c. Revalued)	42,000	—	—
				By Bank A/c.	—	—	—
	2,25,000	**1,10,000**	**95,000**		**2,25,000**	**1,10,000**	**95,000**

Dr. Provision for Doubtful Debts Cr.

Particulars	**(₹)**	**Particulars**	**(₹)**
To Debtors A/c.	3,000	By Balance b/d.	2,000
To Balance c/d. (5 % of ₹ 60,000).	3,000	By Revaluation A/c.	4,000
	6,000		**6,,000**

Goodwill = ₹ 1,80,000

Mohan's Share = $\frac{3}{6}$ x ₹ 1,80,000 = ₹ 90,000

Vinay's Share = $\frac{8}{15}$ x ₹ 90,000 = ₹ 48,000

Nitya's Share = $\frac{7}{15}$ x ₹ 90,000 = ₹ 42,000

Gain Ratio = New Ratio – Old Ratio

Vinay = $\frac{3}{5} - \frac{2}{6} = \frac{18-10}{30} = \frac{8}{30}$

Nitya = $\frac{2}{5} - \frac{1}{6} = \frac{12-5}{30} = \frac{7}{30}$ **Gain Ratio = 8 : 7**

Capital of the Firm = ₹ 90,000 New Ratio 3 : 2

Vinay = $\frac{3}{5}$ x ₹ 90,000 = ₹ 54,000

Nitya = $\frac{2}{5}$ x ₹ 90,000 = ₹ 36,000

Dr. Cash at Bank Account Cr.

Particulars	**(₹)**	**Particulars**	**(₹)**
To Balance b/d.	31,000	By Vinay's Capital A/c.	6,000
To Revaluation (Old Scooter)	4,000	By Nitya's Capital A/c.	16,000
		By Balance c/d. (Bal. Fig.)	13,000
	35,000		**35,,000**

Balance Sheet as at 31st March , 2018

Liabilities	**(₹)**	**Assets**	**(₹)**
Creditors	48,000	Cash at Bank	13,000
Employee Provident Fund	1,70,000	Bills Receivables	54,000
Mohan's Loan A/c.	2,22,000	Books Debts 60,000	
Partners' Capital A/c. :		Less : P.B.D. 3,000	57,000
Vinay 54,000		Plant and Machinery	1,14,000
Nitya 36,000	90,000	Land and Building	2,92,000
	5,30,000		**5,30,000**

OR

Leena		Rohit		Manoj (Admitted)
3	:	2	:	$1/5^{th}$ Share

Dr. **Revalnation Account** **Cr.**

Particulars	(₹)	Particulars		(₹)
To Claim for Workmen Compensation A/c.	40,000	By Loss Transferred to Partners' Capital A/cs. :		
To Stock	16,000	Leena	33,600	
		Rohit	22,400	56,000
	56,000			**56,,000**

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Date	Particular	Dr. (₹)	Cr. (₹)
(i)	Cash A/c. Dr.	1,53,800	
	To Manoj's Capital A/c.		73,800
	To Premium for Goodwill A/c.		80,000
	( )		
(ii)	Premium for Goodwill A/c. Dr.	80,000	
	To Leena's Capital A/c.		40,000
	To Rohit's Capital A/c.		40,000
	( )		
(iii)	General Reserve A/c. Dr.	50,000	
	To Provision for Doubtful Debts A/c.		5,000
	To Leena's Capital A/c. (₹ 45,000 x 3/5)		27,000
	To Rohit's Capital A/c. (₹ 45,000 x 2/5)		18,000
	( )		

	Leena		Rohit		Manoj
Old Ratio	3	:	2		
New Ratio	5	:	3	:	2

Sacrifice Ratio = Old Ratio – New Ratio = + Sacrifice – Gain

Leena $= \frac{3}{5} - \frac{5}{10} = \frac{6-5}{10} = \frac{1}{10}$ Sacrifice

Rohit $= \frac{2}{5} - \frac{3}{10} = \frac{4-3}{10} = \frac{1}{10}$ Sacrifice

Sacrifice Ratio = 1 : 1

Dr. Partners' Capital Account Cr.

Particulars	Leena (₹)	Rohit (₹)	Manoj (₹)	Particulars	Leena (₹)	Rohit (₹)	Manoj (₹)
To Revaluation A/c. (Loss)	33,600	22,400	—	By Balance b/d.	1,60,000	1,40,000	—
				By Cash A/c.	—	—	73,800
To Balance c/d.	1,93,400	1,75,600	73,800	By Premium for Goodwill A/c.	40,000	40,000	—
				By General Reserve	27,000	18,000	—
	2,27,000	**1,98,000**	**73,800**		**2,27,000**	**1,98,000**	**73,800**

Capital of Leena = ₹ 1,93,400

Rohit = ₹ 1,75,600

Total Capital = ₹ 3,69,000

Proportionate Capital of Manoj $= \frac{2}{10} \times$ ₹ 3,69,000 = **₹ 73,800**

Balance Sheet as at 31st March , 2018

Liabilities	(₹)	Assets	(₹)
Sundry Creditors	80,000	Cash (₹ 42,000 + ₹ 1,53,800)	1,95,800
Bills Payable	38,000	Debtors 1,32,000	
Claim for Workmen's Compensation	40,000	Less : P.B.D. 7,000	1,25,000
Partners' Capital A/c. :		Stock	1,30,000
Leena 1,93,400		Plant and Machinery	1,50,000
Rohit 1,75,600			
Manoj 73,800	4,42,800		
	6,00,800		**6,00,800**

PART – B

Analysis of Financial Statements

Q 18. Under which type of Activity will you classify "Cash Advances and Loans made to Third party" while preparing Cash Flow Statement ?

[1 Mark]

Sol.

Cash Advances and Loans made to Third Parties are Classified in "**Investing Activities"** . In case of Financial Enterprises , these will be Treated as **"Operating Activities"** .

Q 19. State the Primary Objective of Preparing "Cash Flow Statement" .

[1 Mark]

Sol.

The Primary Objective of Preparing "Cash Flow Statement" is to find out the Inflows and Outflows of Cash and Cash Equivalents from Operating , Investing and Financing Activities .

Q 20. Under which Major Headings and Sub-Headings will the following items be presented in the Balance Sheet of a Company as Per Schedule III , Part I of the Companies Act , 2013 >

(i) Interest Accrued and Due on Debentures .

(ii) Loose Tools .

(iii) Accrued Interest on Calls in Advance .

(iv) Interest Due on Calls in Arrears

(v) Trademarks .

(vi) Premium on Redemption of Debentures .

(vii) Plant and Machinery .

(viii) Patents .

OR

Explain briefly any FOUR Limitations of "Analysis of Financial Statements" .

[4 Marks]

Sol.

Balance Sheet of a Company as Per Schedule III , Part I of the Companies Act , 2013

S. No.	Items	Major Heading	Sub Heading
(i)	Interest Accrued and Due on Debentures	Current Liabilities	Other Current Liabilities
(ii)	Loose Tools	Current Assets	Inventories
(iii)	Accrued Interest on Calls in Advance	Currents Liabilities	Other Current Liabilities
(iv)	Interest Due on Calls in Arrears	Current Assets	Other Current Assets
(v)	Trademarks	Non-Current Assets	Fixed Assets – Intangible
(vi)	Premium on Redemption of Debentures	Non-Current Liabilities	Other Long Term Liabilities
(vii)	Plant and Machinery	Non-Current Assets	Fixed Assets – Tangible Assets
(viii)	Patents	Non-Current Assets	Fixed Assets – Intangible Assets

OR

Limitations of “Analysis of Financial Statements” are :

- The Financial Statements Analysis Suffers from such Limitations as Financial Statement Suffers . This Ignores the Qualitative Information like Quality of Management and Labour Force , Public Relations etc.
- The Analysis of Financial Statements do not Disclose the Current Worth of the Business . The Financial Statements of the Company are Prepared on Cost Principle .
- In many situations , Accountant has to make a choice out of various alternatives available . He may choose that alternative which may be Beneficial to the Company . In such a case , the Financial Statements are Not Free from Bias .
- Different Firms may follow Different Accounting Policies . This may Create Difficulty in Comparing the Results of Two Companies .

Q 21.

(i)

From the following information , calculate Interest Coverage Ratio :

Net Profit after Interest and Tax ₹ 1,20,000 ; Rate of Income Tax 40 % ;

15 % Debentures ₹ 1,00,000 ; 12 % Mortgage Loan ₹ 1,00,000

(ii) A Company had Current Assets ₹ 3,00,000 and Current Liabilities ₹ 1,40,000 . Afterwards , it Purchased Goods worth ₹ 20,000 on Credit .

Calculate the Current Ratio after the Purchase of Goods .

OR

Quick Ratio of a Company is 1 : 1 . State with reason , whether the following transactions will Increase , Decrease or Not Change the Ratio .

(i) Paid Insurance Premium in Advance ₹ 10,000 .

(ii) Purchased Goods on Credit ₹ 8,000 .

(iii) Issued Fully Paid Equity Shares of ₹ 1,00,000

(iv) Issued 9 % Debentures of ₹ 5,00,000 to the Vendor for Machinery Purchased .

[4 Marks]

Sol.

(i)

$$\text{Interest Coverage Ratio} = \frac{\text{Profit Before Charging Interest and Income Tax}}{\text{Fixed Interest Charges}}$$

Profit – Tax = 100 – 40 = 60

If Profit After Tax is ₹ 1,20,000

Profit Before Tax Must be	$= \frac{₹\ 1{,}20{,}000}{₹\ 60{,}000} \times 100 =$	₹ 2,00,000
Add : Interest on 15 % Debentures	= 15 % of ₹ 1,00,000	₹ 15,000
Interest on 12 % Mortgage Loan	= 12 % of ₹ 1,00,000	₹ 12,000
Net Profit Before Interest and Tax		**₹ 2,27,000**

Fixed Interest Charges = ₹ 15,000 + ₹ 12,000 = ₹ 27,000

Interest Coverage Ratio $= \frac{₹\ 2{,}27{,}000}{₹\ 27{,}000}$ = **8.407 Times**

(ii)

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

	Current Assets	**Current Liabilities**
	₹ 3,00,000	₹ 1,40,000
Purchased Goods on Credit	₹ 20,000	₹ 20,000
After the Purchase of Goods	**₹ 3,20,000**	**₹ 1,60,000**

Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ = **2 : 1 (Ideal Ratio)**

OR

Quick Ratio $= \dfrac{\text{Liquid Assets}}{\text{Current Liabilities}} = \dfrac{1}{1}$

Assumed Amount $= \dfrac{₹\ 2{,}00{,}000}{₹\ 2{,}00{,}000} = \dfrac{1}{1} = 1 : 1$

Liquid Assets = Current Assets – Inventories – Prepaid Expenses

(i) Paid Insurance Premium in Advance = ₹ 10,000

Liquid Assets = ₹ 2,00,000 – ₹ 10,000 (Cash) = ₹ 1,90,000

Liquid Ratio $= \dfrac{₹\ 1{,}90{,}000}{₹\ 2{,}00{,}000}$ **= 0.95 : 1 (Decrease)**

(ii) Purchased Goods on Credit ₹ 8,000

Current Liabilities = ₹ 2,00,000 + ₹ 8,000 (Credited)

= ₹ 2,08,000

Liquid Ratio $= \dfrac{₹\ 2{,}00{,}000}{₹\ 2{,}08{,}000}$ **= 0.96 : 1 (Decrease)**

(iii) Issued Fully Paid Equity Shares of ₹ 1,00,000

Liquid Assets = ₹ 2,00,000 + ₹ 1,00,000 (Bank)

= ₹ 3,00,000

Liquid Ratio $= \dfrac{₹\ 3{,}00{,}000}{₹\ 2{,}00{,}000}$ **= 1.5 : 1 (Increase)**

(iv) Issued 9 % Debentures of ₹ 2,00,000 to the Vendor For Machinery Purchased .

= No Change in the Ratio .

Q 22. From the following information extracted from the Statement of Profit and Loss for the years ended 31st March , 2017 and 31st March , 2018 , prepare a Comparative Statement of Profit and Loss .

Particulars	2017 – 18	2016 – 17
Revenue from Operations	300 % of Cost of Material Consumed	200 % of Cost of Material Consumed
Cost of Materials Consumed	₹ 2,40,000	₹ 2,00,000
Other Expenses	20 % of Cost of Material Consume	10 % of Cost of Material Consume
Tax Rate	50 %	50 %

[4 Marks]

Sol.

Particulars	Note No.	31st March , 2017	31st March , 2018	Absolute Change (Increase or Decrease)	Percentage Change (Increase or Decrease)
1		2	3	4	5
		A	B	B – A = C	(C/A) x 100
		(₹)	(₹)	(₹)	%
I. Revenue From Operations		4,00,000	7,20,000	3,20,000	80
II. Less : Expenses					
(a) Cost of Materials Consumed		2,00,000	2,40,000	40,000	20
(b) Other Expenses		20,000	48,000	28,000	140
TOTAL EXPENSES		**2,20,000**	**2,88,000**	**68,000**	**30.91**
III. Profit Before Tax (I – II)		1,80,000	4,32,000	2,52,000	140
IV. Less Tax		90,000	2,16,000	1,26,000	140
V. Profit After Tax (III – IV)		**90,000**	**2,16,000**	**1,26,000**	**140**

Q 23. From the following Balance Sheet of DCX Ltd. and the Additional Information as at 31st March , 2018 Prepare a Cash Flow Statement .

DCX Ltd.

Balance Sheet as at 31st March , 2018

Particulars	Note No.	31-03-2018 (₹)	31-03-2017 (₹)
Equity and Liabilities :			
1. Shareholder's Funds :			
(a) Share Capital		30,00,000	21,00,000
(b) Reserves and Surplus	1	4,00,000	5,00,000
2. Non-Current Liabilities :			
Long Term Borrowings	2	8,00,000	5,00,000
3. Current Liabilities :			
(a) Trade Payables		1,50,000	1,00,000
(b) Short Term Provisions	3	76,000	56,000
TOTAL		**44,26,000**	**32,56,000**
Assets :			
1. Non-Current Assets :			
Fixed Assets :			
(a) Tangible Assets	4	27,00,000	20,00,000
(b) Intangible Assets		8,00,000	7,00,000

2. Current Assets :			
(a) Current Investments		89,000	78,000
(b) Inventories		8,00,000	4,00,000
(c) Cash and Cash Equivalents		37,000	78,000
TOTAL		**44,26,000**	**32,56,000**

Notes to Accounts

Note No.	Particulars	31-03-2018 (₹)	31-03-2017 (₹)
1	**Reserves and Surplus** (Surplus i.e. Balance in the Statement of Profit and Loss)	**4,00,000**	**5,00,000**
2	**Long Term Borrowings** 8 % Debentures	**8,00,000**	**5,00,000**
3	**Short Term Provisions** Provisions for Tax	**76,000**	**56,000**
4	**Tangible Asset :** Machinery Less : Accumulated Depreciation	33,00,000 (6,00,000) **27,00,000**	25,00,000 (5,00,000) **20,00,000**

Additional Information :

(i) During the year a Machinery Costing ₹ 8,00,000 on which Accumulated Depreciation was ₹ 3,20,000 was Sold for ₹ 6,40,000 .

(ii) Debentures were Issued on 1st April , 2017 .

[6 Marks]

Sol.

Dr. **Machinery Account** **Cr.**

Particulars	**(₹)**	**Particulars**	**(₹)**
To Balance b/d.	25,00,000	By Bank A/c.	6,40,000
To Statement of P & L A/c.	1,60,000	(Sale of Machine)	
(Profit)		By Accumulated Depreciation	3,20,000
To Bank A/c.	16,00,000	Account	
(Purchases)		By Balance c/d.	33,00,000
	42,60,000		**42,60,,000**

Dr. **Accumulated Depreciation Account** **Cr.**

Particulars	**(₹)**	**Particulars**	**(₹)**
To Machinery A/c.	3,20,000	By Balance b/d.	5,00,000
To Balance c/d.	6,00,000	By Statement of P & L A/c.	
		(Current Year Depreciation)	4,20,000
	9,20,000		**9,20,,000**

Calculate Profit / Loss on Sale of Machinery

Cost of Machinery	₹ 8,00,000
Less : Accumulated Depreciation	₹ 3,20,000
Written Down Value	**₹ 4,80,000**

Selling Price of Machinery = ₹ 6,40,000

Profit on Sale of Machinery = ₹ 6,40,000 – ₹ 4,80,000 **= ₹ 1,60,000**

Note No. 1.

Calculation of Net Profit Before Tax

Particulars	**(₹)**
Balance of Profit & Loss Account as at 31st March , 2018	4,00,000
Less : Balance of Profit and Loss Account as at 31st March , 2017	(5,00,000)
Add : Provision for Tax	76,000
Net Profit Before Tax	**(24,000)**

Cash Flow Statement For the Year Ended 31st March , 2018

(Indirect Method)

(As Per Accounting Standard – 3 Revised)

Particulars		(₹)	(₹)
A.			
Cash Flow from Operating Activities :			
Net Profit Before Tax (See Worming Note 1)		(24,000)	
Adjustment for Non Cash and Non Operating Items :			
Add : Depreciation	4,20,000		
Interest on Long Term Borrowings	64,000	4,84,000	
Less : Profit on Sale of Fixed Assets	1,60,000	(1,60,000)	
Operating Profit Before Working Capital Changes		3,00,000	
Add : Increase in Trade Payables	50,000	50,000	
Less : Increase in Inventories	4,00,000	(4,00,000)	
Cash Generated from Operations		(50,000)	
Less : Tax Paid		(56,000)	
Net Cash Used in Operating Activities			(1,06,000)
B.			
Cash Flow from Investing Activities :			
Proceeds from Sale of Machinery		6,40,000	
Purchase of Machinery		(16,00,000)	
Purchase of Intangible Assets		(1,00,000)	
Net Cash Used in Investing Activities			(10,60,000)
C.			
Cash Flow from Financing Activities :			
Proceeds from Issue of Shares		9,00,000	
Proceeds from Issue of 8 % Debentures		3,00,000	
Interest Paid on 8 % Debentures		(64,000)	
Net Cash From Financing Activities			11,36,000
Net Increase or Decrease in Cash and Cash Equivalents (A + B + C)			(30,000)
Add : Cash and Cash Equivalents in the Beginning of the Year (₹ 78,000 + ₹ 78,000)			1,56,000
Cash and Cash Equivalents at the End of the Year (₹ 89,000 + ₹ 37,000)			**1,26,000**

Disclaimer Clause :

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In such case answers as provided by "**ALL INDIA CBSE BOARD**" will be deemed as final .