Accountancy 2019
Delhi Set-3

General Instructions:

(i) *This question paper contains* ***two*** *parts* ***A*** and ***B***.

(ii) Part ***A*** *is* ***compulsory*** *for all.*

(iii) Part ***B*** *has* ***two*** *options: Analysis of Financial Statements and Computerized Accounting.*

(iv) Attempt only ***one*** *option of Part* ***B***.

(v) All parts of a question should be attempted at one place.

Question 1
How are specific donations treated while preparing final accounts of a 'Not-For-Profit Organisation'?

OR

State the basis of accounting of preparing 'Income and Expenditure Account' of a 'Not-For-Profit Organisation.

SOLUTION:
Since specific donations are capital receipts, they are shown under liability side of the balance sheet.

OR

The 'Income and Expenditure Account' of a 'Not-for-Profit Organisation' is prepared on accrual basis.

Question 2
Chhavi and Neha were partners in a firm sharing profits and losses equally. Chhavi withdrew a fixed amount at the beginning of each quarter. Interest on drawings is charged @ 6% p.a. At the end of the year, interest on Chhavi's drawings amounted to ₹ 900. Pass necessary journal entry for charging interest on drawings.

SOLUTION:

In the books of Chhavi and Neha
Journal

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹

	Chhavi's Capital A/c Dr. To Interest on Drawings A/c (Being interest on drawings charged)		900	900
	Interest on Drawings A/c Dr. To Profit & Loss Appropriation A/c (Being interest on drawings transferred to profit & loss account)		900	900

Question 3

What is meant by 'Gaining Ratio' on retirement of a partner?

OR

P, Q and R were partners in a firm. On 31st March, 2018 R retired. The amount payable to R ₹ 2,17,000 was transferred to his loan account. R agreed to receive interest on this amount as per the provisions of Partnership Act, 1932. State the rate at which interest will be paid to R.

SOLUTION:

The ratio in which the outgoing partner's profit share is gained or acquired by the remaining partners is known as Gaining ratio. This ratio is calculated by taking the difference between the new ratio and the old ratio of the partners.
Algebraically,
Gaining Ratio = New Profit Sharing Ratio – Old Profit Sharing Ratio

OR

The rate of interest payable to R would be 6% per annum as per the provisions of Partnership Act, 1932.

Question 4

What is meant by 'Issued Capital'?

OR

What is meant by 'Employees Stock Option Plan'?

SOLUTION:

As per Section 2(50) of Companies Act, 2013, "issued capital" means such capital as the company issues from time to time for subscription. It is that part of the Authorised Capital which is offered by a company to the general public for its subscription.

OR

Employee Stock Option is a plan where the company's whole-time directors, officers and employees get an opportunity of purchasing their own company's shares at a predetermined price in future. The price at which these shares are offered is usually lower than the market price.

Question 5

Atul and Neera were partners in a firm sharing profits in the ratio of 3 : 2. They admitted Mitali as a new partner. Goodwill of the firm was valued at ₹ 2,00,000. Mitali brings her share of goodwill premium of ₹ 20,000 in cash, which is entirely credited to Atul's Capital Account. Calculate the new profit sharing ratio.

Revalued Goodwill of the firm on Mitali's admission = ₹ 2,00,000

Premium for Goodwill brought in cash by Mitali = ₹20,000

So, Mitali's share in future profit of the firm = $\frac{20{,}000}{2{,}00{,}000} = \frac{1}{10}$

Atul's Account has only been credited by the premium brought in by Mitali

So, Atul's Sacrificing Share = Profit Share of Mitali $= \frac{1}{10}$

New Profit Share of Atul = Old Profit Share − Sacrificing Share

New Profit Share of Atul $= \frac{3}{5} - \frac{1}{10} = \frac{5}{10}$

Hence,

	Atul		Neera		Mitali
New Profit Sharing Ratio	$\frac{5}{10}$		$\frac{2}{5}$		$\frac{1}{10}$
OR	$\frac{5}{10}$		$\frac{4}{10}$		$\frac{1}{10}$
OR	5	:	4	:	1

Question 6

State any two contingencies that may result into dissolution of a partnership firm.

SOLUTION:

The contingencies are as follows:

1. *Expiry of Period*- If a partnership firm is formed for a specific period of time then on the expiry of such period, dissolution of a firm takes place.

2. *Specific Purpose*- When a partnership firm is formed for a specific purpose, the dissolution of firm takes place on the completion of that particular purpose.

Question 7

Garvit Ltd. invited applications for issuing 3,000, 11% Debentures of ₹ 100 each at a discount of 6%. The full amount was payable on application. Applications were received for 3,600 debentures. Applications for 600 debentures were rejected and the application money was refunded. Debentures were allotted to the remaining applicants. Pass the necessary journal entries for the above transactions in the books of Garvit Ltd.

OR

On 1st April 2015, P Ltd. Issued 6,000 12% Debentures of ₹ 100 each at par redeemable at a premium of 7%. The Debentures were to be redeemed at the end of third year. Prepare Loss on issue of 12% Debentures Account.

SOLUTION:

Journal of Garvit Ltd.

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
	Bank A/c (94 × 3,600) Dr.		3,38,400	
	To Debenture Application & Allotment A/c			3,38,400
	(Being application money received on 3,600 debentures at a discount of 6%)			
	Debenture Application & Allotment A/c Dr.		3,38,400	
	Discount on issue of Debentures A/c Dr.		18,000	
	To 11% Debentures A/c			3,00,000
	To Bank A/c (94 × 600)			56,400
	(Being application money transferred to 11% Debentures and excess refunded)			

OR

Loss on Issue of 12% Debentures Account

Dr **Cr**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2015 April 01	To 12% Debentures A/c	42,000	**2016** March 31	By Statement of Profit & Loss A/c	14,000

Date	Particulars	Amount	Date	Particulars	Amount
			March 31	By Balance c/d	28,000
		42,000			**42,000**
2016 April 01	To Balance b/d	28,000	**2017** March 31	By Statement of Profit & Loss A/c	14,000
			March 31	By Balance c/d	14,000
		28,000			**28,000**
2017 April 01	To Balance b/d	14,000	**2018** March 31	By Statement of Profit & Loss A/c	14,000
		14,000			**14,000**

Question 8

L, M and N were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 1st April, 2018 they admitted S as a new partner in the firm for 1/5th share in the profits. On. S' admission the goodwill of the firm was valued at 3 years purchase of last five years average profits. The profits during the last five years were:

Year ended 31st March	**Profit (₹)**
2014	4,00,000
2015	3,00,000
2016	2,00,000
2017	50,000
2018	(50,000)

Calculate the value of the goodwill of the firm. Pass necessary journal entry for the treatment of goodwill on S's admission.

SOLUTION:

Computation of Firm's Goodwill on admission of S (the new partner)

Goodwill = Average Profit × Number of Purchase Years'

$$\text{Average Profit} = \frac{\text{Total Profit of last five years}}{\text{Number of years}}$$

$$= \frac{4,00,000 + 3,00,000 + 2,00,000 + 50,000 + (50,000)}{5}$$

$$= \frac{9,00,000}{5}$$

$$= 1,80,000$$

Goodwill = $1,80,000 \times 3 = 5,40,000$

S' share in goodwill = $5,40,000 \times \frac{1}{5} = 1,08,000$

Premium for goodwill to be shared by old partners

$$L = 1,08,000 \times \frac{5}{10} = 54,000$$

$$M = 1,08,000 \times \frac{3}{10} = 32,400$$

$$N = 1,08,000 \times \frac{2}{10} = 21,600$$

Journal

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
	S' Capital A/c Dr.		1,08,000	
	To L's Capital A/c			54,000
	To M's Capital A/c			32,400
	To N's Capital A/c			21,600
	(Being adjustment of capital accounts against goodwill share to be brought in by S)			

Disclaimer: It has been assumed that S did not bring his/her share of goodwill in cash.

Question 9

From the following information calculate the amount of 'Sports Material' to be debited to Income and Expenditure Account of Young Football Club for the year ended 31st March, 2018.

	₹
Opening Stock of Sports Material	21,000
Closing Stock of Sports Material	24,000
Opening Creditors of Sports Material	23,500
Closing Creditors of Sports Material	27,000

During the year the creditors for sports material were paid ₹ 1,10,000.

Question 10

On 1st April, 2013 Anushka Ltd. issued ₹ 70,00,000, 9% debentures of ₹ 100 each at par, redeemable at a premium of 5% on 31st march, 2018. The company created the necessary, minimum amount of debenture redemption reserve and purchased debenture redemption reserve investments. The debentures were redeemed on 31st March, 2018.

Pass necessary journal entries for the redemption of debentures, in the books of the company.

SOLUTION:

Books of …
Journal

Date	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
2017 April 01	Debenture Reserve Investment A/c	Dr.		10,50,000	
	To Bank A/c				10,50,000
	(For 15% of the nominal value invested)				
2018 March 31	Bank A/c	Dr.		10,50,000	
	To Debenture Reserve Investment A/c				10,50,000
	(Being debenture reserve securities matured)				
2018 March 31	Statement of Profit & Loss A/c	Dr.		17,50,000	
	To Debenture Redemption Reserve A/c				17,50,000
	(For 25% transferred to DRR)				
2018 March 31	9% Debenture A/c	Dr.		70,00,000	

	Premium on Redemption A/c	Dr.		3,50,000	
	To Debenture holder's A/c				73,50,000
	(For amount payable on debentures)				
2018 March 31	Debenture holders A/c	Dr.		73,50,000	
	To Bank A/c				73,50,000
	(For debentures paid)				
2018 March 31	Debenture Redemption Reserve A/c	Dr.		17,50,000	
	To General Reserve A/c				17,50,000
	(For DRR transferred to General reserve)				

Question 11

Ravi Shankar and Madhur were partners in a firm sharing profits in the ratio of 7 : 2 : 1. On 31st March, 2018, the firm was dissolved, after transferring sundry assets (other than cash in hand and cash at bank) and third party liabilities in the realization account the following transactions took place.

(i) Debtors amounting to ₹ 1,40,000 were handed over to a debt collection agency which charged 5% commission. The remaining debtors were ₹ 47,000, out of which debtors of ₹ 17,000 could not be recovered because the same became insovlent.

(ii) Creditors amounting to ₹ 5,000 were paid ₹ 3,500 in full settlement of their claim and balance creditors were handed over stock of ₹ 90,000 in full settlement of their claim of ₹ 95,000.

(iii) A bills receivable ₹ 2,000 discounted with the bank was dishonoured by its acceptor and the same had to be met by the firm.

(iv) Profit on realisation amounted to ₹ 6,000.
Pass necessary journal entries for the above transactions in the books of Ravi, Shankar and Madhur.

SOLUTION:

Books of …
Journal

Date	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
March	Bank/Cash A/c (1,40,000 - 7,000)	Dr.		1,33,000	

31	To Realisation A/c (For debtors realised after paying commission)			1,33,000
March 31	Bank A/c Dr. To Realisation A/c (For debtors realised)		30,000	30,000
March 31	Realisation A/c Dr. To Bank A/c (For creditors paid)		3,500	3,500
March 31	Realisation A/c Dr. To Bank A/c (For bill dishonored earlier, met by firm)		2,000	2,000
March 31	Realisation A/c Dr. To Ravi's Capital A/c To Shankar's Capital A/c To Madhur's Capital A/c (For profit transferred)		6,000	 4,200 1,200 600

Question 12

Aman, Bobby and Chandani were partners in a firm sharing profits and losses in the ratio of 5 : 4 : 1. From 1st April, 2018 they decided to share profits equally. The revaluation of assets and re-assessment of liabilities resulted in a loss of ₹ 5,000. The goodwill of the firm on its reconstitution was valued at ₹ 1,20,000. The firm had a balance of ₹ 20,000 in General Reserve.

Showing your workings clearly pass necessary journal entries on the reconstitution of the firm.

SOLUTION:

In the Books of Aman, Bobby and Chandani
Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2018 April 1	Aman's Capital A/c Dr. Bobby's Capital A/c Dr. Chandani's Capital A/c Dr. To Revaluation A/c (Being loss on revaluation transferred to partner's capital in old ratio)		2,500 2,000 500	 5,000
April 1	Chandani's Capital A/c (1,20,000 × 7/30) Dr. To Aman's Capital A/c(1,20,000 × 5/30)		28,000	 20,000

	To Bobby's Capital A/c(1,20,000 × 2/30) (Being adjustment for goodwill)			8,000
April 1	General Reserve A/c Dr. To Aman's Capital A/c To Bobby's Capital A/c To Chandani's Capital A/c (Being general reserve distributed among the partners in old ratio)		20,000	 10,000 8,000 2,000

Working Notes:

Calculation of Gaining/Sacrificing Ratio

	Aman	Bobby	Chandani
Old Ratio	5/10	4/10	1/10
New Ratio	1/3	1/3	1/3
Gain/Sacrifice	**5/30 (Sacrifice)**	**2/30 (Sacrifice)**	**7/30 (Gain)**

Question 13

Giriija, Yatin and Zubin were partners sharing profits in the ratio 5 : 3 : 2. Zubin died on 1st August, 2015. Amount due to Zubin's executor after all adjustments was ₹ 90,300. The executor was paid ₹ 10,300 in cash immediately and the balance in two equal annual instalments with interest @ 6% p.a. starting from 31st March, 2017. Accounts are closed on 31st March each year.

Prepare Zubin's Executors Account till he is finally paid.

SOLUTION:

Zubin's Executors A/c

Dr. **Cr.**

Date	Particulars	(₹)	Date	Particulars	(₹)
2015 August 01	To Cash/Bank A/c	10,300	2015 August 01	By Zubin's Capital A/c	90,300
August 01	To Zubin Executor's Loan A/c	80,000			
		90,300			**90,300**

Zubin's Executor Loan A/c

Dr. **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2016 March 31	To Balance c/d	83,200	2015 August 01	By Zubin's Executor A/c	80,000

			2016 March 31	By Interest on Executor's Loan A/c (80,000 × 6/100 × 8/12)	3,200
		83,200			**83,200**
2017 March 31	To Cash/Bank A/c (40,000 + 3,200 + 4,992)	48,192	2016 April 01	By Balance b/d	83,200
2017 March 31	To Balance c/d	40,000	2017 March 31	By Interest on Loan A/c (83,200 × 6/100)	4,992
		88,192			**88,192**
2018 March 31	To Cash/Bank A/c	42,400	2017 April 01	To Balance b/d	40,000
			2018 March 31	By Interest on Executor's Loan (40,000 × 6/100)	2,400
		42,400			**42,400**

Question 14

Sonu and Rajat started a partnership firm on April l, 2017. They contributed ₹ 8,00,000 and ₹ 6,00,000 respectively as their capitals and decided to share profits and losses in the ratio of 3 : 2.

The partnership deed provided that Sonu was to be paid a salary of ₹ 20,000 per month and Rajat a commission of 5% on turnover. It also provided that interest on capital be allowed @ 8% p.a. Sonu withdrew ₹ 20,000 on 1st December, 2017 and Rajat withdrew ₹ 5,000 at the end of each month. Interest on drawings was charged @ 6% p.a. The net profit as per Profit and Loss Account for the year ended 31st March, 2018 was ₹ 4,89,950. The turnover of the firm for the year ended 31st March, 2018 amounted to ₹ 20,00,000. Pass necessary journal entries for the above transactions in the books of Sonu and Rajat.

OR

Jay, Vijay and Karan were partners of an architect firm sharing profits in the ratio of 2 : 2 : l. Their partnership deed provided the following:

(i) A monthly salary of ₹ 15,000 each to Jay and Vijay.

(ii) Karan was guaranteed a profit of ₹ 5,00,000 and Jay guaranteed that he will earn an annual fee of ₹ 2,00,000. Any deficiency arising because of guarantee to Karan will be borne by Jay and Vijay in the ratio of 3 : 2.

During the year ended 31st March, 2018 Jay earned fee of ₹ 1,75,000 and the profits of the firm amounted to ₹ 15,00,000.

Showing your workings clearly prepare Profit and Loss Appropriation Account and the Capital Account of Jay, Vijay and Karan for the year ended 31st March, 2018.

SOLUTION:

Journal of Sonu and Rajat

Date	Particulars		L.F.	Dr. Amount (₹)	Cr. Amount (₹)
2018 March 31	Profit & Loss Appropriation A/c	Dr.		2,40,000	
	To Sonu's Capital A/c				2,40,000
	(Being salary for the year payable to Sonu)				
March 31	Profit & Loss Appropriation A/c	Dr.		1,00,000	
	To Rajat's Capital A/c				1,00,000
	(Being commission on turnover @ 5% payable to Rajat)				
March 31	Profit & Loss Appropriation A/c	Dr.		1,12,000	
	To Sonu's Capital A/c				64,000
	To Rajat's Capital A/c				48,000
	(Being interest on capital @ 8% p.a.)				
March 31	Sonu's Capital A/c	Dr.		400	
	Rajat's Capital A/c	Dr.		1,650	
	To Profit & Loss Appropriation A/c				2,050
	(Being interest on drawings of partners charged @ 6% p.a.)				
March 31	Profit & Loss Appropriation A/c	Dr.		40,000	
	To Sonu's Capital A/c				24,000
	To Rajat's Capital A/c				16,000
	(Being divisible profit in 3:2 distributed)				

***Working Notes*:**

(1) Computation of interest on drawings of partners

Drawings of Sonu = 20,000

Drawings of Rajat = 12 × 5,000 = 60,000

Interest on Sonu's drawings = $20,000 \times \frac{6}{100} \times \frac{4}{12} = 400$

Interest on Rajat's drawings = $60,000 \times \frac{6}{100} \times \frac{5.5}{12} = 1,650$

(2) Computation of divisible profit and its distribution between partners

Profit as per the Profit and Loss Account = 4,89,950

Divisible Profit = Net profit + Interest on Drawings − Interest on Capital − Salary to Sonu − Commission to Rajat

Divisible Profit = 4,89,950 + 2,050 − 1,12,000 − 2,40,000 − 1,00,000 = 40,000

Sonu's share in divisible profit = $40,000 \times \frac{3}{5} = 24,000$

Rajat's share in divisible profit = $40,000 \times \frac{2}{5} = 16,000$

OR

Profit and Loss Appropriation Account

For the year ended 31st March 2018

Dr. **Cr.**

Particulars		Amount (₹)	Particulars	Amount (₹)
To Salary to be credited to Capital Accounts of :			By Profit for the year	15,00,000
Jay	1,80,000		By Jay's Capital A/c (2,00,000 – 1,75,000)	25,000
Vijay	1,80,000	3,60,000		
To divisible profit to be credited to Capital Accounts of : (***WN 1***)				
Jay	3,05,800			
Vijay	3,59,200			
Karan	5,00,000	11,65,000		
		15,25,000		**15,25,000**

Computation of divisible profit and its distribution between partners

Divisible Profit = 11,65,000

Jay's share in divisible profit = $11,65,000 \times \frac{2}{5} = 4,66,000$

Vijay's share in divisible profit = $11,65,000 \times \frac{2}{5} = 4,66,000$

Karan's share in divisible profit = $11,65,000 \times \frac{1}{5} = \ 2,33,000$

Profit share guaranteed to Karan = 5,00,000

Deficiency to Karan's share in profit = 5,00,000 − 2,33,000 = 2,67,000

Deficiency to be borne by Jay = $2,67,000 \times \frac{3}{5} = \ 1,60,200$

Deficiency to be borne by Vijay = $2,67,000 \times \frac{2}{5} = \ 1,06,800$

Final Share in Divisible Profit for:

Jay = 4,66,000 − 1,60,200 = **3,05,800**

Vijay = 4,66,000 − 1,06,800 = **3,59,200**

Karan = 2,33,000 + 1,60,200 + 1,06,800 = **5,00,000**

Dr. **Partner's Capital A/c** **Cr.**

Date	Particulars	Jay (₹)	Vijay (₹)	Karan (₹)	Date	Particulars	Jay (₹)	Vijay (₹)	Karan (₹)
2018 Mar.31	To Profit & Loss Appropriation A/c	25,000			2018 Mar.31	By Profit & Loss Appropriation A/c (Salary)	1,80,000	1,80,000	
2018 Mar.31	To balance c/d	4,60,800	5,39,200	5,00,000	2018 Mar.31	By Profit & Loss Appropriation A/c (Divisible profits)	3,05,800	3,59,200	5,00,000
		4,85,800	**5,39,200**	**5,00,000**			**4,85,800**	**5,39,200**	**5,00,000**

Question 15

From the following Receipts and Payment Account and additional information, prepare Income and Expenditure Account and Balance Sheet of Sears Club, Noida as on March 31, 2018.

Receipts and Payment Account of Sears Club for the year ended 31-3-2018

Receipts		Amount (₹)	Payments	Amount (₹)
To Balance b/d		20,000	By Stationery	23,400
To Subscriptions			By 12% Investments	8,000
2016-17	40,000		By Electricity expenses	10,600
2017-18	94,000		By Expenses on lectures	30,000
2018-19	7,200	1,41,200	By Sports equipment	59,000
			By Books	40,000
To Donations for building		40,000	By Balance c/d	50,000
To Interest on Investments		800		
To Government Grant		17,400		
To Sale of old furniture (Book value ₹ 4,000)		1,600		
		2,21,000		**2,21,000**

Additional Information:

(i) The club has 200 members each paying an annual subscription of ₹ 1,000. ₹ 60,000 were in arrears for last year and 25 members paid in advance in the last year for the current year.

(ii) Stock of stationery on 1-4-2017 was ₹ 3,000 and on 31-3-2018 was ₹ 4,000.

SOLUTION:

Income and Expenditure Account

Particulars		Amount (₹)	Particulars	Amount (₹)
To Loss on Sale of Old Furniture (4,000 – 1,600)		2,400	By Subscriptions (200 × 1,000)	2,00,000
To Stationery Consumed:			By Interest on Investments	800
Add: Purchases	23,400			
Opening Stock	3,000			
	26,400		By Government Aid	17,400
Less: Closing Stock	(4,000)	22,400		
To Electricity Expenses		10,600		
To Expenses on lectures		30,000		

To Excess of Income over Expenditure (i.e. Surplus)	1,52,800		
	2,18,200		**2,18,200**

Balance Sheet
as on 31st March 2018

Liabilities		Amount (₹)	Assets	Amount (₹)
Subscriptions in Advance		7,200	Cash in hand	50,000
Donations for Building		40,000	Stationery	4,000
Capital Fund	62,000		Sports Equipment	59,000
Add: Surplus for the year	1,52,800	2,14,800	Books	40,000
			12% Investments	8,000
			Subscriptions in the Arrears **(WN)**	1,01,000
		2,62,000		**2,62,000**

Balance Sheet
as on 1st April 2017

Liabilities	Amount (₹)	Assets	Amount (₹)
Subscriptions in Advance (25 × 1,000)	25,000	Cash in hand	20,000
Capital Fund (Balancing Figure)	62,000	Subscriptions in Arrear	60,000
		Stationery	3,000
		Furniture	4,000
	87,000		**87,000**

Working Note:

Computation of subscriptions in arrears at the end of year

Particulars	Amount (₹)
Subscriptions due for the year (200 × 1,000)	2,00,000
Less: Subscriptions received during the year	(94,000)
Less: Subscriptions received during the last year	(25,000)
Subscription in arrears for 2017-18	81,000
Add: Subscriptions still in arrears for 2016-17(60,000 – 40,000)	20,000
	1,01,000

Question 16

DF Ltd. invited applications for issuing 50,000 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 : ₹ 3 per share (including premium ₹ 1)

On First call : ₹ 3 per share

On Second and Final Call : Balance amount

Application for 70,000 shares were received. Allotment was made on the following basis.

Applications for 5,000 shares – Full

Applications for 50,000 shares – 90%

Balance of the applications were rejected. ₹ 1,11,000 were received on account of allotment. The amount of allotment due from the shareholders to whom shares were allotted on prorata basis was fully received. A few shareholders to whom shares were allotted in full, failed to pay the allotment money. ₹ 1,20,000 were received on first call. Directors decided to forfeit those shares on which allotment and call money was due. Half of the forfeited shares were re-issued @ ₹ 8 per share fully paid up. Final call was not made.

Pass the necessary journal entries for the above transactions in the book of DF Ltd.

OR

EF Ltd. invited applications for issuing 80,000 equity shares of ₹ 50 each at a premium of 20%. The amount was payable as follows:

On Application: ₹ 20 per share (including premium ₹ 5)

On Allotment: ₹ 15 per share (including premium ₹ 5)

On First Call: ₹ 15 per share

On Second and Final call: Balance amount

Applications for 1,20,000 shares were received. Applications for 20,000 shares were rejected and pro-rata allotment was made to the remaining applicants.

Seema, holding 4,000 shares failed to pay the allotment money. Afterwards the first call was made. Seema paid allotment money along with the first call. Sahaj who had applied for 2,500 shares failed to pay the first call money. Sahaj's shares were forfeited and subsequently reissued to Geeta for ₹ 60 per share, ₹ 50 per share paid up. Final call was not made.

Pass necessary journal entries for the above transactions in the books of EF Ltd. by opening calls-in-arrears account.

Question 17

Akul, Bakul and Chandan were partners in a firm sharing profits in the ratio of 2 : 2 : 1. On 31st March, 2018 their Balance Sheet was as follows:

Balance Sheet of Akul, Bakul and Chandan
as on 31.3.2018

Liabilities		Amount (₹)	Assets		Amount (₹)
Sundry Creditors		45,000	Cash at Bank		42,000
Employees Provident Fund		13,000	Debtors	60,000	
General Reserve		20,000	Less: Provision for doubtful debts	2,000	58,000
Capitals:					
Akul	1,60,000		Stock		80,000
Bakul	1,20,000		Furniture		90,000
Chandan	92,000	3,72,000	Plant and Machinery		1,80,000
		4,50,000			**4,50,000**

Bakul retired on the above date and it was agreed that:

(i) Plant and Machinery was undervalued by 10%.

(ii) Provision for doubtful debts was to be increased to 15% on debtors.

(iii) Furniture was to be decreased to ₹ 87,000.

(iv) Goodwill of the firm was valued at ₹ 3,00,000 and Bakul's share was to be adjusted through the capital accounts of Akul and Chandan.

(v) Capital of the new firm was to be in the new profit sharing ratio of the continuing partners.

Prepare Revaluation account, Partners' Capital accounts and the Balance Sheet of the reconstituted firm.

OR

Sanjana and Alok were partners in a firm sharing profits and losses in the ratio 3 : 2. On 31st March, 2018 their Balance Sheet was as follows:

Balance Sheet of Sanjana and Alok
as on 31.3.2018

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		60,000	Cash		1,66,000
Work men's Compensation Fund		60,000	Debtors	1,46,000	
			Less: Provision for doubtful debts	2,000	1,44,000
Capitals:			Stock		1,50,000
Sanjana	5,00,000		Investments		2,60,000
Alok	4,00,000	9,00,000	Furniture		3,00,000
		10,20,000			**10,20,000**

On 1st April, 2018, they admitted Nidhi as a new partner for 1/4th share in the profits on the following terms:

(a) Goodwill of the firm was valued at ₹ 4,00,000 and Nidhi brought the necessary amount in cash for her share of goodwill premium, half of which was withdrawn by the old partners.
(b) Stock was to be increased by 20% and furniture was to be reduced to 90%.

(c) Investments were to be valued at ₹ 3,00,000. Alok took over investments at this value.

(d) Nidhi brought ₹ 3,00,000 as her capital and the capitals of Sanjana and Alok were adjusted in the new profit sharing ratio.

Prepare Revaluation Account, Partners Capital Accounts and the Balance Sheet of the reconstituted firm on Nidhi's admission.

SOLUTION:

Dr. **Revaluation A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)

To Provision for Doubtful debts (9,000 – 2,000)	7,000	By Plant & Machinery (1,80,000 × 100/90 – 1,80,000)	20,000
To Furniture (90,000 – 87,000)	3,000		
To Profit transferred to partners Capital A/cs	10,000		
Akul 4,000			
Bakul 4,000			
Chandan 2,000			
	20, 000		**20,000**

Partners' Capital Accounts

Dr. **Cr.**

Particulars	L.F.	Akul (₹)	Bakul (₹)	Chandan (₹)	Particulars	L.F.	Akul (₹)	Bakul (₹)	Chandan (₹)
					By Balance b/d		1,60,000	1,20,000	92,000
To Bakul's Capital A/c		80,000		40,000	By General Reserve		8,000	8,000	4,000
To Cash A/c				8,000	By Akul's Capital A/c			80,000	
To Bakul's Loan A/c			2,52,000		By Chandan's Capital A/c			40,000	
					By Revaluation A/c		4,000	4,000	2,000
To Balance c/d		1,00,000		50,000	By Cash A/c		8,000		
		1,80,000	**2,52,000**	**98,000**			**1,80,000**	**2,52,000**	**98,000**

Balance Sheet
as on 31st March 2018

Liabilities		Amount (₹)	Assets		Amount (₹)
Sundry Creditors		45,000	Cash at Bank (42,000 + 8,000 – 8,000)		42,000
Employees Provident Fund		13,000	Debtors	60,000	
Bakul's Loan		2,52,000	*Less*: Provision	(9,000)	51,000
Partners' Capital Accounts			Stock		80,000
Akul	1,00,000		Furniture		87,000
Chandan	50,000	1,50,000	Plant & Machinery		2,00,000

	4,60,000		**4,60,000**

1) Computation of amount of goodwill to be credited to Bakul's Capital

Revalued Goodwill of the firm = ₹ 3,00,000

Bakul's Share in Goodwill$= 3,00,000 \times \frac{2}{5} = 1,20,000$

Bakul's share to be compensated by Akul$= 1,20,000 \times \frac{2}{3} = 80,000$

Bakul's share to be compensated by Chandan $= 1,20,000 \times \frac{1}{3} = 40,000$

2) Computation of New Capital of remaining partners after Bakul's Retirement

Adjusted Capital of Akul = 92,000
Adjusted Capital of Chandan = 58,000

Total Adjusted Capital of Partners = (92,000 + 58,000) = 1,50,000

New Capital Share of Akul = 1,50,000 × $\frac{2}{3}$ = ₹ 1,00,000

New Capital Share of Chandan = 1,50,000 × $\frac{1}{3}$ = ₹ 50,000

Disclaimer: It has been assumed that excess/shortage in partner's capital was adjusted through bringing in/paying out cash to/by the partner(s).

OR

Revaluation Account

Dr. **Cr.**

Particulars		**Amount (₹)**	**Particulars**	**Amount (₹)**
To Furniture (10% of 3,00,000)		30,000	By Stock	30,000
To Profit on revaluation transferred to Old Partners' Capital Accounts			By Investments	40,000
Sanjana	24,000			
Alok	16,000	40,000		
		70,000		**70,000**

Partners' Capital Accounts

Dr.									Cr.
Particulars	**L.F.**	**Sanjana (₹)**	**Alok (₹)**	**Nidhi (₹)**	**Particulars**	**L.F.**	**Sanjana (₹)**	**Alok (₹)**	**Nidhi (₹)**
To Cash A/c		30,000	20,000		By Balance b/d		5,00,000	4,00,000	
To Investments A/c			3,00,000		By Cash A/c				3,00,000
					By WCF		36,000	24,000	
To Cash A/c		1,40,000	----		By Premium for Goodwill A/c		60,000	40,000	
To Balance c/d		4,50,000	3,00,000	3,00,000	By Revaluation A/c Profit		24,000	16,000	
					By Cash A/c		----	1,40,000	
		6,20,000	**6,20,000**	**3,00,000**			**6,20,000**	**6,20,000**	**3,00,000**

Balance Sheet
as on 31st March 2018

Liabilities		**Amount (₹)**	**Assets**		**Amount (₹)**
Creditors		60,000	Cash at Bank (1,66,000 + 3,00,000 + 1,00,000 – 50,000 + 1,40,000 – 1,40,000)		5,16,000
Partners' Capital Accounts			Debtors	1,46,000	
Sanjana	4,50,000		*Less*: Provision	(2,000)	1,44,000
Alok	3,00,000		Stock (1,50,000 + 30,000)		1,80,000
Nidhi	3,00,000	10,50,000	Furniture (90% of 3,00,000)		2,70,000
		11,10,000			**11,10,000**

***Working Note*:**

Computation of amount of goodwill to be brought in by Nidhi and adjusted to sacrificing partners

Revalued Goodwill of the firm = ₹4,00,000

Nidhi's Share in Goodwill = $4,00,000 \times \frac{1}{4} = 1,00,000$

Sacrificing Ratio of old partners = Old Profit Sharing Ratio of old partners

Sanjan's share in premium for goodwill = $1,00,000 \times \frac{3}{5} = 60,000$

Alok's share premium for goodwill = $1,00,000 \times \frac{2}{5} = 40,000$

2) Computation of Partners' adjusted Capital after Nidhi' admission in the New Profit Sharing Ratio

New Profit Sharing Ratio of Sanjana = Remaining Profit Share after Nidhi's Admission × Old Profit Sharing Ratio

New Profit Sharing Ratio of Sanjana = $\left(1-\frac{1}{4}\right)\times\frac{3}{5}=\frac{3}{4}\times\frac{3}{5}=\frac{9}{20};$
New Profit Sharing Ratio of Alok = $\left(1-\frac{1}{4}\right)\times\frac{2}{5}=\frac{3}{4}\times\frac{2}{5}=\frac{6}{20};$
Profit Sharing Ratio of Nidhi = $\frac{1}{4}=\frac{5}{20}$
So, New Profit Sharing Ratio among Sanjana, Alok and Nidhi = 9 : 6 : 5

Total Adjusted Capital of Sanjana and Alok = 5,90,000 + 1,60,000 = 7,50,000

New Capital of Sanjana = $7,50,000\times\frac{9}{15}=4,50,000;$
New Capital of Alok = $7,50,000\times\frac{6}{15}=3,00,000.$

Question 18
How will 'commission received' be treated while preparing cash-flow-statement?

SOLUTION:

Commission received is an inflow from operating activities.

Question 19
How is 'dividend paid' treated by a financial enterprise for the purpose of preparing cash flow statement?

SOLUTION:

It is treated as a cash outflow under the financing activities.

Question 20
Prepare a comparative statement of Profit and Loss from the information extracted from the statement of Profit and Loss for the year ended 31st March, 2017 and 2018.

Particulars	**2017-18**	**2016-17**
Revenue from operations	₹ 15,00,000	₹ 10,00,000
Other income (% of Revenue from operations)	60%	50%
Employee benefit expenses (% of total revenue)	40%	30%
Tax-Rate	40%	40%

SOLUTION:

Comparative Statement of Profit & Loss
For the year ended 31st March, 2017 and 2018

Particulars	2016-17 (₹)	2017-18 (₹)	Absolute Change (₹)	Percentage Change
I. Revenue from Operations	10,00,000	15,00,000	5,00,000	50%
II. Other Income	5,00,000	9,00,000	4,00,000	80%
Total Revenue (I + II)	15,00,000	24,00,000	9,00,000	60%
Less: Employee Benefit Expenses	4,50,000	9,60,000	5,10,000	113.33%
Profit before Interest and Tax	10,50,000	14,40,000	3,90,000	37.143%
Less: Tax	4,20,000	5,76,000	1,56,000	37.143%
Profit After Interest and Tax	**6,30,000**	**8,64,000**	**2,34,000**	**37.143%**

Question 21

(a) Calculate Revenue from operations of BN Ltd. From the following information:

Current assets	₹ 8,00,000.
Quick ratio is	1.5 : 1
Current ratio is	2 : 1.
Inventory turnover ratio is	6 times.

Goods were sold at a profit of 25% on cost.

(b) The Operating ratio of a company is 60%. State whether 'Purchase of goods costing ₹ 20,000' will increase, decrease or not change the operating ratio.

OR

(a) Calculate 'Total Assets to Debt ratio' from the following information:

	₹
Equity Share Capital	4,00,000
Long Term Borrowings	1,80,000
Surplus i.e. Balance in statement of Profit and Loss	1,00,000
General Reserve	70,000
Current Liabilities	30,000
Long Term Provisions	1,20,000

(b) The Debt Equity ratio of a company is 1 : 2. State whether 'Issue of bonus shares' will increase, decrease or not change the Debt Equity Ratio.

SOLUTION:

(a) Gross Profit = Revenue from Operations – Cost of Goods Sold

Current Assets = ₹ 8,00,000

Current Ratio = Current Assets/Current Liabilties

2/1 = 8,00,000/ Current Liabilities

Current Liabilities = 8,00,000/2 = ₹ 4,00,000

Quick Ratio = Quick Assets/Current Liabilities

1.5/1 = Quick Assets/4,00,000

Quick Assets = ₹ 6,00,000

Stock = Current Assets – Quick Assets = **₹ (8,00,000 – 6,00,000) = ₹ 2,00,000**

Inventory turnover Ratio = Cost of Goods Sold/Average Stock

6 = Cost of Goods Sold/2,00,000

Cost of Goods Sold = 6 × 2,00,000 = ₹ 12,00,000

Gross Profit = 12,00,000 × 25/100 = ₹ 3,00,000

Revenue from Operations = Cost of Goods Sold + Gross Profit

= ₹(12,00,000 + 3,00,000) = ₹15,00,000

(b) Operating Ratio = Operating Cost/Net Sales × 100

Also, Operating Cost = Cost of Goods Sold + Operating Expenses

Since, cost of goods sold includes purchases as well as closing stock so a purchase of ₹ 20,000 worth of goods will increase the value of both closing stock as well as purchases and hence will lead to change in the value of COGS. Thus, the operating ratio will remain unchanged.

(a) Total Assets = Total Liabilities

Total Assets = Equity Share Capital + Long-term Borrowings + Surplus i.e. Balance of statement of Profit and Loss + General Reserves + Long term provisions + Current Liabilities

Total Assets = ₹ (4,00,000 + 1,80,000 + 1,00,000 + 70,000 + 30,000 + 1,20,000)

Total Assest = ₹ 9,00,000

Long-term Debt = Long-term Borrowings + Long-term provisions = ₹ (1,80,000 + 1,20,000) = ₹ 3,00,000

Total Assets to Debt Ratio = Total Assets/Long-term debt

= 9,00,000/3,00,000 = 3:1

(b) Debt Equity Ratio = Debt/Equity

Issue of bonus shares will increase the value of equity thereby causing a decrease in the debt-equity ratio.

Question 22

Explain briefly any four objectives of 'Analysis of Financial Statements'.

OR

State 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) Prepaid Insurance

(ii) Investments in Debentures

(iii) Calls-in-arrears

(iv) Unpaid dividend

(v) Capital Reserve

(vi) Loose Tools

(vii) Capital work-in-progress

(viii) Patents being developed by the company.

SOLUTION:

The following are the objectives of the Financial analysis.

1. It enables the conduct of meaningful comparisons of financial data. It provides better and easy understanding of the changes in the financial data over time.

2. It helps in designing effective plans and better execution of plans by enabling control and checks over the use of the financial resources.

3. Analysis of Financial Statements helps to know the earning capacity and profitability of a business firm. It also measures the efficiency of the business operations.

4. It also helps in assessing the solvency position of the firm. This implies that by studying the analysis of financial statements the ability of a firm to discharge its short-term as well as long-term obligations (debts).

OR

Item	Heading	Sub-heading
Prepaid Insurance	Current Assets	Other Current Assets
Investments in Debentures	Non-Current assets	Non-Current Investments
Calls-in-arrears	Shareholder's Funds	Share Capital: Notes to Accounts
Unpaid Dividend	Current liabilities	Other Current Liabilities
Capital Reserve	Shareholder's Funds	Reserves and Surplus
Loose Tools	Current assets	Inventories
Capital work-in-progress	Non-Current Assets	Fixed Assets
Patents being developed by the company	Non-Current Assets	Intangible Assets under development

Question 23

From the following Balance Sheet of Kiero Ltd. and the additional information as on 31-3-2018, prepare a Cash Flow Statement:

Kiero Ltd.
Balance Sheet as at 31-03-2018

Particulars	NoteNo.	31-03-18 (₹)	31-03-17 (₹)
I. Equity and Liabilities			
1. Shareholders Funds			
(a) Share Capital		7,90,000	5,80,000
(b) Reserves and Surplus	1	4,60,000	1,20,000
2. Non-Current Liabilities			
Long term Borrowings	2	5,00,000	3,00,000
3. Current Liabilities			
(a) Short term borrowings	3	1,15,000	42,000
(b) Short term Provisions	4	1,18,000	46,000

Total		**19,83,000**	**10,88,000**
II. Assets			
1. Non-Current Assets			
Fixed Assets			
(i) Tangible Assets	5	9,80,000	6,35,000
(ii) Intangible Assets	6	2,68,000	1,70,000
2. Current Assets			
(a) Current Investments		1,40,000	70,000
(b) Trade Receivables		4,40,000	1,50,000
(c) Cash and Cash Equivalents		1,55,000	63,000
Total		**19,83,000**	**10,88,000**

Notes to Accounts

NoteNo.	Particulars	31-03-18(₹)	31-03-17(₹)
1.	**Reserves and Surplus**		
	Surplus (Balance in Statement of Profit and Loss)	3,20,000	60,000
	General Reserve	1,40,000	60,000
		4,60,000	**1,20,000**
2.	**Long-term Borrowings**		
	12% Debentures	5,00,000	3,00,000
		5,00,000	**3,00,000**
3.	**Short-term Borrowings**		
	Bank Overdraft	1,15,000	42,000
		1,15,000	**42,000**
4.	**Short-term Provisions**		
	Provision for Tax	1,18,000	46,000
		1,18,000	**46,000**
5.	**Tangible Assets**		
	Plant and Machinery	11,00,000	7,50,000
	Less :Accumulated Depreciation	(1,20,000)	(1,15,000)
		9,80,000	**6,35,000**
6.	**Intangible Assets**		
	Goodwill	2,68,000	1,70,000
		2,68,000	**1,70,000**

Additional Information:
12% debentures were issued on 1st September, 2017.

SOLUTION:

Cash Flow Statement

Particulars	Details	Amount (₹)
A. Cash Flow From Operating Activities		
Surplus as on 31st March 2018	3,20,000	
Less: Surplus as on 31st March 2017	(60,000)	
	2,60,000	
Add: Transfer to General Reserve (1,40,000 – 60,000)	80,000	
Provision for tax created during the year	1,18,000	
Profit before tax and extraordinary items		4,58,000
Add: Interest on 12% Debentures (3,00,000 × 12% + 2,00,000 × 12% × 7 months)	50,000	
Depreciation for the year (1,20,000 – 1,15,000)	5,000	55,000
Operating Profit Before Working Capital Changes		5,13,000
Less: Increase in the value of Trade Receivables (4,40,000 – 1,50,000)		(2,90,000)
Cash Generated from Operations		2,23,000
Less: Tax paid (i.e. Provision for tax created during the last year)		(46,000)
Cash Flow From Operating Activities		**1,77,000**
B. Cash Flow From Investing Activities		
Purchase of Plant and Machinery (11,00,000 – 7,50,000)	(3,50,000)	
Purchase of Goodwill (2,68,000 – 1,70,000)	(98,000)	(4,48,000)
Cash Used in Investing Activities		**4,48,000**
C. Cash Flow From Financing Activities		
Increase in Bank Overdraft (1,15,000 – 42,000)	73,000	
Proceeds from issue of 12% Debentures (5,00,000 – 3,00,000)	2,00,000	
Proceeds from issue Shares (7,90,000 – 5,80,000)	2,10,000	
Interest on 12% Debentures (3,00,000 × 12% + 2,00,000 × 12% × 7 months)	(50,000)	
Cash Flow From Financing Activities		**4,33,000**
D. Net Increase/Decrease in Cash & Cash Equivalents (A – B + C)		1,62,000
Add: *Cash and Cash Equivalents as on 31st March 2017*		
Cash & Bank Balance	70,000	
Current Investments	63,000	1,33,000
E. Cash and Cash Equivalents as on 31st March 2018		
Cash & Bank Balance	1,55,000	
Current Investments	1,40,000	2,95,000