Answers

(Multiple Choice Questions)

1. (i) (c); (ii) (a); (iii) (c); (iv) (c); (v) (b); (vi) (c); (vii) (d); (viii) (b); (ix) (a); (x) (b); (xi) (a); (xii) (a); (xiii) (c); (xiv) (b); (xv) (d); (xvi) (a); (xvii) (a); (xviii) (c); (xix) (d); (xx) (a); (xxi) (d); (xxii) (a); (xxiii) (b); (xxiv) (c).

Working Notes:

(viii)	*A*	*B*	*C*
Present Profit Share	3	2	1
Profit Share of *A* Taken		$\frac{1}{2}\times\frac{3}{6}=\frac{3}{12}$	$\frac{1}{2}\times\frac{3}{6}=\frac{3}{12}$
New Profit Share		$\frac{2}{6}+\frac{3}{12}=\frac{7}{12}$	$\frac{1}{6}+\frac{3}{12}=\frac{5}{12}$
		7 :	5

New Profit-sharing Ratio = 7 : 5.

(xii) $\left(\frac{₹\,7,50,000}{₹\,125}=6,000\text{ shares}\right)$.

(xix) $\left(\frac{₹\,60,000}{₹\,5,00,000}\times100=12\%\right)$.

(Short Answer Type Questions)

2. (i) Partnership business means a business carried on by 2 or more persons (not exceeding 50) in partnership sharing profits and losses.

OR

	X	*Y*	*Z*
Old Profit-sharing Ratio	5	4	3
New Profit-sharing Ratio	3		2
Gaining Ratio	$\frac{3}{5}-\frac{5}{12}=\frac{11}{60}$		$\frac{2}{5}-\frac{3}{12}=\frac{9}{60}$

Gaining Ratio of *X* and *Z* = 11 : 9.

(ii)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Revaluation A/c ...Dr.		...	
	To Old Partners'/Capital/Current A/cs			...
	(Being the revaluation profit distributed among old partners in their old profit-sharing ratio)			

OR

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		...	
	To Premium for Goodwill A/c			...
	(Being the premium for goodwill brought by new partner)			

(iii) Preference Share Capital is that capital which is collected by issuing Preference Shares. Preference shares are the shares which are not Equity Shares and have following two rights.

(a) to receive dividend; and

(b) to receive capital on winding-up before repayment of Equity Share Capital.

(iv) Executor is the person who executes the will of the deceased partner. In the case of a firm, executor settles and receives the amount on behalf of the deceased partner.

OR

To meet the capital requirement of the firm.

(v) No, Goodwill is not a fictitious asset but is an intangible asset since it has a realisable value.

OR

Two factors which affect the value of goodwill are:

(a) Favourable location, and

(b) Profit of the firm.

(vi) ₹ 2,800 $\left(₹\,30{,}800 \times \frac{10}{110}\right)$.

(vii) Joint Life Policy is Life Insurance Policy taken jointly on the lives of the partners. The policy amount becomes due on death of any of the partners.

(viii) Reserve Capital is that part of subscribed capital which the company decides to call at the time of winding-up of the company.

(ix) Comparative Financial Statement is a Statement (Balance Sheet or Statement of Profit & Loss) prepared to compare financial data of one or more years.

OR

Ratio Analysis is the process of determining and interpreting relationships between the items of financial statements to provide meaningful understanding of the performance and financial position of the enterprise.

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

OR

Liquid Ratio = $\frac{\text{Liquid Assets or Quick Assets}}{\text{Current Liabilities}}$

(xi) Proprietory Ratio is the ratio that establishes the relationship between proprietors funds and total assets. It is computed as follows:

$$\frac{\text{Proprietor's Funds or Shareholders' Funds or Equity}}{\text{Total Assets}}$$

(xii) Financing Activities.

(Subjective/Descriptive Type Questions)

3. PROFIT & LOSS APPROPRIATION ACCOUNT

for the year ended 31st March, 2024

Dr. Particulars		₹	Particulars		Cr. ₹
To Interest on Capital A/cs:			By Net Profit transferred from Profit & Loss A/c		1,47,100
A	5,400		By Interest on Drawings:		
B	4,200		*A*	1,040	
C	7,200	16,800	*B*	1,040	
To Salary to *B* (*B*'s Capital A/c)		60,000	*C*	440	2,520
To General Reserve A/c		6,620			
(10% of Distributable Profit)					
To Profit transferred to:					
A's Capital A/c	33,100				
B's Capital A/c	22,067				
C's Capital A/c	11,033	66,200			
		1,49,620			1,49,620

OR

(a) Fixed Capital Account means capitals of the partners are fixed, *i.e.*, capitals do not change frequently and changes when capital is introduced or withdrawn by the partner.

(b) Interest on Drawings is calculated by product method when different amounts are withdrawn on different dates. Amount withdrawn is multiplied by no. of days or months left from the date of drawing for each drawing. The product is totalled. Rate of interest is applied to the product total and interest is determined. It is illustrated in the following example:

Detail of Drawings

Date	1st May, 2023	1st September	1st November	1st January	1st March
Amount (₹)	15,000	20,000	25,000	20,000	10,000

Rate of interest on drawing is 10% p.a.

Calculation of Interest on Drawings for the year ended 31st March, 2024

Date of Drawing	Amount (₹)	Months After Drawing	Product (₹)
1st May, 2023	15,000	11	1,65,000
1st September, 2023	20,000	7	1,40,000
1st November, 2023	25,000	5	1,25,000
1st January, 2024	20,000	3	60,000
1st March, 2024	10,000	1	10,000
			5,00,000

$$\text{Interest @ 10\% p.a.} = ₹\,5,00,000 \times \frac{10}{100} \times \frac{1}{12}$$

$$= ₹\,4,167.$$

4. JOURNAL OF *X* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Share Capital A/c	...Dr.		40,000	
	To Forfeited Shares A/c				20,000
	To Calls-in-Arrears A/c				20,000
	(Being 4,000 shares of Mr. Sen forfeited for non-paymen of ₹ 5 per share)				
	Bank A/c	...Dr.		27,000	
	Forfeited Shares A/c	...Dr.		3,000	
	To Share Capital A/c				30,000
	(Being 3,000 (3/4th of 4,000) shares reissued at 10% discount)				
	Forfeited Shares A/c	...Dr.		12,000	
	To Capital Reserve A/c				12,000
	(Being the gain amount proportionate to reissued shares transferred)				

OR

(a)

	Equity Share	**Preference Share**
(i)	Rate of dividend may differ each year.	Rate of dividend is fixed.
(ii)	On winding-up, Equity Shareholders are paid after payment to Preference Shareholders.	On winding-up, Preference shareholders have preference over Equity Shares as for repayment.

(b)

Basis	***Reserve Capital***	***Capital Reserve***
1. **Meaning**	It is that part of the uncalled capital which cannot be called-up except in the event of winding up.	It is that part of the reserves which is not free for distribution as dividend.
2. **Creation**	It is an uncalled capital.	It is created out of capital profits.

5. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Entry in both (a) and (b)				
	Assets A/c	...Dr.		5,00,000	
	Goodwill A/c	...Dr.		30,000	
	To Liabilities A/c				50,000
	To *Z* Ltd.				4,80,000
	(Being the assets and liabilities takenover from *Z* Ltd.)				
(a)	*When Debentures are issued at Par:*				
	Z Ltd.	...Dr.		4,80,000	
	To ...% Debentures A/c				4,80,000
	(Being 4,800 Debentures of ₹ 100 each issued at par)				
(b)	*When Debentures are issued at 10% Premium:*				
	Z Ltd.	...Dr.		4,80,000	
	To ...% Debentures A/c				4,36,300
	To Securities Premium A/c				43,630
	To Bank A/c				70
	(Being 4,363 Debentures of ₹ 100 each issued at 10% premium, balance paid by cheque)				

6. (i) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	A's Capital A/c	...Dr.		15,000	
	B's Capital A/c	...Dr.		15,000	
	To *C*'s Capital A/c				30,000
	(Being the adjustment of two years' profit share)				

Working Note:

Particulars	*A* (₹)	*B* (₹)	*C* (₹)
I. Profit share credited for past two years (₹ 2,25,000) in their profit-sharing ratio, *i.e.*, 2 : 2 : 1	90,000	90,000	45,000
II. Profit share to be shared equally	75,000	75,000	75,000
Net Effect (I – II)	15,000 Dr.	15,000 Dr.	30,000 Cr.

(ii) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		5,39,000	
	To *C*'s Capital A/c				5,00,000
	To Premium for Goodwill A/c				39,000
	(Being the capital and premium for goodwill brought by *C*)				
	Premium for Goodwill A/c	...Dr.		39,000	
	To *A*'s Capital A/c				23,400
	To *B*'s Capital A/c				15,600
	(Being the premium for goodwill credited to Sacrificing Partners in Sacrificing Ratio)				

Calculation of New Profit-sharing Ratio:

	A	*B*	*C*
Old Profit-sharing Ratio	1/2	1/2	...
Sacrifice of Profit-share	3/20	2/20	...
New Profit Share =	$\frac{10-3}{20}$	$\frac{10-2}{20}$	...
	$\frac{7}{20}$	$\frac{8}{20}$	$\frac{1}{4}$ or $\frac{5}{20}$

New Profit-sharing Ratio = 7 : 8 : 5.

OR

(i) It is necessary because neither of the partners (existing partners and new partner) should be at loss or gain due to reconstitution of the partnership.

(ii) (a) Goodwill is the result of past efforts of the existing partners.

(b) To compensate old partners for their loss in profit share.

(iii) (a) Right to share in the assets of the firm.

(b) Right to share future profits of the firm.

7. JOURNAL OF *XYZ* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		4,50,000	
	To Shares Application A/c				4,50,000
	Shares Application A/c	...Dr.		4,50,000	
	To Share Capital A/c				3,00,000
	To Shares Allotment A/c				75,000
	To Bank A/c				75,000
	Shares Allotment A/c	...Dr.		5,00,000	
	To Share Capital A/c				3,00,000
	To Securities Premium A/c				2,00,000
	Bank A/c	...Dr.		4,16,500	
	To Shares Allotment A/c				4,16,500
	Shares First and Final Call A/c	...Dr.		4,00,000	
	To Share Capital A/c				4,00,000
	Bank A/c	...Dr.		3,92,000	
	To Shares First & Final Call A/c				3,92,000
	Share Capital A/c	...Dr.		20,000	
	Securities Premium A/c	...Dr.		4,000	
	To Forfeited Shares A/c				7,500
	To Shares Allotment A/c				8,500
	To Shares First & Final Call A/c				8,000
	Bank A/c	...Dr.		16,000	
	Forfeited Shares A/c	...Dr.		4,000	
	To Shares Capital A/c				20,000
	Forfeited Shares A/c	...Dr.		3,500	
	To Capital Reserve				3,500

Working Notes:

	₹
1. Shares Allotted to *X* (1,00,000/1,25,000 × 2,500):	2,000
Application Money received from *X* (2,500 × ₹ 3)	7,500
Less: Adjusted towards Share Capital (2,000 × ₹ 3)	6,000
Application Money adjusted against Allotment	1,500

	₹
2. Allotment Money due from *X* (2,000 × ₹ 5)	10,000
Less: Excess Application Money adjusted	1,500
Allotment Money not received	8,500

3. *Calculation of Allotment Money Received:*

	₹
Allotment Money due	5,00,000
Less: Excess Application Money already adjusted	75,000
	4,25,000
Less: Allotment Money not received from *X*	8,500
Allotment Money received	4,16,500

4. *Amount transferred to Capital Reserve:*

	₹
Amount forfeited	7,500
Less: Discount allowed on re-issue	4,000
Amount transferred to Capital Reserve	3,500

OR

(i) Securities Premium means excess of issue price of securities over its nominal (face) value. It can be used for (two uses) the following purposes:

(a) Issuing Fully Paid Bonus Shares;

(b) Writing off Preliminary Expenses.

(ii) Forfeiture of shares means cancelling the shares allotted for non-payment of allotment money or calls. Forfeited shares can be re-issued at discount. However, discount allowed on re-issued shares cannot be more than the amount forfeited on the re-issued shares.

8.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts A/c		1,800	By Land & Building A/c	27,000
To Stock A/c		15,000	By Investment A/c	25,000
To Profit transferred to:				
X's Capital A/c	17,600			
Y's Capital A/c	5,867			
Z's Capital A/c	11,733	35,200		
		52,000		52,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To *Y*'s Capital A/c	5,400	...	3,600	By Balance *b/d*	3,00,000	1,00,000	2,00,000
To Bank A/c	...	23,200	...	By Workmen's Compensation Fund	15,000	5,000	10,000
To *Y*'s Loan A/c	...	1,00,000	...	By General Reserve A/c	10,000	3,333	6,667
To Balance *c/d*	3,37,200	...	2,24,800	By Revaluation A/c	17,600	5,867	11,733
				By *X*'s Capital A/c	...	5,400	...
				By *Z*'s Capital A/c	...	3,600	...
	3,42,600	1,23,200	2,28,400		3,42,600	1,23,200	2,28,400

BALANCE SHEET *as at 31st March, 2023*

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		3,27,000
X	3,37,200		Plant and Machinery		2,00,000
Z	2,24,800	5,62,000	Furniture & Fittings		60,000
Y's Loan A/c		1,00,000	Investments		25,000
Employees' Provident Fund		50,000	Debtors	42,000	
Sunday Creditors		1,00,000	*Less:* Provision for Doubtful Debts	3,800	38,200
			Stock		1,35,000
			Bank (₹ 30,000 – ₹ 23,200)		6,800
			Cash		20,000
		8,12,000			8,12,000

9. (a)

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

$$= \frac{₹\,75{,}000}{₹\,15{,}000} = 5 \text{ Times.}$$

Cost of Revenue from Operations = Opening Stock + Purchases + Wages + Carriage Inwards – Closing Stock

= ₹ 20,000 + ₹ 45,000 + ₹ 15,000 + ₹ 5,000 – ₹ 10,000

= ₹ 75,000

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

$$= \frac{₹\,20{,}000 + ₹\,10{,}000}{2} = ₹\,15{,}000.$$

(b)

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

$$= \frac{₹\,25{,}000}{₹\,1{,}00{,}000} \times 100 = 25\%.$$

Gross Profit = Sales – Cost of Revenue from Operations

= ₹ 1,00,000 – ₹ 75,000 = ₹ 25,000.

OR

(a) *Interest Coverage Ratio.*

Interest Coverage Ratio is a ratio calculated to determine whether the company's earning before interest and tax is adequate to meet interest expense. High ratio is considered to be better.

Interest Coverage Ratio is calculated using the formula as follows:

$$\frac{\text{Net Profit before Interest and Tax}}{\text{Interest on Long-term Borrowings}}$$

(b) *Debtors Turnover Ratio.*

Debtors Turnover Ratio establishes the relationship between Credit Revenue from Operations, *i.e.*, Net Credit Sales and Average Debtors and Bills Receivables. It establishes the number of times investment in debtors is turned around in achieving credit sales.

This ratio is calculated using the following formula:

$$\frac{\text{Credit Revenue from Operations (Net Credit Sales)}}{\text{Average Trade Receivables}}$$

$$\text{Net Credit Sales} = \text{Credit Sales} - \text{Sales Return.}$$

$$\text{Average Trade Receivables} = \frac{\begin{array}{c}\text{Opening Debtors} + \text{Opening Bills Receivables}\\ + \text{Closing Debtors} + \text{Closing Bills Receivables}\end{array}}{2}$$

11. CASH FLOW STATEMENT *for the year ended 31st March, 2023*

Particulars	₹	₹
A. Cash Flow from Operating Activities		
Net Profit before Tax and Extraordinary Items:		
Closing Surplus, *i.e.*, Balance in Statement of Profit & Loss	80,000	
Less: Opening	30,000	50,000
Add: Non-cash Items—Depreciation		10,000
		60,000
Add/Less Changes in Working Capital		
Add: Increase in Current Liabilities—Trade Payables		44,000
		1,04,000
Less: Increase in Current Assets:		
Inventories	52,000	
Trade Receivables	32,000	(84,000)
Cash Flow from Operating Activities		20,000
B. Cash Flow from Investing Activities		
Proceeds from Sale of Plant & Machinery (WN 1)		50,000
Cash Flow from Investing Activities		50,000
C. Cash Flow from Financing Activities		
Proceeds from Issue of Shares		20,000
Repayment of Long-term Borrowings		(75,000)
Increase in Short-term Borrowings		13,000
Cash Used in Financing Activities		(42,000)
D. Net Increase in Cash and Cash Equivalents (A + B + C)		28,000
E. *Add:* Opening Cash and Cash Equivalents		5,000
F. Closing Cash and Cash Equipvanets		33,000

Working Notes:

1.

Dr. PLANT & MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,50,000	By Depreciation A/c	10,000
		By Cash/Bank A/c (Balancing Figure)	50,000
		By Balance *c/d*	90,000
	1,50,000		1,50,000

2. In the absence of date of repayment of Long-term Borrowings, it is assumed to have been repaid on 1st April, 2022.

OR

Cash Flow Statement is a Statement prepared to determine inflow and outflow of Cash and Cash Equivalents during the accounting period under:

(a) Operating Activities,

(b) Investing Activities, and

(c) Financing Activities.

The objectives of preparing Cash Flow Statement are:

(i) To determine the sources (receipts) of Cash and Cash Equivalents under Operating, Investing and Financing Activities of the enterprise.

(ii) To determine applications (payments) of Cash and Cash Equivalents under Operating, Investing and Financing Activities of the enterprise.

(iii) To determine net change in Cash and Cash Equivalents. It is the difference between sources (receipts) and applications (payments) under Operating, Investing and Financing Activities between the dates of two Balance Sheets.