Answers

1. PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st December, 2014* *Cr.*

Particulars		₹	Particulars	₹
To General Reserve A/c (10% of ₹ 50,000)		5,000	By Net Profit (As per Profit and Loss A/c)	50,000
To Salary A/c (A)		9,600		
To Interest on Capital:				
A's Capital A/c	5,000			
B's Capital A/c	4,000			
C's Capital A/c	3,000	12,000		
To Profit transferred to:				
A's Capital A/c	10,400			
B's Capital A/c	7,800			
C's Capital A/c	5,200	23,400		
		50,000		50,000

Or

Profit and Loss Appropriation Account is an extension of Profit and Loss Account to which net profit for the year is credited along with the interest on drawings, if any. It is debited with the amounts appropriated towards remuneration to partners, interest on capitals, etc.

Characteristics of Profit and Loss Appropriation Account are:

(i) It is an extension of Profit and Loss Account.
(ii) It is prepared by partnership firms.
(iii) It shows how the net profit for an accounting period is appropriated.
(iv) The entries in the account are guided by the Partnership Deed or the Indian Partnership Act, 1932.

2. **In the Books of Bijoy Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Share Capital A/c ...Dr.		2,000	
	To Forfeited Shares A/c			1,400
	To Share Final Call A/c			600
	(Being 200 shares forfeited for non-payment of final call of ₹ 3 per share)			
	Bank A/c ...Dr.		1,600	
	Forfeited Shares A/c ...Dr.		400	
	To Share Capital A/c			2,000
	(Being 200 shares reissued @ ₹ 8 per share)			
	Forfeited Shares A/c ...Dr.		1,000	
	To Capital Reserve A/c			1,000
	(Being the gain (profit) on reissue of forfeited shares transferred)			

Or

(a) **Shares issued at a premium** means shares issued at the value that is higher than its nominal (face) value.
(b) **Forfeiture of shares** means cancellation of allotted shares for non-payment of amount due on allotment and/or calls and forfeiting the amount paid on those shares.

3. **In the Books of Light Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Plant and Mahinery A/c	...Dr.		2,00,000	
	Land and Building A/c	...Dr.		5,00,000	
	To Black Ltd.				7,00,000
	(Being the Plant and Machinery and Land and Building purchased from Black Ltd.)				
	Black Ltd.	...Dr.		7,00,000	
	To Bank A/c				1,00,000
	To 10% Debentures A/c (WN)				5,00,000
	To Securities Premium Reserve A/c				1,00,000
	(Being the payment made to Black Ltd. by issue of 5,000; 10% Debentures of ₹ 100 each at 20% premium along with a bank draft of ₹ 1,00,000)				

Working Note:

	₹
Amount Payable	7,00,000
Less: Paid by Bank Draft	1,00,000
Balance	6,00,000

Number of Debentures Issued = $\frac{₹\,6,00,000}{₹\,120}$ = 5,000 Debentures of ₹ 100 each.

4.

Dr. *R*'S CAPITAL ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To *R*'s Executors' A/c	60,500	By Balance *b/d*	45,000
		By Reserve A/c (₹ 30,000 × 1/6)	5,000
		By Salary A/c (WN 1)	4,000
		By Profit and Loss Suspense A/c (WN 2)	5,000
		By Interest on Capital A/c (WN 3)	1,500
	60,500		60,500

Working Notes:

	₹
1. Salary @ ₹ 1,000 p.m. for 4 months	4,000
2. Profit of the Last Year	90,000
Profit for 4 Months of the Current Year (₹ 90,000 × 4/12)	30,000
R's Share of profit (₹ 30,000 × 1/6)	5,000

3. Interest on Capital @ 10% p.a., *i.e.*, ₹ 45,000 × $\frac{10}{100} \times \frac{4}{12}$ = ₹ 1,500.

Or

Internal reconstruction of a partnership means change in profit-sharing ratio among the existing partners.

Difference between Admission of a New Partner and Retirement of a Partner

Admission of a Partner	***Retirement of a Partner***
1. A partner is admitted, thus, the number of partners increases.	A partner retires thus, the number of partners decreases.
2. Goodwill is paid by the gaining partners to the sacrificing partners in their sacrificing ratio.	Continuing partners pay goodwill to the retiring partner in their gaining ratio.
3. At the time of admission, sacrificing ratio is determined.	At the time of retirement, gaining ratio is determined.
4. New Partner is entitled to share in profit of the firm from the date of admission.	Retiring partner is entitled to share of profit of the firm up to the date of retirement.

5.

In the Books of DK Co. Ltd.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		1,20,000	
	To Share Application A/c			1,20,000
	(Being the application money received @ ₹ 10 each for 12,000 shares)			
	Share Application A/c ...Dr.		1,20,000	
	To Share Capital A/c			70,000
	To Securities Premium Reserve A/c			30,000
	To Share Allotment A/c			20,000
	(Being 10,000 shares allotted and excess application money transferred to Share Allotment A/c)			
	Share Allotment A/c ...Dr.		1,00,000	
	To Share Capital A/c			80,000
	To Securities Premium Reserve A/c			20,000
	(Being the allotment money due on 10,000 shares @ ₹ 8 each towards Share Capital and @ ₹ 2 each towards premium)			
	Bank A/c ...Dr.		80,000	
	To Share Allotment A/c			80,000
	(Being the amount due on allotment received)			
	Share First Call A/c ...Dr.		50,000	
	To Share Capital A/c			50,000
	(Being the first call money due on 10,000 shares @ ₹ 5 per share)			
	Bank A/c ...Dr.		50,000	
	To Share First Call A/c			50,000
	(Being the amount due on first call received)			
	Share Final Call A/c ...Dr.		50,000	
	To Share Capital A/c			50,000
	(Being the final call money due on 10,000 shares @ ₹ 5 per share)			
	Bank A/c ...Dr.		45,000	
	To Share Final Call A/c			45,000
	(Being the amount due on final call received except on 1,000 shares)			

Or

Reserve Capital means that part of Share Capital which the company resolves to call at the time of its winding up.

Difference between Share and Debenture

Basis	*Share*	*Debenture*
1. **Ownership**	Share represents capital. Hence, a shareholder is the owner.	Debenture represents debt taken by the company. Therefore, a debentureholder is a lender or creditor.
2. **Return**	A shareholder gets dividend on investment.	Debentureholder gets interest at the stated rate whether the company earns profit or not.
3. **Repayment**	Normally, the amount of share is not returned during the lifetime of the company.	Debentures are issued for a definite period. Hence, the amount of debentures is paid or refunded after the specified period.
4. **Issue at Discount**	Shares cannot be issued at discount except Sweat Equity shares.	There are no restrictions on issue of debentures at discount.
5. **Security**	Shares are not secured.	Debentures may or may not be secured by a charge on the assets of the company.
6. **Convertibility**	Shares cannot be converted into any other kind of security.	Debentures can be converted into shares.
7. **Voting Right**	Shareholders have a right to attend and vote in the general meetings.	Debentureholders do not have voting right.
8. **Risk**	Shareholders are at a greater risk. They can even lose the amount invested in shares.	Debentureholders are relatively safe. Secured debentureholders are almost risk free.
9. **Priority as to repayment of principal during winding-up**	Payment of share capital is made after repayment of debentures.	Payment of debentures is made before the payment of share capital.

6.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Plant A/c		10,000	By Building A/c	20,000
To Stock A/c		2,000		
To Provision for Doubtful Debts A/c		1,000		
To Gain (Profit) transferred to :				
A's Capital A/c	4,200			
B's Capital A/c	2,800	7,000		
		20,000		20,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Balance *c/d*	1,22,200	74,800	98,500	By Balance *b/d*	60,000	40,000	...
				By Reserves A/c	48,000	32,000	...
				By Revaluation A/c (Gain)	4,200	2,800	...
				By Premium for Goodwill A/c (WN)	10,000	...	...
				By Bank A/c	...	...	98,500*
	1,22,200	74,800	98,500		1,22,200	74,800	98,500

*50% of Combined Capital of *A* and *B* after adjustments = $\frac{50}{100}$ (₹ 1,22,200 + ₹ 74,800) = ₹ 98,500.

BALANCE SHEET (AFTER *C'S* ADMISSION) *as at 1st April, 2015*

Liabilities		₹	Assets		₹
Capital A/cs:			Building		1,00,000
A	1,22,200		Plant		50,000
B	74,800		Stock		38,000
C	98,500	2,95,500	Debtors	32,000	
Creditors		35,000	*Less:* Provision for Doubtful Debts	3,000	29,000
Bills Payable		10,000	Cash at Bank and in Hand		1,23,500
		3,40,500			3,40,500

Working Note: *Calculation of Sacrificing Ratio:*

	A	*B*
(i) Old Share	3/5	2/5
(ii) New Share	2/5	2/5
Sacrifice (i – ii)	1/5	...

In this case only *A* sacrifices.

7. (i) Debtors Turnover Ratio $= \dfrac{\text{Net Credit Sales}}{\text{Average Debtors}} = \dfrac{₹\ 2{,}00{,}000}{₹\ 25{,}000} = 8$ Times.

Net Credit Sales = Total Sales – Cash Sales
= ₹ 2,60,000 – ₹ 60,000 = ₹ 2,00,000.

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

$$= \frac{₹\ 20{,}000 + ₹\ 30{,}000}{2} = ₹\ 25{,}000.$$

(ii) Gross Profit Ratio $= \dfrac{\text{Gross Profit}}{\text{Net Sales}} \times 100 = \dfrac{₹\ 52{,}000}{₹\ 2{,}60{,}000} \times 100 = 20\%.$

Or

(a) **Stock Turnover Ratio**

Stock Turnover Ratio establishes the relationship between Cost of Goods Sold and Average Stock (Inventory). A high ratio shows that more sales are being achieved by the investment in stocks. On the other hand, a low ratio shows that low sales are being achieved and thus, inefficient stock (inventory) management. The formula for computing the ratio is:

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

(b) **Proprietary Ratio**

Proprietary Ratio shows the relationship between proprietors' funds and total assets. It measures the portion of total assets purchased from own funds. It is an important ratio for creditors as they can ascertain the safety margin available to them. The formula for calculating the ratio is:

$$\text{Proprietary Ratio} = \frac{\text{Proprietors' Funds}}{\text{Total Assets}}$$

8. CASH FLOW STATEMENT

for the year ended 31st December, 2015

Particulars		₹
A. Cash Flow from Operating Activities		
Net Profit for Year:		
Closing Balance of Profit and Loss A/c	45,000	
Less: Opening Balance of Profit and Loss A/c	25,000	20,000
Add: Transfer to Reserve		5,000
		25,000
Add: Non-Cash and Non-Operating Items:		
Goodwill Amortised	10,000	
Interest on 9% Loan (WN)	2,250	12,250
Operating Profit before Working Capital Changes		37,250
Less: Increase in Current Assets:		
Inventories	15,000	
Debtors	15,000	
Bills Receivable	6,000	36,000
		1,250
Add: Increase in Current Liabilities:		
Creditors	4,000	
Bills Payable	3,500	7,500
Cash Flow from Operating Activities		8,750
B. Cash Flow from Investing Activities		
Increase in Fixed Assets	(45,000)	
Decrease in Investments (Long-term)	700	
Cash Used in Investing Activities		(44,300)
C. Cash Flow from Financing Activities		
Proceeds from issue of Share Capital	15,000	
Increase in 9% Loan	25,000	
Payment of Interest on 9% Loan	(2,250)	
Cash Flow from Financing Activities		37,750
D. Net Increase in Cash and Cash Equivalents (A + B + C)		2,200
Add: Opening Cash and Cash Equivalents		3,800
E. Closing Cash and Cash Equivalents		6,000

Working Note: Interest on 9% Loan for one year = ₹ 25,000 × $\frac{9}{100}$ = ₹ 2,250.

Or

Cash Flow Statement is a Statement that shows flow of Cash and Cash Equivalents, both inflow and outflow, during the period under report.

The **objectives** of Cash Flow Statement are:

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

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

(iii) To Show the net change in Cash and Cash Equivalents, it being the difference between sources (receipts) and applications (payments) under Operating, Investing and Financing Activities.

PART B

1. (i) (c), (ii) (b), (iii) (d), (iv) (c), (v) (d), (vi) (d), (vii) (b), (viii) (b), (ix) (a), (x) (b), (xi) (a), (xii) (d), (xiii) (c), (xiv) (c), (xv) (b), (xvi) (c), (xvii) (d), (xviii) (c).

2. (i) (b), (ii) (d), (iii) (a), (iv) (a), (v) (c), (vi) (a).

3. (i) On retirement of a partner the balance of general reserve is to be distributed among all partners in their old profit sharing ratio.

Or

'*B*' will gain. New Ratio – Old Ratio

$$\begin{array}{ccc} A & : & B \\ \left(\frac{3}{5}-\frac{2}{3}\right) & : & \left(\frac{2}{5}-\frac{1}{3}\right) \\ =\left(\frac{9-10}{15}\right) & : & \left(\frac{6-5}{15}\right) \\ =-1 & : & 1 \text{ (gain).} \end{array}$$

(ii) Journal entry when a new partner fails to bring premium for goodwill:
New Partner's Capital/Current A/c ...Dr.
To Old Partners' Capital A/cs

(iii) Subscribed capital is a part of issued capital which the company has issued for cash or for consideration other than cash.

Or

As per section 2(70) of Companies Act, 2013, 'Prospectus means any document described or issued as a prospectus and includes a red herring prospectus or shelf prospectus or any notice, circular or other document inviting offers from the public for the subscription or purchase of any securities of a body corporate.

(iv) It is a kind of shares, which carries preferential rights in respect of dividend payment and repayment of capital over equity shareholders.

(v) Super Profit means the excess of average profit over normal profit.

Or

No, a partner cannot claim interest on his capital if it is not included in partnership deed.

(vi) Revaluation Account is a Nominal Account which is prepared to determine the profits or losses on revaluation of assets and reassessment of liabilities at the time of reconstruction of partnership.

(vii) Sacrificing Ratio = Old Ratio – New Ratio.
Sacrificing Ratio of A and B =

$$\begin{array}{ccc} A & : & B \\ \left(\frac{3}{5}-\frac{9}{20}\right) & : & \left(\frac{2}{5}-\frac{6}{20}\right) \\ =\left(\frac{12-9}{20}\right) & : & \left(\frac{8-6}{20}\right) \\ =3 & : & 2. \end{array}$$

Or

The amount payable to a deceased partner is transferred to **Executor of Deceased Partner Account**.

(viii) A Joint Stock Company is an entity incorporated by a group of persons through the process of law for undertaking a business. It has a share capital divided into units called **shares**. It is an artificial person distinct from its members.

4. (i) In case of Cash Flow Statement cash dividend received comes under investing activity.

(ii) Working Capital is a part of Capital which is used to do the daily activities of a concern.

(iii) Financial Statement means the statement which shows the financial result and financial position of a concern on a given date.

Or

An example of solvency ratio is —Debt-Equity Ratio.

(iv) Ratio analysis is a tool to analyse the performance of a concern using datas from financial statements.

Or

Through Ratio Analysis, internal performance of a firm or concern is verified.