Answers

PART A

1.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st December, 2016* Cr.

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Profit and Loss A/c (Net Profit)		3,00,000
Rabi	8,000		By Interest on Drawings A/cs:		
Shashi	6,000	14,000	Rabi	2,000	
To Rabi's Current A/c (Commission)		15,000	Shashi	1,500	3,500
To Profit transferred to:					
Rabi's Current A/c	2,05,875				
Shashi's Current A/c	68,625	2,74,500			
		3,03,500			3,03,500

Or

Basis	***Profit and Loss Account***	***Profit and Loss Appropriation Account***
1. Stage of Preparation	It is prepared after Trading Account. It, therefore, starts with Gross Profit (on the credit side) or Gross Loss (on the debit side) as per the Trading Account.	It is prepared after Profit and Loss Account. It, therefore, starts with Net Profit (on the credit side) as per the Profit and Loss Account.
2. Objective	It is prepared to determine net profit earned or net loss incurred during the accounting year.	It is prepared to show appropriation of net profit, *i.e.*, distribution of Net Profit for the accounting period among the partners.
3. Nature of Items	It is debited with the expenses (charge against profit) and credited with the income, not being business income to determine net profit for the accounting period.	It is debited with the items of appropriation of profit such as salary/commission to partners, interest on capital and transfer to reserve, etc. It is credited with the items of income being debited to Partners' Capital Accounts or Current Accounts such as interest on drawings.
4. Partnership Deed or Agreement	The preparation of this account is not guided by the Partnership Deed or agreement.	The preparation of this account is guided by the Partnership Deed or agreement or provisions of Indian Partnership Act, 1932.
5. Matching Principle	While preparing this account, Matching Principle (*i.e.,* revenue is matched against expenses) is followed.	While preparing this account, Matching Principle is not followed.

2.

Number of Equity Shares to be Issued:

Cost of Machine = ₹ 1,10,000

Issue Price of an Equity Share = ₹ 11

Number of Equity Shares to be issued = $\dfrac{₹\,1,10,000}{₹\,11} = 10,000$ shares.

In the Books of Getwell Ltd.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Machine A/c ...Dr.		1,10,000	
	To Impex Limited			1,10,000
	(Being the machine purchased from Impex Limited)			
	Impex Limited ...Dr.		1,10,000	
	To Equity Share Capital A/c			1,00,000
	To Securities Premium Reserve A/c			10,000
	(Being 10,000 equity shares of ₹ 10 each issued at 10% premium against purchase consideration)			

Or

(a) Oversubscription of Shares means that the company has received subscription for shares that is more than the number of shares offered for subscription.

(b) Calls-in-arrear means that the amount called by the company to be paid by the shareholders is not paid fully or partially. The unpaid amount is termed as calls-in-arrear.

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

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2015				
April 1	Bank A/c ...Dr.		10,50,000	
	To Debentures Application and Allotment A/c			10,50,000
	(Being the application money received for 10,000, 10% Debentures of ₹ 100 each issued at a premium of 5%)			
	Debentures Application and Allotment A/c ...Dr.		10,50,000	
	To 10% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			50,000
	(Being 10,000, 10% Debentures allotted)			
2015				
Sept. 30	Debentures' Interest A/c ...Dr.		50,000	
	To Debentureholders' A/c			50,000
	(Being the interest payable for 6 months ending 30th September, 2015)			
	Debentureholders' A/c ...Dr.		50,000	
	To Bank A/c			50,000
	(Being the interest paid to debentureholders)			
2016				
March 31	Debentures' Interest A/c ...Dr.		50,000	
	To Debentureholders' A/c			50,000
	(Being the interest payable for 6 months ending 31st March, 2016)			
	Debentureholders' A/c ...Dr.		50,000	
	To Bank A/c			50,000
	(Being the interest paid)			

4. **In the Books of Red and White**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Revaluation A/c ...Dr. To Furniture A/c To Sundry Creditors A/c (Being the value of furniture brought down and creditors recorded)		4,000	 2,000 2,000
	Plant and Machinery A/c ...Dr. Stock A/c ...Dr. To Revaluation A/c (Being the value of Plant and Machinery and stock increased recorded)		6,000 6,000	 12,000
	Revaluation A/c ...Dr. To Red's Capital A/c To White' Capital A/c (Being the gain (profit) on revaluation distributed in their old profit-sharing ratio)		8,000	 4,800 3,200
	Reserve A/c ...Dr. To Red's Capital A/c To White's Capital A/c (Being the reserve distributed between old partners)		20,000	 12,000 8,000
	Cash A/c ...Dr. To Blue's Capital A/c To Premium for Goodwill A/c (Being the amount brought by Blue towards his capital and goodwill)		40,000	 30,000 10,000
	Premium for Goodwill A/c ...Dr. To Red's Capital A/c To White's Capital A/c (Being the amount of premium for goodwill credited to old partners in their sacrificing ratio, *i.e.*, 3 : 2)		10,000	 6,000 4,000

Note: Unless agreed otherwise, sacrificing ratio of old partners will be same as their old profit-sharing ratio.

Or

(a) (i) When there is a change in profit-sharing ratio;
(ii) When a partner (or partners) is admitted;
(iii) When a partner (or partners) retires (retire); and
(iv) When a partner dies.

(b) Gaining Ratio means the ratio in which the continuing partners' gain share in profits. It may be under any of the following four situations:
(i) When there is a change in profit-sharing ratio;
(ii) When a partner (or partners) is admitted;
(iii) When a partner (or partners) retires (retire); and
(iv) When a partner dies.

5. JOURNAL OF DIPABOLI LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Equity Share Application A/c (Being the applications received for 12,000 shares @ ₹ 3 per share)		36,000	 36,000
	Equity Share Application A/c ...Dr. To Equity Share Capital A/c To Bank A/c (Being the share allotted and application money on 2,000 shares refunded)		36,000	 30,000 6,000

	Equity Share Allotment A/c ...Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being the allotment money due)		60,000	 40,000 20,000
	Bank A/c ...Dr. To Equity Share Allotment A/c To Calls-in-Advance A/c (Being the shares allotment money received, a shareholder holding 100 shares paid the call money)		60,300	 60,000 300
	Equity Share First and Final Call A/c ...Dr. To Equity Share Capital A/c (Being the first and final call due)		30,000	 30,000
	Bank A/c ...Dr. Calls-in-Advance A/c ...Dr. To Equity Share First and Final Call A/c (Being the first and final call received and Calls-in-Advance adjusted)		29,700 300	 30,000

Or

(a) **Preference Shares:** Preference shares are the shares which carry the following two preferential rights:

(i) Preferential right of dividend to be paid as fixed amount or an amount calculated at a fixed rate, which may either be free or subject to income tax, and

(ii) Return of capital on the winding up of the company before that of equity shares.

(b) **Authorised Capital:** Authorised capital is that capital of a company as is authorised by its Memorandum of Association that can be raised by it. It is the maximum amount that can be issued for subscription and is stated separately for Equity Share Capital and Preference Share Capital.

(c) **Forfeiture of Shares:** Forfeiture of shares means cancelling of shares issued for non-payment of due amount on such shares. Forfeited shares can be reissued by the company to a purchaser allowing the discount that cannot exceed the amount forfeited on such shares.

6.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Machinery A/c		30,000	By Land and Building A/c	1,00,000
To Profit transferred to Capital A/cs:			By Provision for Doubtful Debts A/c	10,000
Portia	32,000			
Mouparna	32,000			
Nandana	16,000	80,000		
		1,10,000		1,10,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Portia ₹	Mouparna ₹	Nandana ₹	Particulars	Portia ₹	Mouparna ₹	Nandana ₹
To Portia's Capital A/c	...	6,000	6,000	By Balance *b/d*	2,00,000	3,00,000	2,00,000
To Portia's Loan A/c	2,68,000	...	...	By General Reserve A/c	24,000	24,000	12,000
To Balance *c/d*	...	3,50,000	2,22,000	By Revaluation A/c	32,000	32,000	16,000
				By Mouparna's Capital A/c	6,000	...	...
				By Nandana's Capital A/c	6,000	...	...
	2,68,000	3,56,000	2,28,000		2,68,000	3,56,000	2,28,000

BALANCE SHEET *as at 1st April, 2016*

Liabilities		₹	Assets	₹
Capital A/cs:			Land and Building	3,00,000
Mouparna	3,50,000		Machinery	2,70,000
Nandana	2,22,000	5,72,000	Stock-in-Trade	1,00,000
Portia Loan A/c		2,68,000	Sundry Debtors	1,10,000
Sundry Creditors		40,000	Cash at Bank	1,00,000
		8,80,000		8,80,000

Working Notes:

1. *Calculation of Gaining Ratio:*

	Portia	Mouparna	Nandana
(a) New Share of Profit	...	3/5	2/5
(b) Old Share of Profit	2/5	2/5	1/5
(c) Gain/(Sacrifice) (a – b)	–2/5 (Sacrifice)	1/5 (Gain)	1/5 (Gain)

Thus, Gaining Ratio of Mouparna and Nandana = 1 : 1

2. Value of Goodwill = ₹ 30,000

   Portia's Share of Goodwill (2/5) = ₹ 12,000

   It is to be shared by Mouparna and Nandana equally.

7. COMMON-SIZE INCOME STATEMENT *for the year ended...*

Particulars	Absolute Amount (₹)	Percentage (%)
I. Sales (Net)	7,00,000	100
II. *Less:* Cost of Goods Sold	4,20,000	60
Administrative and Selling Expenses	70,000	10
	4,90,000	70
III. Profit before Tax (I – II)	2,10,000	30
IV. *Less:* Tax (40%)	84,000	12
V. Profit after Tax (III – IV)	1,26,000	18

Or

(a) **Current Ratio:** Current Ratio measures the ability of the firm to meet its short-term financial obligations, *i.e.*, payable within one year. It is a relationship between Current Assets and Current Liabilities. Current Ratio of 2 : 1 is considered as ideal ratio.

The formula for the Current Ratio is:

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

(b) **Interest Coverage Ratio:** Interest Coverage Ratio establishes the relationship between Net Profit before Interest and Tax and Interest on Long-term debts. It measures whether the firm is able to meet the interest cost. It is expressed as a number of times.

The formula for the Interest Coverage Ratio is:

$$\text{Interest Coverage Ratio} = \frac{\text{Profit before Interest and Tax}}{\text{Interest on Long-term Debt}}.$$

8. CASH FLOW STATEMENT *for the year ended 31st March, 2016*

Particulars	₹	₹
I. Cash Flow from Operating Activities		
Net Profit for the year (₹ 24,000 – ₹ 20,000)		4,000
Add: Non-cash and Non-operating Items:		
Depreciation		30,000
Interest on Debentures		18,000
Net Profit before Working Capital Changes		52,000
Add: Increase in Current Liabilities and Decrease in Current Assets:		
Bills Payable	16,000	
Debtors	1,00,000	1,16,000
		1,68,000
Less: Decrease in Current Liabilities and Increase in Current Assets:		
Sundry Creditors	20,000	
Stock	1,00,000	1,20,000
Cash Flow from Operating Activities (A)		48,000
II. Cash Flow from Investing Activities		
Payment for Purchase of Investments (Long-term)		(80,000)
Payment for Purchase of Plant and Machinery		(2,30,000)
Cash Used in Investing Activities (B)		(3,10,000)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Equity Shares		3,00,000
Payment of Interest on Debentures		(18,000)
Cash Flow from Financing Activities (C)		2,82,000
IV. Net Increase in Cash and Cash Equivalents (A + B +C)		20,000
Add: Opening Cash and Cash Equivalents		70,000
V. Closing Cash and Cash Equivalents		90,000

Or

(a) *Cash and Cash Equivalents* are short-term, highly liquid investments that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in value. An investment normally qualifies as cash equivalents only when it has a short maturity of say three months or less from the date of acquisition.

(b) (i) Dividend Received – Investing Activity
(ii) Interest Paid to Debentureholders – Financing Activity
(iii) Sale Proceeds of Fixed Assets – Investing Activity
(iv) Issue of 10% Preference Shares for Cash – Financing Activity

PART B (36 MARKS)

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

	W	*Y*	*Z*
I. New Share of Profit	3/5	...	2/5
II. Old Share of Profit	5/12	4/12	3/12
III. Gain/(Sacrifice) [I – II]	11/60 (Gain)	–4/12 (Sacrifice)	9/60 (Gain)

Thus, Gaining Ratio of *W* and *Z* = 11/60 : 9/60 = 11 : 9.

(ii)

Old Partners' Capital A/cs	...Dr.
To Revaluation A/c	
(Being the loss on revaluation distributed among old partners)	

Or

Bank A/c	...Dr.
To Premium for Goodwill A/c	
(Being the premium for goodwill for his share brought in by new partner)	
Premium for Goodwill A/c	...Dr.
To Sacrificing Partners' Capital A/cs	
(Being the premium for goodwill credited to sacrificing partners in their sacrificing ratio)	

(iii) Issue of shares at par means issue of shares at their nominal (face) value.

Or

It is transferred to Capital Reserve.

(iv) Reserve Capital is that capital which a company resolves to call at the time of its winding up.

Or

Uncalled capital is that capital which a company is yet to call for payment by the shareholders.

(v) Partnership Deed is a written agreement among the partners specifying the terms and conditions of the partnership.

Or

Fixed capital of a partner means the capital of partner will not change unless there is introduction of additional capital or withdrawal of capital.

(vi) Profit and Loss Appropriation Account is prepared after preparing Profit and Loss Account, if it has a profit.

(vii) Sacrificing ratio is the ratio in which the old partners sacrifice their shares in favour of new partner.

(viii) Calls-in-Advance means amount received by the company from the shareholders against a call which is not yet called to be paid.

4. (i) Accounting Standard-3, Cash Flow Statement.

(ii) Ideal Quick Ratio is 1 : 1.

Or

It ignores qualitative factors.

(iii) $\dfrac{\text{Net Credit Purchases}}{\text{Average Creditors}}$

(iv) (a) Profit and Loss Account;

(b) Balance Sheet.

Or

It ignores price level changes.