Answers

PART A

1.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st December, 2018* Cr.

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Profit and Loss A/c (Net Profit)		1,20,000
R	2,400		By Interest on Drawings A/cs:		
S	1,800	4,200	*R*	500	
To *R*'s Commission A/c		7,500	*S*	250	750
(₹ 3,00,000 × 2.5/100)					
To *S*'s Salary A/c		12,000			
To Reserve Fund (WN 2)		9,705			
To Profit transferred to:					
R's Capital A/c	52,407				
S's Capital A/c	34,938	87,345			
		1,20,750			1,20,750

Working Notes:

1. In the absence of dates of drawings, interest on drawings has been calculated for average period, *i.e.*, 6 months.
2. Amount transferred to Reserve Fund = 10% of Distributable Profit

   = 10% of ₹ 97,050 (*i.e.*, ₹ 1,20,000 + ₹ 750 – ₹ 4,200 – ₹ 7,500 – ₹ 12,000) = ₹ 9,705.

Or

Difference between Fixed Capital Account and Fluctuating Capital Account

Basis	***Fixed Capital Account***	***Fluctuating Capital Account***
1. **No. of Accounts Maintained**	**Two** accounts are maintained for each partner, *i.e.*, Fixed Capital Account and Current Account.	Only **one** account (*i.e.*, Capital Account) is maintained for each partner.
2. **Frequency of Change**	Balance in Fixed Capital Account **does not change** except when further capital is introduced or it is withdrawn.	The balance **changes** with every transaction of the partner with the firm.
3. **Recording the Transactions**	Transactions relating to **Capital** are recorded in Capital Account and transactions for drawings, interest on drawings, interest on capital, salary, commission, share of profit or loss are recorded in **Current Account**.	All transactions whether for capital, drawings, interest on drawings, interest on capital, salary, commission, share of profit or loss are recorded in **Capital Account**.
4. **Balance**	It shows **credit balance** in Capital Account.	Fluctuating Capital Account may show **debit balance**.

2. **In the Books of *P* Ltd. Co.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Equity Share Capital A/c	...Dr.		5,000	
	To Forfeited Shares A/c				2,500
	To Equity Shares First Call A/c				1,000
	To Equity Shares Second and Final Call A/c				1,500
	(Being 500 shares forfeited for non-payment of first call and second and final call money)				
	Bank A/c	...Dr.		4,000	
	Forfeited Shares A/c	...Dr.		1,000	
	To Equity Share Capital A/c				5,000
	(Being 500 forfeited shares reissued @ ₹ 8 per share as fully paid)				
	Forfeited Shares A/c	...Dr.		1,500	
	To Capital Reserve A/c				1,500
	(Being the gain on reissue transferred to Capital Reserve)				

Or

(a) **Oversubscription of shares** means applications received are for more than the shares offered for subscription. In the event of oversubscription of shares, allotment of shares are made as per any of the following alternatives:

(i) Excess applications are rejected and full allotment is made to the remaining applicants;

(ii) *Pro rata* allotment is made to all the applicants; and

(iii) Part of the excess applications are rejected; some applicants are allotted the shares as applied and *pro rata* allotment is made to the remaining applicants.

(b) If a shareholder does not pay the call amount due on allotment or on any calls according to the terms, the amount not so received is called **Calls-in-Arrears**. The unpaid or arrear amount on account of allotment or calls *may* or *may not* be transferred to Calls-in-Arrears Account.

Calls-in-Arrears is shown as deduction from the amount of Subscribed but not fully paid-up capital under subscribed capital in the Note to Accounts on Share Capital.

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

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Building A/c	...Dr.		4,00,000	
	Machinery A/c	...Dr.		2,00,000	
	Stock A/c	...Dr.		1,50,000	
	To Bijoy Ltd.				7,50,000
	(Being the purchase of sundry assets from Bijoy Ltd.)				
	Bijoy Ltd.	...Dr.		1,50,000	
	To Bank A/c				1,50,000
	(Being the part payment made by cheque)				
	Bijoy Ltd.	...Dr.		6,00,000	
	To 12% Debentures A/c				4,80,000
	To Securities Premium Reserve A/c				1,20,000
	(Being 4,800; 12% Debentures of ₹ 100 each issued at 25% premium for the balance payment)				

Note:

$$\text{Number of Debentures to be Issued} = \frac{\text{Purchase Price ?Part Payment}}{\text{Issue Price of Debenture}}$$

$$= \frac{₹\,7,50,000 – ₹\,1,50,000}{₹\,125}$$

$= 4,800$ Debentures.

4.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Plant A/c		5,000	By Building A/c	20,000
To Provision for Doubtful Debts A/c (10% of ₹ 75,000 – ₹ 5,000)		2,500		
To Stock A/c		10,000		
To Gain (Profit) on Revaluation transferred to:				
Sachin's Capital A/c	1,500			
Sourav's Capital A/c	1,000	2,500		
		20,000		20,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Sachin (₹)	Sourav (₹)	Rahul (₹)	Particulars	Sachin (₹)	Sourav (₹)	Rahul (₹)
To Balance *c/d*	1,20,500	67,000	30,000	By Balance *b/d*	80,000	40,000	...
				By Reserves A/c	24,000	16,000	...
				By Revaluation A/c (Gain)	1,500	1,000	...
				By Cash/Bank A/c	...	...	30,000
				By Premium for Goodwill A/c	15,000	10,000	...
	1,20,500	67,000	30,000		1,20,500	67,000	30,000

Note: Sacrificing ratio will be same as old ratio among old partners since nothing else is specifically mentioned except the share of new partner. Thus, sacrificing ratio of Sachin and Sourav is same as their old ratio, *i.e.*, 3 : 2.

Or

Partnership agreement defines the terms of relationship among the partners and whenever there is a change in the terms of agreement, it results in reconstitution (or reconstruction) of the firm.

A firm is reconstituted (or reconstructed) in the event of:

(i) Change in the profit-sharing ratio among the existing partners.

(ii) Admission of a partner or partners.

(iii) Retirement of a partner.

(iv) Death of a partner.

(v) Amalgamation of two or more partnership firms.

5.

In the Books of *X* Ltd.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (20,000 × ₹ 2)	...Dr.		40,000	
	To Shares Application A/c				40,000
	Shares Application A/c	...Dr.		40,000	
	To Share Capital A/c (15,000 × ₹ 2)				30,000
	To Bank A/c (5,000 × ₹ 2)				10,000
	Shares Allotment A/c	...Dr.		75,000	
	To Share Capital A/c				45,000
	To Securities Premium Reserve A/c				30,000
	Bank A/c	...Dr.		75,000	
	To Shares Allotment A/c				75,000
	Shares First and Final Call A/c	...Dr.		75,000	
	To Share Capital A/c				75,000
	Bank A/c	...Dr.		70,000	
	To Shares First and Final Call A/c				70,000
	Or				
	Bank A/c	...Dr.		70,000	
	Calls-in-Arrears A/c (1,000 × ₹ 5)	...Dr.		5,000	
	To Shares First and Final Call A/c				75,000
	Share Capital A/c	...Dr.		10,000	
	To Forfeited Shares A/c (1,000 × ₹ 5)				5,000
	To Shares First and Final Call A/c				5,000
	Or				
	Share Capital A/c	...Dr.		10,000	
	To Forfeited Shares A/c				5,000
	To Calls-in-Arrears A/c				5,000
	Bank A/c (600 × ₹ 8)	...Dr.		4,800	
	Forfeited Shares A/c (600 × ₹ 2)	...Dr.		1,200	
	To Share Capital A/c				6,000
	Forfeited Shares A/c (600 × ₹ 3)	...Dr.		1,800	
	To Capital Reserve A/c				1,800

Or

Capital of a company is divided into units of smaller denominations (say ₹ 1, ₹ 2, ₹ 5, ₹ 10 or ₹ 100) and each such unit is called a **share**. For example, in a company the total capital of ₹ 50,00,000 is divided into 5,00,000 units of ₹ 10 each, then each unit of ₹ 10 is called a share.

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.
2. **Return**	A shareholder gets dividend on his investment only when there is profit.	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 where they are issued as Sweat Equity shares.	There are no restrictions on issue of debentures at discount.
5.	**Security**	Shares are not secured.	Debentures may or may not 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. Even they can 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 Provision for Doubtful Debts A/c (10% of ₹ 70,000 – ₹ 2,000)		5,000	By Building A/c	30,000
			By Creditors A/c	10,000
To Outstanding Repairs Bill A/c		2,000		
To Gain (Profit) transferred to:				
A's Capital A/c	19,800			
B's Capital A/c	6,600			
C's Capital A/c	6,600	33,000		
		40,000		40,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Profit and Loss A/c	12,000	4,000	4,000	By Balance *b/d*	1,50,000	1,00,000	1,00,000
To *B*'s Capital A/c	11,250	...	3,750	By Revaluation A/c (Gain)	19,800	6,600	6,600
To Bank A/c	...	20,000	...	By *A*'s Capital A/c	...	11,250	...
To *B*'s Loan A/c	...	97,600	...	By *C*'s Capital A/c	...	3,750	...
To Balance *c/d*	1,46,550	...	98,850				
	1,69,800	1,21,600	1,06,600		1,69,800	1,21,600	1,06,600

BALANCE SHEET OF *A* AND *C* *as at 1st April, 2018*

Liabilities		₹	Assets		₹
Creditors		90,000	Bank (₹ 32,000 – ₹ 20,000)		12,000
Bills Payable		50,000	Debtors	70,000	
Outstanding Repairs Bill		2,000	*Less:* Provision for Doubtful Debts	7,000	63,000
B's Loan		97,600	Stock		80,000
Capital A/cs:			Building		3,30,000
A	1,46,550				
C	98,850	2,45,400			
		4,85,000			4,85,000

Working Notes:

1. Unless agreed otherwise, Gaining Ratio of continuing partners is same as their old profit-sharing ratio. Thus, Gaining Ratio of *A* and *C* is 3 : 1.
2. *Adjustment of Goodwill:*

   B's share of Goodwill = 1/5 of ₹ 75,000 = ₹ 15,000, which will be contributed by *A* and *C* in their gaining ratio. Thus,

   A's contribution = 3/4 of ₹ 15,000 = ₹ 11,250;

   C's contribution = 1/4 of ₹ 15,000 = ₹ 3,750.

7. (*a*) Debt to Equity Ratio $= \dfrac{\text{Debt}}{\text{Equity (Shareholders' Funds)}} = \dfrac{₹\ 1{,}16{,}000}{₹\ 90{,}000} = 1.29 : 1.$

Debt = Long-term Loan + Debentures

= ₹ 1,00,000 + ₹ 16,000 = ₹ 1,16,000

Equity (Shareholders' Funds) = Share Capital + General Reserve

= ₹ 60,000 + ₹ 30,000 = ₹ 90,000.

(*b*) Current Ratio $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}} = \dfrac{₹\ 1{,}00{,}000}{₹\ 1{,}16{,}000} = 0.86 : 1.$

Current Assets = Debtors + Cash

= ₹ 70,000 + ₹ 30,000 = ₹ 1,00,000

Current Liabilities = Creditors + Bank Overdraft

= ₹ 50,000 + ₹ 66,000 = ₹ 1,16,000.

Or

Objectives of Financial Statement Analysis

(*i*) To assess an enterprise's operating efficiency and profitability.
(*ii*) To assess financial stability of an enterprise.
(*iii*) To assess an enterprise's short-term and long-term solvency.
(*iv*) To compare intra-firm position, inter-firm position and pattern position within the industry.
(*v*) To estimate the future performance of the enterprise.

8.

***B* Ltd.**

CASH FLOW STATEMENT *for the year ended 31st March, 2018*

Particulars		₹
I. Cash Flow from Operating Activities		
(Closing) Surplus, *i.e.*, Balance in Statement of Profit and Loss		46,000
Less: (Opening) Surplus, *i.e.*, Balance in Statement of Profit and Loss		20,000
		26,000
Add: Provision for Tax (Current year)		50,000
Net Profit before Tax and Extraordinary Items		76,000
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Sundry Creditors	10,000	
Inventories	20,000	30,000
		46,000
Add: Decrease in Current Assets and Increase in Current Liabilities:		
Outstanding Expenses	2,000	
Trade Receivables	10,000	12,000
Cash Generated from Operations		58,000
Less: Tax Paid (Note 1)		92,000
Cash Used in Operating Activities		(34,000)

II. Cash Flow from Investing Activities		
Purchase of Tangible Assets (Note 2)	(32,000)	
Cash Used in Investing Activities		(32,000)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Shares	1,00,000	
Cash Flow from Financing Activities		1,00,000
IV. Net Increase in Cash and Cash Equivalents (I + II + III)		34,000
Add: Cash and Cash Equivalents in the beginning of the year		60,000
V. Cash and Cash Equivalents at the end of the year		94,000

Notes:

1. Previous year's provision for tax represents the amount of tax paid and current year's provision for tax is treated as provision for tax made during the year.
2. Increase in the amount of Tangible Assets is taken as the purchase of asset.

Or

Cash and Cash Equivalents—Cash on Hand, Cash at Bank, Marketable Securities.

Transaction	Shown in Cash Flow Statement as
(i) Purchase of Fixed Assets	Outflow under Investing Activities
(ii) Sale of Investment	Inflow under Investing Activities
(iii) Redemption of Debentures	Outflow under Financing Activities
(iv) Issue of Equity Share	Inflow under Financing Activities

PART B

1. (i) (b), (ii) (b), (iii) (b), (iv) (b), (v) (c), (vi) (c), (vii) (c), (viii) (b), (ix) (c), (x) (a), (xi) (a), (xii) (a), (xiii) (c), (xiv) (a), (xv) (a), (xvi) (b), (xvii) (d), (xviii) (b).
2. (i) (c), (ii) (c), (iii) (c), (iv) (c), (v) (b), (vi) (b).
3. (i) Called-up Capital is that portion of issued capital which has been called-up by the company.

   Or

   Reserve Capital is a part of the subscribed capital remaining uncalled that a company resolves, by a special resolution, **not** to call except in the event of winding up of the company.

   (ii) Preference share is a share which carry the following two preferential rights:

   (a) Preferential right to receive dividend, and

   (b) To get return of capital before equity shares at the time of winding up.

   (iii) **Prospectus** is a document issued by a public company in which terms and conditions of the issue of securities are stated along with the purpose for which the proceeds of the issue of securities shall be used.

   (iv) Interest on Drawings = ₹ 20,000 × 6/100 × 9/24 = ₹ 450.

(v) Revaluation Account is prepared to know the gain or loss arising due to revaluation of assets and reassessment of liabilities.

Or

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

(vi) Old Ratio of X, Y and Z = 1/2 : 1/3 : 1/6 or 3 : 2 : 1

Y retired. New Ratio of X and Z = 3 : 1.

(vii) Fluctuation Capital Account is that account in which the balance of capital fluctuates with every transaction.

Or

In the absence of Partnership Deed, the rate of interest on loan will be 6% p.a.

(viii) Partners collectively are known as 'Partnership Firm'.

Or

Partnership Deed is a written document which provides details of terms and conditions of partnership.

4. (i) Interest Coverage Ratio = $\dfrac{\text{Profit before Interest and Tax}}{\text{Interest on Long-term Debt}}$

(ii) To ascertain the sources (receipts) of Cash and Cash Equivalents under Operating, Investing and Financing Activities by the enterprise.

(iii) Assessing short-term and long-term solvency of the enterprise.

Or

Comparative Financial Statement means comparative study of the components or items of financial statements for two or more years or with that of other enterprise.

(iv) Qualitative factors are ignored since it is based on financial statements.