WBCHSE ACCOUNTANCY PAPER, 2015

Time Allowed: 3 Hours 15 Minutes **Full Marks: 80**

Instructions to the Candidates:

1. Special credit will be given for answers which are brief and to the point.
2. Marks will be deducted for spelling mistakes, untidiness and bad handwriting.
3. Figures in the margin indicate full marks for the questions.

PART A (44 MARKS)

1. *A*, *B* and *C* are partners in a firm. Their capital balances as on 1st April, 2013 were ₹ 50,000, ₹ 60,000 and ₹ 70,000 respectively. Prepare Profit and Loss Appropriation Account for the year ended 31st March, 2014 after considering the following information:

(a) Interest on Capital @ 5% per annum.

(b) *C* is entitled to get salary ₹ 1,500 per month.

(c) Net Profit before charging above ₹ 51,000.

(d) Partners will share profit or loss equally. (4)

Or

State four differences between Fixed Capital and Fluctuating Capital. (4)

2. *X* Ltd. issued 1,000 Equity Shares of ₹ 10 each at par payable as ₹ 6 on application, ₹ 2 on allotment and ₹ 2 on call. All amounts are duly received except a holder of 200 shares who failed to pay allotment money and call money. His shares were forfeited. Show two Journal entries for money collected on call and forfeiture of shares in the books of the company. (4)

Or

Distinguish between Equity Share and Preference Share. (4)

3. Show Journal entries of the following issue of Debentures:

(i) Issued 1,000, 10% Debentures of ₹ 100 each at a premium of 5%.

(ii) Issued 2,000, 8% Debentures of ₹ 100 each issued at par. (2 + 2)

4. *A* and *B* are partners showing profits and losses in 4 : 3. On 31st December, 2014, their position was as under:

Liabilities		₹	Assets		₹
Capital A/cs: *A*	60,000		Land and Buildings		50,000
B	40,000	1,00,000	Plant and Machinery		25,000
Reserve		21,000	Furniture		15,000
Creditors		18,000	Stock		25,000
			Debtors	20,000	
			Less: Provision for Doubtful Debts	1,000	19,000
			Cash		5,000
		1,39,000			1,39,000

On 1st January, 2015, they admit *C* as a new partner on the following terms:

(i) *C* will get 1/4th share of profit.

(ii) Land and Buildings to be increased to ₹ 60,000 and Plant and Machinery is to be increased by ₹ 6,000.

(iii) Stock is to be reduced by ₹ 3,000.

(iv) *C* is to introduce ₹ 25,000 as capital and ₹ 7,000 as premium for goodwill in cash.

Pass necessary Journal entries recording the above transations in the books of firm. (6)

Or

Write the general considerations in case of admission of new partners. (6)

5. Joy Co. Ltd. issued 20,000 Equity Shares @ ₹ 20 each at a premium of ₹ 5 per share payable as follows:

On share application	₹ 5
On share allotment	₹ 10 (including premium of ₹ 5)
On share first call	₹ 5
On share final call	₹ 5

All amounts due on shares were received except one shareholder holding 1,000 shares who failed to pay the first and final call money and another shareholder holding 500 shares failed to pay final call only. These 1,500 shares were subsequently forfeited by the company. Show necessary Journal entries in the books of Joy Co. Ltd. (6)

Or

What is Equity Share? What are the purposes for which Securities Premium can be utilised by a company? (2 + 4)

6. *P*, *Q* and *R* are partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Their Balance Sheet as on 31st March, 2014 is as follows:

Liabilities		₹	Assets	₹
Capital A/cs:	*P*	36,000	Building	40,000
	Q	24,000	Furniture	4,000
	R	20,000	Stock	15,000
Creditors		30,000	Debtors	35,000
			Cash	16,000
		1,10,000		1,10,000

On the above date, *P* retired on the following terms:

(i) Value of Building is to be raised by 20%.

(ii) Furniture is to be depreciated by 10%.

(iii) 5% provision is to be created on debtors.

(iv) Goodwill is to be valued at ₹ 18,000.

It is agreed that *Q* and *R* will share profits and losses equally after *P*'s retirement.

Prepare:

(a) Revaluation Account, (b) Partners' Capital Accounts, and

(c) Balance Sheet. (4 + 3 + 3)

7. From the following information calculate (a) Current Ratio, (b) Liquid Ratio:

Debtors	₹ 30,000
Prepaid Expenses	₹ 2,000
Stock	₹ 20,000
Cash at Bank	₹ 10,000
Creditors	₹ 25,000
Bank Overdraft	₹ 6,000

(2 + 2)

Or

Write short notes on the following:

(a) Gross Profit Ratio (b) Debt-Equity Ratio. (2 + 2)

8. From the following information, calculate Cash Flow from Operating Activities for the year ended 31st March, 2014:

BALANCE SHEETS OF G.K. LTD.
as on 31st March, 2013 and 31st March, 2014

Liabilities	31st March, 2013 (₹)	31st March, 2014 (₹)	Assets	31st March, 2013 (₹)	31st March, 2014 (₹)
Share Capital	1,20,000	1,40,000	Goodwill	20,000	16,000
General Reserve	8,000	12,000	Buildings	76,000	96,400
Profit and Loss A/c	7,200	6,200	Investments	4,000	14,000
Proposed Dividend	11,200	20,200	Debtors	30,000	43,200
Creditors	28,400	36,400	Stock	34,000	31,200
			Cash	10,800	14,000
	1,74,800	2,14,800		1,74,800	2,14,800

(6)

Or

What is Cash Flow Statement? Distinguish between Cash Book and Cash Flow Statement. (2 + 4)

Answers

1. PROFIT AND LOSS APPROPRIATION ACCOUNT
for the year ended 31st March, 2014

Dr. *Cr.*

Particulars		₹	Particulars	₹
To *C*'s Capital A/c (Salary)		18,000	By Net Profit as per Profit and Loss A/c	51,000
To Interest on Capital:				
A's Capital A/c	2,500			
B's Capital A/c	3,000			
C's Capital A/c	3,500	9,000		
To Profit transferred to:				
A's Capital A/c	8,000			
B's Capital A/c	8,000			
C's Capital A/c	8,000	24,000		
		51,000		51,000

Or

Basis	***Fixed Capital***	***Fluctuating Capital***
1. **No. of Accounts Maintained**	Two accounts are maintained for each partner: Fixed Capital Account and Current Account.	Only one account (*viz.*, Capital Account) is maintained for each partner.
2. **Frequency of Change**	Balance in Fixed Capital Account does not change except under specific circumstances.	The balance changes frequently from period to period.
3. **Adjustment for Drawings, etc.**	All adjustments for drawings, interest on drawings, interest on capital, salary, share of profit/loss are made in Current Account.	All adjustments for drawings, interest on drawings, interest on capital, salary, share of profits and losses are made in Capital Account.
4. **Balance**	It always shows credit balance in Capital Account.	Fluctuating Capital Account may sometimes show a debit balance.

2. ***X* LTD.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Shares First and Final Call A/c	...Dr.		2,000	
	To Share Capital A/c				2,000
	(Being the first and final call of ₹ 2 per share on 1,000 equity shares due)				
	Bank A/c	...Dr.		1,600	
	To Shares First and Final Call A/c				1,600
	(Being the amount received on 800 equity shares)				
	Share Capital A/c	...Dr.		2,000	
	To Shares Allotment A/c				400
	To Shares First and Final Call A/c				400
	To Forfeited Shares A/c				1,200
	(Being 200 equity shares forfeited for non-payment of allotment money and first and final call)				

Or

Basis	***Equity Share***	***Preference Share***
1. **Right to Dividend**	Dividend is paid on Equity Shares after it is paid on Preference Shares.	Dividend is paid on Preference Shares before it is paid on Equity Shares.
2. **Rate of Dividend**	Rate of dividend is proposed by the Board of Directors and approved by the shareholders.	Rate of Dividend is fixed.
3. **Arrears of Dividend**	Dividend is declared every year. In case, dividend is not declared during the year, it is not accumulated to be paid in the coming years.	If Preference Shares are Cumulative Preference Shares, arrear of dividend is paid before dividend is paid on Equity Shares.
4. **Convertibility**	Equity Shares are not convertible.	Preference Shares may be converted to Equity Shares, if the terms of issue so provide.
5. **Redemption**	A company may buy-back its Equity Shares.	Preference Shares may be redeemed (refunded).
6. **Voting Rights**	Equity Shareholders have voting rights in all circumstances.	Preference Shareholders have voting rights only in special circumstances.
7. **Refund of Capital**	On winding up, the Equity share capital is repaid after the Preference share capital is paid.	On winding up, the Preference share capital is repaid before the Equity share capital is paid.
8. **Right to Participate in Management**	Equity Shareholders have a right to participate in the management of the company.	Preference Shareholders do not have a right to participate in the management of the company.

3. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c	...Dr.		1,05,000	
	To Debenture Application A/c				1,05,000
	(Being the application money received for 1,000, 10% Debentures of ₹ 100 each @ ₹105 per debenture)				
	Debenture Application A/c	...Dr.		1,05,000	
	To 10% Debentures A/c				1,00,000
	To Securities Premium Reserve A/c				5,000
	(Being the debentures issued at a premium of ₹ 5 per debenture)				

(ii)	Bank A/c ...Dr. To Debenture Application A/c (Being the application money received for 2,000, 8% Debentures of ₹ 100 each @ ₹ 100 per debenture)		2,00,000	2,00,000
	Debenture Application A/c ...Dr. To 8% Debentures A/c (Being 2,000, 8% Debentures of ₹ 100 each issued at par)		2,00,000	2,00,000

4. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Land and Buildings A/c (₹ 60,000 – ₹ 50,000) ...Dr. Plant and Machinery A/c ...Dr. To Revaluation A/c (Being the value of Land and Buildings and Plant and Machinery increased)		10,000 6,000	 16,000
	Revaluation A/c ...Dr. To Stock A/c (Being the value of stock decreased)		3,000	 3,000
	Revaluation A/c ...Dr. To *A*'s Capital A/c To *B*'s Capital A/c (Being the gain (profit) on revaluation of assets distributed in the ratio of 4 : 3)		13,000	 7,429 5,571
	Reserve A/c ...Dr. To *A*'s Capital A/c To *B*'s Capital A/c (Being the reserve distributed in the ratio of 4 : 3)		21,000	 12,000 9,000
	Cash A/c ...Dr. To *C*'s Capital A/c To Premium for Goodwill A/c (Being the capital and premium for goodwill brought by *C*)		32,000	 25,000 7,000
	Premium for Goodwill A/c ...Dr. To *A*'s Capital A/c To *B*'s Capital A/c (Being the premium for goodwill brought by *C* transferred to *A* and *B* in the ratio of 4 : 3 (sacrificing ratio)		7,000	 4,000 3,000

Or

General considerations in case of admission of a new partner are:

(i) Determining the new profit-sharing ratio, sacrificing ratio and gaining ratio of each partner.

(ii) Valuation of goodwill of the firm based on which gaining partners compensate the sacrificing partner.

(iii) Adjustment of gain (profit)/loss arising from revaluation of assets and reassessment of liabilities.

(iv) Distribution of reserves/accumulated profits and losses among old partners in their old profit-sharing ratio.

(v) Adjustment of capitals of the partners in the ratio of new profit-sharing ratio, if it is so agreed.

5. **In the Books of Joy Co. Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		1,00,000	
	To Share Application A/c			1,00,000
	(Being the application money received for 20,000 Equity Shares @ ₹ 5 each)			
	Share Application A/c ...Dr.		1,00,000	
	To Share Capital A/c			1,00,000
	(Being the shares allotted)			
	Share Allotment A/c ...Dr.		2,00,000	
	To Share Capital A/c			1,00,000
	To Securities Premium Reserve A/c			1,00,000
	(Being the allotment money called ₹ 10 each, including ₹ 5 as premium)			
	Bank A/c ...Dr.		2,00,000	
	To Share Allotment A/c			2,00,000
	(Being the amount received against allotment)			
	Share First Call A/c ...Dr.		1,00,000	
	To Share Capital A/c			1,00,000
	(Being the first call made on 20,000 shares @ ₹ 5 per share)			
	Bank A/c ...Dr.		95,000	
	To Share First Call A/c			95,000
	(Being the amount received against first call except on 1,000 shares)			
	Share Second and Final Call A/c ...Dr.		1,00,000	
	To Share Capital A/c			1,00,000
	(Being the second and final call made @ ₹ 5 per share)			
	Bank A/c ...Dr.		92,500	
	To Share Second and Final Call A/c			92,500
	(Being the second and final call received except on 1,500 shares)			
	Share Capital A/c (1,500 × ₹ 20) ...Dr.		30,000	
	To Share First Call A/c			5,000
	To Share Second and Final Call A/c			7,500
	To Forfeited Shares A/c			17,500
	(Being 1,000 shares forfeited for non-payment of first and second and final call money and 500 shares for non-payment of second and final call money)			

Or

Equity shares are those shares which are not Preference Shares, *i.e.*, these shares do not carry the preferential rights to get dividend and repayment of capital in the event of the company being wound up.

Section 52(2) of the companies Act, 2013 prescribes the utilisation of Securities premium for the following purposes:

(i) Issuing fully paid bonus shares to the members;

(ii) Writing off preliminary expenses of the company;

(iii) Writing off the expenses of, or the commission paid or discount allowed on any issue of securities or debentures of the company;

(iv) Providing for the premium payable on the redemption of any redeemable Preference Shares or of any debentures of the company;

(v) In purchasing its own shares (buy-back).

6. **In the Books of *P*, *Q* and *R***

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Furniture A/c		400	By Building A/c	8,000
To Provision for Doubtful Debts A/c		1,750		
To Gain (Profit) transferred to:				
P's Capital A/c	2,925			
Q's Capital A/c	1,950			
R's Capital A/c	975	5,850		
		8,000		8,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*P* (₹)	*Q* (₹)	*R* (₹)	Particulars	*P* (₹)	*Q* (₹)	*R* (₹)
To *P*'s Capital A/c	...	3,000	6,000	By Balance *b/d*	36,000	24,000	20,000
To *P*'s Loan A/c	47,925	...	...	By Revaluation A/c (gain)	2,925	1,950	975
To Balance *c/d*	...	22,950	14,975	By *Q*'s Capital A/c	3,000	...	...
				By *R*'s Capital A/c	6,000	...	...
	47,925	25,950	20,975		47,925	25,950	20,975

BALANCE SHEET (OF *Q* AND *R*)

Liabilities	₹	Assets		₹
Capital A/cs:		Building		48,000
Q	22,950	Furniture		3,600
R	14,975	Stock		15,000
P's Loan	47,925	Debtors	35,000	
Creditors	30,000	*Less:* Provision for Doubtful Debts	1,750	33,250
		Cash		16,000
	1,15,850			1,15,850

Working Note: (Gaining Ratio of Q and R)

	Q	R
New Share	1/2	1/2
Old Share	2/6	1/6
Gain (New – Old) of a Partner = New Share – Old Share	1/6	2/6

Thus, Gaining Ratio of *Q* and *R* = 1/6 : 2/6 = 1 : 2.

7. (a)

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

$$= \frac{₹\ 62{,}000}{₹\ 31{,}000} = 2 : 1$$

$$\text{Current Assets} = \text{Debtors} + \text{Prepaid Expenses} + \text{Stock} + \text{Cash at Bank}$$

$$= ₹\ 30{,}000 + ₹\ 2{,}000 + ₹\ 20{,}000 + ₹\ 10{,}000 = ₹\ 62{,}000$$

$$\text{Current Liabilities} = \text{Creditors} + \text{Bank Overdraft}$$

$$= ₹\ 25{,}000 + ₹\ 6{,}000 = ₹\ 31{,}000$$

(b)
$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

$$= \frac{₹\ 40{,}000}{₹\ 31{,}000} = 1.29 : 1$$

$$\text{Liquid Assets} = \text{Debtors} + \text{Cash at Bank}$$
$$= ₹\ 30{,}000 + ₹\ 10{,}000 = ₹\ 40{,}000$$

Or

(a) *Gross Profit Ratio establishes the relationship of Gross Profit and Revenue from Operations, i.e., Net Sales of an enterprise. The ratio is calculated and shown in percentage.*

Computation: This ratio is computed as follows:

$$\textit{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$$

(b) *Debt-Equity Ratio is computed to assess long-term financial soundness of the enterprise. The ratio expresses the relationship between long-term external equities (i.e., External Debts) and internal equities (i.e., Shareholders' Funds) of the enterprise.*

$$\textit{Debt-Equity Ratio} = \frac{\text{Debt}}{\text{Equity (Shareholders' Funds)}}$$

8. **G.K. Ltd.**

CASH FLOW STATEMENT *for the year ended 31st March, 2014*

Particulars		₹
Cash Flow from Operating Activities		
Net Profit/(Loss) for the year:		
Closing Balance of Surplus, *i.e.*, Balance in Statement of Profit and Loss (Profit and Loss A/c)		6,200
Less: Opening Balance		7,200
Net Loss		(1,000)
Add: Transfer to General Reserve (₹ 12,000 – ₹ 8,000)	4,000	
Proposed Dividend	20,200	
Goodwill written off	4,000	28,200
Operating Profit before Working Capital Changes		27,200
Add: Decrease in Current Assets/Increase in Current Liabilities:		
Stock (₹ 34,000 – ₹ 31,200)	2,800	
Creditors (₹ 36,400 – ₹ 28,400)	8,000	10,800
		38,000
Less: Increase in Current Assets:		
Debtors (₹ 43,200 – ₹ 30,000)		13,200
Cash Flow from Operating Activities		24,800

Or

Cash Flow Statement is a Statement that shows the flow (inflow and outflow) of Cash and Cash Equivalents during a particular period under Operating, Investing and Financing Activities.

Cash Book is a special purpose subsidiary Book in which cash transactions are recorded as they take place. In other words, each and every cash transaction is recorded in the Cash Book in a chronological order. It is a book from which the transactions are posted to respective ledger accounts.