WBCHSE ACCOUNTANCY PAPER, 2016

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 January, 2014 were ₹ 50,000, ₹ 40,000 and ₹ 30,000 respectively. Prepare Profit and Loss Appropriation Account for the year ended 31st December, 2014 after considering the following information:

(a) Interest on Capital @ 10% p.a.
(b) *A* will get a monthly salary of ₹ 800.
(c) Net Profit before considering the above is ₹ 50,000.
(d) 10% of profit to be transferred to General Reserve.
(e) The ratio of sharing profit and loss by *A*, *B* and *C* is 4 : 3 : 2. (4)

Or

What is Profit and Loss Appropriation Account? State its characteristics. (1 + 3)

2. Bijoy Ltd. forfeited 200 shares of ₹ 10 each fully called-up for non-payment of Final call money of ₹ 3 per share. These shares are subsequently reissued at ₹ 8 per share.

Pass necessary Journal entries in the books of Bijoy Ltd. (4)

Or

(a) What do you mean by shares issued at a premium?
(b) What is forfeiture of shares? (2 + 2)

3. Light Ltd. purchased the following assets from Black Ltd.:
Plant and Machinery ₹ 2,00,000, Land and Building ₹ 5,00,000.
Black Ltd. was paid for such purchases as ₹ 1,00,000 by Bank draft and the balance by issue of 10% Debentures (Face value ₹ 100) at 20% premium.
Pass necessary Journal entries in the books of Light Ltd. (4)

4. *P, Q* and *R* are partners in a firm sharing profits and losses in 3 : 2 : 1. On 31st March, 2015, their Balance Sheet was as under:

Liabilities			₹	Assets	₹
Capital A/cs:	*P*	80,000		Buildings	90,000
	Q	50,000		Machinery	40,000
	R	45,000	1,75,000	Furniture	20,000
Reserve			30,000	Stock	30,000
Creditors			25,000	Debtors	40,000
				Cash	10,000
			2,30,000		2,30,000

R died on 31st July, 2015. Under the terms of Partnership Deed *R* is entitled to:

(i) Capital including interest on capital @ 10% p.a.
(ii) Salary per month ₹ 1,000.
(iii) Share of profit on the basis of profit of the last year. Profit of the last year was ₹ 90,000.

Show *R*'s Capital Account by showing working notes clearly. (6)

Or

What is internal reconstruction of a partnership? Show the difference between admission of a new partner and retirement of a partner. (2 + 4)

5. *DK* Co. Ltd. issued 10,000 shares of ₹ 25 each at a premium of ₹ 5 per share payable as follows:

On Application	₹ 10 (including premium of ₹ 3)
On Allotment	₹ 10 (including premium of ₹ 2)
On First Call	₹ 5
On Final Call	₹ 5

Applications were received for 12,000 shares. Excess application money will be adjusted with allotment money due. All moneys were received up to Final Call, except one shareholder holding 1,000 shares failed to pay the Final Call money.

Pass Journal entries including cash transactions in the books of *DK* Co. Ltd. (6)

Or

What do you mean by Reserve Capital? Distinguish between Share and Debenture. (2 + 4)

6. *A* and *B* share profits and losses in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2015 was as under:

Liabilities		₹	Assets		₹
Capital A/cs:			Building		80,000
A	60,000		Plant		60,000
B	40,000	1,00,000	Stock		40,000
Reserves		80,000	Debtors	32,000	
Creditors		35,000	*Less:* Provision	2,000	30,000
Bills Payable		10,000	Cash at Bank and in Hand		15,000
		2,25,000			2,25,000

On 1st April, 2015, *C* is admitted in the firm for 1/5th share in the business on the following terms:

(i) Building to be valued at ₹ 1,00,000.
(ii) Plant to be reduced by ₹ 10,000.
(iii) Provision on debtors to be increased to ₹ 3,000.
(iv) Stock to be reduced by 5%.
(v) *C* brings ₹ 10,000 as his share of goodwill in cash.
(vi) *C* will bring 50% of the combined capital of *A* and *B* after adjustments as his capital.
(vii) The new profit-sharing ratio after *C*'s admission will be 2 : 2 : 1.

Prepare:

(a) Revaluation Account,
(b) Partners' Capital Accounts, and
(c) Balance Sheet as on 1st April, 2015 after admission of *C*. (4 + 3 + 3)

7.

		₹
Total Sales	—	2,60,000
Cash Sales	—	60,000
Opening Debtors	—	20,000
Closing Debtors	—	30,000
Gross Profit	—	52,000

Calculate Debtors Turnover Ratio and Gross Profit Ratio. (3 + 1)

Or

Write short notes on the following:

(a) Stock Turnover Ratio.

(b) Proprietary Ratio. (2 + 2)

8. From the following Balance Sheets, prepare Cash Flow Statement for the year ended 31st December, 2015:

BALANCE SHEETS OF M.S. LTD.
as on 31st December, 2014 and 2015

Liabilities	31st Dec., 2014 (₹)	31st Dec., 2015 (₹)	Assets	31st Dec., 2014 (₹)	31st Dec., 2015 (₹)
Share Capital	55,000	70,000	Goodwill	30,000	20,000
Profit and Loss A/c	25,000	45,000	Fixed Assets	40,000	85,000
Reserve	15,000	20,000	Investments (Long-term)	12,200	11,500
9% Loan (Taken on 31.12.2015)	25,000	50,000	Inventories	30,000	45,000
Creditors	16,000	20,000	Debtors	20,000	35,000
Bills Payable	4,000	7,500	Bills Receivable	4,000	10,000
			Cash and Bank	3,800	6,000
	1,40,000	2,12,500		1,40,000	2,12,500

(6)

Or

What is Cash Flow Statement? Mention the objectives of Cash Flow Statement. (2 + 4)

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.*, $₹\ 45,000 \times \frac{10}{100} \times \frac{4}{12} = ₹\ 1{,}500.$

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. To Share Capital A/c (Being the final call money due on 10,000 shares @ ₹ 5 per share)		50,000	50,000
	Bank A/c ...Dr. To Share Final Call A/c (Being the amount due on final call received except on 1,000 shares)		45,000	45,000

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 = $\frac{\text{Net Credit Sales}}{\text{Average Debtors}} = \frac{₹\ 2,00,000}{₹\ 25,000} = 8$ 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 = $\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100 = \frac{₹\ 52,000}{₹\ 2,60,000} \times 100 = 20\%$.

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:

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

(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:

$$\frac{\text{Proprietors' Funds}}{\text{Total Assets}}$$

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.