WBCHSE ACCOUNTANCY PAPER, 2018

(New Syllabus)

Total Time: 3 Hours 15 Minutes **Total 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)

Answer the following questions (Alternatives are to be noted):

1. *A*, *B* and *C* are partners in a firm with capitals ₹ 4,00,000, ₹ 3,00,000 and ₹ 3,00,000 respectively on 1st January, 2017. The Partnership Deed contains the following clauses:

(i) Interest on Capital @ 5% p.a.

(ii) Interest on Drawing @ 6% p.a.

(iii) *A* gets salary ₹ 4,000 per month.

(iv) *B* gets commission @ 10% on the Net Profit.

(v) Profit and Losses to be shared: *A* : *B* : *C* = 4 : 3 : 3.

The net profit of the firm for the year ended 31st December, 2017 amounted to ₹ 4,80,000 and the drawings of the partners are:

A—₹ 30,000, *B*—₹ 20,000 and *C*—₹ 10,000.

Prepare Profit and Loss Appropriation Account for the year ended on 31st December, 2017. (4)

Or

Is registration of a Partnership Deed mandatory? What are the consequences of non-registration of Partnership Deed? (2 + 2)

2. *X* Ltd. issued 20,000 shares @ ₹ 10 each at a premium of ₹ 2 per share payable as follows:

₹ 4 on application

₹ 5 on allotment (including premium of ₹ 2)

₹ 3 on call.

Applications were received for 23,000 shares. Applications for 3,000 shares were refunded. Allotment and call moneys were duly received except one shareholder who holds 1,000 shares failed to pay the call money.

Give the Journal entries in the books of X Ltd. (Narration is not required) (4)

Or

Write short notes on:

(a) Authorised Capital.

(b) Subscribed Capital. (2 + 2)

3. *Y* Ltd. purchased equipment worth ₹ 1,99,500 and issued debentures to the vendor as purchase consideration.

Pass necessary Journal entries in the following two situations:

Situation 1: If 12% Debentures of ₹ 100 each are issued to the vendor at a premium of 5%.

Situation 2: If 12% Debentures of ₹ 100 each are issued to the vendor at a discount of 5%.

(2 + 2)

4. Rai, Rwik and Neel were carrying on partnership business sharing profits in the ratio of 5 : 3 : 2 respectively. On 31st March, 2017, the Balance Sheet of the firm stood as follows:

BALANCE SHEET

as on 31st March, 2017

Liabilities		₹	Assets	₹
Capitals:			Building	80,000
Rai	60,000		Stock	30,000
Rwik	40,000		Debtors	60,000
Neel	40,000	1,40,000	Cash	50,000
General Reserve		50,000		
Creditors		30,000		
		2,20,000		2,20,000

Neel retired on 1st April, 2017 on the following terms:

(i) Building to be appreciated by ₹ 20,000.

(ii) Provision for Doubtful Debts to be made at 10% on debtors.

(iii) Goodwill of the firm is valued at ₹ 80,000 and value of goodwill will not be shown in the Balance Sheet after retirement of Neel.

(iv) ₹ 26,000 to be paid immediately and the balance of his Capital Account to be transferred to his Loan Account.

Prepare Revaluation Account and Partners' Capital Accounts in the books of the firm.

(2 + 4)

Or

(a) What is Joint Life Insurance Policy? Why is it created?

(b) Distinguish between Sacrificing Ratio and Gaining Ratio. (3 + 3)

5. *Z* Ltd. issued 10,000 shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows: ₹ 2 on Application, ₹ 5 on Allotment (including premium of ₹ 2), ₹ 3 on 1st call and ₹ 2 on Final call.

A shareholder, holding 500 shares did not pay final call money. His shares were forfeited. Out of these, 300 shares were reissued to Mr. Sen at ₹ 9 per share.

Pass Journal entries in the books of *Z* Ltd. (Narration is not required) (6)

Or

(a) Distinguish between equity share and preference share.

(b) Compare between forfeiture of share and surrender of share. (4 + 2)

6. *A* and *B* are partners of a partnership firm. They shared profit and loss in the ratio of 2 : 1. Their Balance Sheet as on 31st December, 2017 was as under:

BALANCE SHEET

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		60,000
A	1,00,000		Furniture		50,000
B	50,000	1,50,000	Investment		30,000
General Reserve		20,000	Stock		25,000
Creditors		50,000	Debtors	50,000	
Outstanding Expenses		10,000	*Less:* Provision	5,000	45,000
			Cash		20,000
		2,30,000			2,30,000

On 1st January, 2018, *C* is admitted as a new partner on the following terms:

(i) Land and Building to be appreciated by 10%.

(ii) Market value of investment is ₹ 35,000.

(iii) Outstanding Expenses to be increased by ₹ 2,000.

(iv) Provision on Debtors to be increased by 5%.

(v) Value of Goodwill of the firm is ₹ 50,000.

(vi) *C* brings capital of ₹ 30,000 and premium for goodwill brought in by *C* and the amount retained in business.

(vii) The new profit-sharing ratio after *C*'s admission will be 5 : 3 : 2.

Prepare:

(a) Revaluation Account.

(b) Partners' Capital Accounts.

(c) Balance Sheet as on 1st January, 2018 after admission of *C*. (3 + 4 + 3)

7.

	Amount (₹)
Total Sales	9,00,000
Opening Debtors	1,20,000
Closing Debtors	1,30,000
Sales Return	1,00,000
Cash Sales	2,50,000
Gross Profit	1,80,000

Calculate Debtors' Turnover Ratio and Gross Profit Ratio. (2 + 2)

Or

Write short notes on the following:

(a) Liquidity Ratio.

(b) Debt-equity Ratio. (2 × 2 = 4)

8. Following are the summarised Balance Sheets of *V*. Ltd. Prepare a Cash Flow Statement for the year ended 31st December, 2017 (As per AS-3).

BALANCE SHEETS OF *V.* LTD. *as on 31st December, 2016 and 31st December, 2017*

Liabilities	31st December, 2016 (₹)	31st December, 2017 (₹)	Assets	31st December, 2016 (₹)	31st December, 2017 (₹)
Share Capital	45,000	65,000	Goodwill	30,000	20,000
General Reserve	15,000	27,500	Fixed Assets	46,000	83,500
Profit and Loss A/c	10,000	15,000	Stock	11,000	13,000
Creditors	15,000	13,000	Debtors	18,000	19,000
Bank Overdraft	15,000	25,000	Bills Receivable	10,000	25,000
Bills Payable	8,000	11,000	Cash in Hand	3,000	1,000
Proposed Dividend	10,000	5,000			
	1,18,000	1,61,500		1,18,000	1,61,500

(6)

Or

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

PART B (36 MARKS)

1. Select the correct answer out of the options given against each question: (1 × 18 = 18)

(i) In the absence of partnership agreement, the partners are
 (a) entitled to get interest on loan @ 6% p.a.
 (b) not entitled to get interest on loan.
 (c) entitled to get interest on loan @ 4% p.a.
 (d) None of these.

(ii) Partner's Current Account is a
 (a) Personal Account. (b) Nominal Account.
 (c) Real Account. (d) None of these.

(iii) After death of partner, Profit/Loss on Revaluation of Assets and Liabilities is to be distributed among
 (a) only deceased partner. (b) all the partners.
 (c) continuing partner. (d) None of them.

(iv) *A* and *B* are two partners, they agreed to change profit-sharing ratio from 2 : 1 to 3 : 2. Who gained due to change in profit-sharing ratio?
 (a) *A*. (b) *B*.
 (c) Both *A* and *B*. (c) None of them.

(v) Registration of Partnership Deed is
 (a) Compulsory. (b) Voluntary.
 (c) Optional. (d) None of these.

(vi) The part of capital which has been called-up but not yet received from the shareholders is known as
 (a) Calls-in-Arrear. (b) Calls-in-Advance.
 (c) Reserve Capital. (d) Capital Reserve.

(vii) *A* Ltd. purchased a machine for ₹ 15,00,000 from *B* Ltd. by issue of shares of ₹ 100 each at a premium of 25%. The number of shares issued will be
 (a) 12,000. (b) 15,000.
 (c) 20,000. (d) None of these.

(viii) For purchase of a net asset of ₹ 2,50,000, purchase consideration is satisfied by issue of Equity Shares of ₹ 1,00,000 and by Cash ₹ 1,00,000. The difference is treated as

(a) Goodwill. (b) Capital Reserve.
(c) Capital Redemption Reserve. (d) Security Premium Reserve.

(ix) Premium on Issue of Debenture is

(a) an asset. (b) an income.
(c) an expense. (d) a liability.

(x) The balance of partner's fixed capital under fixed capital method is

(a) always debit. (b) always credit.
(c) either debit or credit. (c) zero balance.

(xi) As per Companies Act, 2013, the annual rate of interest on Calls-in-Arrears is

(a) 5%. (b) 6%.
(c) 10%. (d) 12%.

(xii) A partnership firm earned net profit of ₹ 2,10,000 and partners are entitled to get commission @ 5% on net profit after charging such commission, then amount of partners' commission is

(a) ₹ 15,000. (b) ₹ 10,000.
(c) ₹ 5,000. (d) None of these.

(xiii) Share Allotment Account is a

(a) Real Account. (b) Personal Account.
(c) Nominal Account. (b) Valuation Account.

(xiv) Balance in Forfeited Share Account is shown in the Balance Sheet under the head of

(a) Other Current Liability. (b) Reserve and Surplus.
(c) Share Capital. (b) Long-term Borrowings.

(xv) What is called the excess of actual profit over normal profit?

(a) Average profit. (b) Capitalised profit.
(c) Super profit. (d) Net profit.

(xvi) The feature of a joint stock company is/are

(a) Common seal. (b) Perpetual existence.
(c) Limited liability. (d) All of these.

(xvii) *X* and *Y* are equal partners of a firm and their capitals were ₹ 10,000 and 20,000 respectively. *Z* was admitted as a new partner of 1/4th share of profit of the firm and *Z* brings ₹ 12,000 as capital. Therefore, total capital of the firm on the basis of *Z*'s capital will be

(a) ₹ 42,000. (b) ₹ 19,500.
(c) ₹ 48,000. (b) ₹ 37,500.

(xviii) General Reserve will be distributed among the partners at the time of admission of new partner in

(a) old ratio. (b) new ratio.
(c) equally. (d) None of these.

2. Choose the correct alternative: (1 × 6 = 6)

(i) The financial statement of a company comprises

(a) Balance Sheet. (b) Statement of Profit and Loss.
(c) Cash Flow Statement. (d) All of these.

(ii) If sales is ₹ 2,00,000 and Operating Profit Ratio is 25%, then what will be the operating cost?
(a) ₹ 50,000. (b) ₹ 1,00,000.
(c) ₹ 1,50,000. (d) ₹ 2,50,000.

(iii) Sale of Furniture of ₹ 50,000 is
(a) Cash Flow from Operating Activities. (b) Cash Flow from Financing Activities.
(c) Cash Flow from Investing Activities. (d) None of these.

(iv) Credit sales is 75% of cash sales. if total sales is ₹ 3,50,000, then cash sales is
(a) ₹ 1,50,000. (b) ₹ 2,00,000.
(c) ₹ 2,62,500. (d) None of these.

(v) As per Companies Act, 2013, Bank Overdraft is
(a) Current Liability. (b) Cash and Cash Equivalent.
(c) Short-term Borrowings. (d) Non-current Assets.

(vi) Ideal Current Ratio is
(a) 1 : 1. (b) 2 : 1.
(c) 1 : 2. (d) 4 : 1.

3. Answer the following questions in brief (Alternatives are to be noted): (1 × 8 = 8)

(i) *P* and *Q* are partners sharing profits and losses in the ratio 3 : 2. *P* surrenders 1/4th of his share and *Q* surrenders 1/3rd of his share in favour of *R*, a new partner. Find out *R*'s share of profit.

(ii) In which ratio premium for goodwill brought in by new partner in cash will be shared by old partners?

(iii) What is forfeiture of shares?

(iv) What do you mean by reissue of forfeited shares?

(v) Give the definition of partnership.

Or

Write one characteristic of partnership.

(vi) What is the formula for determining the sacrificing ratio?

Or

What do you mean by new profit-sharing ratio?

(vii) What will be the Journal entry for overvaluation of Land & Buildings at the time of admission of a new partner?

Or

How is undistributed profits treated at the time of retirement of a partner?

(viii) What is calls-in-arrear?

Or

What do you mean by oversubscription?

4. Answer the following questions (Alternatives are to be noted): (1 × 4 = 4)

(i) State one advantage of Common-size Statement.

Or

What do you mean by Financial Statement analysis?

(ii) What do you mean by Cash and Cash Equivalent?

(iii) What is Net Profit Ratio?

Or

Give an example of Balance Sheet Ratio.

(iv) Write one objective of Ratio Analysis.

Answers

PART A

1.

Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT *for the year ended 31st December, 2017* Cr.

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Profit and Loss A/c (Net Profit)		4,80,000
A	20,000		By Interest on Drawings A/cs:		
B	15,000		*A*	900	
C	15,000	50,000	*B*	600	
To *A*'s Salary A/c		48,000	*C*	300	1,800
To *B*'s Commission A/c		48,000			
To Profit transferred to:					
A's Capital A/c	1,34,320				
B's Capital A/c	1,00,740				
C's Capital A/c	1,00,740	3,35,800			
		4,81,800			4,81,800

Working Note:

Calculation of Interest on Drawings:

$A = ₹\ 30{,}000 \times 6/100 \times 6^*/12 = ₹\ 900.$

$B = ₹\ 20{,}000 \times 6/100 \times 6^*/12 = ₹\ 600.$

$C = ₹\ 10{,}000 \times 6/100 \times 6^*/12 = ₹\ 300.$

*In the absence of date of drawings, interest on total drawings have been calculated for average period, *i.e.*, 6 months.

Or

No, registration of Partnership Deed is not mandatory but optional. In the case of non-registration of Partnership Deed, the firm cannot sue outside parties but outside parties can sue the firm.

2. JOURNAL OF *X* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		92,000	
	To Shares Application A/c				92,000
	Shares Application A/c	...Dr.		92,000	
	To Share Capital A/c				80,000
	To Bank A/c				12,000
	Shares Allotment A/c	...Dr.		1,00,000	
	To Share Capital A/c				60,000
	To Securities Premium Reserve A/c				40,000
	Bank A/c	...Dr.		1,00,000	
	To Shares Allotment A/c				1,00,000
	Shares First and Final Call A/c	...Dr.		60,000	
	To Share Capital A/c				60,000
	Bank A/c	...Dr.		57,000	
	To Shares First and Final Call A/c				57,000
	Or				
	Bank A/c	...Dr.		57,000	
	Calls-in-Arrears A/c	...Dr.		3,000	
	To Shares First and Final Call A/c				60,000

Or

(a) **Authorised Capital** or **Nominal Capital** means such capital as is authorised by the Memorandum of a company to be the maximum amount of share capital that a company can issue. It is stated separately for each class of shares, *i.e.*, Preference Shares and Equity Shares.

(b) **Subscribed Capital** means such part of the authorised capital which is for the time being subscribed by the members of a company. It includes shares issued for subscription and subscribed, shares subscribed by signatories to the Memorandum of Association, shares subscribed by the directors as qualifying shares and shares allotted for consideration other than cash.

3. JOURNAL OF *Y* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	For Purchase of Assets:				
	Equipments A/c	...Dr.		1,99,500	
	To Vendor's A/c				1,99,500
	(Being the equipments purchased from a vendor)				
Situ. 1	**Issue of Debentures at Premium:**				
	Vendor's A/c	...Dr.		1,99,500	
	To 12% Debentures A/c				1,90,000
	To Securities Premium Reserve A/c				9,500
	(Being 1,900 (*i.e.*, ₹ 1,99,500 ÷ ₹ 105); 12% Debentures of ₹ 100 each issued at a premium of 5% to the vendor)				
Situ. 2	**Issue of Debentures at Discount:**				
	Vendor's A/c	...Dr.		1,99,500	
	Discount on Issue of Debentures A/c	...Dr.		10,500	
	To 12% Debentures A/c				2,10,000
	(Being 2,100 (*i.e.*, ₹ 1,99,500 ÷ ₹ 95); 12% Debentures of ₹ 100 each issued at a discount of 5% to the vendor)				

4.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts A/c		6,000	By Building A/c	20,000
To Gain (Profit) transferred to:				
Rai's Capital A/c	7,000			
Rwik's Capital A/c	4,200			
Neel's Capital A/c	2,800	14,000		
		20,000		20,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Rai (₹)	Rwik (₹)	Neel (₹)	Particulars	Rai (₹)	Rwik (₹)	Neel (₹)
To Neel's Capital A/c	10,000	6,000	...	By Balance *b/d*	60,000	40,000	40,000
To Cash A/c	...	...	26,000	By Revaluation A/c	7,000	4,200	2,800
To Neel's Loan A/c	...	...	42,800	By General Reserve A/c	25,000	15,000	10,000
To Balance *c/d*	82,000	53,200	...	By Rai's Capital A/c (WN)	...	...	10,000
				By Rwik's Capital A/c (WN)	...	...	6,000
	92,000	59,200	68,800		92,000	59,200	68,800

Working Note:

Goodwill of the firm = ₹ 80,000

Neel's share of Goodwill = ₹ 80,000 × 2/10 = ₹ 16,000, which will be contributed by Rai and Rwik in their gaining ratio, *i.e.*, 5 : 3. Thus,

Rai's contribution = ₹ 16,000 × 5/8 = ₹ 10,000;

Rwik's contribution = ₹ 16,000 × 3/8 = ₹ 6,000.

Or

(a) **Joint Life Insurance Policy** is a policy taken by the firm on the lives of the partners jointly.

Firm pays its premium. If any of the partner dies the Insurance Company pays amount of sum assured to the firm. It is created to guard against the loss of lives of the partners.

(b)

Basis	***Sacrificing Ratio***	***Gaining Ratio***
1. Meaning	It is the ratio in which the old partners have agreed to sacrifice their shares in profits in favour of the new or incoming partner.	It is the ratio in which the remaining partners acquires the outgoing partner's share.
2. Objective	It is calculated to determine the amount of compensation to be paid by the incoming partner to the sacrificing partners as premium for goodwill or goodwill.	It is calculated to determine the amount of compensation to be paid by each of the gaining partner to the outgoing partner as premium for goodwill or goodwill.
3. When to Calculate	It is calculated at the time of admission of a new partner and change in the profit-sharing ratio.	It is calculated at the time of retirement or death of a partner and change in the profit-sharing ratio.

5. JOURNAL OF *Z* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		20,000	
	To Shares Application A/c				20,000
	Shares Application A/c	...Dr.		20,000	
	To Share Capital A/c				20,000
	Shares Allotment A/c	...Dr.		50,000	
	To Share Capital A/c				30,000
	To Securities Premium Reserve A/c				20,000
	Bank A/c	...Dr.		50,000	
	To Shares Allotment A/c				50,000
	Shares First Call A/c	...Dr.		30,000	
	To Share Capital A/c				30,000
	Bank A/c	...Dr.		30,000	
	To Shares First Call A/c				30,000
	Shares Second and Final Call A/c	...Dr.		20,000	
	To Share Capital A/c				20,000
	Bank A/c	...Dr.		19,000	
	To Shares Second and Final Call A/c				19,000
	Or				
	Bank A/c	...Dr.		19,000	
	Calls-in-Arrears A/c	...Dr.		1,000	
	To Shares Second and Final Call A/c				20,000

	Share Capital A/c	...Dr.		5,000	
	To Forfeited Shares A/c				4,000
	To Shares Second and Final Call A/c				1,000
	Or				
	Share Capital A/c	...Dr.		5,000	
	To Forfeited Shares A/c				4,000
	To Calls-in-Arrears A/c				1,000
	Bank A/c	...Dr.		2,700	
	Forfeited Shares A/c	...Dr.		300	
	To Share Capital A/c				3,000
	Forfeited Shares A/c	...Dr.		2,100	
	To Capital Reserve A/c				2,100

Working Note:

Amount transferred to Capital Reserve:

Amount forfeited on 500 shares = ₹ 4,000

Amount forfeited on 300 shares = ₹ 4,000 × 300/500 = ₹ 2,400

Discount allowed on reissue of 300 shares = ₹ 300

Gain on reissue transferred to Capital Reserve = ₹ 2,400 – ₹ 300 = ₹ 2,100.

Or

(a)

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 every year and approved (declared) by the shareholders.	Rate of dividend may be 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, arrears of dividend is paid before dividend is paid on equity shares.
4. Redemption	A company may buy-back its equity shares.	Preference shares are redeemed on the due date.

(b) **Forfeiture of shares** means cancelling the shares for non-payment of calls due. If any shareholder does not pay the amount of a call, the company may exercise the power to forfeit the shares held by him on which amount of call is not paid.

Surrender of shares is a voluntary return of shares by the member. Surrender is done to cut the long procedure of forfeiture. It is a voluntary action taken by shareholder. Surrender is done in case of partly paid shares.

6.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Outstanding Expenses A/c		2,000	By Land and Building A/c	6,000
To Provision for Doubtful Debts A/c		2,500	By Investment A/c	5,000
To Gain (Profit) transferred to:				
A's Capital A/c	4,333			
B's Capital A/c	2,167	6,500		
		11,000		11,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Balance *c/d*	1,25,999	60,501	30,000	By Balance *b/d*	1,00,000	50,000	...
				By Cash A/c	...	...	30,000
				By Premium for Goodwill A/c	8,333	1,667	...
				By Revaluation A/c	4,333	2,167	...
				By General Reserve A/c	13,333	6,667	...
	1,25,999	60,501	30,000		1,25,999	60,501	30,000

BALANCE SHEET *as on 1st January, 2018*

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		66,000
A	1,25,999		Furniture		50,000
B	60,501		Investment		35,000
C	30,000	2,16,500	Stock		25,000
Creditors		50,000	Debtors	50,000	
Outstanding Expenses		12,000	*Less:* Provision for Doubtful Debts	7,500	42,500
			Cash		60,000
		2,78,500			2,78,500

Working Note:

	A	*B*
I. Old Share	2/3	1/3
II. New Share	5/10	3/10
III. Sacrifice (I – II)	5/30	1/30

Thus, Sacrificing Ratio of *A* and *B* = 5/30 : 1/30 = 5 : 1

Goodwill of the firm = ₹ 50,000

Premium for Goodwill brought by *C* = ₹ 50,000 × 2/10 = ₹ 10,000, which will be shared by *A* and *B* in their sacrificing ratio, *i.e.*, 5 : 1.

Thus, *A*'s share = ₹ 10,000 × 5/6 = ₹ 8,333; *B*'s share = ₹ 10,000 × 1/6 = ₹ 1,667.

7. $$\text{Debtors' Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables (Debtors + Bills Receivable)}}$$

$$= \frac{₹\,5{,}50{,}000}{₹\,1{,}25{,}000} = 4.4 \text{ Times.}$$

$$\text{Net Credit Sales} = \text{Total Sales} - \text{Cash Sales} - \text{Sales Return}$$

$$= ₹\ 9{,}00{,}000 - ₹\ 2{,}50{,}000 - ₹\ 1{,}00{,}000 = ₹\ 5{,}50{,}000.$$

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

$$= \frac{₹\,1{,}20{,}000 + ₹\,1{,}30{,}000}{2} = \frac{₹\,2{,}50{,}000}{2} = ₹\ 1{,}25{,}000.$$

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations, } i.e., \text{ Net Sales}} \times 100$$

$$= \frac{₹\,1{,}80{,}000}{₹\,8{,}00{,}000} \times 100 = 22.5\%.$$

$$\text{Net Sales} = \text{Total Sales} - \text{Sales Return}$$

$$= ₹\ 9{,}00{,}000 - ₹\ 1{,}00{,}000 = ₹\ 8{,}00{,}000.$$

Or

(a) **Liquidity Ratio:** It measures the ability of the enterprise to meet its short-term financial obligations, *i.e.*, Current Liabilities. It is a relationship of liquid assets with Current Liabilities.

Computation: Liquid/Quick Ratio is calculated as follows:

$$\text{Liquid/Quick Ratio} = \frac{\text{Liquid Assets or Quick Assets}}{\text{Current Liabilities}}$$

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

Computation:

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

8. CASH FLOW STATEMENT *for the year ended 31st December, 2017*

Particulars		₹	₹
I. Cash Flow from Operating Activities			
Net Profit before Tax and Extraordinary Items (WN)		22,500	
Add: Non-cash and Non-operating Expenses:			
Goodwill Amortised		10,000	
Operating Profit before Working Capital changes		32,500	
Add: Increase in Current Liabilities:			
Bills Payable		3,000	
Less: Decrease in Current Liabilities and Increase in Current Assets:			
Stock	2,000		
Debtors	1,000		
Bills Receivable	15,000		
Creditors	2,000	(20,000)	
Cash Flow from Operating Activities			15,500
II. Cash Flow from Investing Activities			
Purchase of Fixed Assets		(37,500)	
Cash Used in Investing Activities			(37,500)
III. Cash Flow from Financing Activities			
Proceeds from Issue of Share Capital		20,000	
Payment of Dividend		(10,000)	
Increase in Bank Overdraft		10,000	
Cash Flow from Financing Activities			20,000
IV. Net Decrease in Cash and Cash Equivalents (I + II + III)			(2,000)
V. Cash and Cash Equivalent in the beginning of the Period			3,000
VI. Cash and Cash Equivalent at the end of the Period (IV + V)			1,000

Working Note:

Calculation of Net Profit before Tax and Extraordinary Items:	₹
Closing balance of Profit and Loss A/c	15,000
Less: Opening balance of Profit and Loss A/c	10,000
	5,000
Add: Transfer to General Reserve	12,500
Proposed Dividend	5,000
Net Profit before Tax and Extraordinary Items	22,500

Or

(a) **Cash Flow Statement** is a statement prepared as per AS-3 (Revised). It shows the flow of Cash and Cash Equivalents during the period under Operating Activities, Investing Activities and Financing Activities. Cash Flows are inflows (*i.e.*, receipts) and outflows (*i.e.*, payments) of Cash and Cash Equivalents. Transactions that increase Cash and Cash Equivalents are inflows of Cash and Cash Equivalents and transactions that decrease Cash and Cash Equivalents are outflows of Cash and Cash Equivalents.

Limitations of Cash Flow Statement are:

1. Non-cash transactions are not shown.
2. It is historical in nature.
3. *Assessment of Liquidity:* Liquidity of the enterprise cannot be determined from Cash Flow Statement alone because it depends on other factors also like Current Assets and Current Liabilities.

PART B

1. (i) (a), (ii) (a), (iii) (b), (iv) (b), (v) (c), (vi) (a), (vii) (a), (viii) (b), (ix) (d), (x) (b), (xi) (c), (xii) (b), (xiii) (b), (xiv) (c), (xv) (c), (xvi) (d), (xvii) (c), (xviii) (a).
2. (i) (d), (ii) (c), (iii) (c), (iv) (b), (v) (c), (vi) (b).
3. (i) P and Q sharing profit and losses in the ratio 3 : 2

P surrenders $= 3/5 \times 1/4 = 3/20$

Q surrenders $= 2/5 \times 1/3 = 2/15$

$$R \text{ will get } = \frac{3}{20} + \frac{2}{15} = \frac{9+8}{60} = \frac{17}{60}.$$

(ii) The premium for goodwill brought in by new partner in cash will be shared by old partners in their sacrificing ratio.

(iii) Forfeiture of shares means cancelling of shares.

(iv) Forfeited shares becomes the property of the company and the company can reissue them at par, at premium or at discount.

(v) Partnership is the relation between two or more persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

Or

Agreement—Partnership comes into existence by an agreement either written or oral. The agreement among the partners is the basis of their relationship which may be for a venture, for a period or at will.

(vi) Sacrificing Ratio = Old Profit-sharing Ratio – New Profit-sharing Ratio.

Or

The ratio in which all partners, including new or incoming partner, share future profits or losses of the firm (at the time of admission) is called new profit-sharing ratio. The ratio in which the remaining or continuing partners (*i.e.*, partners other than outgoing, *i.e.*, retiring or deceased partner) will share profits and losses in future is known as new profit-sharing ratio.

(vii) Revaluation A/c ...Dr.

To Land and Buildings A/c

(Being the entry passed for overvaluation of Land and Buildings)

Or

Undistributed profit is distributed among all partners in their old profit-sharing ratio at the time of retirement.

(viii) If a shareholder defaults in payment of call amount due on allotment or on any calls, the amount not received against the amount called is Calls-in-Arrears.

Or

Shares are said to be oversubscribed when the number of shares applied for is more than number of shares offered for subscription.

4. (i) Common Size Statement shows the relative efficiency in operating the business.

Or

Financial Statement Analysis is a study of relationship among various financial factors in a business, as disclosed by a single set of statements and a study of trends of these factors as shown in a series of statement.

(ii) Cash comprises of cash on hand and demand deposits with banks. Cash Equivalents are short-term, highly liquid investments that are readily convertible into the known amount of cash and which are subject to an insignificant risk of change in value.

(iii) Net Profit Ratio establishes the relationship between Net profit and Revenue from Operations, *i.e.*, net sales.

Computation:

$$\text{Net Profit Ratio} = \frac{\text{Net Profit after Tax}}{\text{Revenue from Operations, } i.e., \text{ Net Sales}} \times 100 = ...\%.$$

Or

The example of Balance Sheet Ratio is:

Current Assets are ₹ 4,00,000; Inventories ₹ 2,00,000; Working Capital ₹ 2,40,000. Calculate Current Ratio.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{₹\,4{,}00{,}000}{₹\,1{,}60{,}000} = 2.5 : 1.$$

Working Capital = Current Assets – Current Liabilities

Current Liabilities = Current Assets – Working Capital

= ₹ 4,00,000 – ₹ 2,40,000 = ₹ 1,60,000.

(Other Balance Sheet Ratios are Liquid Ratio, Proprietary Ratio and Debt-equity Ratio)

(iv) (i) To simplify the accounting information.

(ii) To analyse the profitability of the business.