Answers

1.

PROFIT AND LOSS APPROPRIATION ACCOUNT

for the year ended 31st March, 2014

Dr. Particulars		₹	Particulars	₹ *Cr.*
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 **Frequency of Change**	Balance in Fixed Capital Account does not change except when capital is introduced or it is withdrawn.	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 show a debit or credit 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)			

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

	(ii)	Bank A/c ...Dr. To Debentures 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
		Debentures 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. (₹)
2015				
Jan. 1	Land and Buildings A/c (₹ 60,000 – ₹ 50,000) ...Dr.		10,000	
	Plant and Machinery A/c ...Dr.		6,000	
	To Revaluation A/c			16,000
	(Being the increase in value of Land and Buildings and Plant and Machinery recorded)			
	Revaluation A/c ...Dr.		3,000	
	To Stock A/c			3,000
	(Being the decrease in value of stock recorded)			
	Revaluation A/c ...Dr.		13,000	
	To *A*'s Capital A/c			7,429
	To *B*'s Capital A/c			5,571
	(Being the gain (profit) on revaluation of assets distributed in the ratio of 4 : 3)			
	Reserve A/c ...Dr.		21,000	
	To *A*'s Capital A/c			12,000
	To *B*'s Capital A/c			9,000
	(Being the reserve distributed in the ratio of 4 : 3)			
	Cash A/c ...Dr.		32,000	
	To *C*'s Capital A/c			25,000
	To Premium for Goodwill A/c			7,000
	(Being the capital and premium for goodwill brought by *C*)			
	Premium for Goodwill A/c ...Dr.		7,000	
	To *A*'s Capital A/c			4,000
	To *B*'s Capital A/c			3,000
	(Being the premium for goodwill brought by *C* transferred to *A* and *B* in their sacrificing ratio of 4 : 3)			

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 Shares Application A/c				1,00,000
	(Being the application money received for 20,000 Equity Shares @ ₹ 5 each)				
	Shares Application A/c	...Dr.		1,00,000	
	To Share Capital A/c				1,00,000
	(Being the shares allotted)				
	Shares 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 Shares Allotment A/c				2,00,000
	(Being the amount received against allotment)				
	Shares 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 Shares First Call A/c				95,000
	(Being the amount received against first call except on 1,000 shares)				
	Shares 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 Shares 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 Shares First Call A/c				5,000
	To Shares 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*) *as at 1st April, 2014*

Liabilities		₹	Assets		₹
Capital A/cs:			Building		48,000
Q	22,950		Furniture		3,600
R	14,975	37,925	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 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)

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{₹\ 62{,}000}{₹\ 31{,}000} = 2 : 1.$$

Current Assets = Debtors + Prepaid Expenses + Stock + Cash at Bank
= ₹ 30,000 + ₹ 2,000 + ₹ 20,000 + ₹ 10,000 = ₹ 62,000

Current Liabilities = Creditors + Bank Overdraft
= ₹ 25,000 + ₹ 6,000 = ₹ 31,000.

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

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

Liquid Assets = Debtors + 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.

PART B

1. (i) (b), (ii) (b), (iii) (a), (iv) (b), (v) (c), (vi) (a), (vii) (a), (viii) (c), (ix) (b), (x) (c), (xi) (a), (xii) (a), (xiii) (a), (xiv) (a), (xv) (a), (xvi) (d), (xvii) (b), (xviii) (d).
2. (i) (c), (ii) (b), (iii) (c), (iv) (d), (v) (d), (vi) (c).
3. (i) Partnership Deed is a written agreement among partners of partnership firm.

Or

Goodwill is the reputation of firm by which firm is enabled to earn extra profit over normal profit in future.

(ii) The Ratio in which continuing partners of partnership firm acquire the share of retired or deceased partner.

Or

The Ratio in which old partners of partnership firm sacrifice their shares of profit in favour of new admitted partner.

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

To Stock A/c

(Being the value of stock reduced)

(iv) Authorised capital means the capital with which company was registered.

Or

Minimum subscription means the minimum specific amount which is collected by issue of shares as per directors' opinion to meet some specific requirements.

(v) Forfeiture of share means the cancellation of shares due to non-payment of called money in respect of those shares.

(vi) Call-in-Arrear Capital means the portion of called-up capital which has not yet been received.

Or

Uncalled Capital means the portion of subscribed capital which has not yet been called-up.

(vii) Re-issue of shares mean re-selling of forfeited shares either at par or at premium or at discount.

(viii) Oversubscription is the situation where number of shares applied for is more than the number of shares offered for subscription.

4. (i) Financial Statement Analysis means the widely and largely study of various financial factors of financial statements of business concern.

Or

One of the objectives of Financial Statement Analysis is to measure the profitability of business concern.

(ii) The statement which shows various financial items in percentage based on some common base is called Common-size Financial Statement.

(iii) Liquid Ratio = $\dfrac{\text{Liquid Assets}}{\text{Current Liabilities}}$.

Or

One of the limitations of Ratio Analysis is lack of ideal standard.

(iv) Cash Flow Statement is prepared according to Accounting Standard (AS) 3 (Revised).