Answers

PART A

1.

Dr. PROFIT AND LOSS APPROPRIATION ACCOUNT Cr.

Particulars		₹	Particulars		₹
To Salary to *Y*		8,000	By Profit & Loss A/c (Net profit)		21,160
To Interest on Capital:			By Interest on Drawings:		
X	2,400		*X*	100	
Y	1,800	4,200	*Y*	140	240
To Profit transferred to:					
X	5,520				
Y	3,680	9,200			
		21,400			21,400

Or

Difference between Profit & Loss Account and Profit & Loss Appropriation Account (Any four):

Basis	Profit & Loss Account	Profit & Loss Appropriation Account
1. Stage of Preparation	It is prepared after Trading Account. It therefore, starts with Gross Profit (on the credit side) or Gross Loss (on the debit side) as per the Trading Account.	It is prepared after Profit & Loss Account. It therefore, starts with Net Profit (on the credit side) as per the Profit & Loss Account.
2. Objective	It is prepared to determine net profit earned or net loss incurred during the accounting year.	It is prepared to show appropriation of net profit, *i.e.*, distribution of Net Profit for the accounting period among the partners.
3. Nature of Items	It is debited with the expenses (charge against profit) and credited with the income, not being business income to determine net profit for the accounting period.	It is debited with the items of appropriation of profit such as salary/commission to partners, interest on capital and transfer to reserve, etc. It is credited with the items of income being debited to Partners' Capital Accounts or Current Accounts such as interest on drawings.
4. Partnership Deed or Agreement	The preparation of this account is not guided by the Partnership Deed or Agreement.	The preparation of this account is guided by the Partnership Deed or Agreement and/or provisions of Indian Partnership Act, 1932.
5. Matching Principle	While preparing this account, Matching Principle (*i.e.,* revenue is matched against expenses) is followed.	While preparing this account, Matching Principle is not followed.

2. (a) *Calls-in-Advance:* The amount received from a shareholder which is not yet due is Calls-in-Advance. The amount so received is credited to Calls-in-Advance Account. It is a liability for the company, hence shown as 'Other Current Liabilities' under the main head 'Current Liabilities'.

(b) *Securities Premium:* When the Securities (Shares or Debentures, etc.) are issued at a price which is more than its Nominal (Face) value, the excess amount is 'Securities Premium'. It is credited to 'Securities Premium Account'. It is shown under the main head 'Shareholders' Funds' and sub-head 'Reserves and Surplus'.

Or

JOURNAL OF *B.* CO. LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	**On Forfeiture of Shares:**				
	Share Capital A/c (50 × ₹ 10)	...Dr.		500	
	Securities Premium A/c (50 × ₹ 2)	...Dr.		100	
	To Shares Allotment A/c (50 × ₹ 5)				250
	To Shares Call A/c (50 × ₹ 4)				200
	To Forfeited Shares A/c (50 × ₹ 3)				150
	(50 shares of Ram forfeited)				
(*ii*)	**On Reissue of Shares:**				
	Bank A/c (50 × ₹ 8)	...Dr.		400	
	Forfeited Shares A/c (50 × ₹ 2)	...Dr.		100	
	To Share Capital A/c				500
	(Forfeited shares reissued at ₹ 8 per share)				
(*iii*)	**On transfer to Capital Reserve:**				
	Forfeited Shares A/c	...Dr.		50	
	To Capital Reserve A/c				50
	(Balance profit transferred)				

3. JOURNAL OF *Y* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Bank A/c	...Dr.		1,56,000	
	To Shares Application A/c				1,56,000
(*ii*)	Shares Application A/c	...Dr.		1,56,000	
	To Share Capital A/c				1,50,000
	To Bank A/c				6,000
(*iii*)	Shares Allotment A/c	...Dr.		1,50,000	
	To Share Capital A/c				1,50,000
(*iv*)	Bank A/c	...Dr.		1,50,000	
	To Shares Allotment A/c				1,50,000
(*v*)	Shares Call A/c	...Dr.		2,00,000	
	To Share Capital A/c				2,00,000
(*vi*)	Bank A/c	...Dr.		2,00,000	
	To Shares Call A/c				2,00,000

4.

Dr. REVALUATION ACCOUNT Cr.

Particulars		₹	Particulars	₹
To Stock A/c		1,000	By Plant and Machinery A/c	15,000
To Provision for Doubtful Debt A/c		2,000		
To Gain (Profit) transferred to Capital Accounts:				
A	7,200			
B	4,800	12,000		
		15,000		15,000

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Balance *c/d*	84,400	49,600	67,000	By Balance *b/d*	70,000	40,000	...
				By Bank A/c (WN)	...	...	67,000
				By Reserve Fund	7,200	4,800	...
				By Revaluation A/c	7,200	4,800	...
	84,400	49,600	67,000		84,400	49,600	67,000

Working Note: *Calculation of C's Capital:*

Combined Capital of *A* and *B* (After all adjustments) (₹ 84,400 + ₹ 49,600) = ₹ 1,34,000

C has to bring 50%, *i.e.*, $\frac{50}{100} \times$ ₹ 1,34,000 = ₹ 67,000.

Or

(a) *Sacrificing Ratio:* Sacrificing Ratio is the ratio in which one or more partners of the firm forego their share of profit in favour of one or more partners of the firm. In other words, it is the sacrificed share in profit of two or more partners in terms of ratio. Sacrificed share of each partner is calculated as follows:

Sacrificed Share = Old Profit Share – New Profit Share

(b) *Treatment of Goodwill at the time of Retirement of a Partner:* At the time of retirement of a partner, adjustment is necessary for goodwill. When a partner retires, his share in profit is taken by the continuing partners for which they compensate the retiring partner in form of share of goodwill.

Goodwill is valued as per the method agreed in the Partnership Deed. The share of retiring partner is credited to the Capital/Current A/c and debited to the gaining partners' Capital/Current A/cs in their gaining ratio.

Following entry is passed:

Gaining Partners' Capital/Current A/cs ...Dr.

To Retiring Partner's Capital/Current A/c

(Adjustment made for goodwill)

5. JOURNAL OF J LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Bank A/c (15,500 × ₹ 25)	...Dr.		3,87,500	
	To Equity Shares Application A/c				3,87,500
(*ii*)	Equity Shares Application A/c	...Dr.		3,87,500	
	To Equity Share Capital A/c				3,75,000
	To Bank A/c				12,500
(*iii*)	Equity Shares Allotment A/c	...Dr.		7,50,000	
	To Equity Share Capital A/c				6,00,000
	To Securities Premium A/c				1,50,000
(*iv*)	Bank A/c	...Dr.		7,50,000	
	To Equity Shares Allotment A/c				7,50,000
(*v*)	Equity Shares First and Final Call A/c	...Dr.		5,25,000	
	To Equity Share Capital A/c				5,25,000
(*vi*)	Bank A/c	...Dr.		5,18,000	
	Calls-in-Arrears A/c	...Dr.		7,000	
	To Equity Shares First and Final Call A/c				5,25,000
(*vii*)	Equity Share Capital A/c	...Dr.		20,000	
	To Calls-in-Arrears A/c				7,000
	To Forfeited Shares A/c				13,000
(*viii*)	Bank A/c	...Dr.		15,750	
	To Equity Share Capital A/c				15,000
	To Securities Premium A/c				750
(*ix*)	Forfeited Shares A/c	...Dr.		9,750	
	To Capital Reserve A/c (WN)				9,750

Working Note: *Calculation of amount to be transferred to Capital Reserve:*

Amount forfeited on 200 shares = ₹ 13,000

$$\text{Amount forfeited on 150 shares} = \frac{₹\ 13,000}{200} \times 150 = ₹\ 9,750$$

Since, there is no loss on reissue of 150 shares, ₹ 9,750 is transferred to Capital Reserve.

Or

(a) **Preference Shares**

(i) *Meaning:* Preference shares are the shares which carry the following two preferential rights:

—Preferential right to receive dividend, to be paid as fixed amount or an amount calculated at a fixed rate, which may either be free of or subject to income tax, before it is paid to Equity Shareholders, and

—Return of capital on the winding up of the company before that of equity shares. Holders of preference shares are called **Preference Shareholders**.

(ii) *Classes of Preference Shares:*

With Reference to Dividend

Cumulative Preference Shares and Non-Cumulative Preference Shares.

With Reference to Participation in Surplus Profit

Participating Preference Shares and Non-Participating Preference Shares.

With Reference to Convertibility

Convertible Preference Shares and Non-Convertible Preference Shares.

With Reference to Redemption

Redeemable Preference Shares and Irredeemable Preference Shares.

(b) **Bonus Shares:** Bonus shares are issued to existing shareholders in proportion to their existing shareholding by capitalising the reserves. Bonus shares are issued as fully paid either by capitalising the reserves which can be used for payment of dividend (General Reserve) or by capitalising the Surplus, *i.e.*, Balance in Statement of Profit & Loss in place of declaring dividend or by capitalising Securities Premium in terms of Sec. 52(2) of the Companies Act, 2013.

Advantages of Bonus Issue

1. They are issued free of cost to the existing shareholders.
2. As bonus Shares are issued out of reserves and surplus, there is no outflow of cash.
3. They help the company to conserve cash by issuing shares in lieu of dividend.
4. They bring the share capital in line with the assets employed.

6.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Furniture A/c		200	By Building A/c	4,000
To Provision for Doubtful Debt A/c		750		
To Profit transferred to Capital A/cs:				
X	1,525			
Y	1,017			
Z	508	3,050		
		4,000		4,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To *X*'s Capital A/c	...	1,500	3,000	By Balance *b/d*	18,000	12,000	10,000
To *X*'s Loan A/c	10,000	...	...	By Revaluation A/c	1,525	1,017	508
To Cash A/c	14,025	...	...	By *Y*'s Capital A/c	1,500	...	...
To Balance *c/d*	...	16,517	12,508	By *Z*'s Capital A/c	3,000	...	...
				By Cash A/c	...	5,000	5,000
	24,025	18,017	15,508		24,025	18,017	15,508

BALANCE SHEET OF *Y* AND *Z as at 31st December, 2020*

Liabilities		₹	Assets		₹
Capital A/cs:			Building		24,000
Y	16,517		Furniture		1,800
Z	12,508	29,025	Stock		15,000
X's Loan A/c		10,000	Debtors	15,000	
Creditors		15,000	*Less:* Provision for Doubtful Debts	750	14,250
Bills Payable		10,000	Bills Receivable		5,000
			Cash-in-Hand		3,975
			(₹ 8,000 + ₹ 5,000 + ₹ 5,000 – ₹ 14,025)		
		64,025			64,025

Working Note:

1. *Calculation of Gaining Ratio:*

Old Profit-sharing Ratio of *X*, *Y* and *Z* = 3 : 2 : 1

New Profit-sharing Ratio of *Y* and *Z* = 1 : 1

Y's Gain = 1/2 – 2/6 = 1/6

Z's Gain = 1/2 – 1/6 = 2/6

Gaining Ratio of *Y* and *Z* = 1 : 2.

2. *Calculation of Share of Goodwill of X:*

Total Goodwill = ₹ 9,000

X's share = ₹ 9,000 × 3/6 = ₹ 4,500

It will be provided by *Y* and *Z* in Gaining Ratio, *i.e.*, 1 : 2

Y's contribution = ₹ 4,500 × 1/3 = ₹ 1,500

Z's contribution = ₹ 4,500 × 2/3 = ₹ 3,000.

7. CASH FLOW FROM OPERATIONS

Particulars		₹
Net Profit before Tax and Extraordinary Items (WN)		2,57,000
Add: Non-cash and Non-operating Items:		
Depreciation on Fixed Assets	12,000	
Goodwill Written off	4,000	16,000
		2,73,000
Less: Non-operating Income:		
Profit on Sale of Land		2,000
Cash Flow from Operations		2,71,000

Working Note:

Net Profit during the year	₹ 2,50,000
Add: Transfer to General Reserve	₹ 7,000
Net Profit before Tax and Extraordinary Items	₹ 2,57,000

Or

Financing Activities are the activities which result in change in size and composition of owner's capital (including Preference Share Capital in the case of a company) and borrowings of the enterprise from other sources. Thus, increase in share capital (both equity and preference), redemption of preference shares, issue of debentures, increase in borrowings (short-term and long-term), repayment of borrowings (short-term and long-term) and redemption of debentures, etc., are shown under Financing Activity.

Examples of Cash Flow from Financing Activities are:

(a) Proceeds from the issue of shares or other similar instruments.

(b) Proceeds from the Issue of Debentures, Loans, Bonds and other Short-term Borrowings.

(c) Payment for Buy-back of Equity Shares.

(d) Repayments of the amounts borrowed including redemption of debentures.

(e) Payments of dividends both on Equity and Preference Shares.

(f) Payments for Interest on Debentures and Loans (Short-term and Long-term).

(g) Increase or decrease in Bank Overdraft and Cash Credit.

8. CASH FLOW FROM OPERATING ACTIVITIES

Particulars		₹
Net Profit before Tax and Extraordinary Items (WN)		35,000
Add: Non-cash and Non-operating Expenses:		
Goodwill written off	10,000	
Depreciation	40,000	50,000
Operating Profit before Working Capital Changes		85,000
Add: Decrease in Current Assets, Increase in Current Liabilities:		
Debtors	37,000	37,000
		1,22,000
Less: Increase in Current Assets, Decrease in Current Liabilities:		
Bills Receivable	41,000	
Salary Outstanding	12,000	
Wages Prepaid	2,000	55,000
Cash Generated from Operations		67,000
Less: Tax paid		...
Cash Flow from Operating Activities		67,000

PART B

1. (i) (c), (ii) (a), (iii) (a), (iv) (a), (v) (c), (vi) (a), (vii) (c), (viii) (a), (ix) (b), (x) (a) OR (x) (c), (xi) (b) OR (xi) (b), (xii) (a) OR (xii) (c), (xiii) (b), (xiv) (b), (xv) (c), (xvi) (b) OR (xvi) (a), (xvii) (b), (xviii) (a).

2. (i) (b), (ii) (c), (iii) (d), (iv) (d), (v) (c), (vi) (b).

3. (i) Old Profit-sharing Ratio of X, Y and Z = 1/2 : 1/3 : 1/6 or 3 : 2 : 1
   Y retires, New Profit-sharing Ratio of X and Z = 3 : 1.

   (ii) *Calls-in-Arrears:* Calls-in-Arrears is that part of capital which has been called-up but has not yet been received by the company.

   (iii) *Partnership Firm* is a business entity which is formed by at least 2 partners for earning profit. Partnership firm is regulated by the format agreement among the partners or by the provisions of Indian Partnership Act, 1932.

   Or

   Partnership Deed: Partnership comes into existence by an oral or written agreement. It is better to have written agreement to avoid any dispute. This written document known as **Partnership Deed** details the terms and conditions of partnership. It is a legal document signed by all the partners.

   (iv) *Fluctuating Capital Account:* It is a method of maintaining Capital Accounts of partners under which all transactions related to a partner (such as his share of profit/loss, drawings, interest on capital or drawings, salary, etc.,) are recorded in his Capital Account.

   Or

   Fixed Capital Account always has credit (Cr.) balance.

   (v) *Forfeiture of Share:* If a shareholder fails to pay any call made on him, which is due on shares, the company may cancel his shares. This cancellation of shares for non-payment of amount due on shares is known as Forfeiture of Shares.

   (vi) *Prospectus:* A public company issues a document called 'Prospectus' in which terms and conditions of the issue are stated along with the purpose for which the proceeds of the issue of securities shall be used.

   "Prospectus" means any document described or issued as a prospectus and includes a red herring prospectus or shelf prospectus or any notice, circular, advertisement or other document inviting offers from the public for the subscription or purchase of any securities of a body corporate. *[Section 2(70) of the Companies Act, 2013]*

   Or

   Minimum Subscription: As per Section 39(1) of the Companies Act, 2013, Minimum subscription is the amount stated in the prospectus that must be subscribed and the amount payable on application for the amount stated as minimum subscription have been paid to and received by the company by cheque or other instrument.
   SEBI (Securities and Exchange Board of India), the regulatory authority for listed companies, prescribes that a company must receive minimum subscription of 90 per cent of the shares issued for subscription before it allots the shares.

Thus, in the case of public issue of shares, unless 90% of the sum payable on application for shares issued to the public for subscription is received by the company, shares cannot be allotted.

(vii) Old Profit-sharing Ratio of A and B = 3 : 2

C's share = 1/4, Remaining share = $1 - \frac{1}{4} = \frac{3}{4}$

3/4 share will be shared by A and B in their old profit-sharing ratio.

A's new profit share = 3/4 × 3/5 = 9/20

B's new profit share = 3/4 × 2/5 = 6/20

C's new profit share = 1/4 or 5/20

New Profit-sharing Ratio of A, B and C = 9 : 6 : 5.

(viii) *Sacrificing Ratio:* Sacrificing Ratio is the ratio in which one or more partners of the firm forego their share of profit in favour of one or more partners of the firm. In other words, it is the sacrificed share in profit of two or more partners in terms of ratio.

Sacrificed Share = Old Profit Share – New Profit Share

Or

Revaluation Account is prepared whenever there is reconstitution of the firm, *i.e.*, when there is change in profit-sharing ratio or when a new partner is admitted or when a partner retires or dies. In all these cases, assets are revalued and liabilities are reassessed. To calculate the gain (profit) or loss due to revaluation, Revaluation Account is prepared.

4. (i) Cash Flow Statement ignores non-cash transactions howsoever important they may be.

(ii) *Cash Equivalent:* Cash Equivalents are short-term, highly liquid investments that are readily convertible into known amount of cash and which are subject to an insignificant risk of change in value.

Or

Cash Flow Statement shows the flow of cash from three different activities during a particular period, *e.g.*, from 1st April, 2021 to 31st March, 2022. Therefore, it is called a periodical statement.

(iii) *Cash Flow Statement:* Cash Flow Statement is a Statement prepared to show inflows (receipts) and outflows (payments) of Cash and Cash Equivalents of an enterprise during a specified period of time.

(iv) Purchase of Plant and Machinery or Sale of Fixed Assets.

(v) Non-cash transactions in Cash Flow Statement are the transactions that do not involve inflow or outflow of cash. For example, depreciation charged, goodwill written off, transfer to Reserves, issue of Bonus Shares, etc.