WBCHSE ACCOUNTANCY PAPER, 2015

(New Syllabus)

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)

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

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 on ₹ 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:			Land and Buildings		50,000
A	60,000		Plant and Machinery		25,000
B	40,000	1,00,000	Furniture		15,000
Reserve		21,000	Stock		25,000
Creditors		18,000	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 transactions 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, 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:		Building	40,000
P	36,000	Furniture	4,000
Q	24,000	Stock	15,000
R	20,000	Debtors	35,000
Creditors	30,000	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. Amount due to *P* is to be transferred to *P*'s Loan Account.

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)

PART B (36 MARKS)

1. Choose the correct alternative: (1 × 18 = 18)

(i) Minimum number of partners required to start a partnership business is

(a) one. (b) two.

(c) ten. (d) twenty.

(ii) Indian Partnership Act was introduced in the year

(a) 1931. (b) 1932.

(c) 1933. (d) 1934.

(iii) Profit and Loss Appropriation Account is a

(a) Nominal Account. (b) Personal Account.

(c) Real Account. (d) Capital Account.

(iv) Partners' Current Accounts are opened when Capital Accounts are

(a) fluctuating. (b) fixed.

(c) fixed and fluctuating. (d) none of these.

(v) Goodwill is to be valued at two years' purchase of average profit for the last three years. The profits for the last three years were ₹ 20,000, ₹ 5,000 (loss) and ₹ 15,000. The value of goodwill is

(a) ₹ 15,000. (b) ₹ 21,000.

(c) ₹ 20,000. (d) ₹ 5,000.

(vi) Sacrificing ratio is

(a) Old ratio – New ratio. (b) New ratio – Old ratio.

(c) New ratio only. (d) Old ratio only.

(vii) *A*, *B* and *C* are partners sharing profit and losses in the ratio of 3 : 2 : 1. *B* retired. The new profit-sharing ratio between *A* and *C* will be

(a) 3 : 1. (b) 2 : 1.

(c) 1 : 1. (d) 5 : 3.

(viii) Amount of premium for goodwill which is brought in by the new partner is distributed among the old partners in

(a) new ratio. (b) old ratio.

(c) sacrificing ratio. (d) gaining ratio.

(ix) The ratio in which the profit or loss on revaluation is to be distributed among the existing partners is

(a) equal ratio. (b) old profit-sharing ratio.

(c) new profit-sharing ratio (d) sacrificing ratio.

(x) *D*, *E* and *F* are equal partners in a partnership firm. *F* retires and on his retirement, the goodwill of the firm has been valued at ₹ 1,20,000. The amount to be credited to *F*'s Capital Account will be

(a) ₹ 80,000. (b) ₹ 60,000.

(c) ₹ 40,000. (d) ₹ 20,000.

(xi) Accumulated profits and reserves at the time of admission of a partner is transferred to

(a) Old Partners' Capital Accounts. (b) New Partner's Capital Account.

(c) Revaluation Account. (d) none of these.

(xii) According to the Partnership Act (Sec. 37), the interest payable to the deceased partner on the amount left by him will be

(a) 6% p.a. (b) 10% p.a.

(c) 12% p.a. (d) Bank Rate.

(xiii) Which one of the following is not a feature of a Joint Stock Company?

(a) Unlimited liability. (b) Common seal.

(c) Perpetual existence. (d) Separate entity.

(xiv) Face value of a share is ₹ 10, ₹ 8 being called-up, ₹ 7 is paid-up. While forfeiting the shares, Share Forfeiture Account will be credited by

(a) ₹ 7. (b) ₹ 3.

(c) ₹ 8. (d) ₹ 10.

(xv) Security Premium is

(a) Capital Profit. (b) Revenue Profit.

(c) Calpital Loss. (d) Revenue Loss.

(xvi) *A* Ltd. issued Equity Share of ₹ 10 each, at a premium of ₹ 3 per share, payable ₹ 3 on application, ₹ 6 on allotment (including premium) and balance on call. The call money is

(a) ₹ 1. (b) ₹ 2.

(c) ₹ 3. (d) ₹ 4.

(xvii) Purchase of New Assets ₹ 3,00,000, purchase consideration is satisfied by issue of equity shares of ₹ 2,50,000 and by bank draft ₹ 40,000. The difference is treated as

(a) Goodwill. (b) Capital Reserve.

(c) Capital Redemption Reserve. (d) Security Premium.

(xviii) The account which is to be debited to close the interest on Debenture Account is

(a) Interest on Debenture Account. (b) Debenture Interest Account.

(c) Debenture Holders Account. (d) Profit and Loss Account.

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

(i) Ideal Current Ratio is

(a) 1 : 1. (b) 1 : 2.

(c) 2 : 1. (d) 3 : 1.

(ii) Working Capital is

(a) Total Assets – Current Liabilities. (b) Current Assets – Current Liabilities.

(c) Total Assets – Current Assets. (d) Liquid Assets – Liquid Liabilities.

(iii) If Stock Turnover Ratio is 6 and average stock is ₹ 40,000, then Cost of Goods Sold will be

(a) ₹ 60,000. (b) ₹ 2,28,000.

(c) ₹ 2,40,000. (d) ₹ 2,52,000.

(iv) Which of the following is required for financial analysis?

(a) Ratio analysis. (b) Cash flow statement.

(c) Common-size statement. (d) All of these.

(v) If Creditors Turnover Ratio is 8, what will be the average payment period?

(a) 8 months. (b) 4 month.

(c) 3 months. (d) 1½ months.

(vi) A motor car is purchased for the business. It is a

(a) cash flow from operating activities. (b) cash flow from financing activities.

(c) cash flow from investing activities. (d) revenue expenditure.

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

(i) What is Partnership Deed?

Or

What is Goodwill?

(ii) What do you mean by Gaining Ratio?

Or

What do you mean by Sacrificing Ratio?

(iii) What will be the Journal entry for reduction of stock at the time of admission of a new partner?

(iv) What is Authorised Capital?

Or

What do you mean by minimum subscription?

(v) What is forfeiture of share?

(vi) What is Call-in-Arrear Capital?

Or

What is Uncalled Capital?

(vii) What is Re-issue of shares?

(viii) What do you mean by oversubscription?

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

(i) What do you mean by Financial Statement Analysis?

Or

State one objective of Financial Statement Analysis.

(ii) What is Common-size Financial Statement?

(iii) State the formula of Liquid Ratio.

Or

State one limitation of Ratio Analysis.

(iv) According to which Accounting Standard is Cash Flow Statement prepared?

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

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

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

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).

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)

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

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:			Buildings	90,000
P	80,000		Machinery	40,000
Q	50,000		Furniture	20,000
R	45,000	1,75,000	Stock	30,000
Reserve		30,000	Debtors	40,000
Creditors		25,000	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)

PART B (36 MARKS)

1. Choose the correct alternative: (1 × 18 = 18)

(i) The balance in partners' current account is

(a) always debit. (b) always credit.
(c) either debit or credit. (d) never debit.

(ii) If capital of partners are maintained under fixed capital method, in which account the share of profit of partners will be credited?

(a) Capital Account. (b) Current Account.
(c) Drawings Account. (d) None of these.

(iii) *A* and *B* are partners sharing profit and losses in the ratio of 3 : 2. *C* is admitted for 1/5th share of profit, which he acquires equally from *A* and *B*. The new profit-sharing ratio will be

(a) 3 : 2 : 1. (b) 1 : 1 : 1.
(c) 2 : 2 : 1. (d) 5 : 3 : 2.

(iv) *X*, *Y* and *Z* are partners sharing profits and losses in the ratio of 4 : 3 : 2. *Y* retires. The profit sharing ratio between *X* and *Y* will be

(a) 4 : 3. (b) 6 : 5.
(c) 2 : 1. (d) none of these.

(v) Securities Premium is shown

(a) on the assets side of Balance Sheet.
(b) on the debit side of Profit and Loss Account.
(c) on the credit side of Profit and Loss Account.
(d) on the liabilities side of Balance Sheet.

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

(a) separate legal entity.
(b) perpetual existence.
(c) limited liability.
(d) all of these.

(vii) Profit of reissue of forfeited shares is transferred to

(a) Share Capital Account.
(b) Capital Reserve Account.
(c) Share Forfeiture Account.
(d) Securities Premium Account.

(viii) Share issued at a price more than the face value is called

(a) issue of share at a discount.
(b) issue of share at a premium.
(c) issue of share at par.
(d) none of these.

(ix) Interest on capital of a partnership firm is

(a) expense.
(b) income.
(c) asset.
(d) none of these.

(x) In absence of partnership agreement, the profit sharing ratio among the three partners as per Partnership Act will be

(a) 2 : 1 : 1.
(b) 1 : 1 : 1.
(c) 3 : 2 : 1.
(d) 2 : 1 : 2.

(xi) Average profit is ₹ 15,000. The value of goodwill based on two year's purchase of super profit is ₹ 18,000. Normal profit is

(a) ₹ 6,000.
(b) ₹ 12,000.
(c) ₹ 24,000.
(d) none of these.

(xii) Cause of reconstruction of a partnership firm is

(a) admission of a new partner.
(b) retirement of a partner.
(c) death of a partner
(d) all of these.

(xiii) *X* holds 800 equity shares of ₹ 10 each issued at par. He fails to pay the Final call money of ₹ 3 per share and the shares are forfeited. In this case amount credited to forfeited shares account will be

(a) ₹ 8,000.
(b) ₹ 2,400.
(c) ₹ 5,600.
(d) none of these.

(xiv) Debenture is

(a) own capital.
(b) current liabilities.
(c) loan capital.
(d) none of these.

(xv) The amount of General reserve of a partnership firm is ₹ 10,000. The profit sharing ratio among the partners *P*, *Q* and *R* is 5 : 3 : 2. The share of reserve of *Q* and *R* together is

(a) twice of *P*.
(b) equal of *P*.
(c) half of *P*.
(d) none of these.

(xvi) The share of goodwill of a retiring partner is adjusted through the capital accounts of the remaining continuing partners in

(a) old profit-sharing ratio.
(b) sacrificing ratio.
(c) gaining ratio.
(d) new profit-sharing ratio.

(xvii) If 5,000 equity shares of ₹ 100 each are issued at a premium of 5%, then total amount of money received is

(a) ₹ 4,75,000. (b) ₹ 5,50,000.

(c) ₹ 4,50,000. (d) ₹ 5,25,000.

(xviii) If a share of nominal value of ₹ 10 on which ₹ 7 has been called and ₹ 5 has been paid is forfeited, the share capital account should be debited by

(a) ₹ 10. (b) ₹ 5.

(c) ₹ 7. (d) ₹ 3.

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

(i) Equity Shares worth ₹ 10,000 issued to public for cash. It is

(a) cash flow from operating activities. (b) cash flow from financing activities.

(c) cash flow from investing activities. (d) none of these.

(ii) Assuming a year comprises 365 days, if the stock turnover ratio is 5, then stock turnover period will be

(a) 365 days. (b) 146 days.

(c) 150 days. (d) 73 days.

(iii) Cash sales is 40% of credit sales. If total sales is ₹ 2,80,000, then cash sales is

(a) ₹ 80,000. (b) ₹ 2,00,000.

(c) ₹ 1,12,000. (d) none of these.

(iv) Total sales ₹ 4,00,000, Gross Profit ₹ 80,000 and Net Profit ₹ 40,000, Net Profit ratio is

(a) 10%. (b) 20%.

(c) 30%. (d) 40%.

(v) Current ratio 3 : 1, if Working Capital is ₹ 1,20,000, Current Liabilities will be

(a) ₹ 80,000. (b) ₹ 1,80,000.

(c) ₹ 60,000. (d) ₹ 1,00,000.

(vi) Ideal Liquid 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) How will you treat the general reserve balance in Balance Sheet in the event of retirement of a partner?

Or

A and *B* are partners who agreed to change profit-sharing ratio from 2 : 1 to 3 : 2. Who gained due to change in the profit-sharing ratio?

(ii) Pass the Journal entry when a new partner fails to bring premium for goodwill.

(iii) What do you mean by subscribed capital?

Or

What is prospectus?

(iv) What is preference share?

(v) What is Super Profit?

Or

Can a partner claim interest on his capital if it is not included in partnership deed?

(vi) What is Revaluation Account?

(vii) *A* and *B* are partners in a firm sharing profits and losses in the ratio of 3 : 2. *C* is admitted is a new partner. New profit sharing ratio is 9 : 6 : 5. Compute sacrificing ratio.

Or

In which account the amount payable to a deceased partner is transferred?

(viii) What do you mean by joint stock company?

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

(i) In case of Cash Flow Statement Cash dividend received comes under which activity?

(ii) What is Working Capital?

(iii) What do you mean by Financial Statement?

Or

Give an example of solvency ratio.

(iv) What do you mean by ratio analysis?

Or

Mention any one advantage of ratio analysis.

Answers

1. PROFIT AND LOSS APPROPRIATION ACCOUNT

for the year ended 31st December, 2014

Dr. *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 Land and Building A/c To Black Ltd. (Being the Plant and Machinery and Land and Building purchased from Black Ltd.)	...Dr. ...Dr.		2,00,000 5,00,000	 7,00,000
	Black Ltd. To Bank A/c To 10% Debentures A/c (WN) To Securities Premium Reserve A/c (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)	...Dr.		7,00,000	 1,00,000 5,00,000 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 × $\frac{10}{100} \times \frac{4}{12}$ = ₹ 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.		50,000	
	To Share Capital A/c			50,000
	(Being the final call money due on 10,000 shares @ ₹ 5 per share)			
	Bank A/c ...Dr.		45,000	
	To Share Final Call A/c			45,000
	(Being the amount due on final call received except on 1,000 shares)			

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 $= \dfrac{\text{Net Credit Sales}}{\text{Average Debtors}} = \dfrac{₹\ 2{,}00{,}000}{₹\ 25{,}000} = 8$ Times.

$$\text{Net Credit Sales} = \text{Total Sales} - \text{Cash Sales}$$
$$= ₹\ 2{,}60{,}000 - ₹\ 60{,}000 = ₹\ 2{,}00{,}000.$$

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

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

(ii) Gross Profit Ratio $= \dfrac{\text{Gross Profit}}{\text{Net Sales}} \times 100 = \dfrac{₹\ 52{,}000}{₹\ 2{,}60{,}000} \times 100 = 20\%.$

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:

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

(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:

$$\text{Proprietary Ratio} = \frac{\text{Proprietors' Funds}}{\text{Total Assets}}$$

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.

PART B

1. (i) (c), (ii) (b), (iii) (d), (iv) (c), (v) (d), (vi) (d), (vii) (b), (viii) (b), (ix) (a), (x) (b), (xi) (a), (xii) (d), (xiii) (c), (xiv) (c), (xv) (b), (xvi) (c), (xvii) (d), (xviii) (c).
2. (i) (b), (ii) (d), (iii) (a), (iv) (a), (v) (c), (vi) (a).
3. (i) On retirement of a partner the balance of general reserve is to be distributed among all partners in their old profit sharing ratio.

Or

'*B*' will gain. New Ratio – Old Ratio

$$A \quad : \quad B$$

$$\left(\frac{3}{5}-\frac{2}{3}\right) \quad : \quad \left(\frac{2}{5}-\frac{1}{3}\right)$$

$$= \left(\frac{9-10}{15}\right) \quad : \quad \left(\frac{6-5}{15}\right)$$

$$= -1 \quad : \quad 1 \text{ (gain)}.$$

(ii) Journal entry when a new partner fails to bring premium for goodwill:
New Partner's Capital/Current A/c ...Dr.
To Old Partners' Capital A/cs

(iii) Subscribed capital is a part of issued capital which the company has issued for cash or for consideration other than cash.

Or

As per section 2(70) of Companies Act, 2013, 'Prospectus means any document described or issued as a prospectus and includes a red herring prospectus or shelf prospectus or any notice, circular or other document inviting offers from the public for the subscription or purchase of any securities of a body corporate.

(iv) It is a kind of shares, which carries preferential rights in respect of dividend payment and repayment of capital over equity shareholders.

(v) Super Profit means the excess of average profit over normal profit.

Or

No, a partner cannot claim interest on his capital if it is not included in partnership deed.

(vi) Revaluation Account is a Nominal Account which is prepared to determine the profits or losses on revaluation of assets and reassessment of liabilities at the time of reconstruction of partnership.

(vii) Sacrificing Ratio = Old Ratio – New Ratio.
Sacrificing Ratio of A and B =

$$A \quad : \quad B$$

$$\left(\frac{3}{5}-\frac{9}{20}\right) \quad : \quad \left(\frac{2}{5}-\frac{6}{20}\right)$$

$$= \left(\frac{12-9}{20}\right) \quad : \quad \left(\frac{8-6}{20}\right)$$

$$= 3 \quad : \quad 2.$$

Or

The amount payable to a deceased partner is transferred to **Executor of Deceased Partner Account**.

(viii) A Joint Stock Company is an entity incorporated by a group of persons through the process of law for undertaking a business. It has a share capital divided into units called **shares**. It is an artificial person distinct from its members.

4. (i) In case of Cash Flow Statement cash dividend received comes under investing activity.

(ii) Working Capital is a part of Capital which is used to do the daily activities of a concern.

(iii) Financial Statement means the statement which shows the financial result and financial position of a concern on a given date.

Or

An example of solvency ratio is —Debt-Equity Ratio.

(iv) Ratio analysis is a tool to analyse the performance of a concern using datas from financial statements.

Or

Through Ratio Analysis, internal performance of a firm or concern is verified.

WBCHSE ACCOUNTANCY PAPER, 2017

(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. Rabi and Shashi are partners in a firm sharing profits and losses in the ratio of 3 : 1. Net profit of the firm during the year ended 31st December, 2016 amounted to ₹ 3,00,000.

From the following information, prepare Profit and Loss Appropriation Account of the firm for the year ended on 31st December, 2016:

(i) On 1st January, 2016, the balances in the Capital and Current Accounts of the partners were:

	Capital Account	Current Account
Rabi	₹ 1,60,000	₹ 20,000
Shashi	₹ 1,20,000	₹ 12,000

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

(iii) Interest on partners' drawings @ 10% p.a.
Drawings during the year were:

Rabi	₹ 40,000
Shashi	₹ 30,000

(iv) Rabi is entitled to a commission of 5% of net profit before considering the above items. (4)

Or

Distinguish between Profit and Loss Account and Profit and Loss Appropriation Account. (4)

2. Getwell Ltd. purchased a machine for ₹ 1,10,000 from Impex Limited. The purchase price of the machine was paid off by issuing equity shares of ₹ 10 each at a premium of 10%.

Find the number of equity shares issued and pass necessary Journal entries in the books of Getwell Ltd. (1 + 3)

Or

(a) What do you mean by oversubscription of shares?

(b) What do you mean by calls-in-arrear? (2 + 2)

3. On 1st April, 2015, Fairdeal Ltd. issued 10,000, 10% Debentures of ₹ 100 each at a premium of 5%. Interest on debentures is payable on 30th September and 31st March every year. Interest on debentures were duly paid during the year 2015–16.

Pass Journal entries for issue of debentures and payment of interest in the books of Fairdeal Ltd. (4)

4. Red and White are partners sharing profits and losses in the ratio 3 : 2. On 31st March, 2016 their Balance Sheet was as under:

Liabilities		₹	Assets	₹
Capital A/cs:			Plant and Machinery	40,000
Red	60,000		Furniture	10,000
White	40,000	1,00,000	Sundry Debtors	45,000
Reserve		20,000	Stock	25,000
Creditors		10,000	Cash in Hand	10,000
		1,30,000		1,30,000

On 1st April, 2016, Blue is admitted into the partnership on the following terms:

(i) Furniture is revalued at ₹ 8,000 and Plant and Machinery is to be appreciated by 15%.

(ii) Sundry Creditors not yet recorded in the books amounting to ₹ 2,000 to be recorded immediately.

(iii) Stock is to be increased by ₹ 6,000.

(iv) Blue will get 1/5th share of profit.

(v) Blue is to bring ₹ 30,000 as Capital and ₹ 10,000 as premium for goodwill in cash.

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

Or

(a) Under which circumstances reconstruction of a partnership firm is needed?

(b) What do you mean by gaining ratio? (4 + 2)

5. Dipaboli Ltd. issued 10,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share. The share price is payable in the following ways:

₹ 3 per share	—	on application;
₹ 6 per share (including premium)	—	on allotment;
₹ 3 per share	—	on final call.

Applications were received for 12,000 shares. Excess application money on 2,000 shares were refunded. One shareholder holding 100 shares paid the final call money along with allotment money. All money due were received in full.

Pass necessary Journal entries (including cash transactions) in the books of Dipaboli Ltd. (6)

Or

Write short notes on the following:

(a) Preference Share

(b) Authorised Capital

(c) Forfeiture of Shares. (2 × 3 = 6)

6. Portia, Mouparna and Nandana are three partners of a firm. They shared profit and loss in the ratio of 2 : 2 : 1. Their Balance Sheet as on 31st March, 2016 was as under:

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		2,00,000
Portia	2,00,000		Machinery		3,00,000
Mouparna	3,00,000		Stock-in-Trade		1,00,000
Nandana	2,00,000	7,00,000	Sundry Debtors	1,10,000	
General Reserve		60,000	*Less:* Provision	10,000	1,00,000
Sundry Creditors		40,000	Cash at Bank		1,00,000
		8,00,000			8,00,000

On 1st April, 2016, Portia retired from the firm on the following conditions:

(i) Land and Building to be valued at ₹ 3,00,000.

(ii) Machinery to be reduced by 10%.

(iii) All debtors were considered as good.

(iv) Goodwill valued at ₹ 30,000, but no goodwill is to appear in the books of accounts of the firm.

(v) Amount payable to Portia was transferred to her Loan Account.

(vi) Mouparna and Nandana will share profits and losses in the ratio of 3 : 2.

Prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet as on 1st April, 2016 after retirement of Portia. (3 + 4 + 3)

7. From the following particulars, prepare a Common-size Income Statement:

	₹
Sales (Net)	7,00,000
Less: Cost of Goods Sold	4,20,000
Gross Profit	2,80,000
Less: Administration and Selling Expenses	70,000
Profit before Tax	2,10,000
Less: Tax @ 40%	84,000
Profit after Tax	1,26,000

(4)

Or

Write short notes on the following:

(a) Current Ratio

(b) Interest Coverage Ratio (2 × 2 = 4)

8. Following are the summarised Balance Sheets of B.T. Ltd. for the year ended 31st March, 2015 and 31st March, 2016:

Liabilities	31st March, 2015 (₹)	31st March, 2016 (₹)	Assets	31st March, 2015 (₹)	31st March, 2016 (₹)
Equity Share Capital of ₹ 10 each	10,00,000	13,00,000	Plant and Machinery (at cost)	7,00,000	9,30,000
General Reserve	40,000	40,000	*Less:* Accumulated Depreciation	2,00,000	2,30,000
Profit and Loss A/c	20,000	24,000		5,00,000	7,00,000
12% Debentures	1,50,000	1,50,000	Investments (Long-term)	2,00,000	2,80,000
Sundry Creditors	2,40,000	2,20,000	Stock	4,00,000	5,00,000
Bills Payable	20,000	36,000	Debtors	3,00,000	2,00,000
			Cash at Bank	70,000	90,000
	14,70,000	17,70,000		14,70,000	17,70,000

Prepare a Cash Flow Statement of B.T. Ltd. for the year ended on 31st March, 2016. (6)

Or

(a) What do you mean by 'Cash and Cash Equivalents'?

(b) Mention the activities under which the following transactions will appear in a Cash Flow Statement as per AS-3:

(i) Dividend received;

(ii) Interest paid to debentureholders;

(iii) Sale proceeds of fixed assets; and

(iv) Issue of 10% Preference Shares for cash. (2 + 4)

PART B (36 MARKS)

1. Choose the correct alternative: (1 × 18 = 18)

(i) The balance of Drawing Account is always

(a) zero. (b) credit.

(c) debit. (d) None of these.

(ii) If the average profit is ₹ 3,00,000, normal rate of return is 12% and the amount of capital employed is ₹ 22,00,000, then the value of goodwill under the capitalisation method will be

(a) ₹ 2,00,000. (b) ₹ 2,50,000.

(c) ₹ 3,00,000. (d) ₹ 3,50,000.

(iii) If the existing profit-sharing ratio among *A*, *B* and *C* of 3 : 2 : 1 is changed to 1 : 2 : 3, then the partner(s) whose share will be unaffected is/are

(a) *A*. (b) *B*.

(c) *C*. (d) *A* and *C*.

(iv) M, N and O are partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. N retires and his share of goodwill is agreed at ₹ 21,000. The amount to be debited to M's Capital Account is

(a) ₹ 15,000.
(b) ₹ 14,000.
(c) ₹ 8,000.
(d) ₹ 7,000.

(v) Authorised capital means

(a) maximum limit of share capital.
(b) minimum limit of share capital.
(c) no limit of share capital.
(d) None of these.

(vi) After final call, X Limited credited ₹ 3,500 to Forfeited Shares Account for forfeiting 500 shares of ₹ 10 each. These shares were reissued for ₹ 2,500. The amount transferred to Capital Reserve is

(a) ₹ 1,000.
(b) ₹ 1,500.
(c) ₹ 1,550.
(d) ₹ 3,300.

(vii) Premium received on issue of shares can be used for

(a) issue of fully paid bonus shares.
(b) distribution as dividend.
(c) transfer to General Reserve.
(d) None of these.

(viii) The balance of Securities Premium Account is shown in the Balance Sheet under

(a) Current Liabilities.
(b) Reserves and Surplus.
(c) Share Capital.
(d) None of these.

(ix) The liability of the partners in a partnership firm under Indian Partnership Act, 1932 is

(a) limited.
(b) unlimited.
(c) no liability.
(d) depending on the situation.

(x) In absence of Partnership agreement, partners can get

(a) Salary.
(b) Commission.
(c) Interest on Loan.
(d) All of these.

(xi) The Profit-sharing Ratio of A and B is 2 : 1 and that of B and C is 3 : 2. The profit-sharing ratio of A, B and C will be

(a) 6 : 3 : 2.
(b) 2 : 1 : 1.
(c) 2 : 3 : 4.
(d) None of these.

(xii) The ratio in which the old partners agreed to surrender their share in profit in favour of new partner is called

(a) Sacrificing Ratio.
(b) Gaining Ratio.
(c) Profit-sharing Ratio.
(d) Capital Ratio.

(xiii) Discount on reissue of forfeited shares

(a) cannot be less than balance of Forfeited Shares Account.
(b) cannot be more than balance of Forfeited Shares Account.
(c) cannot be equal to balance of Forfeited Shares Account.
(d) None of these.

(xiv) Interest paid on Debenture is

(a) charge against profit.
(b) appropriation of profit.
(c) liability.
(d) None of these.

(xv) *X* and *Y* are two partners sharing profits and losses in the ratio of 5 : 3. *Z* is admitted as a new partner for 1/4th share of profit. The sacrificing ratio will be

(a) 2 : 3.
(b) 3 : 2.
(c) 3 : 5.
(d) 5 : 3.

(xvi) The person in whose account the dues of the deceased partner is transferred for settlement is known as

(a) Arbitrator.
(b) Legal advisor.
(c) Liquidator.
(d) Executor.

(xvii) The sources of capital of a company are

(a) Equity Share.
(b) Preference Share.
(c) Ploughing back of profit.
(d) All of these.

(xviii) Forfeited shares originally issued at a premium can be reissued

(a) at par.
(b) at premium.
(c) at discount.
(d) at any of these.

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

(i) An example of Cash Inflow from Financing Activity is

(a) Sale of Machinery.
(b) Issue of New Debentures.
(c) Purchase of Furniture.
(d) Transfer to General Reserve.

(ii) If the Gross Profit Ratio is 12% on cost price and the selling price is ₹ 2,24,000, then Gross Profit will be

(a) ₹ 25,000.
(b) ₹ 30,000.
(c) ₹ 24,000.
(d) None of these.

(iii) The Working Capital of a concern is ₹ 60,000; Current Liabilities are ₹ 80,000; Total Assets are ₹ 6,00,000, the value of Non-current Asset will be

(a) ₹ 6,00,000.
(b) ₹ 1,40,000.
(c) ₹ 5,20,000.
(d) ₹ 4,60,000.

(iv) Total Sales and Cash Sales of a concern are ₹ 6,00,000 and ₹ 40,000 respectively. Amount of average debtors is ₹ 1,40,000. Debtors Turnover Ratio will be

(a) 4.3 Times. (b) 4 Times. (c) 0.286 Time. (d) None of these.

(v) Average Stock is ₹ 75,000 and Stock Turnover (based on cost of goods sold) is 12. If profit on sales is 20%, then the amount of profit will be

(a) ₹ 1,80,000. (b) ₹ 2,25,000. (c) ₹ 3,75,000. (d) None of these.

(vi) Working Capital is ₹ 1,80,000, Total Liabilities ₹ 3,90,000, Non-current Liabilities ₹ 3,00,000. Current Ratio will be

(a) 2 : 1. (b) 3 : 1. (c) 4 : 1. (d) 1 : 2.

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

(i) *W*, *Y* and *Z* were in partnership sharing profits and losses in the ratio of 5 : 4 : 3. *Y* retired and new profit-sharing ratio between *W* and *Z* is decided to be 3 : 2. Calculate the gaining ratio.

(ii) Pass the Journal entry for distribution of loss on revaluation among the partners in case of admission of a partner in a firm.

Or

Pass Journal entry(ies) in the books of the partnership firm for payment of premium for goodwill by a new partner.

(iii) What do you mean by issue of shares at par?

Or

In which account profit on reissue of forfeited shares is transferred?

(iv) What do you mean by Reserve Capital?

Or

What do you mean by uncalled capital?

(v) What is Partnership Deed?

Or

What is Fixed Capital of a partner?

(vi) When is Profit and Loss Appropriation Account prepared?

(vii) What is sacrificing ratio?

(viii) What do you mean by 'Calls-in-Advance'?

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

(i) According to which Accounting Standard the Cash Flow Statement is prepared?

(ii) What is ideal Quick Ratio?

Or

Mention **one** limitation of Ratio Analysis.

(iii) Write the formula of Creditors' Turnover Ratio.

(iv) What are the **two** main financial statements of a business organisation?

Or

State **one** disadvantage of Comparative Financial Statement.

Answers

PART A

1.

PROFIT AND LOSS APPROPRIATION ACCOUNT

for the year ended 31st December, 2016

Dr. | | | | *Cr.*

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Profit and Loss A/c (Net Profit)		3,00,000
Rabi	8,000		By Interest on Drawings A/cs:		
Shashi	6,000	14,000	Rabi	2,000	
To Rabi's Current A/c (Commission)		15,000	Shashi	1,500	3,500
To Profit transferred to:					
Rabi's Current A/c	2,05,875				
Shashi's Current A/c	68,625	2,74,500			
		3,03,500			3,03,500

Or

Basis	Profit and Loss Account	Profit and 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 and Loss Account. It, therefore, starts with Net Profit (on the credit side) as per the Profit and 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 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.

Number of Equity Shares to be Issued:

Cost of Machine = ₹ 1,10,000

Issue Price of an Equity Share = ₹ 11

Number of Equity Shares to be issued = $\frac{₹\ 1,10,000}{₹\ 11} = 10,000$ shares.

In the Books of Getwell Ltd.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Machine A/c ...Dr.		1,10,000	
	To Impex Limited			1,10,000
	(Being the machine purchased from Impex Limited)			
	Impex Limited ...Dr.		1,10,000	
	To Equity Share Capital A/c			1,00,000
	To Securities Premium Reserve A/c			10,000
	(Being 10,000 equity shares of ₹ 10 each issued at 10% premium against purchase consideration)			

Or

(a) Oversubscription of Shares means that the company has received subscription for shares that is more than the number of shares offered for subscription.

(b) Calls-in-arrear means that the amount called by the company to be paid by the shareholders is not paid fully or partially. The unpaid amount is termed as calls-in-arrear.

3. **In the Books of Fairdeal Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2015				
April 1	Bank A/c ...Dr.		10,50,000	
	To Debentures Application and Allotment A/c			10,50,000
	(Being the application money received for 10,000, 10% Debentures of ₹ 100 each issued at a premium of 5%)			
	Debentures Application and Allotment A/c ...Dr.		10,50,000	
	To 10% Debentures A/c			10,00,000
	To Securities Premium Reserve A/c			50,000
	(Being 10,000, 10% Debentures allotted)			
2015				
Sept. 30	Debentures' Interest A/c ...Dr.		50,000	
	To Debentureholders' A/c			50,000
	(Being the interest payable for 6 months ending 30th September, 2015)			
	Debentureholders' A/c ...Dr.		50,000	
	To Bank A/c			50,000
	(Being the interest paid to debentureholders)			
2016				
March 31	Debentures' Interest A/c ...Dr.		50,000	
	To Debentureholders' A/c			50,000
	(Being the interest payable for 6 months ending 31st March, 2016)			
	Debentureholders' A/c ...Dr.		50,000	
	To Bank A/c			50,000
	(Being the interest paid)			

4. **In the Books of Red and White**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Revaluation A/c	...Dr.		4,000	
	To Furniture A/c				2,000
	To Sundry Creditors A/c				2,000
	(Being the value of furniture brought down and creditors recorded)				
	Plant and Machinery A/c	...Dr.		6,000	
	Stock A/c	...Dr.		6,000	
	To Revaluation A/c				12,000
	(Being the value of Plant and Machinery and stock increased recorded)				
	Revaluation A/c	...Dr.		8,000	
	To Red's Capital A/c				4,800
	To White' Capital A/c				3,200
	(Being the gain (profit) on revaluation distributed in their old profit-sharing ratio)				
	Reserve A/c	...Dr.		20,000	
	To Red's Capital A/c				12,000
	To White's Capital A/c				8,000
	(Being the reserve distributed between old partners)				
	Cash A/c	...Dr.		40,000	
	To Blue's Capital A/c				30,000
	To Premium for Goodwill A/c				10,000
	(Being the amount brought by Blue towards his capital and goodwill)				
	Premium for Goodwill A/c	...Dr.		10,000	
	To Red's Capital A/c				6,000
	To White's Capital A/c				4,000
	(Being the amount of premium for goodwill credited to old partners in their sacrificing ratio, *i.e.*, 3 : 2)				

Note: Unless agreed otherwise, sacrificing ratio of old partners will be same as their old profit-sharing ratio.

Or

(a) (i) When there is a change in profit-sharing ratio;
(ii) When a partner (or partners) is admitted;
(iii) When a partner (or partners) retires (retire); and
(iv) When a partner dies.

(b) Gaining Ratio means the ratio in which the continuing partners' gain share in profits. It may be under any of the following four situations:
(i) When there is a change in profit-sharing ratio;
(ii) When a partner (or partners) is admitted;
(iii) When a partner (or partners) retires (retire); and
(iv) When a partner dies.

5. JOURNAL OF DIPABOLI LTD.

Date	Parti]culars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		36,000	
	To Equity Share Application A/c				36,000
	(Being the applications received for 12,000 shares @ ₹ 3 per share)				
	Equity Share Application A/c	...Dr.		36,000	
	To Equity Share Capital A/c				30,000
	To Bank A/c				6,000
	(Being the share allotted and application money on 2,000 shares refunded)				

	Equity Share Allotment A/c ...Dr.		60,000	
	To Equity Share Capital A/c			40,000
	To Securities Premium Reserve A/c			20,000
	(Being the allotment money due)			
	Bank A/c ...Dr.		60,300	
	To Equity Share Allotment A/c			60,000
	To Calls-in-Advance A/c			300
	(Being the shares allotment money received, a shareholder holding 100 shares paid the call money)			
	Equity Share First and Final Call A/c ...Dr.		30,000	
	To Equity Share Capital A/c			30,000
	(Being the first and final call due)			
	Bank A/c ...Dr.		29,700	
	Calls-in-Advance A/c ...Dr.		300	
	To Equity Share First and Final Call A/c			30,000
	(Being the first and final call received and Calls-in-Advance adjusted)			

Or

(a) **Preference Shares:** Preference shares are the shares which carry the following two preferential rights:

(i) Preferential right of dividend to be paid as fixed amount or an amount calculated at a fixed rate, which may either be free or subject to income tax, and

(ii) Return of capital on the winding up of the company before that of equity shares.

(b) **Authorised Capital:** Authorised capital is that capital of a company as is authorised by its Memorandum of Association that can be raised by it. It is the maximum amount that can be issued for subscription and is stated separately for Equity Share Capital and Preference Share Capital.

(c) **Forfeiture of Shares:** Forfeiture of shares means cancelling of shares issued for non-payment of due amount on such shares. Forfeited shares can be reissued by the company to a purchaser allowing the discount that cannot exceed the amount forfeited on such shares.

6.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Machinery A/c		30,000	By Land and Building A/c	1,00,000
To Profit transferred to Capital A/cs:			By Provision for Doubtful Debts A/c	10,000
Portia	32,000			
Mouparna	32,000			
Nandana	16,000	80,000		
		1,10,000		1,10,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Portia ₹	Mouparna ₹	Nandana ₹	Particulars	Portia ₹	Mouparna ₹	Nandana ₹
To Portia's Capital A/c	...	6,000	6,000	By Balance *b/d*	2,00,000	3,00,000	2,00,000
To Portia's Loan A/c	2,68,000	...	...	By General Reserve A/c	24,000	24,000	12,000
To Balance *c/d*	...	3,50,000	2,22,000	By Revaluation A/c	32,000	32,000	16,000
				By Mouparna's Capital A/c	6,000	...	...
				By Nandana's Capital A/c	6,000	...	...
	2,68,000	3,56,000	2,28,000		2,68,000	3,56,000	2,28,000

BALANCE SHEET *as at 1st April, 2016*

Liabilities		₹	Assets	₹
Capital A/cs:			Land and Building	3,00,000
Mouparna	3,50,000		Machinery	2,70,000
Nandana	2,22,000	5,72,000	Stock-in-Trade	1,00,000
Portia Loan A/c		2,68,000	Sundry Debtors	1,10,000
Sundry Creditors		40,000	Cash at Bank	1,00,000
		8,80,000		8,80,000

Working Notes:

1. *Calculation of Gaining Ratio:*

	Portia	Mouparna	Nandana
(a) New Share of Profit	...	3/5	2/5
(b) Old Share of Profit	2/5	2/5	1/5
(c) Gain/(Sacrifice) (a – b)	–2/5 (Sacrifice)	1/5 (Gain)	1/5 (Gain)

Thus, Gaining Ratio of Mouparna and Nandana = 1 : 1

2. Value of Goodwill = ₹ 30,000
   Portia's Share of Goodwill (2/5) = ₹ 12,000
   It is to be shared by Mouparna and Nandana equally.

7. COMMON-SIZE INCOME STATEMENT *for the year ended...*

Particulars	Absolute Amount (₹)	Percentage (%)
I. Sales (Net)	7,00,000	100
II. *Less:* Cost of Goods Sold	4,20,000	60
Administrative and Selling Expenses	70,000	10
	4,90,000	70
III. Profit before Tax (I – II)	2,10,000	30
IV. *Less:* Tax (40%)	84,000	12
V. Profit after Tax (III – IV)	1,26,000	18

Or

(a) **Current Ratio:** Current Ratio measures the ability of the firm to meet its short-term financial obligations, *i.e.*, payable within one year. It is a relationship between Current Assets and Current Liabilities. Current Ratio of 2 : 1 is considered as ideal ratio.

The formula for the Current Ratio is:

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

(b) **Interest Coverage Ratio:** Interest Coverage Ratio establishes the relationship between Net Profit before Interest and Tax and Interest on Long-term debts. It measures whether the firm is able to meet the interest cost. It is expressed as a number of times.

The formula for the Interest Coverage Ratio is:

$$\text{Interest Coverage Ratio} = \frac{\text{Profit before Interest and Tax}}{\text{Interest on Long-term Debt}}.$$

8. CASH FLOW STATEMENT *for the year ended 31st March, 2016*

Particulars	₹	₹
I. Cash Flow from Operating Activities		
Net Profit for the year (₹ 24,000 – ₹ 20,000)		4,000
Add: Non-cash and Non-operating Items:		
Depreciation		30,000
Interest on Debentures		18,000
Net Profit before Working Capital Changes		52,000
Add: Increase in Current Liabilities and Decrease in Current Assets:		
Bills Payable	16,000	
Debtors	1,00,000	1,16,000
		1,68,000
Less: Decrease in Current Liabilities and Increase in Current Assets:		
Sundry Creditors	20,000	
Stock	1,00,000	1,20,000
Cash Flow from Operating Activities (A)		48,000
II. Cash Flow from Investing Activities		
Payment for Purchase of Investments (Long-term)		(80,000)
Payment for Purchase of Plant and Machinery		(2,30,000)
Cash Used in Investing Activities (B)		(3,10,000)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Equity Shares		3,00,000
Payment of Interest on Debentures		(18,000)
Cash Flow from Financing Activities (C)		2,82,000
IV. Net Increase in Cash and Cash Equivalents (A + B +C)		20,000
Add: Opening Cash and Cash Equivalents		70,000
V. Closing Cash and Cash Equivalents		90,000

Or

(a) *Cash and 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. An investment normally qualifies as cash equivalents only when it has a short maturity of say three months or less from the date of acquisition.

(b) (i) Dividend Received – Investing Activity

(ii) Interest Paid to Debentureholders – Financing Activity

(iii) Sale Proceeds of Fixed Assets – Investing Activity

(iv) Issue of 10% Preference Shares for Cash – Financing Activity

PART B (36 MARKS)

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

	W	*Y*	*Z*
I. New Share of Profit	3/5	...	2/5
II. Old Share of Profit	5/12	4/12	3/12
III. Gain/(Sacrifice) [I – II]	11/60 (Gain)	–4/12 (Sacrifice)	9/60 (Gain)

Thus, Gaining Ratio of *W* and *Z* = 11/60 : 9/60 = 11 : 9.

(ii)

Old Partners' Capital A/cs ...Dr.
  To Revaluation A/c
(Being the loss on revaluation distributed among old partners)

Or

Bank A/c ...Dr.
  To Premium for Goodwill A/c
(Being the premium for goodwill for his share brought in by new partner)

Premium for Goodwill A/c ...Dr.
  To Sacrificing Partners' Capital A/cs
(Being the premium for goodwill credited to sacrificing partners in their sacrificing ratio)

(iii) Issue of shares at par means issue of shares at their nominal (face) value.

Or

It is transferred to Capital Reserve.

(iv) Reserve Capital is that capital which a company resolves to call at the time of its winding up.

Or

Uncalled capital is that capital which a company is yet to call for payment by the shareholders.

(v) Partnership Deed is a written agreement among the partners specifying the terms and conditions of the partnership.

Or

Fixed capital of a partner means the capital of partner will not change unless there is introduction of additional capital or withdrawal of capital.

(vi) Profit and Loss Appropriation Account is prepared after preparing Profit and Loss Account, if it has a profit.

(vii) Sacrificing ratio is the ratio in which the old partners sacrifice their shares in favour of new partner.

(viii) Calls-in-Advance means amount received by the company from the shareholders against a call which is not yet called to be paid.

4. (i) Accounting Standard-3, Cash Flow Statement.

(ii) Ideal Quick Ratio is 1 : 1.

Or

It ignores qualitative factors.

(iii) $\dfrac{\text{Net Credit Purchases}}{\text{Average Creditors}}$

(iv) (a) Profit and Loss Account;

(b) Balance Sheet.

Or

It ignores price level changes.

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 Dec., 2016 (₹)	31st Dec., 2017 (₹)	Assets	31st Dec., 2016 (₹)	31st Dec., 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*. (d) 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. (d) 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. (d) 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. (d) 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. (d) ₹ 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 × 6/100 × 6*/12 = ₹ 900.

B = ₹ 20,000 × 6/100 × 6*/12 = ₹ 600.

C = ₹ 10,000 × 6/100 × 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	30,0000	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. $$\text{Debtors' Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables (Debtors + Bills Receivable)}}$$

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

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

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

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

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

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

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

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

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

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 × 1/4 = 3/20

Q surrenders = 2/5 × 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.

WBCHSE ACCOUNTANCY PAPER, 2019

(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. *R* and *S* are partners sharing profits and losses in the ratio of 3 : 2. On 1st January, 2018 their capitals are *R*—₹ 40,000 and *S*—₹ 30,000.

Prepare Profit and Loss Appropriation Account for the year ended 31st December, 2018 after considering the following items:

(i) Interest on capital @ 6% p.a.

(ii) *R* is entitled to get commission @ 2.5% on Sales.

(iii) *S* is to get salary ₹ 1,000 per month.

(iv) Interest on drawings @ 10% p.a.

(v) 10% on the distributable profit is to be transferred to Reserve Fund.

(vi) Partners' drawings during the year:
R—₹ 10,000 and *S*—₹ 5,000.

(vii) Total Sales during the year was ₹ 3,00,000.

Net Profit before consideration of the above items was ₹ 1,20,000. (4)

Or

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

2. *P* Ltd. Company has a subscribed capital of 2,00,000 equity shares of ₹ 10 per share. The directors forfeited 500 shares held by a shareholder, who had failed to pay the first call made ₹ 2 per share and final call made ₹ 3 per share. After forfeiture of these 500 shares, the directors reissued these forfeited shares @ ₹ 8 per share.

Pass the Journal entries for forfeiture and reissue of shares in the books of *P* Ltd. Co. (4)

Or

Write short notes on:

(a) Oversubscription of shares

(b) Calls-in-Arrear. (2 + 2)

3. Joy Ltd. purchased the following assets from the Bijoy Ltd.:

Building ₹ 4,00,000, Machinery ₹ 2,00,000, Stock ₹ 1,50,000. Bijoy Ltd. was paid for such purchases ₹ 1,50,000 by cheque and the balance by issue of 12% Debentures of ₹ 100 per debenture at a premium of 25%.

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

4. Sachin and Sourav are partners in a firm. They share profits and losses in the ratio of 3 : 2. Their Balance Sheet as on 31st March, 2018 was as under:

Liabilities		₹	Assets		₹
Capital A/cs:			Building		1,00,000
Sachin	80,000		Plant		25,000
Sourav	40,000	1,20,000	Stock		40,000
Reserves		40,000	Debtors	75,000	
Creditors		60,000	*Less:* Provision for Doubtful Debt	5,000	70,000
Bills Payable		20,000	Cash and Bank		5,000
		2,40,000			2,40,000

On 1st April, 2018 Rahul was admitted as a new partner having 1/5th share of the future profit of the firm on the following terms and conditions:

(i) Goodwill was valued at ₹ 1,25,000.

(ii) Building should be revalued at ₹ 1,20,000.

(iii) Plant should be depreciated by 20%.

(iv) Provision for bad and doubtful debts should be raised to 10% on debtors.

(v) Stock should be revalued at ₹ 30,000.

(vi) Rahul introduced ₹ 30,000 as capital and necessary amount of share of goodwill in cash.

Prepare Revaluation Account and Partners' Capital Accounts in the books of firm. (2 + 4)

Or

What do you mean by reconstruction of partnership firm? Under which circumstances reconstruction of a partnership firm is needed? (2 + 4)

5. *X* Ltd. issued 15,000 shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

₹ 2 on Application

₹ 5 on Allotment (including premium)

₹ 5 on Call

Applications were received for 20,000 shares, excess application moneys were refunded. A shareholder holding 1,000 shares did not pay call money. His shares were forfeited after final call. Out of these 600 shares were reissued to Mr. Roy @ ₹ 8 per share.

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

Or

What is Share? Distinguish between Share and Debenture. (2 + 4)

6. *A*, *B* and *C* were partners in a firm sharing profits and losses in the ratio of 3 : 1 : 1. On 31st March, 2018 their Balance Sheet was as follows:

Liabilities		₹	Assets		₹
Creditors		1,00,000	Bank		32,000
Bills Payable		50,000	Debtors	70,000	
Capital A/cs:			*Less:* Provision for Doubtful Debt	2,000	68,000
A	1,50,000		Stock		80,000
B	1,00,000		Building		3,00,000
C	1,00,000	3,50,000	Profit and Loss Account		20,000
		5,00,000			5,00,000

On the above date *B* retired on the following terms:

(i) Building was to be appreciated by 10%.

(ii) Provision for Doubtful Debts was to be raised to 10% of debtors.

(iii) Creditors ₹ 10,000 would not be claimed.

(iv) There was an outstanding bill of ₹ 2,000 for repair.

(v) Goodwill of the firm was valued at ₹ 75,000 and no goodwill account was to be opened in the new Balance Sheet.

(vi) *B* was to be paid ₹ 20,000 in cash and the balance was to be transferred to his loan account.

Prepare Revaluation Account, Partners' Capital Accounts and New Balance Sheet of *A* and *C* after *B*'s retirement. (3 + 4 + 3)

7. From the following information, calculate (a) Debt-Equity Ratio and (b) Current Ratio:

	₹
Share Capital	60,000
General Reserve	30,000
Long-term Loan	1,00,000
Creditors	50,000
Bank Overdraft	66,000
Debenture	16,000
Debtors	70,000
Cash	30,000

(2 + 2)

Or

Write four objectives of Financial Statement Analysis. (4)

8. From the following Balance Sheet of *B* Ltd., prepare a Cash Flow Statement for the year ended 31st March, 2018:

Particulars	Note No.	31st March, 2017 (₹)	31st March, 2018 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		4,00,000	5,00,000
(b) Reserves and Surplus (Balance in Statement of Profit and Loss)		20,000	46,000
2. Current Liabilities			
(a) Sundry Creditors		40,000	30,000
(b) Outstanding Expenses		8,000	10,000
(c) Short-term Provision (Provision for Taxation)		92,000	50,000
Total		5,60,000	6,36,000
II. ASSETS			
1. Non-Current Assets			
Tangible Asset		1,00,000	1,32,000
2. Current Assets			
(a) Inventories		1,60,000	1,80,000
(b) Trade Receivables		2,40,000	2,30,000
(c) Cash and Cash Equivalents		60,000	94,000
Total		5,60,000	6,36,000

(6)

Or

Give two examples of Cash and Cash Equivalent. Mention the activities under which the following transactions will appear in Cash Flow Statement as per AS 3:

(i) Purchase of Fixed Assets

(ii) Sale of Investment

(iii) Redemption of Debentures

(iv) Issue of Equity Share. (2 + 4)

PART B (36 MARKS)

1. Select the correct answer out of the options given against each question and write in the box provided on right hand side bottom: (1 × 18 = 18)

(i) *A*, *B*, *C* and *D* are partners sharing their profits and losses equally. They change their profit-sharing ratio to 2 : 2 : 1 : 1. How much will *C* sacrifice?

(a) 1/24 (b) 1/12

(c) 1/6 (d) 1/2.

(ii) A partner draws ₹ 500 at the end of each month. The amount of interest on drawings @ 6% p.a. will be

(a) ₹ 360 (b) ₹ 165

(c) ₹ 195 (d) ₹ 180.

(iii) The nature of Profit and Loss Appropriation Account is

(a) Real (b) Nominal

(c) Personal (d) Impersonal.

(iv) *X*, *Y* and *Z* are partners of a firm in profit-sharing ratio 2 : 3 : 1. *Y* retires and the goodwill of the firm is valued at ₹ 90,000. *X*'s Capital Account will be debited by

(a) ₹ 60,000 (b) ₹ 30,000

(c) ₹ 45,000 (d) none of these.

(v) The ratio in which profit or loss on Revaluation is to be distributed among the existing partners is

(a) new profit-sharing ratio (b) equal ratio

(c) old profit-sharing ratio (d) sacrificing ratio.

(vi) Rate of interest on Calls-in-Advance as per Companies Act, 2013 is

(a) 6% p.a. (b) 5% p.a.

(c) 12% p.a. (d) 10% p.a.

(vii) Excess credit balance of share Forfeiture Account is to be transferred to

(a) General Reserve A/c (b) Security Premium A/c

(c) Capital Reserve A/c (d) none of these.

(viii) The part of authorised capital which is issued to public for subscription is called

(a) Subscribed Capital (b) Issued Capital

(c) Called up Capital (d) Reserve Capital

(ix) Debentureholders are

(a) owners of the company (b) debtors of the company

(c) creditors of the company (d) none of these.

(x) In absence of partnership agreement, partners are entitled to get

(a) equal share in profit (b) commission

(c) interest on loan (d) all of these.

(xi) At the time of revaluation, value of machinery has been increased by ₹ 10,000. Which account is to be debited in the Journal?

(a) Machinery Account (b) External Liability Account

(c) Revaluation Account (d) none of these.

(xii) As per Section 37 of Indian Partnership Act, 1932, interest on the amount payable to decreased partner is provided at

(a) 6% p.a. (b) 5% p.a.

(c) 10% p.a. (d) 12% p.a.

(xiii) The balance in Partners' Current Account is

(a) always debit (b) always credit

(c) either debit or credit (d) debit or credit or zero.

(xiv) At the time of admission of a new partner, accumulated profits and reserve is to be distributed

(a) between old partners (b) only new partner

(c) between all partners (d) none of them.

(xv) Share Application Account is

(a) Personal A/c (b) Nominal A/c

(c) Real A/c (d) none of these.

(xvi) As per Companies Act, 2013, which of the following is considered as the component of Trade Payables?

(a) Outstanding Wages (b) Creditors

(c) Salary Payable (d) Provision for Tax.

(xvii) 2000 shares of ₹ 10 each were issued but all these shares were forfeited for non-payment of call money of ₹ 3 per share. These shares were reissued @ ₹ 8 per share. What amount will be shown as discount?

(a) ₹ 10,000 (b) ₹ 16,000

(c) ₹ 6,000 (d) ₹ 4,000

(xviii) *Y* Ltd. issued equity shares of ₹ 10 each at a premium, payable on application ₹ 2, on allotment ₹ 5 (including premium) and on call ₹ 5. Premium value per share is

(a) ₹ 1 (b) ₹ 2

(c) ₹ 3 (d) ₹ 4

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

(i) Current ratio 5 : 3, Working Capital ₹ 2,40,000. Current Liability will be

(a) ₹ 6,00,000 (b) ₹ 4,80,000

(c) ₹ 3,60,000 (d) none of these.

(ii) Stock Turnover Ratio =

(a) $\frac{\text{Average Inventory}}{\text{Cost of Revenue from Operation}}$ (b) $\frac{\text{Average Inventory}}{\text{Cost of Goods Solds}}$

(c) $\frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$ (d) $\frac{\text{Gross Profit}}{\text{Average Inventory}}$

(iii) Which of the following is a tool of financial statement analysis?

(a) Cash Book (b) Trial Balance

(c) Trend Analysis (d) All of these.

(iv) Under which activity dividend paid ₹ 2,00,000 will be shown as per AS-3?

(a) Operating Activity (b) Investing Activity

(c) Financing Activity (d) None of these.

(v) If gross profit ratio is 25% on cost and sale price is of ₹ 6,00,000, then cost price will be

(a) ₹ 1,20,000 (b) ₹ 4,80,000

(c) ₹ 1,50,000 (d) ₹ 2,00,000.

(vi) Calculate Debtors' Turnover Ratio:
Credit sale ₹ 9,00,000, Debtors ₹ 90,000 and Bills Receivable ₹ 60,000.

(a) 10 Times (b) 6 Times

(c) 15 Times (d) None of these.

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

(i) What is called up capital?

Or

What is Reserve Capital?

(ii) What is Preference Share?

(iii) What is prospectus?

(iv) Mr. Sen is a partner, who draws ₹ 5,000 at the end of each quarter. If the rate of interest on drawings is 6% p.a. then calculate interest on drawings.

(v) Why is Revaluation A/c prepared?

Or

What is sacrificing ratio?

(vi) X, Y and Z are in partnership, sharing profits and losses in the ratio 1/2 : 1/3 : 1/6. If Y retired, then what will be the new profit-sharing ratio?

(vii) What is fluctuating capital account?

Or

In absence of Partnership Deed, what will be the rate of interest on loan of a partner?

(viii) What is Partnership firm?

Or

What is Partnership Deed?

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

(i) Write the formula of interest coverage ratio.

(ii) Write one objective of Cash Flow Statement.

(iii) Write one objective of Financial Statement Analysis.

Or

What is Comparative Financial Statement?

(iv) Write one limitation of Ratio Analysis.

ANSWERS

PART A

1.

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st December, 2018* *Cr.*

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Profit and Loss A/c (Net Profit)		1,20,000
R	2,400		By Interest on Drawings A/cs:		
S	1,800	4,200	*R*	500	
To *R*'s Commission A/c		7,500	*S*	250	750
(₹ 3,00,000 × 2.5/100)					
To *S*'s Salary A/c		12,000			
To Reserve Fund (WN 2)		9,705			
To Profit transferred to:					
R's Capital A/c	52,407				
S's Capital A/c	34,938	87,345			
		1,20,750			1,20,750

Working Notes:

1. In the absence of dates of drawings, interest on drawings has been calculated for average period, *i.e.*, 6 months.
2. Amount transferred to Reserve Fund = 10% of Distributable Profit
= 10% of ₹ 97,050 (*i.e.*, ₹ 1,20,000 + ₹ 750 – ₹ 4,200 – ₹ 7,500 – ₹ 12,000)
= ₹ 9,705.

Or

Difference between Fixed Capital Account and Fluctuating Capital Account

Basis	*Fixed Capital Account*	*Fluctuating Capital Account*
1. No. of Accounts Maintained	**Two** accounts are maintained for each partner, *i.e.*, Fixed Capital Account and Current Account.	Only **one** account (*i.e.*, Capital Account) is maintained for each partner.
2. Frequency of Change	Balance in Fixed Capital Account **does not change** except when further capital is introduced or it is withdrawn.	The balance **changes** with every transaction of the partner with the firm.
3. Recording the Transactions	Transactions relating to **Capital** are recorded in Capital Account and transactions for drawings, interest on drawings, interest on capital, salary, commission, share of profit or loss are recorded in **Current Account**.	All transactions whether for capital, drawings, interest on drawings, interest on capital, salary, commission, share of profit or loss are recorded in **Capital Account**.
4. Balance	It shows **credit balance** in Capital Account.	Fluctuating Capital Account may show **debit balance**.

2. **In the Books of *P* Ltd. Co.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Equity Share Capital A/c	...Dr.		5,000	
	To Forfeited Shares A/c				2,500
	To Equity Shares First Call A/c				1,000
	To Equity Shares Second and Final Call A/c				1,500
	(Being 500 shares forfeited for non-payment of first call and second and final call money)				
	Bank A/c	...Dr.		4,000	
	Forfeited Shares A/c	...Dr.		1,000	
	To Equity Share Capital A/c				5,000
	(Being 500 forfeited shares reissued @ ₹ 8 per share as fully paid)				
	Forfeited Shares A/c	...Dr.		1,500	
	To Capital Reserve A/c				1,500
	(Being the gain on reissue transferred to Capital Reserve)				

Or

(a) **Oversubscription of shares** means applications received are for more than the shares offered for subscription. In the event of oversubscription of shares, allotment of shares are made as per any of the following alternatives:

(i) Excess applications are rejected and full allotment is made to the remaining applicants;

(ii) *Pro rata* allotment is made to all the applicants; and

(iii) Part of the excess applications are rejected; some applicants are allotted the shares as applied and *pro rata* allotment is made to the remaining applicants.

(b) If a shareholder does not pay the call amount due on allotment or on any calls according to the terms, the amount not so received is called **Calls-in-Arrears**. The unpaid or arrear amount on account of allotment or calls *may* or *may not* be transferred to Calls-in-Arrears Account.

Calls-in-Arrears is shown as deduction from the amount of Subscribed but not fully paid-up capital under subscribed capital in the Note to Accounts on Share Capital.

3. **In the Books of Joy Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Building A/c	...Dr.		4,00,000	
	Machinery A/c	...Dr.		2,00,000	
	Stock A/c	...Dr.		1,50,000	
	To Bijoy Ltd.				7,50,000
	(Being the purchase of sundry assets from Bijoy Ltd.)				
	Bijoy Ltd.	...Dr.		1,50,000	
	To Bank A/c				1,50,000
	(Being the part payment made by cheque)				
	Bijoy Ltd.	...Dr.		6,00,000	
	To 12% Debentures A/c				4,80,000
	To Securities Premium Reserve A/c				1,20,000
	(Being 4,800; 12% Debentures of ₹ 100 each issued at 25% premium for the balance payment)				

Note:

$$\text{Number of Debentures to be Issued} = \frac{\text{Purchase Price} - \text{Part Payment}}{\text{Issue Price of Debenture}}$$

$$= \frac{₹\ 7,50,000 - ₹\ 1,50,000}{₹\ 125}$$

= 4,800 Debentures.

4.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Plant A/c		5,000	By Building A/c	20,000
To Provision for Doubtful Debts A/c		2,500		
(10% of ₹ 75,000 – ₹ 5,000)				
To Stock A/c		10,000		
To Gain (Profit) on Revaluation transferred to:				
Sachin's Capital A/c	1,500			
Sourav's Capital A/c	1,000	2,500		
		20,000		20,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	Sachin (₹)	Sourav (₹)	Rahul (₹)	Particulars	Sachin (₹)	Sourav (₹)	Rahul (₹)
To Balance *c/d*	1,20,500	67,000	30,000	By Balance *b/d*	80,000	40,000	...
				By Reserves A/c	24,000	16,000	...
				By Revaluation A/c (Gain)	1,500	1,000	...
				By Cash/Bank A/c	...	...	30,000
				By Premium for Goodwill A/c	15,000	10,000	...
	1,20,500	67,000	30,000		1,20,500	67,000	30,000

Note: Sacrificing ratio will be same as old ratio among old partners since nothing else is specifically mentioned except the share of new partner. Thus, sacrificing ratio of Sachin and Sourav is same as their old ratio, *i.e.*, 3 : 2.

Or

Partnership agreement defines the terms of relationship among the partners and whenever there is a change in the terms of agreement, it results in reconstitution (or reconstruction) of the firm.

A firm is reconstituted (or reconstructed) in the event of:

(i) Change in the profit-sharing ratio among the existing partners.

(ii) Admission of a partner or partners.

(iii) Retirement of a partner.

(iv) Death of a partner.

(v) Amalgamation of two or more partnership firms.

5. **In the Books of *X* Ltd.**

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (20,000 × ₹ 2)	...Dr.		40,000	
	To Shares Application A/c				40,000
	Shares Application A/c	...Dr.		40,000	
	To Share Capital A/c (15,000 × ₹ 2)				30,000
	To Bank A/c (5,000 × ₹ 2)				10,000
	Shares Allotment A/c	...Dr.		75,000	
	To Share Capital A/c				45,000
	To Securities Premium Reserve A/c				30,000
	Bank A/c	...Dr.		75,000	
	To Shares Allotment A/c				75,000
	Shares First and Final Call A/c	...Dr.		75,000	
	To Share Capital A/c				75,000
	Bank A/c	...Dr.		70,000	
	To Shares First and Final Call A/c				70,000
	Or				
	Bank A/c	...Dr.		70,000	
	Calls-in-Arrears A/c (1,000 × ₹ 5)	...Dr.		5,000	
	To Shares First and Final Call A/c				75,000
	Share Capital A/c	...Dr.		10,000	
	To Forfeited Shares A/c (1,000 × ₹ 5)				5,000
	To Shares First and Final Call A/c				5,000
	Or				
	Share Capital A/c	...Dr.		10,000	
	To Forfeited Shares A/c				5,000
	To Calls-in-Arrears A/c				5,000
	Bank A/c (600 × ₹ 8)	...Dr.		4,800	
	Forfeited Shares A/c (600 × ₹ 2)	...Dr.		1,200	
	To Share Capital A/c				6,000
	Forfeited Shares A/c (600 × ₹ 3)	...Dr.		1,800	
	To Capital Reserve A/c				1,800

Or

Capital of a company is divided into units of smaller denominations (say ₹ 1, ₹ 2, ₹ 5, ₹ 10 or ₹ 100) and each such unit is called a **share**. For example, in a company the total capital of ₹ 50,00,000 is divided into 5,00,000 units of ₹ 10 each, then each unit of ₹ 10 is called a share.

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.
2. Return	A shareholder gets dividend on his investment only when there is profit.	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 where they are issued as Sweat Equity shares.	There are no restrictions on issue of debentures at discount.
5. Security	Shares are not secured.	Debentures may or may not 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. Even they can 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 Provision for Doubtful Debts A/c		5,000	By Building A/c	30,000
(10% of ₹ 70,000 – ₹ 2,000)			By Creditors A/c	10,000
To Outstanding Repairs Bill A/c		2,000		
To Gain (Profit) transferred to:				
A's Capital A/c	19,800			
B's Capital A/c	6,600			
C's Capital A/c	6,600	33,000		
		40,000		40,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Profit and Loss A/c	12,000	4,000	4,000	By Balance *b/d*	1,50,000	1,00,000	1,00,000
To *B*'s Capital A/c	11,250	...	3,750	By Revaluation A/c (Gain)	19,800	6,600	6,600
To Bank A/c	...	20,000	...	By *A*'s Capital A/c	...	11,250	...
To *B*'s Loan A/c	...	97,600	...	By *C*'s Capital A/c	...	3,750	...
To Balance *c/d*	1,46,550	...	98,850				
	1,69,800	1,21,600	1,06,600		1,69,800	1,21,600	1,06,600

BALANCE SHEET OF *A* AND *C* *as at 1st April, 2018*

Liabilities		₹	Assets		₹
Creditors		90,000	Bank (₹ 32,000 – ₹ 20,000)		12,000
Bills Payable		50,000	Debtors	70,000	
Outstanding Repairs Bill		2,000	*Less:* Provision for Doubtful Debts	7,000	63,000
B's Loan		97,600	Stock		80,000
Capital A/cs:			Building		3,30,000
A	1,46,550				
C	98,850	2,45,400			
		4,85,000			4,85,000

Working Notes:

1. Unless agreed otherwise, Gaining Ratio of continuing partners is same as their old profit-sharing ratio. Thus, Gaining Ratio of *A* and *C* is 3 : 1.
2. *Adjustment of Goodwill:*

B's share of Goodwill = 1/5 of ₹ 75,000 = ₹ 15,000, which will be contributed by *A* and *C* in their gaining ratio. Thus,

A's contribution = 3/4 of ₹ 15,000 = ₹ 11,250;

C's contribution = 1/4 of ₹ 15,000 = ₹ 3,750.

7. (*a*) Debt to Equity Ratio = $\frac{\text{Debt}}{\text{Equity (Shareholders' Funds)}} = \frac{₹\ 1,16,000}{₹\ 90,000} = 1.29 : 1.$

Debt = Long-term Loan + Debentures

= ₹ 1,00,000 + ₹ 16,000 = ₹ 1,16,000

Equity (Shareholders' Funds) = Share Capital + General Reserve

= ₹ 60,000 + ₹ 30,000 = ₹ 90,000.

(*b*) Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{₹\ 1,00,000}{₹\ 1,16,000} = 0.86 : 1.$

Current Assets = Debtors + Cash

= ₹ 70,000 + ₹ 30,000 = ₹ 1,00,000

Current Liabilities = Creditors + Bank Overdraft

= ₹ 50,000 + ₹ 66,000 = ₹ 1,16,000.

Or

Objectives of Financial Statement Analysis

(*i*) To assess an enterprise's operating efficiency and profitability.

(*ii*) To assess financial stability of an enterprise.

(*iii*) To assess an enterprise's short-term and long-term solvency.

(*iv*) To compare intra-firm position, inter-firm position and pattern position within the industry.

(*v*) To estimate the future performance of the enterprise.

B Ltd.

8. CASH FLOW STATEMENT *for the year ended 31st March, 2018*

Particulars	₹	₹
I. Cash Flow from Operating Activities		
(Closing) Surplus, *i.e.*, Balance in Statement of Profit and Loss		46,000
Less: (Opening) Surplus, *i.e.*, Balance in Statement of Profit and Loss		20,000
		26,000
Add: Provision for Tax (Current year)		50,000
Net Profit before Tax and Extraordinary Items		76,000
Less: Increase in Current Assets and Decrease in Current Liabilities:		
Sundry Creditors	10,000	
Inventories	20,000	30,000
		46,000
Add: Decrease in Current Assets and Increase in Current Liabilities:		
Outstanding Expenses	2,000	
Trade Receivables	10,000	12,000
Cash Generated from Operations		58,000
Less: Tax Paid (Note 1)		92,000
Cash Used in Operating Activities		(34,000)
II. Cash Flow from Investing Activities		
Purchase of Tangible Assets (Note 2)	(32,000)	
Cash Used in Investing Activities		(32,000)
III. Cash Flow from Financing Activities		
Proceeds from Issue of Shares	1,00,000	
Cash Flow from Financing Activities		1,00,000
IV. Net Increase in Cash and Cash Equivalents (I + II + III)		34,000
Add: Cash and Cash Equivalents in the beginning of the year		60,000
V. Cash and Cash Equivalents at the end of the year		94,000

Notes:

1. Previous year's provision for tax represents the amount of tax paid and current year's provision for tax is treated as provision for tax made during the year.
2. Increase in the amount of Tangible Assets is taken as the purchase of asset.

Or

Cash and Cash Equivalents—Cash on Hand, Cash at Bank, Marketable Securities.

Transaction	Shown in Cash Flow Statement as
(i) Purchase of Fixed Assets	Outflow under Investing Activities
(ii) Sale of Investment	Inflow under Investing Activities
(iii) Redemption of Debentures	Outflow under Financing Activities
(iv) Issue of Equity Share	Inflow under Financing Activities

PART B

1. (i) (b), (ii) (b), (iii) (b), (iv) (b), (v) (c), (vi) (c), (vii) (c), (viii) (b), (ix) (c), (x) (a), (xi) (a), (xii) (a), (xiii) (c), (xiv) (a), (xv) (a), (xvi) (b), (xvii) (d), (xviii) (b).
2. (i) (c), (ii) (c), (iii) (c), (iv) (c), (v) (b), (vi) (b).
3. (i) Called-up Capital is that portion of issued capital which has been called-up by the company.

Or

Reserve Capital is a part of the subscribed capital remaining uncalled that a company resolves, by a special resolution, **not** to call except in the event of winding up of the company.

(ii) Preference share is a share which carry the following two preferential rights:

(a) Preferential right to receive dividend, and

(b) To get return of capital before equity shares at the time of winding up.

(iii) **Prospectus** is a document issued by a public company in which terms and conditions of the issue of securities are stated along with the purpose for which the proceeds of the issue of securities shall be used.

(iv) Interest on Drawings = ₹ 20,000 × 6/100 × 9/24 = ₹ 450.

(v) Revaluation Account is prepared to know the gain or loss arising due to revaluation of assets and reassessment of liabilities.

Or

Sacrificing ratio is the ratio in which old partners sacrifice their shares in favour of new partner.

(vi) Old Ratio of X, Y and Z = 1/2 : 1/3 : 1/6 or 3 : 2 : 1

Y retired. New Ratio of X and Z = 3 : 1.

(vii) Fluctuation Capital Account is that account in which the balance of capital fluctuates with every transaction.

Or

In the absence of Partnership Deed, the rate of interest on loan will be 6% p.a.

(viii) Partners collectively are known as 'Partnership Firm'.

Or

Partnership Deed is a written document which provides details of terms and conditions of partnership.

4. (i) Interest Coverage Ratio = $\dfrac{\text{Profit before Interest and Tax}}{\text{Interest on Long-term Debt}}$

(ii) To ascertain the sources (receipts) of Cash and Cash Equivalents under Operating, Investing and Financing Activities by the enterprise.

(iii) Assessing short-term and long-term solvency of the enterprise.

Or

Comparative Financial Statement means comparative study of the components or items of financial statements for two or more years or with that of other enterprise.

(iv) Qualitative factors are ignored since it is based on financial statements.

WBCHSE ACCOUNTANCY PAPER, 2022

(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. On 1st January, 2020, *X* and *Y* entered into partnership contributing ₹ 40,000 and ₹ 30,000 respectively and sharing profits and losses in the ratio of 3 : 2. *Y* is to be allowed an annual salary of ₹ 8,000. Interest on capital is to be allowed at 6% per annum. During the year, *X* withdrew ₹ 6,000 and *Y* ₹ 12,000, interest on the same being ₹ 100 and ₹ 140 respectively. Net profit in 2020 before the above noted adjustments was ₹ 21,160.

Prepare Profit and Loss Appropriation Account for the year ended 31st December, 2020. (4)

Or

State **any four** differences between Profit & Loss Account and Profit & Loss Appropriation Account. (4)

2. Write short notes on:

(a) Calls-in-Advance

(b) Securities Premium. (2 + 2)

Or

B. Co. Ltd. issued 3,000 Equity Shares of ₹ 10 each including premium of ₹ 2 per share payable as ₹ 3 per share on application, ₹ 5 per share (including ₹ 2 as premium) on Allotment and ₹ 4 per share on call. All the shares were subscribed. Money due on all shares was fully received except Ram, holding 50 shares, failed to pay the allotment and call money. His shares were forfeited and subsequently reissued to Jadu as fully paid-up at a discount of ₹ 2 per share.

Pass the Journal entries of forfeiture and reissue of the shares in the books of the *B*. Co. Ltd. (4)

3. *Y* Ltd. issued 50,000 shares of ₹ 10 each payable as ₹ 3 per share on Application, ₹ 3 per share on Allotment, and ₹ 4 per share on call.

Applications were received on 52,000 shares. Excess application money was refunded.

Show the Journal entries in the books of *Y* Ltd. (Narration is not required) (4)

4. *A* and *B* are partners in a firm sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as on 31st December, 2020 was as follows:

Liabilities		₹	Assets	₹
Capital A/cs:			Plant and Machinery	60,000
A	70,000		Buildings	30,000
B	40,000	1,10,000	Stock	25,000
Reserve Fund		12,000	Debtors	40,000
Sundry Creditors		38,000	Cash at Bank	5,000
		1,60,000		1,60,000

They agreed to take *C* as a new partner with effect from 1st January, 2021 under the following terms:

(a) He was also required to contribute 50% of the adjusted combined capitals of *A* and *B* as his capital.

(b) Stock was revalued at ₹ 24,000.

(c) Plant and Machinery was to be revalued at ₹ 75,000.

(d) Provision for Doubtful Debts is to be created at 5% on Sundry Debtors.

Prepare: Revaluation Account and Partners' Capital Accounts. (2 + 4)

Or

Write short notes on:

(a) Sacrificing Ratio.

(b) Treatment of Goodwill at the time of retirement of a partner. (3 + 3)

5. *J* Ltd. invited applications for 15,000 equity shares of ₹ 100 each at a premium of 10%, payable as: on Application ₹ 25 per share, on Allotment (including premium) ₹ 50 per share, on first and final call ₹ 35 per share.

Applications were received for 15,500 shares. Application money for 500 shares was refunded. Allotment was made in full to all other applicants. All money due was received except the first and final call on 200 shares which were forfeited after compliance of all legal formalities. Of these, 150 shares were reissued at ₹ 105 as fully paid-up.

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

Or

Write short notes on:

(a) Preference Shares.

(b) Bonus Share. (3 + 3)

6. *X*, *Y* and *Z* are partners sharing profits and losses in the ratio of 3 : 2 : 1. Their Balance Sheet as on 31st December, 2020 is as follows:

BALANCE SHEET *as at 31st December, 2020*

Liabilities		₹	Assets	₹
Capital A/cs:			Building	20,000
X	18,000		Furniture	2,000
Y	12,000		Stock	15,000
Z	10,000	40,000	Debtors	15,000
Creditors		15,000	Bills Receivable	5,000
Bills Payable		10,000	Cash-in-Hand	8,000
		65,000		65,000

On the aforesaid date, *X* retires on the following terms:

(a) Value of Building is to be appreciated by 20%.

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

(c) 5% provision is to be created on Debtors.

(d) Goodwill is to be valued at ₹ 9,000 but no goodwill account is to be raised in the new balance sheet.

It is agreed that *Y* and *Z* will share profits equally after *X*'s retirement and they bring in further capital of ₹ 5,000 each. *X* is paid off except ₹ 10,000 which he leaves to the firm as loan.

Prepare: Revaluation Account, Partners' Capital Accounts and New Balance Sheet. (3 + 4 + 3)

7. Calculate Cash From Operations or Operating Profit of *X* Ltd. from the following information:

Profit made during the year 2020, ₹ 2,50,000 after adjusting the following items:

	₹
Transfer to General Reserve	7,000
Depreciation on Fixed Assets	12,000
Goodwill written off	4,000
Profit on sale of land	2,000

(4)

Or

Write short notes on Cash Flow from Financing Activity as per AS-3. (4)

8. Calculate Cash Flow from Operating Activities from the following information for the year ended 31st December, 2020:

	2019 (₹)	2020 (₹)
Profit and Loss Account	70,000	75,000
Debtors	90,000	53,000
Bills Receivable	60,000	1,01,000
General Reserve	2,00,000	2,30,000
Salary Outstanding	20,000	8,000
Wages prepaid	8,000	10,000
Goodwill	1,00,000	90,000

During the year 2020 an amount of ₹ 40,000 was charged as depreciation on fixed assets. (6)

PART B (36 MARKS)

1. *Select the correct answer out of the options given against each question (Alternatives are to be noted):* (1 × 18 = 18)

(i) The current accounts of partners

(a) are always debit balance. (b) are always credit balance.
(c) may be debit or credit. (d) always zero balance.

(ii) Who will not be a partner in a partnership business?

(a) Insolvent person (b) An actor
(c) Woman (d) Nobody

(iii) At the time of revaluation, value of machinery has been increased by ₹ 10,000. Which account is to be debited in the Journal?

(a) Machinery Account (b) External Liability Account
(c) Revaluation Account (d) None of these

(iv) *A*, *B* and *C* are partners sharing profit and losses in the ratio of 4 : 2 : 1. *B* retired. The new profit-sharing ratio between *A* and *C* will be

(a) 4 : 1. (b) 2 : 1.
(c) 1 : 1. (d) 5 : 3.

(v) The latest Indian Companies Act was enacted in the year

(a) 1913. (b) 1956.
(c) 2013. (d) 2015.

(vi) Security Premium is

(a) Capital Profit. (b) Revenue Profit.

(c) Capital Loss. (d) Revenue Loss.

(vii) Excess credit balance of Share Forfeiture A/c is to be transferred to

(a) General Reserve A/c. (b) Security Premium A/c.

(c) Capital Reserve A/c. (d) None of these.

(viii) Share Application Account is

(a) Personal A/c. (b) Nominal A/c.

(c) Real A/c. (d) None of these.

(ix) Indian Partnership Act was introduced in the year

(a) 1931. (b) 1932.

(c) 1933. (d) 1956.

(x) In absence of partnership agreement, partners are entitled to get

(a) equal share in profit. (b) commission.

(c) interest on loan. (d) all of these.

Or

What is called the excess of actual profit over normal profit?

(a) Average Profit (b) Capitalised Profit

(c) Super Profit (d) Net Profit

(xi) Revaluation Account is

(a) Real Account. (b) Nominal Account.

(c) Personal Account. (d) None of these.

Or

The nature of Profit & Loss Appropriation Account is

(a) Real. (b) Nominal.

(c) Personal. (d) None of these.

(xii) *A* and *B* are equal partners. They agree to share profit in the ratio of 3 : 2. The individual partner's gain or sacrifice due to the change in ratio will be

(a) *A* gains and *B* sacrifices 1/10th share.

(b) *A* sacrifices and *B* gains 1/10th share.

(c) *A* gains 3/5th and *B* sacrifices 2/5th share.

(d) *A* sacrifices 3/5th and *B* gains 2/5th share.

Or

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 in 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. (d) ₹ 37,500.

(xiii) Profit or loss on revaluation in case of retirement of a partner is distributed in

(a) New Profit-sharing ratio. (b) Old Profit-sharing ratio.

(c) Equal ratio. (d) Sacrificing ratio.

(xiv) The interest on the amount of capital not withdrawn from the business by the retiring partner will be at

(a) 5% p.a. (b) 6% p.a.

(c) Bank rate. (d) 7% p.a.

(xv) Rate of Interest on Calls-in-Advance as per Companies Act, 2013 is

(a) 6% p.a. (b) 5% p.a.

(c) 12% p.a. (d) 10% p.a.

(xvi) The part of authorised capital which is issued to public for subscription is called

(a) Subscribed Capital. (b) Issued Capital.

(c) Called-up Capital. (d) Reserve Capital.

Or

Preference shareholders get dividend at

(a) fixed rate. (b) fluctuating rate.

(c) 10%. (d) None of these.

(xvii) The authorised capital of a joint stock company is stated in the document

(a) Articles of Association. (b) Memorandum of Association.

(c) Prospectus. (d) None of these.

(xviii) Face value of a share is ₹ 100, ₹ 90 being called-up. ₹ 80 is paid-up. While forfeiting the shares, share forfeiture account will be credited by

(a) ₹ 80. (b) ₹ 20.

(c) ₹ 90. (d) ₹ 100.

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

(i) How many types of 'Cash Flow' are there as per AS-3?

(a) 2 (b) 3

(c) 4 (d) 5

(ii) In Cash Flow Statement, dividend paid will be considered as

(a) Operating Activities. (b) Investing Activities.

(c) Financing Activities. (d) None of these.

(iii) Which one is not included in Operating Activities?

(a) Cash received from debtor. (b) Salary paid to employees in cash.

(c) Cash paid for income tax. (d) Interest received from investment.

(iv) While calculating profit from operation the item to be added is

(a) Goodwill written off. (b) Loss on sale of assets.

(c) Depreciation written off. (d) All of these.

(v) Under which accounting standard Cash Flow Statement is prepared?

(a) AS-1 (b) AS-2

(c) AS-3 (d) AS-7

(vi) Sale of Fixed Assets is considered under following activity

(a) Operating Activity. (b) Investing Activity.

(c) Financing Activity. (d) None of these.

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

(i) *X*, *Y* and *Z* are in partnership, sharing profits and losses in the ratio 1/2 : 1/3 : 1/6. If *Y* retired, then what will be the new profit-sharing ratio?

(ii) What is Calls-in-Arrear?

(iii) What is partnership firm?

Or

What is partnership deed?

(iv) What is Fluctuating Capital Account?

Or

What is the Balance of fixed capital account?

(v) What is forfeiture of share?

(vi) What is Prospectus?

Or

What is minimum subscription?

(vii) *A* and *B* are partners of a firm in 3 : 2 profit-sharing ratio. *C* joins as a new partner with 1/4th share of future profit, then calculate new profit-sharing ratio after admission of *C*.

(viii) What is sacrificing ratio?

Or

When is Revaluation A/c prepared?

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

(i) State one limitation of Cash Flow Statement.

(ii) What is Cash Equivalent in Cash Flow Statement?

Or

Why is Cash Flow Statement called a periodical statement?

(iii) What is Cash Flow Statement?

(iv) Write one example of 'Investing Activity' of Cash Flow Statement.

Or

What is non-cash transaction in Cash Flow Statement?

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

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.

WBCHSE ACCOUNTANCY PAPER, 2023

(New Syllabus)

Total Time: 3 Hours 15 Minutes **Total Marks: 80**

General Instructions:

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.

(Multiple Choice Questions)

1. *Select the correct answer out of the options given against each question (Alternatives are to be noted):* (1 × 24 = 24)

(i) The balance of Partner's fixed capital under Fixed Capital Method is
(a) always credit. (b) always debit.
(c) either debit or credit. (d) zero balance.

(ii) In the absence of Partnership agreement, the partners are
(a) to pay interest on drawings @ 6%.
(b) to pay interest on drawings @ 12%.
(c) not to pay interest on drawings at any rate.
(d) None of these.

(iii) A partner drew ₹ 300 at the beginning of each month subject to interest @ 5% p.a. The amount of interest on drawings will be
(a) ₹ 97.50. (b) ₹ 110.00.
(c) ₹ 125.50. (d) ₹ 130.50.

(iv) The value of goodwill increases with the .... of the firm.
(a) increase in profit (b) decrease in profit
(c) increase in loss (d) None of these.

(v) *A* and *B* are partners in a firm sharing profits and losses in the ratio 5 : 3. They admit *C* for 1/7th share in the profit. The new ratio is 4 : 2 : 1. What will be the sacrificing ratio of *A* and *B*?
(a) 2 : 1 (b) 2 : 5
(c) 3 : 5 (d) 5 : 3.

(vi) The premium for Goodwill to be brought in by the new partners is valued on the basis of
(a) Full value of Goodwill. (b) Overvaluation of Goodwill.
(c) Undervaluation of Goodwill. (d) None of these.

(vii) If the amount of Reserve of a partnership firm is ₹ 6,000 and the profit-sharing ratio of *A*, *B* and *C* is 3 : 2 : 1, then share in the reserve of *B* and *C* together is
(a) Twice of *A*. (b) Equal to *A*.
(c) Half of *A*. (d) None of these.

(viii) If the old ratio is more than the new ratio, what is it called?
(a) Sacrificing Ratio (b) Gaining Ratio
(c) Capital Ratio (d) None of these.

(ix) *A*, *B* & *C* are partners sharing profits in the ratio of 5 : 4 : 3. *B* retires and *A* and *C* decide to share future profits equally. What will be the gaining ratio?

(a) 1 : 3 (b) 3 : 1

(b) 4 : 3 (c) 5 : 4

(x) If goodwill account is raised by the partners at the time of admission of a partner, it will be written off in

(a) Old Profit-sharing Ratio. (b) New Profit-sharing Ratio.

(c) Sacrificing Ratio. (d) Capital Ratio.

(xi) Who are the owners of the company?

(a) Shareholders (b) Directors

(c) Promoters (d) Creditors

(xii) What is the most important document of a company?

(a) Prospectus (b) Articles of Association

(c) Memorandum of Association (d) Register of Members

(xiii) What should be the maximum number of members of a Private Ltd. company?

(a) 20 (b) 40

(c) 50 (d) 100

(xiv) When shares are allotted which account is to be credited?

(a) Share Application account (b) Share Allotted account

(c) Share Capital account (d) None of these.

(xv) In which account the amount received over and above the nominal value of share should be credited?

(a) Share Application Account (b) Share Allotted Account

(c) Share Capital Account (d) Securities Premium Account

(xvi) Subject to the company's articles permitting, interest on calls-in-advance may be paid at

(a) 3%. (b) 6%.

(c) 12%. (d) 15%.

(xvii) Discount on re-issue of forfeited shares should not be more than

(a) Amount received on forfeited shares. (b) 10% of re-issued capital.

(c) Re-issued capital. (d) 20% of re-issued capital.

(xviii) If debentures are to be redeemed in four equal instalments, discount on issue of debentures account will be written off in the ratio of

(a) 1 : 1 : 1 : 1. (b) 1 : 2 : 3 : 4.

(c) 2 : 3 : 4 : 1. (d) 4 : 3 : 2 : 1.

Either attempt question number (**xix**) to (**xxiv**) *Or* (**xxv**) to (**xxx**). **Only one series of questions to be answered from above mentioned series of questions.**

(xix) Where will you record 'public deposit' in the balance sheet of the company?

(a) Share Capital (b) Secured Loan

(c) Unsecured Loan (d) Current Liabilities.

(xx) Analysis of financial statements is done after

(a) compilation of data. (b) conversion of data.

(c) comparison of data. (d) None of these.

(xxi) Current ratio measures

(a) the solvency of the business.
(b) the liquidity of the business.
(c) the financial structure of the business.
(d) profitability of the business.

(xxii) If stock turnover is 5 times, what will be the average holding period (days) for the year 2023?

(a) 60 days
(b) 65 days
(c) 73 days
(d) 80 days

(xxiii) The revenue producing activities of an enterprise are called

(a) Operating activities.
(b) Investing activities.
(c) Financing activities.
(d) Cash equivalent.

(xxiv) If the net profit earned during the year is ₹ 1 lakh and the increase in debtors during the year is ₹ 25,000, what will be the amount of cash from operation?

(a) ₹ 25,000
(b) ₹ 50,000
(c) ₹ 75,000
(d) ₹ 1,25,000

Note: MCQs (xxv) to (xxx) are not given since they relate to Part C—Application of Computers in Financial Accounting.

(Short Answer Type Questions)

2. *Answer the following questions in brief (Alternatives are to be noted):* (1 × 12 = 12)

(i) What is meant by current account?

Or

What is the necessity of a partnership deed?

(ii) What is meant by average profit?

Or

What is hidden goodwill?

(iii) What is prospectus?

(iv) Why sacrificing ratio is calculated?

Or

Define gaining ratio.

(v) What is the nature of revaluation account?

Or

What do you mean by accumulated profits?

(vi) *A*, *B* and *C* are partners sharing profits in the ratio of 3 : 2 : 1. *A* retires and his share is taken by *B* and *C* equally. What will be the gaining ratio?

(vii) What is called-up capital?

(viii) What do you mean by preference share?

Either attempt question number (**ix**) to (**xii**) OR (**xiii**) to (**xvi**). **Only one series of questions to be answered from above mentioned series of questions**.

(ix) What do you mean by short-term solvency ratio?

Or

What is meant by proprietary ratio?

(x) Write one objective of Financial Statement analysis.

Or

What do you mean by common-size income statement?

(xi) When is dividend received considered as operating activities?

(xii) What do you mean by fixed assets turnover ratio?

Note: Question no. (xiii) to (xvi) are not given since they relate to Part C—Application of Computers in Financial Accounting.

(Subjective/Descriptive Type Questions)

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

3. *A*, *B* and *C* are partners in a firm and their profit-sharing ratio is 3 : 2 : 1. On 1st April, 2021, balance in their Capital Account stood at ₹ 3,00,000; ₹ 2,00,000 and ₹ 1,00,000 respectively.

   The partnership deed contained the following conditions:

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

   (ii) Interest on Drawing @ 10% p.a.

   (iii) *B* is entitled to a salary of ₹ 5,000 p.m.

   (iv) *C* is entitled to a commission of 10% on total sales (after charging his own commission).

   [Total Sales in 2021-22 amounted to ₹ 9,90,000]

   Net profit of the firm for the year ended 31st March, 2022, amount to ₹ 3,00,000 and the drawings of the partners were *A*—₹ 50,000; *B*—₹ 40,000 and *C*—₹ 25,000.

   From the above information, prepare a Profit & Loss Appropriation Account for the year ended 31st March, 2022. (4)

   Or

   State the characteristics of Profit & Loss Appropriation Account. (4)

4. Mr. *X* who applied for 5,000 shares of *HCL* Ltd. of ₹ 10 each issued at a premium of ₹ 2 each. Mr. *X* paid application money of ₹ 3 per share and ₹ 6 (including Premium) as allotment but failed to pay the balance amount of share. Company decided to forfeit these shares and reissue 3/5 of such shares at 20% discount.

   Show necessary Journal entries for forfeiture and reissue of shares in the books of *HCL* Ltd. (4)

   Or

   Write short notes on:

   (a) Forfeiture of share;

   (b) Authorised capital. (2 + 2)

5. *XYZ* Ltd. purchased equipment worth ₹ 19,950 and issued Debentures to the vendor as purchase consideration. Pass necessary Journal entries in the following two situations:

   Situation 1: If 10% Debentures of ₹ 100 each are issued to the vendor at a discount of 5%.

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

6. *X*, *Y* and *Z* are the partners of a firm and they share profits and losses in the ratio of 3 : 2 : 1. On 31st March, 2022, the Balance Sheet of the firm was an under:

Liabilities		₹	Assets	₹
Capital A/cs:			Plant and Machinery	40,000
X	40,000		Furniture & Fixture	20,000
Y	50,000		Stock	16,000
Z	30,000	1,20,000	Debtors	10,000
Reserve		36,000	Cash at Bank	80,000
Creditors		10,000		
		1,66,000		1,66,000

Y retires on 1st October, 2022 on the following terms:

(i) Plant and Machinery to be reduced by ₹ 10,000.

(ii) Provision for doubtful debts to be made at 5% on debtors.

(iii) Goodwill of the firm is valued at ₹ 54,000 and value of goodwill will not be shown in the Balance Sheet after retirement of *Y*.

(iv) Share of profit of the retired partner will get up to the date of retirement on the basis of last year's profit. In the last year, the firm earned profit of ₹ 60,000.

(v) ₹ 30,000 is to be paid immediately at the time of retirement and the balance of his capital account is to be transferred to loan account of *Y*.

Prepare Revaluation Account and Partners' Capital Accounts in the books of the firm. (2 + 4)

Or

What do you mean by reconstruction of a partnership firm? Classify it. Give one example each of every classification. (2 + 2 + 2)

7. *XYZ* Ltd. issued 50,000 shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

₹ 2 on Application, ₹ 5 on Allotment (including premium), ₹ 3 on 1st Call and the balance on Final call.

The company did not make the Final call.

Company got all payment up to 1st Call money except only one shareholder holding 1,000 shares failed to pay allotment and 1st Call money. These shares were subsequently forfeited by the company.

Show Journal entries in the books of *XYZ* Ltd. (6)

Or

What do you mean by Securities Premium? What are the purposes for which a company can utilise the Security Premium? (2 + 4)

8. *A* and *B* are partners in a firm and their profit-sharing ratio was 3 : 2. Their Balance Sheet as on 31st December, 2022 was as under:

Liabilities		₹	Assets		₹
Capital Accounts:			Land & Building		4,20,000
A	3,00,000		Plant & Machinery		2,80,000
B	2,00,000	5,00,000	Stock		80,000
General Reserve		2,50,000	Debtors	1,25,000	
Creditors		1,60,000	*Less:* Provision for Doubtful Debts	5,000	1,20,000
Bills Payable		40,000	Cash at Bank		50,000
		9,50,000			9,50,000

On 1st January, 2023, they agreed to admit *C* as a new partner on the following terms:

(i) Building is to be valued at ₹ 5,00,000.

(ii) Machinery is to be reduced by ₹ 50,000.

(iii) Provision for doubtful debts is to be increased to ₹ 8,000.

(iv) Stock is to be reduced by 5%.

(v) *C* will bring ₹ 50,000 as his share of goodwill in cash.

(vi) *C* will bring 50% of the combined capital of *A* and *B* after adjustments of above items as 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 January, 2023 after *C*'s admission. (3 + 4 + 3)

Answer Either Question No. 9 or Question No. 10

9. From the following information, compute (a) Current Assets and (b) Stock:

Current Ratio 3.5; Quick Ratio 2.5 and Working Capital ₹ 1,20,000. (2 + 2)

Or

Write short notes on:

(a) Stock Turnover Ratio

(b) Proprietary Ratio (2 + 2)

Note: Question no. 10 is not given since it relates to Part C—Application of Computers in Financial Accounting.

Answer Either Question No. 11 or Question No. 12

11. From the following Balance Sheet of *ABC* Ltd., prepare Cash Flow Statement for the year ended on 31.12.2022:

Particulars	Note No.	31st December, 2022 (₹)	31st December, 2021 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital	1	4,00,000	3,80,000
(*b*) Reserves and Surplus	2	90,000	98,000
2. Non-Current Liabilities			
Long-term Borrowing (8% Debentures)		60,000	50,000
3. Current Liabilities			
(*a*) Trade Payables		40,000	24,000
(*b*) Short-term Provision (Provision for Taxation)		64,000	60,000
Total		6,54,000	6,12,000

II. ASSETS			
1. Non-Current Assets			
Fixed Assets		5,30,000	4,90,000
2. Current Assets			
(*a*) Inventories		60,000	50,000
(*b*) Trade Receivables	3	52,000	62,000
(*c*) Cash and Cash Equivalents	4	12,000	10,000
Total		6,54,000	6,12,000

Notes to Accounts

Particulars	31st December, 2022 (₹)	31st December, 2021 (₹)
1. Share Capital		
Equity Share Capital	3,00,000	2,80,000
10% Preference Share Capital	1,00,000	1,00,000
	4,00,000	3,80,000
2. Reserves and Surplus		
General Reserve	26,000	20,000
Profit & Loss	66,000	82,000
	92,000	1,02,000
Less: Preliminary Expenses	2,000	4,000
	90,000	98,000
3. Trade Receivables		
Debtors	36,000	45,000
Bills Receivable	16,000	17,000
	52,000	62,000
4. Cash and Cash Equivalents		
Cash at Bank	10,000	8,500
Cash in Hand	2,000	1,500
	12,000	10,000

(6)

Or

State the importance of Cash Flow Statement. Give one example each of operating and investing activities. (4 + 2)

Note: Question no. 12 is not given since it relates to Part C—Application of Computers in Financial Accounting.

Answers

(Multiple Choice Questions)

1. (i) (a); (ii) (c); (iii) (a); (iv) (a); (v) (c); (vi) (d); (vii) (b); (viii) (a); (ix) (a); (x) (b); (xi) (a); (xii) (c); (xiii) ( ); (xiv) (c); (xv) (d); (xvi) (c); (xvii) (a); (xviii) (d); (xix) (b); (xx) (a); (xxi) (b); (xxii) (c); (xxiii) (a); (xxiv) (c).

(Short Answer Type Questions)

2. (i) Current Account is an account maintained to record transactions other than transactions of capital such as drawings against profit, interest allowed on capital, interest charged on drawings, salary or commission payable to a partner, share of profits/losses. As a result, the balance of Current Account fluctuates with every transaction of the partner with the firm.

OR

Partnership Deed is necessary because it defines relationship between partners. It governs the rights, duties and liabilities of each partner.

(ii) The profit earned by a business during previous accounting periods on an average basis is termed as Average Profit.

OR

'Hidden Goodwill' is the excess of total capital of the firm as calculated on the basis of new partner's capital over the adjusted capitals of the existing partners and capital of incoming partner.

(iii) Prospectus is the document issued by a public company 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*]

(iv) Sacrificing ratio is calculated to determine share in goodwill brought by the new partner.

OR

Gaining Ratio is the ratio in which the remaining partners contribute for the share of goodwill of retiring or deceased partner. It is calculated as follows:

Gaining Ratio = New Profit Share – Old Profit Share

(v) Revaluation Account is a Nominal Account. Loss due to revaluation of assets and reassessment of liabilities is debited and gain is credited in the Revaluation Account.

OR

Accumulated Profit means net profit remaining undistributed. It is also termed as 'Retained Earnings'.

(vi) Gaining Ratio will be equal, *i.e.*, 1 : 1.

(vii) "According to Section 2(15) of the Companies Act, 2013, ''C*alled-up capital means such part of the capital which has been called for payment''.*

(viii) **Preference Shares** are the shares which carry the following two preferential rights:

(a) 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

(b) Return of capital on the winding up of the company before that of equity shares.

(ix) Short-term Solvency Ratios or Liquidity Ratios are those ratios which are computed to evaluate the capability of the entity to meet its short-term liabilities. Commonly used liquidity ratios are:

(a) Current Ratio, and

(b) Quick Ratio or Liquid Ratio.

OR

Proprietary Ratio is the ratio that establishes the relationship between proprietors' funds and total assets.

Computation: The Proprietary Ratio is computed as follows:

$$\text{Proprietary Ratio} = \frac{\text{Proprietors' Funds or Shareholders' Funds or Equity}}{\text{Total Assets}}$$

Proprietors' Funds can be computed by following either Liabilities Approach or Assets Approach. It should be kept in mind that the result under both the approaches will be same.

(a) Liabilities Approach: Share Capital (Equity + Preference) + Reserves and Surplus.

(b) Assets Approach: Non-current Assets + Working Capital (*i.e.*, Current Assets – Current Liabilities) – Non-current Liabilities.

(x) One of the objectives of Financial Statement Analysis is to assess the earning capacity or profitability of the enterprise. In addition, the earning capacity of the enterprise, in coming years, may also be forecast.

OR

Common-size Income Statement is a tool for financial analysis. In the statement, Revenue from Operations (Net Sales) is taken as 100 and expenses are expressed as percentage of Revenue from Operations (Net Sales).

(xi) Dividend received is shown as operating activity by **financing companies**, it being its principal revenue producing activity.

(xii) **Fixed Assets Turnover Ratio: (Not in Syllabus)** Fixed Assets Turnover Ratio is the ratio to analyse the relationship between Net Fixed Assets and Revenue from Operations. It shows the number of times fixed assets are used or turned around for earning revenue from operations. It is calculated as follows:

$$\frac{\text{Revenue from Operations}}{\text{Net Fixed Assets}}$$

(Subjective/Descriptive Type Questions)

3. PROFIT & LOSS APPROPRIATION ACCOUNT

for the year ended 31st March, 2022

Dr. Particulars		₹	Particulars	₹ *Cr.*
To Interest on Capital:			By Profit & Loss A/c (Net Profit)	3,00,000
A	15,000		By Interest on Drawings:	
B	10,000		*A* (₹ 50,000 × 10/100 × 6/12)	2,500
C	5,000	30,000	*B* (₹ 40,000 × 10/100 × 6/12)	2,000
To Salary to *B*		60,000	*C* (₹ 25,000 × 10/100 × 6/12)	1,250
To Commission to *C*		90,000		
(₹ 9,90,000 × 10/110)				
To Profit transferred to:				
A's Capital A/c	62,875			
B's Capital A/c	41,917			
C's Capital A/c	20,958	1,25,750		
		3,05,750		3,05,750

OR

Characteristics of Profit & Loss Appropriation Account

1. It is an extension of the Profit & Loss Account.
2. It is prepared by the partnership firms.
3. It shows the appropriation of net profit for the accounting period.
4. The entries in this account are passed giving effect to the Partnership Deed.

4. JOURNAL OF HCL LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	**For Forfeiture of Shares:**				
	Share Capital A/c	...Dr.		50,000	
	To Calls-in-Arrears A/c				15,000
	To Forfeited Shares A/c				35,000
	(Being the shares of *X* forfeited for non-payment of call money of ₹ 3)				
(*ii*)	**For Reissue of Shares:**				
	Bank A/c	...Dr.		40,000	
	Forfeited Shares A/c	...Dr.		10,000	
	To Share Capital A/c				50,000
	(Being the reissue of shares at 20% discount)				
(*iii*)	**For Transfer of Gain (Profit):**				
	Forfeited Shares A/c	...Dr.		25,000	
	To Capital Reserve A/c				25,000
	(Being the balance gain on reissue transferred)				

OR

(a) *Forfeiture of shares means cancelling the shares for non-payment of calls due*. But, shares can be forfeited only if the Articles of Association of the company allows forfeiture. 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 or calls is not paid. The company before forfeiture, must first give clear 14 days' notice to the defaulting shareholder that unless due amount along with interest is paid if any, by the specified date, the shares shall be forfeited. If the shareholder still does not pay, the company may forfeit the shares by passing an appropriate resolution.

On forfeiture, the shares are cancelled and to that extent Share Capital is reduced. The amount received by the company is forfeited, *i.e.*, not refunded. Journal entry for forfeiting the shares is passed.

Disclosure of Forfeited Shares Account in the Balance Sheet: Till the time forfeited shares are reissued, balance of the Forfeited Shares Account is added to paid-up capital under Subscribed Share Capital in the Note to Accounts on 'Share Capital', being part of Shareholders' Funds shown under Equity and Liabilities part of the Balance Sheet.

(b) *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 of a company.*

—Section 2(8) of the Companies Act, 2013

'Authorised Capital' or 'Nominal Capital' or 'Registered Capital' is stated in the Memorandum of Association and is the maximum amount that a company can raise as share capital.

It is stated separately for each class of shares, *i.e.*, Preference Shares and Equity Shares and is the maximum amount of share capital under each class of shares which a company can issue for subscription. If a company has to issue more shares than authorised capital, it must first increase the authorised or nominal capital and thereafter issue shares for subscription.

Authorised Share Capital under each class (Equity or Preference) may be more or at the most equal to the Issued Share Capital, but **cannot** be less than the Issued Capital.

5. JOURNAL OF *XYZ* LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Equipment A/c ...Dr.		19,950	
	To Vendor			19,950
	(Being the purchase of equipment)			
(*ii*)	**Situation 1:**			
	Vendor ...Dr.		19,950	
	Discount on Issue of Debentures A/c ...Dr.		1,050	
	To 10% Debentures A/c			21,000
	(Being 210 Debentures (₹ 19,950 ÷ ₹ 95) issued as purchase consideration)			
(*iii*)	**Situation 2:**			
	Vendor ...Dr.		19,950	
	To 10% Debentures A/c			19,000
	To Securities Premium A/c			950
	(Being 190 Debentures (₹ 19,950 ÷ ₹ 105) issued as purchase consideration)			

6.

Dr. REVALUATION ACCOUNT Cr.

Particulars	₹	Particulars		₹
To Plant and Machinery A/c	10,000	By Loss transferred to:		
To Provision for Doubtful Debts A/c	500	*X*'s Capital A/c	5,250	
		Y's Capital A/c	3,500	
		Z's Capital A/c	1,750	10,500
	10,500			10,500

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To Revaluation A/c (Loss)	5,250	3,500	1,750	By Balance *b/d*	40,000	50,000	30,000
To *Y*'s Capital A/c (Goodwill)	13,500	...	4,500	By Reserve	18,000	12,000	6,000
To Bank A/c	...	30,000	...	By *X*'s Capital A/c (Goodwill)	...	13,500	...
To *Y*'s Loan A/c	39,250	56,500	29,750	By *Z*'s Capital A/c (Goodwill)	...	4,500	...
				By Profit & Loss Suspense A/c	...	10,000	...
	58,000	90,000	36,000		58,000	90,000	36,000

Working Notes:

1. *Share of Goodwill of Y:*

Goodwill of the firm = ₹ 54,000

Y's share = ₹ 54,000 × 2/6 = ₹ 18,000

It will be contributed by *X* and *Z* in their gaining ratio, *i.e.*, 3 : 1.

2. *Calculation of share of Y in estimated profit:*

Estimated profit till date of retirement= ₹ 30,000 (₹ 60,000 × 1/2)

Y's share = ₹ 30,000 × 2/6 = ₹ 10,000.

OR

Reconstitution of partnership firm means change in the partnership agreement whereby old partnership agreement comes to an end and new partnership agreement comes into existence but the firm continues. Reconstitution happens in the following circumstances

(a) When there is change in profit-sharing ratio among existing partners. Example: Amit and Amrit are partners sharing profits and losses in the ratio of 3 : 2. They decide to share profits equally *w.e.f.* 1st April, 2023.

(b) On admission of a partner. Example: Amit and Amrit are partners sharing profits and losses in the ratio of 3 : 2. They admit Amulya as a partner *w.e.f.* 1st April, 2023 and decide to share profits equally. It is a case of reconstitution whereby a new partner is admitted and as a result profit-sharing ratio has changed. Thus, Amit and Amrit have sacrificed their profit share in favour of Amulya (new partner).

(c) On retirement of a partner. Example: Amit, Bikram and Amrit are partners sharing profits and losses in the equal ratio. Amrit retired w.e.f. 1st April, 2023 and Amit and Bikram decide to share profits in the ratio of 3 : 2. It is a case of reconstitution whereby Amrit (a partner) retired and as a result profit-sharing ratio has changed. Amrit has sacrificed his profit share in favour of Amit and Bikram (Gaining Partners).

(d) On death of a partner. Example: Amit, Bikram and Amrit are partners sharing profits and losses in the equal ratio. Amrit died on 1st March, 2023. Amit and Bikram decide to share profits in the ratio of 3 : 2. It is a case of reconstitution whereby Amrit (deceased partner) died and as a result profit-sharing ratio has changed. Amrit's profit share is taken by Amit and Bikram (Gaining Partners).

7. JOURNAL OF *XYZ* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
(*i*)	Bank A/c	...Dr.		1,00,000	
	To Share Application A/c				1,00,000
	(Being the application money received on 50,000 shares)				
(*ii*)	Share Application A/c	...Dr.		1,00,000	
	To Share Capital A/c				1,00,000
	(Being the application money transferred on allotment of shares)				
(*iii*)	Share Allotment A/c	...Dr.		2,50,000	
	To Share Capital A/c				1,50,000
	To Securities Premium A/c				1,00,000
	(Being the allotment money due)				
(*iv*)	Bank A/c	...Dr.		2,45,000	
	Calls-in-Arrears A/c	...Dr.		5,000	
	To Share Allotment A/c				2,50,000
	(Being the allotment money received except on 1,000 shares)				
(*v*)	Share First Call A/c	...Dr.		1,50,000	
	To Share Capital A/c				1,50,000
	(Being the first call made due)				
(*vi*)	Bank A/c	...Dr.		1,47,000	
	Calls-in-Arrears A/c	...Dr.		3,000	
	To Share First Call A/c				1,50,000
	(Being the call money received)				
(*vii*)	Share Capital A/c	...Dr.		8,000	
	Securities Premium A/c	...Dr.		2,000	
	To Calls-in-Arrears A/c				8,000
	To Forfeited Shares A/c				2,000
	(Being 1,000 shares forfeited on non-payment of allotment and first call money)				

OR

Issue of shares at premium means shares have been issued at a price that is more than the nominal (face) value of the share. For example, a share with nominal (face) value of ₹ 10 is issued at ₹ 15, premium being ₹ 5.

Purposes for Utilisation: Section 52(2) of the Companies Act, 2013 restricts the use of the amounts received as premium on securities 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; and

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

8. (a)

Dr. REVALUATION ACCOUNT Cr.

Particulars		₹	Particulars	₹
To Machinery A/c		50,000	By Building A/c	80,000
To Provision for Doubtful Debts A/c		3,000		
To Stock A/c		4,000		
To Gain/Profit transferred:				
A's Capital A/c	13,800			
B's Capital A/c	9,200	23,000		
		80,000		80,000

(b)

Dr. PARTNERS' CAPITAL ACCOUNTS Cr.

Particulars	*A* (₹)	*B* (₹)	*C* (₹)	Particulars	*A* (₹)	*B* (₹)	*C* (₹)
To Balance *c/d*	5,13,800	3,09,200	4,11,500	By Balance *b/d*	3,00,000	2,00,000	...
				By General Reserve A/c	1,50,000	1,00,000	...
				By Revaluation A/c	13,800	9,200	...
				By Premium for Goodwill A/c	50,000	...	...
				By Bank A/c	...	...	4,11,500
	5,13,800	3,09,200	4,11,500		5,13,800	3,09,200	4,11,500

(c)

BALANCE SHEET *as on 1st Jan. 2023*

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		5,00,000
A	5,13,800		Plant and Machinery		2,30,000
B	3,09,200		Stock		76,000
C	4,11,500	12,34,500	Debtors	1,25,000	
Creditors		1,60,000	*Less:* Provision for Doubtful Debts	8,000	1,17,000
Bills Payable		40,000	Cash at Bank		5,11,500
			₹ (50,000 + 4,11,500 + 50,000)		
		14,34,500			14,34,500

Working Notes:

1. *Calculation of Sacrificing Ratio:*

   A's sacrifice = Old Profit Share – New Profit Share

   $$= \frac{3}{5} - \frac{2}{5} = \frac{1}{5}$$

   B's sacrifice = $\frac{2}{5} - \frac{2}{5}$ = Nil

   It means only *A* is the sacrificing partner. Hence, share of goodwill brought by *C* will be credited to *A* only.

2. *Calculation of Capital of C:*

   A's Capital (After all adjustments) = ₹ 5,13,800

   B's Capital (After all adjustments) = ₹ 3,09,200

   Total = ₹ 8,23,000

   50% of combined capital of *A* and *B* = ₹ 4,11,500.

   This amount is brought by *C* as capital.

9. Given: Current Ratio = 3.5

Quick Ratio = 2.5

Working Capital = ₹ 1,20,000

Working Capital = Current Assets – Current Liabilities

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{3.5}{1}$$

Working Capital = 3.5 – 1 = 2.5

If working capital is 2.5, Current Assets = 3.5

If working capital is ₹ 1,20,000, Current Assets = $\frac{3.5}{2.5} \times$ ₹ 1,20,000 = ₹ **1,68,000** – (a)

Stock = Current Assets – Quick Assets

= 3.5 – 2.5 = 1.

If Current Assets are 3.5, Stock is 1

If Current Assets are ₹ 1,68,000, Stock = $\frac{1}{3.5} \times$ ₹ 1,68,000 = ₹ **48,000** – (b).

OR

(a) *Stock (Inventory) Turnover Ratio establishes relationship between Cost of Revenue from Operations, i.e., Cost of Goods Sold and Average Stock (Inventory) carried during that period.*

Stock (Inventory) Turnover Ratio is an *activity as well as efficiency ratio* and it measures the number of times an enterprise sells and replaces its Stock (Inventory), *i.e.*, the number of times Stock (Inventory) was converted into sales during the period.

Computation: The Stock (Inventory) Turnover Ratio is computed as follows:

Stock (Inventory) Turnover Ratio

$$= \frac{\text{Cost of Revenue from Operations (Cost of Goods Sold)}}{\text{Average Stock (Inventory)}} = \text{...Times.}$$

Cost of Revenue from Operations (Cost of Goods Sold)

= Revenue from Operations – Gross Profit

Or

= Revenue from Operations + Gross Loss

Or

= Opening Stock + Net Purchases + Direct Expenses (Assumed to be given) – Closing Stock

Or

In Case of Manufacturing Enterprise:

= Cost of Materials Consumed + Purchases of Stock-in-Trade + Changes in Stock (Inventories) of Finished Goods, Work-in-Progress and Stock-in-Trade + Direct Expenses (Assumed to be given)

In case, amount of Cost of Revenue from Operations (Cost of Goods Sold) is not given but instead amount of Revenue from Operations is given, amount of Revenue from Operations is used for calculating the ratio.

(b) Proprietary Ratio establishes the relationship between proprietors' funds and total assets.

Computation: The Proprietary Ratio is computed as follows:

$$\textit{Proprietary Ratio} = \frac{\text{Proprietors' Funds or Shareholders' Funds or Equity}}{\text{Total Assets}}$$

Proprietors' Funds can be computed by following either Liabilities Approach or Assets Approach. It should be kept in mind that the result under both the approaches will be same when calculated from the Balance Sheet.

(a) **Liabilities Approach:** Share Capital (Equity + Preference) + Reserves and Surplus + Money Received Against Share Warrants + Share Application Money Pending Allotment + Deferred Tax Liabilities (Net) – Deferred Tax Assets (Net).

(b) **Assets Approach:** Non-current Assets + Working Capital (*i.e.*, Current Assets – Current Liabilities) – Non-current Liabilities.

11. CASH FLOW STATEMENT *for the year ended 31st December, 2022*

Particulars	₹	₹
A. Cash Flow from Operating Activities		
Net Profit before Tax and Extraordinary Items (WN 1)		54,000
Adjustment for Non-cash and Non-operating Items:		
Add: Interest on 8% Debentures (WN 2)		4,000
Preliminary Expenses Written off		2,000
Opening Profit before Working Capital Changes		60,000
Add: Decrease in Current Assets/Increase in Current Liabilities		
(*i*) Debtors	9,000	
(*ii*) Bills Receivable	1,000	
(*iii*) Trade Payables	16,000	26,000
		86,000
Less: Increase in Current Assets: Inventories		10,000
Cash Generated from Operations		76,000
Less: Income Tax Paid		(60,000)
Cash Flow from Operating Activities		16,000
B. Cash Flow from Investing Activities		
Purchase of Fixed Assets		(40,000)
Cash Used in Investing Activities		(40,000)
C. Cash Flow from Financing Activities		
Proceeds from Equity Share Capital		20,000
Proceeds from 8% Debentures		10,000
Payment of Interest on Debentures		(4,000)
Cash Flow from Financing Activities		26,000
D. Net Increase in Cash and Cash Equivalents (A + B + C)		2,000
E. *Add:* Cash and Cash Equivalents in the beginning		10,000
F. Cash and Cash Equivalents at the end of the year		12,000

Working Notes:

1. *Calculation of Net Profit before Tax and Extraordinary Items:*

		₹
Closing balance of Profit & Loss A/c		66,000
Less: Opening Balance of Profit & Loss A/c		(82,000)
Net Loss incurred during the year		(16,000)
Add: Provision for Tax	64,000	
Transfer to General Reserve	6,000	70,000
Net Profit before Tax and Extraordinary Items		54,000

2. In the absence of information, it is assumed that fresh debentures have been issued on 31st December, 2022.

OR

(i) *Importance of Cash Flow Statement:*

1. ***Facilitates Short-term Planning:*** Cash Flow Statement gives information about sources and applications of Cash and Cash Equivalents for a specific period. It helps in planning investments and assessing the financial requirements of the enterprise.
2. ***Facilitates Assessing Liquidity and Solvency:*** Solvency is the ability of the enterprise to meet its liabilities on time. Cash Flow Statement helps to assess liquidity.
3. ***Efficient Cash Management:*** Cash Flow Statement gives information relating to surplus or deficit of cash. An enterprise, therefore, can decide about the Short-term Investments of the surplus and can arrange the Short-term Credit in case of deficit.
4. ***Comparative Study:*** A comparison of the actual cash flows with the budgeted cash flows of the year shows the extent to which Cash and Cash Equivalents were generated and applied as per the plan.
5. ***Reasons for Cash Position:*** Cash Flow Statement shows the reasons for lower and higher cash balances with the enterprise. Sometimes, an enterprise has lower cash balance in spite of higher profits or has higher cash balance in spite of lower profits. Reasons for such situations can be analysed with the help of Cash Flow Statement.
6. ***Evaluate Management Decisions:*** Cash Flow Statement, by providing information relating to company's investing and financing activities, gives the investors and creditors information about cash flow which helps them to evaluate management decisions.
7. ***Dividend Decision:*** Dividend payable is deposited in a separate Bank Account upon it being declared (*i.e.*, interim dividend) or approved (*i.e.*, final dividend). Cash Flow Statement helps in deciding how much dividend should be paid.

(ii) *Example of Operating Activities:* Receipts from sale of goods and/or rendering of services or payment for purchase of goods and/or services.

Example of Investing Activities: Payment for purchase of fixed assets or proceeds from sale of fixed assets.

WBCHSE ACCOUNTANCY PAPER, 2024

(New Syllabus)

Total Time: 3 Hours 15 Minutes **Total Marks: 80**

General Instructions:

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.

(Multiple Choice Questions)

1. *Select the correct answer out of the options given against each question (Alternatives are to be noted):* (1 × 24 = 24)

(i) The balance of Partner's Current Account is

(a) always credit. (b) always debit.

(c) may be debit or credit. (d) None of these.

(ii) Interest on Capital of a partnership firm is

(a) an expense. (b) an income.

(c) an asset. (d) None of these.

(iii) Which one of the following items is not entered in the Profit & Loss Appropriation Account?

(a) Interest on Partners' Capital. (b) Interest on Partners' Drawings.

(c) Rent paid to partners. (d) Salary paid to partners.

(iv) If the capitals of partners' are maintained under Fixed Capital method, in which account the share of profit of partners will be credited?

(a) Drawings Account. (b) Capital Account.

(c) Current Account. (d) None of these.

(v) At the time of retirement of a partner, undistributed profit is distributed among all partners in their

(a) New Profit-sharing Ratio. (b) Old Profit-sharing Ratio.

(c) Sacrificing Ratio. (d) Gaining Ratio.

(vi) *A*, *R* and *B* are partners in a firm sharing profits and losses in the ratio of 6 : 4 : 1. *A* guaranteed minimum profit of ₹ 16,000 to *B*. The net profit of the firm for the year ended on 31st March, 2023 was ₹ 1,32,000. *R's* share of profit of the firm will be

(a) ₹ 72,000. (b) ₹ 68,000.

(c) ₹ 48,000. (d) ₹ 16,000.

(vii) Average profit is ₹ 60,000, Normal rate of return is 12%. Capital employed is ₹ 4,40,000. Then the value of goodwill under capitalisation method will be

(a) ₹ 1,12,800. (b) ₹ 7,200.

(c) ₹ 66,000. (d) ₹ 60,000.

(viii) *A*, *B* and *C* are partners sharing profits or losses in the ratio 3 : 2 : 1. *A* retires and his share is taken by *B* and *C* equally. What will be the new ratio?

(a) 1 : 1. (b) 7 : 5.

(c) 3 : 1. (d) 3 : 5.

(ix) Application money cannot be less than .... of the nominal value of shares.

(a) 5%. (b) 10%.

(c) 15%. (d) 20%.

(x) The deficit resulting from the reissue of forfeited shares at a discount are required to be adjusted from the balance of

(a) Share Capital A/c. (b) Share Forfeiture A/c.

(c) General Reserve A/c. (d) Capital Reserve A/c.

(xi) Discount on issue of shares in market is

(a) Capital loss. (b) Revenue loss.

(c) Total loss. (d) None of these.

(xii) *P.* Ltd. purchased assets of ₹ 7,50,000 from *H.* Ltd. by issuing shares of ₹ 100 each at a premium of ₹ 25 per share. The number of shares to be issued by *P.* Ltd. to settle the purchase consideration will be

(a) 6,000 shares. (b) 7,500 shares.

(c) 9,375 shares. (d) 10,000 shares.

(xiii) If fully paid shares of ₹ 10,00,000 are issued for purchase of business having net assets of ₹ 12,00,000, the balance of ₹ 2,00,000 will be transferred to

(a) Goodwill A/c. (b) Vendor's A/c.

(c) Capital Reserve A/c. (d) General Reserve A/c.

(xiv) As per the Companies Act, 2013, a company cannot issue

(a) Bonus Shares. (b) Irredeemable Preference Shares.

(c) Preference Shares. (d) Equity Shares.

(xv) Nominal value of each share of ₹ 20, ₹ 16 has been called-up, ₹ 12 paid-up. At the time of forfeiture, Share Capital Account will be debited by

(a) ₹ 20. (b) ₹ 12.

(c) ₹ 4. (d) ₹ 16.

(xvi) *X* Ltd. issued 10,000 ordinary shares of ₹ 10 each at a premium of 20%. All moneys were received on shares. The amount of Share Capital is

(a) ₹ 1,00,000. (b) ₹ 1,20,000.

(c) Both (a) and (b). (d) ₹ 80,000.

(xvii) Time gap between two calls will be

(a) 60 days. (b) 30 days.

(c) 90 days. (d) 120 days.

(xviii) Discount on Issue of Debenture Account is

(a) Fixed Asset. (b) Current Asset.

(c) Fictitious Asset. (d) None of these.

Either attempt question numbers (**xix**) to (**xxiv**) *Or* (**xxv**) to (**xxx**). **Only one series of questions to be answered from above mentioned series of questions.**

(xix) If cash sales ₹ 50,000, credit sales ₹ 4,50,000, cost of goods sold ₹ 4,40,000, then Gross Profit Ratio will be

(a) 12.5%. (b) 13%.

(c) 15%. (d) 12%.

(xx) Under which tool of financial analysis, 100% is taken as base and all other related amounts are expressed as a percentage of base?

(a) Common-size Statement. (b) Comparative Statement.

(c) Ratio Analysis. (d) Cash Flow Statement.

(xxi) Quick Assets = ?

(a) Current Assets – Prepaid Expenses.

(b) Current Assets + Inventory – Prepaid Expenses.

(c) Current Assets – Inventory + Prepaid Expenses.

(d) Current Assets – Inventory – Prepaid Expenses.

(xxii) Interest paid on debenture is

(a) Charge against profit. (b) Appropriation of profit.

(c) Liability. (d) Asset.

(xxiii) Which of the following is not the tool of Financial Statement Analysis?

(a) Comparative Income Statement. (b) Bank Statement.

(c) Common-size Balance Sheet. (d) Common-size Income Statement.

(xxiv) Which of the following is not included in Operating Activities while preparing Cash Flow Statement?

(a) Increase in Current Liabilities. (b) Increase in Current Assets.

(c) Sale of Fixed Assets. (d) Payment of Tax.

Note: MCQs (xxv) to (xxx) are not given since they relate to Part C—Application of Computers in Financial Accounting.

(Short Answer Type Questions)

2. *Answer the following questions in brief (Alternatives are to be noted):* (1 × 12 = 12)

(i) What do you mean by Partnership business?

Or

X, *Y* and *Z* were in partnership sharing profits and losses in the ratio of 5 : 4 : 3. *Y* retires and new profit-sharing ratio between *X* and *Z* is decided to be 3 : 2. Calculate the Gaining Ratio.

(ii) Pass the Journal entry for distribution of profit on revaluation, among the existing partners in case of admission of a partner in a firm.

Or

Pass Journal entries in the books of partnership firm for bringing the premium for goodwill by a new partner.

(iii) What do you mean by Preference Share Capital?

(iv) Who is Executor?

Or

State one purpose of admitting a new partner into a firm.

(v) Is goodwill of a business a fictitious asset?

Or

Write two factors which affect the value of goodwill.

(vi) *X*, *Y* and *Z* are partners sharing profits and losses as 3 : 2 : 1. As per partnership deed, *X* is entitled to receive commission @ 10% on net profit after charging such commission. Net profit before charging commission is ₹ 30,800. Find out commission parable to *X*.

(vii) What is joint life policy?

(viii) What is Reserve Capital?

Either attempt question number (**ix**) to (**xii**) OR (**xiii**) to (**xvi**). **Only one series of questions to be answered from the above mentioned series of questions**.

(ix) What is Comparative Financial Statement?

Or

What is Ratio Analysis?

(x) Write down the formula of Stock Turnover Ratio.

Or

Write down the formula of Liquid Ratio.

(xi) What is Proprietary Ratio?

(xii) Amount received from sale of shares by a manufacturing concern is derived from which activities?

Note: Question no. (xiii) to (xvi) are not given since they relate to Part C—Application of Computers in Financial Accounting.

(Subjective/Descriptive Type Questions)

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

3. *A*, *B* and *C* are partners in a firm sharing profits and losses in the ratio 1/2 : 1/3 : 1/6. Their capital balances as on 1st April, 2022 were *A* ₹ 90,000, *B* ₹ 70,000 and *C* ₹ 1,20,000. Prepare Profit and Loss Appropriation Account for the year ended on 31st March, 2023 after considering the following items:

(i) Interest on Capital @ 6% p.a.

(ii) Interest on Drawing of the partners @ 8% p.a.

(iii) *B* is to get Salary ₹ 5,000 p.m.

(iv) Transfer 10% of divisible profits to General Reserve.

(v) Annual Drawings of the partners are *A* and *B* ₹ 2,000 p.m. each at the beginning of each month, whereas *C* withdraws ₹ 1,000 p.m. at the end of each month.

Net profit during the year was ₹ 1,47,100. (4)

Or

(a) What do you mean by Fixed Capital Account?

(b) Discuss the method of calculating Interest on Drawings of the partners if different amounts are withdrawn on different dates (with suitable illustration). (1 + 3)

4. Mr. Sen has applied for 4,000 shares of *X* Ltd. of ₹ 10 each issued at a premium of ₹ 2 each. Mr. Sen paid application money @ ₹ 2 and allotment money @ ₹ 5 (including premium) but failed to pay the balance. Company decided to forfeit such shares and then reissued 3/4th of such shares at 10% discount.

   Show the necessary Journal entries of *X* Ltd. in respect of forfeiture and reissue of shares. (4)

Or

(a) Write **any two** differences between Equity Share and Preference Share.

(b) Distinguish between Reserve Capital and Capital Reserve. (2 + 2)

5. *X* Ltd. purchased assets of the book value of ₹ 5,00,000 and took over the liabilities of ₹ 50,000 from *Z* Ltd. It was agreed that the purchase consideration, settled at ₹ 4,80,000, be paid by issuing debentures of ₹ 100 each by *X* Ltd.

   Show the Journal entries in the following cases if debentures are issued:

   (a) at par;

   (b) at a premium of 10%.

   It was agreed that any fraction of debentures be paid in cash. (2 + 2)

6. (i) *A*, *B* and *C* are partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. *C* wants that he should share equally in profits with other two partners *A* and *B* and *C* further wants that change in profit-sharing ratio should be applicable retrospectively for the last two years. *A* and *B* have no objection to this proposal. The profits for the last two years were ₹ 1,00,000 and ₹ 1,25,000. Record the adjustment by means of Journal entry. (Working is necessary) (3)

   (ii) *A* and *B* were partners in a firm sharing profits equally. They admitted *C* as a new partner. *C* acquired his 1/4th share from *A* and *B* in the ratio of 3 : 2 respectively. *C* brought ₹ 5,00,000 for his capital and ₹ 39,000 for share of goodwill. Calculate new profit-sharing ratio and pass Journal entries for the above transaction. (1 + 2)

Or

(i) Why is it necessary to revalue the Assets and reassess the Liabilities in case of the admission of a new partner?

(ii) State **any two** needs for treatment of goodwill on admission of a new partner.

(iii) State the **two** main rights that a newly admitted partner acquires in the firm. (2 + 2 + 2)

7. Sunshine Ltd. invited applications for 1,00,000 shares of ₹ 12 each (including premium ₹ 2) payable as ₹ 3 on application, ₹ 5 on allotment (including premium) and balance on first and final calls. Applications were received for 1,50,000 shares and shares were allotted on *pro rata* basis. The excess application moneys of 25,000 shares were refunded. *X*, as shareholder, who had applied for 2,500 shares failed to pay the allotment and call moneys and his shares were accordingly forfeited and reissued @ ₹ 8 per share fully paid.

Pass necessary Journal entries (Narration is not required). (6)

Or

(i) What is Securities Premium? State **any two** proposes for which securities premium can be used. (1 + 2)

(ii) What do you mean by the term 'Forfeiture of Share'? Can forfeited shares be reissued at a discount? If so, to what extent? (1 + 1 + 1)

8. *X*, *Y* and *Z* are partners in a firm sharing profits and losses in the ratio 3 : 1 : 2. On 31st March, 2023, their Balance Sheet was as under:

Liabilities		₹	Assets		₹
Capital Accounts:			Land & Building		3,00,000
X	3,00,000		Plant & Machinery		2,00,000
Y	1,00,000		Furniture & Fittings		60,000
Z	2,00,000	6,00,000	Debtors	42,000	
Employee's Provident Fund		50,000	*Less:* Provision	2,000	40,000
Workmen's Compensation Fund		30,000	Stock		1,50,000
General Reserve		20,000	Bank		30,000
Sundry Creditors		1,00,000	Cash		20,000
		8,00,000			8,00,000

On 1st June, 2023, *Y* retired from the firm on the following conditions:

(i) Land and Building to be valued at ₹ 3,27,000.

(ii) Investment ₹ 25,000 not mentioned in the Balance Sheet is to be considered.

(iii) Provision for doubtful debt to be increased to ₹ 3,800.

(iv) Stock is to be reduced by 10%.

(v) Goodwill of the firm is valued at ₹ 54,000 and value of goodwill will not be shown in the Balance Sheet after retirement of *Y*.

(vi) ₹ 23,200 to be paid immediately after retirement of *Y* and balance of *Y*'s Capital Account to be transferred to his Loan Account.

X and *Z* will share future profit and losses in the ratio of 3 : 2.

Prepare Partners' Capital Accounts, Revaluation Account and Balance Sheet after *Y*'s retirement. (3 + 4 + 3)

Answer Either Question No. 9 or Question No. 10

9. From the following information, calculate (a) Stock Turnover Ratio, (b) Gross Profit Ratio:

	₹
Opening Stock	20,000
Closing Stock	10,000
Purchase	45,000
Wages	15,000
Carriage Inward	5,000
Sales	1,00,000

(2 + 2)

Or

Write short notes on:

(a) Interest Coverage Ratio.

(b) Debtors Turnover Ratio. (2 + 2)

Note: Question no. 10 is not given since it relates to Part C—Application of Computers in Financial Accounting.

Answer Either Question No. 11 or Question No. 12

11. From the following Balance Sheet of *A* Ltd., prepare Cash Flow Statement for the year ended on 31st March, 2023. (As per Accounting Standard)

Particulars	Note No.	31st March, 2023 (₹)	31st March, 2022 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(*a*) Share Capital		1,00,000	80,000
(*b*) Reserves and Surplus	1	80,000	30,000
2. Non-Current Liabilities			
Long-term Borrowing (10% Loan)		...	75,000
3. Current Liabilities			
(*a*) Trade Payables		90,000	46,000
(*b*) Short-term Borrowings		45,000	32,000
Total		3,15,000	2,63,000

II. ASSETS			
1. Non-Current Assets			
Property, Plant & Equipment		90,000	1,50,000
2. Current Assets			
(*a*) Inventories		95,000	43,000
(*b*) Trade Receivables		97,000	65,000
(*c*) Cash and Cash Equivalents		33,000	5,000
Total		3,15,000	2,63,000

Notes to Accounts

Particulars	31st March, 2023 (₹)	31st March, 2022 (₹)
1. Reserves and Surplus		
Statement of Profit & Loss	80,000	30,000

Additional Information:

Depreciation ₹ 10,000 has been charged on Plant & Machinery. (6)

Or

What is Cash Flow Statement? What are the objectives of preparing it? (2 + 4)

Note: Question no. 12 is not given since it relates to Part C—Application of Computers in Financial Accounting.

Answers

(Multiple Choice Questions)

1. (i) (c); (ii) (a); (iii) (c); (iv) (c); (v) (b); (vi) (c); (vii) (d); (viii) (b); (ix) (a); (x) (b); (xi) (a); (xii) (a); (xiii) (c); (xiv) (b); (xv) (d); (xvi) (a); (xvii) (a); (xviii) (c); (xix) (d); (xx) (a); (xxi) (d); (xxii) (a); (xxiii) (b); (xxiv) (c).

Working Notes:

(viii)	*A*	*B*		*C*
Present Profit Share	3	2		1
Profit Share of *A* Taken		$\frac{1}{2}\times\frac{3}{6}=\frac{3}{12}$		$\frac{1}{2}\times\frac{3}{6}=\frac{3}{12}$
New Profit Share		$\frac{2}{6}+\frac{3}{12}=\frac{7}{12}$		$\frac{1}{6}+\frac{3}{12}=\frac{5}{12}$
		7	:	5

New Profit-sharing Ratio = 7 : 5.

(xii) $\left(\frac{₹\,7,50,000}{₹\,125}=6,000 \text{ shares}\right)$.

(xix) $\left(\frac{₹\,60,000}{₹\,5,00,000}\times 100=12\%\right)$.

(Short Answer Type Questions)

2. (i) Partnership business means a business carried on by 2 or more persons (not exceeding 50) in partnership sharing profits and losses.

OR

	X	*Y*	*Z*
Old Profit-sharing Ratio	5	4	3
New Profit-sharing Ratio	3		2
Gaining Ratio	$\frac{3}{5}-\frac{5}{12}=\frac{11}{60}$		$\frac{2}{5}-\frac{3}{12}=\frac{9}{60}$

Gaining Ratio of *X* and *Z* = 11 : 9.

(ii)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Revaluation A/c ...Dr. To Old Partners' Capital/Current A/cs (Being the revaluation profit distributed among old partners in their old profit-sharing ratio)		...	 ...

OR

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Premium for Goodwill A/c (Being the premium for goodwill brought by new partner)		...	 ...

(iii) Preference Shares are the shares which are not Equity Shares and have following two rights:

(a) to receive dividend; and

(b) to receive capital on winding-up before repayment of Equity Share Capital.

(iv) Executor is the person who executes the will of the deceased partner. In the case of a firm, executor settles and receives the amount on behalf of the deceased partner.

OR

To meet the capital requirement of the firm.

(v) No, Goodwill is not a fictitious asset but is an intangible asset since it has a realisable value.

OR

Two factors which affect the value of goodwill are:

(a) Favourable location, and

(b) Profit of the firm.

(vi) ₹ 2,800 $\left(₹\,30{,}800 \times \frac{10}{110}\right)$.

(vii) Joint Life Policy is Life Insurance Policy taken jointly on the lives of the partners. The policy amount becomes due on death of any of the partners.

(viii) Reserve Capital is that part of subscribed capital which the company decides to call at the time of winding-up of the company.

(ix) Comparative Financial Statement is a Statement (Balance Sheet or Statement of Profit & Loss) prepared to compare financial data of one or more years.

OR

Ratio Analysis is the process of determining and interpreting relationships between the items of financial statements to provide meaningful understanding of the performance and financial position of the enterprise.

(x) Stock Turnover Ratio = $\frac{\text{Cost of Revenue from Operations}}{\text{Average Stock (Inventory)}}$.

OR

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

(xi) Proprietory Ratio is the ratio that establishes the relationship between proprietors funds and total assets. It is computed as follows:

$$\frac{\text{Proprietor's Funds or Shareholders' Funds or Equity}}{\text{Total Assets}}$$

(xii) Investing Activities.

(Subjective/Descriptive Type Questions)

3. PROFIT & LOSS APPROPRIATION ACCOUNT

Dr. *for the year ended 31st March, 2024* *Cr.*

Particulars		₹	Particulars		₹
To Interest on Capital A/cs:			By Net Profit transferred from Profit & Loss A/c		1,47,100
A	5,400		By Interest on Drawings:		
B	4,200		*A*	1,040	
C	7,200	16,800	*B*	1,040	
To Salary to *B* (*B*'s Capital A/c)		60,000	*C*	440	2,520
To General Reserve A/c		6,620			
(10% of Distributable Profit)					
To Profit transferred to:					
A's Capital A/c	33,100				
B's Capital A/c	22,067				
C's Capital A/c	11,033	66,200			
		1,49,620			1,49,620

OR

(a) Fixed Capital Account means capitals of the partners are fixed, *i.e.*, capitals do not change frequently and changes when capital is introduced or withdrawn by the partner.

(b) Interest on Drawings is calculated by product method when different amounts are withdrawn on different dates. Amount withdrawn is multiplied by no. of days or months left from the date of drawing for each drawing. The product is totalled. Rate of interest is applied to the product total and interest is determined. It is illustrated in the following example:

Detail of Drawings

Date	1st May, 2023	1st September	1st November	1st January	1st March
Amount (₹)	15,000	20,000	25,000	20,000	10,000

Rate of interest on drawing is 10% p.a.

Calculation of Interest on Drawings for the year ended 31st March, 2024

Date of Drawing	Amount (₹)	Months After Drawing	Product (₹)
1st May, 2023	15,000	11	1,65,000
1st September, 2023	20,000	7	1,40,000
1st November, 2023	25,000	5	1,25,000
1st January, 2024	20,000	3	60,000
1st March, 2024	10,000	1	10,000
			5,00,000

$$\text{Interest @ 10\% p.a.} = ₹\,5,00,000 \times \frac{10}{100} \times \frac{1}{12}$$

$$= ₹\,4,167.$$

4. JOURNAL OF *X* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Share Capital A/c	...Dr.		40,000	
	To Forfeited Shares A/c				20,000
	To Calls-in-Arrears A/c				20,000
	(Being 4,000 shares of Mr. Sen forfeited for non-paymen of ₹ 5 per share)				
	Bank A/c	...Dr.		27,000	
	Forfeited Shares A/c	...Dr.		3,000	
	To Share Capital A/c				30,000
	(Being 3,000 (3/4th of 4,000) shares reissued at 10% discount)				
	Forfeited Shares A/c	...Dr.		12,000	
	To Capital Reserve A/c				12,000
	(Being the gain (profit) proportionate to reissued shares transferred)				

OR

(a)

	Equity Share	**Preference Share**
(i)	Rate of dividend may differ each year.	Rate of dividend is fixed.
(ii)	On winding-up, Equity Shareholders are paid after payment to Preference Shareholders.	On winding-up, Preference shareholders have preference over Equity Shares as for repayment.

(b) Reserve Capital is part of the Subscribed Capital which the company decides to call at its winding-up. Capital Reserve, on the other hand, is capital profit, *i.e.*, profit from sale of assets.

5. JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Entry in both (a) and (b)				
	Assets A/c	...Dr.		5,00,000	
	Goodwill A/c	...Dr.		30,000	
	To Liabilities A/c				50,000
	To *Z* Ltd.				4,80,000
	(Being the assets and liabilities takenover from *Z* Ltd.)				
(a)	*When Debentures are issued at Par:*				
	Z Ltd.	...Dr.		4,80,000	
	To ...% Debentures A/c				4,80,000
	(Being 4,800 Debentures of ₹ 100 each issued at par)				
(b)	*When Debentures are issued at 10% Premium:*				
	Z Ltd.	...Dr.		4,80,000	
	To ...% Debentures A/c				4,36,300
	To Securities Premium A/c				43,630
	To Bank A/c				70
	(Being 4,363 Debentures of ₹ 100 each issued at 10% premium, balance paid by cheque)				

6. (i) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	A's Capital A/c	...Dr.		15,000	
	B's Capital A/c	...Dr.		15,000	
	To *C*'s Capital A/c				30,000
	(Being the adjustment of two years' profit share)				

Working Note:

Particulars	*A* (₹)	*B* (₹)	*C* (₹)
I. Profit share credited for past two years (₹ 2,25,000) in their profit-sharing ratio, *i.e.*, 2 : 2 : 1	90,000	90,000	45,000
II. Profit share to be shared equally	75,000	75,000	75,000
Net Effect (I – II)	15,000 Dr.	15,000 Dr.	30,000 Cr.

(ii) JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		5,39,000	
	To *C*'s Capital A/c				5,00,000
	To Premium for Goodwill A/c				39,000
	(Being the capital and premium for goodwill brought by *C*)				
	Premium for Goodwill A/c	...Dr.		39,000	
	To *A*'s Capital A/c				23,400
	To *B*'s Capital A/c				15,600
	(Being the premium for goodwill credited to Sacrificing Partners in Sacrificing Ratio)				

Calculation of New Profit-sharing Ratio:

	A	*B*	*C*
Old Profit-sharing Ratio	1/2	1/2	...
Sacrifice of Profit-share	3/20	2/20	...
New Profit Share =	$\frac{10-3}{20}$	$\frac{10-2}{20}$	...
	$\frac{7}{20}$	$\frac{8}{20}$	$\frac{1}{4}$ or $\frac{5}{20}$

New Profit-sharing Ratio = 7 : 8 : 5.

OR

(i) It is necessary because neither of the partners (existing partners and new partner) should be at loss or gain due to reconstitution of the partnership.

(ii) (a) Goodwill is the result of past efforts of the existing partners.

(b) To compensate old partners for their loss in profit share.

(iii) (a) Right to share in the assets of the firm.

(b) Right to share future profits of the firm.

7. JOURNAL OF *XYZ* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		4,50,000	
	To Shares Application A/c				4,50,000
	Shares Application A/c	...Dr.		4,50,000	
	To Share Capital A/c				3,00,000
	To Shares Allotment A/c				75,000
	To Bank A/c				75,000
	Shares Allotment A/c	...Dr.		5,00,000	
	To Share Capital A/c				3,00,000
	To Securities Premium A/c				2,00,000
	Bank A/c	...Dr.		4,16,500	
	To Shares Allotment A/c				4,16,500
	Shares First and Final Call A/c	...Dr.		4,00,000	
	To Share Capital A/c				4,00,000
	Bank A/c	...Dr.		3,92,000	
	To Shares First & Final Call A/c				3,92,000
	Share Capital A/c	...Dr.		20,000	
	Securities Premium A/c	...Dr.		4,000	
	To Forfeited Shares A/c				7,500
	To Shares Allotment A/c				8,500
	To Shares First & Final Call A/c				8,000
	Bank A/c	...Dr.		16,000	
	Forfeited Shares A/c	...Dr.		4,000	
	To Shares Capital A/c				20,000
	Forfeited Shares A/c	...Dr.		3,500	
	To Capital Reserve				3,500

Working Notes:

	₹
1. Shares Allotted to *X* (1,00,000/1,25,000 × 2,500):	2,000
Application Money received from *X* (2,500 × ₹ 3)	7,500
Less: Adjusted towards Share Capital (2,000 × ₹ 3)	6,000
Application Money adjusted against Allotment	1,500

	₹
2. Allotment Money due from *X* (2,000 × ₹ 5)	10,000
Less: Excess Application Money adjusted	1,500
Allotment Money not received	8,500

3. *Calculation of Allotment Money Received:*

	₹
Allotment Money due	5,00,000
Less: Excess Application Money already adjusted	75,000
	4,25,000
Less: Allotment Money not received from *X*	8,500
Allotment Money received	4,16,500

4. *Amount transferred to Capital Reserve:*

	₹
Amount forfeited	7,500
Less: Discount allowed on re-issue	4,000
Amount transferred to Capital Reserve	3,500

OR

(i) Securities Premium means excess of issue price of securities over its nominal (face) value. It can be used for (two uses) the following purposes:

(a) Issuing Fully Paid Bonus Shares;

(b) Writing off Preliminary Expenses.

(ii) Forfeiture of shares means cancelling the shares allotted for non-payment of allotment money or calls. Forfeited shares can be re-issued at discount. However, discount allowed on re-issued shares cannot be more than the amount forfeited on the re-issued shares.

8.

Dr. REVALUATION ACCOUNT *Cr.*

Particulars		₹	Particulars	₹
To Provision for Doubtful Debts A/c		1,800	By Land & Building A/c	27,000
To Stock A/c		15,000	By Investment A/c	25,000
To Profit transferred to:				
X's Capital A/c	17,600			
Y's Capital A/c	5,867			
Z's Capital A/c	11,733	35,200		
		52,000		52,000

Dr. PARTNERS' CAPITAL ACCOUNTS *Cr.*

Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)	Particulars	*X* (₹)	*Y* (₹)	*Z* (₹)
To *Y*'s Capital A/c	5,400	...	3,600	By Balance *b/d*	3,00,000	1,00,000	2,00,000
To Bank A/c	...	23,200	...	By Workmen's Compensation Fund	15,000	5,000	10,000
To *Y*'s Loan A/c	...	1,00,000	...	By General Reserve A/c	10,000	3,333	6,667
To Balance *c/d*	3,37,200	...	2,24,800	By Revaluation A/c	17,600	5,867	11,733
				By *X*'s Capital A/c	...	5,400	...
				By *Z*'s Capital A/c	...	3,600	...
	3,42,600	1,23,200	2,28,400		3,42,600	1,23,200	2,28,400

BALANCE SHEET *as at 31st March, 2023*

Liabilities		₹	Assets		₹
Capital A/cs:			Land and Building		3,27,000
X	3,37,200		Plant and Machinery		2,00,000
Z	2,24,800	5,62,000	Furniture & Fittings		60,000
Y's Loan A/c		1,00,000	Investments		25,000
Employees' Provident Fund		50,000	Debtors	42,000	
Sunday Creditors		1,00,000	*Less:* Provision for Doubtful Debts	3,800	38,200
			Stock		1,35,000
			Bank (₹ 30,000 – ₹ 23,200)		6,800
			Cash		20,000
		8,12,000			8,12,000

9. (a) Stock Turnover Ratio $= \dfrac{\text{Cost of Revenue from Operations}}{\text{Average Stock}}$

$$= \frac{₹\,75{,}000}{₹\,15{,}000} = 5 \text{ Times.}$$

Cost of Revenue from Operations = Opening Stock + Purchases + Wages + Carriage Inwards – Closing Stock

= ₹ 20,000 + ₹ 45,000 + ₹ 15,000 + ₹ 5,000 – ₹ 10,000

= ₹ 75,000

Average Stock $= \dfrac{\text{Opening Stock + Closing Stock}}{2}$

$$= \frac{₹\,20{,}000 + ₹\,10{,}000}{2} = ₹\,15{,}000.$$

(b) Gross Profit Ratio $= \dfrac{\text{Gross Profit}}{\text{Sales}} \times 100$

$$= \frac{₹\,25{,}000}{₹\,1{,}00{,}000} \times 100 = 25\%.$$

Gross Profit = Sales – Cost of Revenue from Operations

= ₹ 1,00,000 – ₹ 75,000 = ₹ 25,000.

OR

(a) *Interest Coverage Ratio.*

Interest Coverage Ratio is a ratio calculated to determine whether the company's earning before interest and tax is adequate to meet interest expense. High ratio is considered to be better.

Interest Coverage Ratio is calculated using the formula as follows:

$$\frac{\text{Net Profit before Interest and Tax}}{\text{Interest on Long-term Borrowings}}$$

(b) *Debtors Turnover Ratio.*

Debtors Turnover Ratio establishes the relationship between Credit Revenue from Operations, *i.e.*, Net Credit Sales and Average Debtors and Bills Receivables. It establishes the number of times investment in debtors is turned around in achieving credit sales.

This ratio is calculated using the following formula:

$$\frac{\text{Credit Revenue from Operations (Net Credit Sales)}}{\text{Average Trade Receivables}}$$

$$\text{Net Credit Sales} = \text{Credit Sales} - \text{Sales Return.}$$

$$\text{Average Trade Receivables} = \frac{\begin{array}{c}\text{Opening Debtors} + \text{Opening Bills Receivables} \\ + \text{Closing Debtors} + \text{Closing Bills Receivables}\end{array}}{2}$$

11. CASH FLOW STATEMENT *for the year ended 31st March, 2023*

Particulars	₹	₹
A. Cash Flow from Operating Activities		
Net Profit before Tax and Extraordinary Items:		
Closing Surplus, *i.e.*, Balance in Statement of Profit & Loss	80,000	
Less: Opening	30,000	50,000
Add: Non-cash Items—Depreciation		10,000
		60,000
Add/Less Changes in Working Capital		
Add: Increase in Current Liabilities—Trade Payables		44,000
		1,04,000
Less: Increase in Current Assets:		
Inventories	52,000	
Trade Receivables	32,000	(84,000)
Cash Flow from Operating Activities		20,000
B. Cash Flow from Investing Activities		
Proceeds from Sale of Plant & Machinery (WN 1)		50,000
Cash Flow from Investing Activities		50,000
C. Cash Flow from Financing Activities		
Proceeds from Issue of Shares		20,000
Repayment of Long-term Borrowings		(75,000)
Increase in Short-term Borrowings		13,000
Cash Used in Financing Activities		(42,000)
D. Net Increase in Cash and Cash Equivalents (A + B + C)		28,000
E. *Add:* Opening Cash and Cash Equivalents		5,000
F. Closing Cash and Cash Equipvanets		33,000

Working Notes:

1.

Dr. PLANT & MACHINERY ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Balance *b/d*	1,50,000	By Depreciation A/c	10,000
		By Cash/Bank A/c (Balancing Figure)	50,000
		By Balance *c/d*	90,000
	1,50,000		1,50,000

2. In the absence of date of repayment of Long-term Borrowings, it is assumed to have been repaid on 1st April, 2022.

OR

Cash Flow Statement is a Statement prepared to determine inflow and outflow of Cash and Cash Equivalents during the accounting period under:

(a) Operating Activities,

(b) Investing Activities, and

(c) Financing Activities.

The objectives of preparing Cash Flow Statement are:

(i) To determine the sources (receipts) of Cash and Cash Equivalents under Operating, Investing and Financing Activities of the enterprise.

(ii) To determine applications (payments) of Cash and Cash Equivalents under Operating, Investing and Financing Activities of the enterprise.

(iii) To determine net change in Cash and Cash Equivalents. It is the difference between sources (receipts) and applications (payments) under Operating, Investing and Financing Activities between the dates of two Balance Sheets.