

2019

ACCOUNTANCY

Time : 3 Hours

Full Marks 100

Instructions for the Candidates :

1. All Questions are Compulsory .
2. Marks Distribution to the Questions is as under :

Q. No. 1			
(a)	Fill in the Blanks	1 Mark each	1 × 4 = 04
(b)	Choose the Correct Alternative	1 Mark each	1 × 2 = 02
(c)	State Whether True or False	1 Mark each	1 × 2 = 02
Q. Nos. 2 – 6		2 Marks each	2 × 5 = 10
Q. Nos. 7 – 11		3 Marks each	3 × 5 = 15
Q. Nos. 12 – 18		5 Marks each	5 × 7 = 35
Q. Nos. 19 – 22		8 Marks each	8 × 4 = 32
		Total =	100

Q 1.

(a) Fill in the blanks with Appropriate Word / Words: [1 x 4 = 4 Marks]

- (i) The liability of every shareholder of a company is _____ . .
- (ii) Outstanding Subscription is shown on the _____ side of the Balance Sheet.
- (iii) If a partner takes over a liability of the firm, that partner's capital account is _____ .
- (iv) Current ratio is the relationship between _____ assets and current liabilities.

Sol. (a) (i) Limited
(ii) Assets
(iii) Credited
(iv) Current

(b) Choose the Correct Alternative : [1 x 2 = 2 Marks]

- (i) Annual Report is issued by a company to its:
 - (1) Directors (2) Auditors
 - (3) Shareholders (4) Management
- (ii) Financial statement of a company include:
 - (1) Only Cash Flow Statement (2) Only Profit and Loss Account
 - (3) Only Balance Sheet (4) All of the above

Sol. (b) (i) (1) Directors
(ii) (4) All of the above

(c) State whether the following statement are "TRUE" or "FALSE" : [1 x 2 = 2 Marks]

- (i) The deceased partner is entitled to a share of profit for the period upto his death.
- (ii) Profit or Loss on revaluation of assets and liabilities is distributed among old partners in sacrificing ratio .

Sol. (c) (i) TRUE
(ii) FALSE

Q 2. Give TWO Distinctions between a “Not-for-Profit Organization and a “Trading Organization

[2 Marks]

Sol.

Difference Between Not-for-Profit Organization and Trading Organization

S. No.	Basis	Not for Profit Organization	Trading Organization
1.	Purpose	The main purpose of these type of organizations is to provide Services to a Specific Group or Public in general . .	The main purpose of these type of organizations is to earn more and more profits .
2.	Proprietorship	Subscribers to the organization are members of the organization .	Individual or Group of Individuals who have taken risk of carrying the business are the Partners .
3.	Profit / Surplus	Profit in case of Not-for Profit organization is called Surplus .	The amount earned after charging All Expenses and Losses is called Profit ..

Q 3. (a) A and B are Two Partners Sharing Profits and Losses in the Ratio of 3 : 2 . C is admitted as a New Partner for $\frac{3}{10}$ th share which he acquires $\frac{2}{10}$ th from A and $\frac{1}{10}$ th from B .
Calculate New Profit Sharing Ratio .

[2 Marks]

OR

(b) Give TWO Conditions under which a Partnership Firm is Dissolved .

[2 Marks]

Sol. (a)

$$\text{Ratio of Partners} = A : B \\ 3 : 2$$

$$\text{C's Admission} = \frac{3}{10} \quad \text{From } A = \frac{2}{10} \quad ; \quad B = \frac{1}{10}$$

$$A's \text{ Share} = \frac{3}{5} - \frac{2}{10} = \frac{6-2}{10} = \frac{4}{10}$$

$$B's \text{ Share} = \frac{2}{5} - \frac{1}{10} = \frac{4-1}{10} = \frac{3}{10}$$

$$C's \text{ Share} = \frac{2}{10} + \frac{1}{10} = \frac{2+1}{10} = \frac{3}{10}$$

$$\text{New Ratio} = 4 : 3 : 3$$

OR

- (b) Two conditions under which a Partnership Firm is Dissolved are :
- * When All or All , but One Partner of the Firm becomes Insolvent .
 - * When Business of the Firm becomes Unlawful .

Q 4. Mention any TWO Features of a Debenture .

[2 Marks]

Sol. A Debenture is Issued by a Company in the form of a Certificate , which is a Written Acknowledgement of Debt taken by the Company . Two features of a Debenture are :

- A Debenture is Issued under the Seal of the Company .
- It contains a Contract for the Repayment of Principal Sum at a Specified Date .

Q 5. What is the meaning of Cash Flow from Investing Activities ?

[2 Marks]

Sol. Investing Activities include the Purchase and Sale of Long Term Assets such as , Land , Buildings , Plant and Machinery etc. Not held for Resale . These activities also include the Purchase and Sale of such Investments which are Not Included in Cash Equivalents . Cash Flow from Investing Activities Discloses Expenditure Incurred for Resources intended to generate Future Income and Cash Flows . Examples of Cash Flows from Investing Activities are :

- Cash Payments to Acquire Fixed Assets (Including Intangibles) .
- Cash Receipts from Sale of Fixed Assets (Including Intangibles) .

Q 6. What is meant by "Super Profit" in relation to Valuation of Goodwill ?

[2 Marks]

Sol. Super Profit refers Excess Profit Earned by a Firm in comparison to Normal Profit Earned . Thus , if a Firm has No Excess Profit , it will Not have Goodwill .

For instance, if a Firm has Invested ₹ 1,00,000 and Rate of Return is 8 % on Capital Employed , it has earned ₹ 23,000 as Actual Profit during the year .

The Normal Profit Earned is $₹ 1,00,000 \times \frac{8}{100} = ₹ 8,000$.

The Super Profit = Actual Profit – Normal Profit
= ₹ 23,000 – ₹ 8,000 = ₹ 15,000

Q 7. Mention THREE Objectives of Preparing Financial Statements.

[3 Marks]

Sol. Objectives of preparing Financial Statements are :

- To present a True and Fair View of the Financial Performance (i.e. Profit / Loss of the Business) .
- To present a True and Fair View of the Financial Position (i.e. Assets / Equity and Liabilities of the Business) .
- To Assess the ability of the Business Enterprise to meet its Short Term and Long Term Commitments.

Q 8. (a) Calculate Liquid Ratio from the following information :

Particulars	Amount (₹)
Stock	50,000
Debtors	80,000
Bills Receivable	10,000
Advance Tax	4,000
Cash	30,000
Creditors	60,000
Bills Payable	40,000
Machinery	50,000
Bank Overdraft	4,000
Debentures	70,000

[3 Marks]

OR

(b) What is Comparative Statement ? Mention TWO Objectives of Preparing Comparative Statement.

[1 + 2 = 3 Marks]

Sol. (a)

$$\begin{aligned} \text{Liquid Ratio} &= \frac{\text{Liquid Assets}}{\text{Current Liabilities}} \\ \text{Current Assets} &= \text{Stock} + \text{Debtors} + \text{Bills Receivables} + \text{Advance Tax} + \text{Cash} \\ &= ₹ 50,000 + ₹ 80,000 + ₹ 10,000 + ₹ 4,000 + ₹ 30,000 \\ &= ₹ 1,74,000 \\ \text{Current Liabilities} &= \text{Creditors} + \text{Bills Payables} + \text{Bank Overdraft} \\ &= ₹ 60,000 + ₹ 40,000 + ₹ 4,000 \\ &= ₹ 1,04,000 \\ \text{Quick Assets} &= \text{Current Assets} - \text{Inventory} - \text{Advance Tax} \\ &= ₹ 1,74,000 + ₹ 50,000 - ₹ 4,000 \\ &= ₹ 1,20,000 \\ \text{Quick Ratio} &= \frac{\text{Quick Assets}}{\text{Current Liabilities}} \\ &= \frac{₹ 1,20,000}{₹ 1,04,000} = 1.15 : 1 \end{aligned}$$

OR

(b) When Financial Statement figures for two or more years are placed side-by-side to facilitate Comparison , these are called “Comparative Financial Statements” . Such statements provide for columns to indicate the Increase or Decrease in these figures from one year to another in “Absolute Figures” and in “Percentage Form” .

Objectives of Comparative Financial Statements are :

- **To make the Data Simpler and More Understandable** : The main aim of preparing Comparative Financial Statements is to put the Data for a number of years in Simpler and Comparable Form .

- **To Indicate the Trend** : Another aim of Comparative Financial Statements is to indicate the Trend of Change by putting the Figures of Production , Revenue from Operations , Expenses and Profits etc. for a number of years side-by-side .

Q 9. (a) What are Contingent Liabilities ? Mention any TWO items .

[1 + 2 = 3 Marks]

OR

(b) Explain the Average Profit Method of Valuation of Goodwill.

[3 Marks]

Sol. (a)

Contingent Liabilities are the Liabilities which have Not Arisen , but May Arise upon the Happening of a certain event . In other words , the Liability itself is Uncertain . It may or may not involve the payment of money . The amount of Contingent Liability is never shown on the Liabilities Side . These are always Stated in Notes to Accounts before the Balance Sheet .

Contingent Liabilities can be Classified as :

- Claims against the Company , Not Acknowledged as Debt .
- Guarantees given by the Company .
- Other Money for which the Company is Contingently Liable .

OR

(b) Under Average Profit Method , Valuation of Goodwill is done by two ways :

(i) Simple Average Profit Method : Under this Method of Valuation of Goodwill , Average of Past Profits of a Number of years is Calculated and is Multiplied by Agreed Number of years (Such as 1 , 2 , 3 , 4 , 5) to find out the Value of Goodwill . It is Computed as :

$$\text{Average Profit} = \frac{\text{Total Profits of Past Years}}{\text{Number of Years}}$$

$$\text{Value of Goodwill} = \text{Average Profit} \times \text{Number of Years' Purchase}$$

(ii) Weighted Average Profit Method : It is a Modified Version of Simple Average Profit Method. In this Method each year's profit is assigned a weight in a manner so that the recent year's profit is given Highest Weight and the Least Weight is given to Starting year . Weights will be Assigned as 1 , 2 , 3 and 4 . Steps for calculating Weighted Average Profit are :

- Abnormal Profits / Losses are Adjusted to find out the Normal Profit in that Year .
- Normal Profits are Multiplied with Respective Weights .
- Thereafter , Weighted Average Profits is Computed as :

$$\frac{\text{Total of Product of Profits}}{\text{Total of Weights}}$$

$$\text{Goodwill} = \text{Weighted Average Profits} \times \text{Number of Years' Purchase}$$

Q 10. (a) Calculate Amount of Medicines Consumed to be shown in the Income and Expenditure Account for the year ended 31-12-2018:

	01-01-2018	31-12-2018
Stock of Medicines	3,000	500
Creditors for Medicines	2,000	1,300

Amount Paid for Medicines during 2018 was ₹ 10,800 .

[3 Marks]

OR

- (b) Mention any THREE Distinctions between Receipts and Payments Account and Income and Expenditure Account .

[3 Marks]

Sol. (a)

Dr.		Income and Expenditure Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Medicine Consumed	12,600				

Dr.		Stock of Medicine Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Balance b/d.	3,000	By Medicine Consumer	12,600		
To Creditors	10,100	By Balance c/d.	500		
	13,100				13,100

Dr.		Creditors Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Bank Account	10,800	By Balance b/d.	2,000		
To Balance c/d.	1,300	By Purchase of Medicine (B/F)	10,100		
	12,100				12,100

OR

(b)

**Difference Between
Receipts and Payment Account and Income and Expenditure Account**

S. No.	Basis	Receipts and Payment Account	Income and Expenditure Account
1.	Form	It is a Summary of Cash Book .	It is a Summary of Profit and Loss Account .
2.	Nature of Account	It is a Real Account .	It is a Nominal Account .
3.	Sides	The Left Hand Side is Receipts and the Right Hand Side is Payments .	The Left Hand Side is Expenditure and the Right Hand Side is Income .
4.	Balance	It Starts with Opening Balance of Cash and Ends as Showing Closing Balance of Cash .	It does Not Start with Opening Balance of Cash and does Not Show Closing Balance of Cash .
5.	Capital and Revenue Items	It Records Receipts and Payments of Both Capital and Revenue Nature .	It Records Income and Expenditure of Revenue Nature only .
6.	Amount	It Records All the Cash Receipts and Payments , whether Relating to Current Year or Previous Year .	It Records All Income and Expenditure of the Current Year on Accrual Basis .

Q 11. (a) Mention any THREE Limitations of Financial Statements .

[3 Marks]

OR

(b) Write THREE Objectives of Preparing Realization Account .

[3 Marks]

Sol. (a) Financial Statements are the End Products of Accounting Process . They provide information about the Profitability and the Financial Position of a Business . Yet there are few Limitations of such type of Statements as such . These Limitations are :

- Manipulation and Window Dressing .
- Use of Diverse Procedures .
- Qualitative Aspect Ignored .

OR

(b) **Realization Account** : A Realization Account is opened for Disposing Off all the Assets of the Firm and making payment to All the Creditors . Realization Account is a Nominal Account . The Objective of Preparing Realization Account is :

- To find out the Profit or Loss on Realization of Assets and Payment of Liabilities .

Q 12. (a) North East Club had a Cash Balance of ₹ 20,000 and Bank Balance of ₹ 35,000 respectively on 01-04-2017. From the following details Prepare a Receipts and Payments Account for the year ended 31st March , 2018 . .

Particulars	Amount (₹)	Amount (₹)
Subscription Received :		
2016 – 17	30,000	
2017 – 18	2,25,000	
2018 – 19	<u>10,000</u>	2,65,000
Donation for Building		60,000
Entrance Fees		23,000
Life Membership Fees		20,000
Printing and Stationery		38,750
Lighting Expenses		26,250
Rent and Taxes Paid		17,000
Telephone Charges		2,600
Postage		2,000
Salaries		88,000
Insurance		15,000
Interest Received		18,000
Locker Rent Received		42,000
Purchase of Furniture		2,00,000
Cash in Hand as on 31-03-2018		23,400

[5 Marks]

OR

- (b) Explain in brief the Treatment of the following Items in Preparation of Income and Expenditure Account
- (i) Subscription
 - (ii) Life Membership Fees
 - (iii) General Donation
 - (iv) Specific Donation
 - (v) Legacy

[5 Marks]

Sol. (a)

Receipts and Payment Account			
For the Year Ended 31st March , 2018			
Dr.		Cr.	
Particulars	(₹)	Particulars	(₹)
To Balance b/d.		By Printing and Stationery	38,750
Cash in Hand 20,000		By Lighting Expenses	26,250
Cash at Bank <u>35,000</u>	55,000	By Rent and Taxes	17,000
To Subscription :		By Telephone Charges	2,600
2016 – 17 30,000		By Postage	2,000
2017 – 18 2,25,000		By Salaries	88,000
2018 – 19 <u>10,000</u>	2,65,000	By Insurance Premium	15,000
To Entrance Fees	23,000	By Furniture (Purchase)	2,00,000
To Donation for Building	60,000	By Balance c/d.	
To Life Membership Fees	20,000	Cash in Hand 23,400	
To Interest Received	18,000	Cash at Bank <u>70,000</u>	93,400
To Locker Rent Received	42,000	(Bal. Fig.).	
	4,83,000		4,83,000

OR

(b)

- (i) **Subscription** : Subscription is an agreement to be a part of an Association , Club etc. The member has to pay a fixed amount at regular interval to remain as a part of the Club Association . There are two ways of computing Subscription for the Current Accounting Year :
- Statement Method
 - Account Method
- Subscription will be Treated as Liability , if :
- It is of Non-recurring Nature .
 - It is Received for Certain Specific Purpose such as :
 - Subscription for Tournament Fund
 - Subscription for Governor’s Party
 - Subscription for Building Fund
 - Subscription for Construction of Science Block .
- (ii) **Life Membership Fees** : It is a Capital Receipt , Irregular in Nature received once from the Member throughout His / Her Life . It is Capitalized and Shown at the Liabilities Side .
- (iii) **General Donation** : General Donation can be classified as :

- General Donation of Big Amount . It is a Donation of Non – Recurring Nature . So it should be Capitalized and Shown at the Liabilities Side of the Balance Sheet .
- General Donation of Small Amount . This Donation is of a Recurring Nature . It is expected that such Donation will be Received every year . It is a Revenue Receipt and it should be treated as Income and Recorded at the Income Side of Income and Expenditure Account .

- (iv) **Specific Donation** : Specific Donations are the ones received for Certain Specific Purpose . It is a Capital Receipt and should be Capitalized and Posted at the Liabilities Side of the Balance Sheet . These Specific Donations may be for Tournament Fund , Construction of Building Hall , Lawn , Pavilion , Library or Governor’s Party etc.
- (v) **Legacy** : It is the Amount Received from Individuals Received as Per Will . It is a Receipt of Non – Recurring Nature . So it should be Capitalized and Shown on the Liabilities Side . It is shown at the Debit Side of Receipts and Payment Account . It does not matter , whether the Legacy is of Small Amount or Big Amount .

Q 13. (a) What is Cash Flow Statement ? Explain its THREE Limitations .

[5 Marks]

OR

(b) From the following information , calculate the Cash from Operating Activities .

Particulars	2016 (₹)	2017 (₹)
Profit and Loss Account	3,00,000	2,50,000
Bills Receivable	20,000	18,000
Provision for Depreciation	60,000	80,000
Outstanding Wages	18,000	15,000
Prepaid Insurance	6,000	9,000
Goodwill	40,000	32,000
Provision for Doubtful Debts	10,000	14,000
Debtors	1,20,000	80,000
Cash and Bank Balance	30,000	25,000

[5 Marks]

Sol. (a)

A Cash Flow Statement is a Statement showing Inflows (Receipts) and Outflows (Payments) of Cash during a Particular Period . In other words , it is a Summary of Sources and Application of Cash during a particular span of time . It Analyses the reasons for Changes in the Balance of Cash between the Two Balance Sheet Dates . The term “Cash” here stands for Cash and Cash Equivalents . A Cash Flow Statement includes only those Items which Affect Cash .

Following are the Limitations of a Cash Flow Statement :

- **Not Suitable for Judging the Liquidity** : It does not present True Picture of the Liquidity of a Firm because the Liquidity does not depend upon Cash Alone . Liquidity also depends upon those Assets which can be easily converted into Cash . Exclusion of these Assets observes the True Reporting of the Ability of the Firm to meet its Liabilities when they become Due for Payment .
- **It Ignores Non – Cash Transactions** : Cash Flow Statement Ignores Non – Cash Transactions like Purchase of Fixed Assets by Issuing Shares or Debentures , Conversion of Debentures into Shares , Issue of Bonus Shares etc. Hence the true position of an enterprise cannot be judged by Cash Flow Statements .

- **It Ignores the Accrual Concept of Accounting** : It is prepared on Cash Basis and Hence Ignores one of the Basic Concepts of Accounting , namely Accrual Concept .

OR

(b)

Working Note :

Calculation of Net Profit Before Tax :

Surplus i.e. Balance in Statement of Profit and Loss on 31 st March , 2017	₹ 2,50,000
Less : Balance in Statement of Profit and Loss on 31 st March , 2016	<u>₹ 3,00,000</u>
	₹ (50,000)

Cash Flow Statement

Particulars	Amount (₹)	Amount (₹)
Cash Flow from Operating Activity :		
Net Profit Before Tax		(50,000)
Add : Adjustment from Non Cash and Non – Operating Items :		
* Provision for Depreciation	20,000	
* Provision for Doubtful Debts	4,000	
* Amortization of Goodwill	<u>8,000</u>	<u>32,000</u>
Operating Loss Before Working Capital Changes		(18,000)
Add : Bills Receivable	2,000	
Debtors	<u>40,000</u>	<u>42,000</u>
		24,000
Less : Increase in Prepaid Insurance	3,000	
Decrease in Outstanding Wages	<u>3,000</u>	<u>(6,000)</u>
Cash from Operating Activity		<u>18,000</u>

- Q 14. (a)** A Business has a Current Ratio of 3 : 1 and a Quick Ratio of 1.2 : 1 . Working Capital is ₹ 1,80,000 . Calculate Current Assets and Stock .

[5 Marks]

OR

- (b)** What are Probability Ratios ? What is the Significance of Gross Profit and Operating Profit Ratio ? .

[5 Marks]

Sol. (a)

$$\begin{aligned} \text{Let Current Assets} &= 3 X \\ \text{Current Liabilities} &= X \end{aligned}$$

$$\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

$$₹ 1,80,000 = 3 X - 1 X$$

$$₹ 1,80,000 = 2 X$$

$$X = \frac{₹ 1,80,000}{2} = ₹ 90,000$$

So ,

$$\begin{aligned} \text{Current Assets} &= 3 (\text{₹ } 90,000) = \text{₹ } 2,70,000 \\ \text{Current Liabilities} &= X = \text{₹ } 90,000 \\ \text{Quick Ratio} &= \frac{\text{Quick Assets}}{\text{Current Liabilities}} \\ \frac{1.2}{1} &= \frac{\text{Quick Assets}}{\text{₹ } 90,000} \\ \text{Quick Assets} &= \text{₹ } 90,000 \times \frac{1.2}{1} = \text{₹ } 1,08,000 \\ \text{Stock} &= \text{Current Assets} - \text{Quick Assets} \\ &= \text{₹ } 2,70,000 - \text{₹ } 1,08,000 = \text{₹ } 1,62,000 \end{aligned}$$

OR

(b) Profitability Ratio : The main object of All the Business Concerns is to Earn Profit . Profit is the Measurement of the Efficiency of the Business . Profitability Ratios Measure the Various Aspects of the Profitability of a Company, such as :

- What is the Rate of Profit on Revenue from Operations ?
- Whether the Profit are Increasing or Decreasing .

Gross Profit Ratio : This Ratio establishes a Relationship between Gross Profit and Revenue from Operations i.e. Net Sales . This Ratio is Computed and Presented in Percentage . Formula for Computing this Ratio is :

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

Significance of Gross Profit Ratio :

This Ratio measures the Margin of Profit available on Revenue from Operations . The Higher the Gross Profit Ratio , the Better it is . No Ideal Standard is Fixed for the Ratio , but the Gross Profit Ratio should be Adequate Enough Not only to Cover the Operating Expenses , but also to provide for Depreciation , Interest on Loans , Dividends and Creation of Reserves .

Operating Profit Ratio : This Ratio shows the Relationship between Operating Profit and Net Revenue from Operations .

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Revenue from Operations}} \times 100$$

Significance of Operating Profit Ratio :

This Ratio Measures the Rate of Net Profit Earned on Revenue from Operations . It helps in distinguishing the Overall Efficiency of the Business Operations . An Increase in the Ratio over the Previous Year Shows Improvement in the Overall Efficiency and Profitability of the Business .

Q 15. (a) A , B and C were Partners , Sharing Profits in the Ratio of 3 : 2 : 1 respectively . Balance Sheet of the Firm as at 31st March , 2017 stood as under :

Liabilities	(₹)	Assets	(₹)
Sundry Creditors	16,000	Building	23,000
Partners' Capital A/cs. :		Debtors	7,000
A 20,000		Stock	12,000
B 7,500		Patent	8,000
C <u>12,500</u>	40,000	Bank	6,000
	56,000		56,000

'B' Retired on the above date on the following terms :

- (i) Building to be Appreciated by ₹ 8,800 .
- (ii) Provision for Doubtful Debts be made @ 5 % on Debtors .
- (iii) Goodwill of the Firm be Valued at ₹ 9,000 .

Pass necessary Journal Entries .

[5 Marks]

OR

- (b) What is Share Forfeiture ? State the Procedure of Forfeiture of Shares . .

[5 Marks]

Sol. Working Note :

$$\text{B's Share of Goodwill} = ₹ 9,000 \times (2/6) = ₹ 3,000$$

Taken by Gaining Partners in 3 : 1

$$\text{A's Share} = ₹ 3,000 \times (3/4) = ₹ 2,250$$

$$\text{C's Share} = ₹ 3,000 \times (1/4) = ₹ 750$$

Dr.		Revaluation Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Provision for Doubtful Debts.. (5 % on ₹ 7,000)	350	By Building A/c.	8,800		
To Profit Trans. to Capital A/cs. :					
A's 4,225					
B's 2,817					
C's <u>1,408</u>	8,450				
	8,800				8,800

Dr.		B's Capital Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To B's Loan A/c.. (Transfer)	13,317	By Balance b/d.	7,500		
		By Revaluation A/c. (Profit)	2,817		
		By A's Capital A/c.	2,250		
		By C's Capital A/c.	750		
	13,317				13,317

JOURNAL of A , B and C

Date	Particular	Dr. (₹)	Cr. (₹)
(i)	A's Capital A/c. Dr. C's Capital A/c. Dr. To B's Capital A/c. (Adjustment of Goodwill)	2,250 750	3,000
(ii)	Buildings A/c. Dr. To Revaluation A/c. (Building to be Appreciated)	8,800	8,800
(iii)	Revaluation A/c. Dr. To Provision for Doubtful Debt (Provision for Doubtful Debt Created)	350	350
(iv)	Revaluation A/c. Dr. To A's Capital A/c. To B's Capital A/c. To C's Capital A/c. (Profit on Revaluation Distributed)	8,450	4,225 2,817 1,408
(v)	B's Capital A/c. Dr. To B's Loan A/c. (Amount Transferred to B's Loan Account)	13,317	13,317

OR

If any Shareholder Fails to Pay the Amount Due on Allotment or on Any Call within the Specified Period , the Directors may Cancel the Shares . This is called "Forfeiture of Shares" .

The Shares can be Forfeited only if the Articles of Association of the Company allows them to be Forfeited . In order to make the Forfeiture Valid , it is Essential to Follow the Rules Laid Down in the Articles . If No Rules are given in Articles , the Provisions of Table F of Schedule I of the Companies Act , 2013 regarding Forfeiture Apply . The Usual Procedure is that the Defaulting Shareholder must be given a Minimum of 14 Days Notice Requiring Him to Pay the Unpaid Amount on His Shares , together with the Accrued Interest thereon . The Notice must state that , if the Unpaid Interest is Not Paid , within a Certain Period , His Shares shall be Forfeited . If in spite of this Notice , the Shareholder still does not pay the Unpaid Amount on His Shares , His Shares may be Forfeited by a Resolution of the Board of Directors . After the Forfeiture , the Name of the Shareholder is Removed from the Register of Members. The Amount already Paid by Him Belongs to the Company and is Not Returned to Him and this Amount of the Defaulting Shareholder is Credited to Share Forfeiture Account .

Journal Entry for the Forfeiture is passed as :

Share Capital A/c.	Dr.	(Number of Share Forfeited x Called Up Value Per Share)
To Share Allotment A/c.		(Amount Not Received on Allotment)
To Share Call A/c.		(Amount Not Received on Calls)
To Share Forfeiture A/c.		(Amount Received on Application , Allotment and Calls so far)

Q 16. (a) What is Partnership Deed ? Mention its FOUR Principal Clauses .

[5 Marks]

OR

(b) Following is the Balance Sheet of P , Q and R as on 31st March , 2018 .

Liabilities	(₹)	Assets	(₹)
Sundry Creditors	16,000	Bills Receivable	16,000
General Reserve	16,000	Furniture	22,600
Partners' Capital Accounts :		Stock	20,400
P 30,000		Sundry Debtors	22,000
Q 20,000		Cash at Bank	18,000
R <u>20,000</u>	70,000	Cash in Hand	3,000
	1,02,000		1,02,000

Q Died on 30th June , 2018 . Under the Agreement, the Executors of the Deceased Partner were entitled to :

- (i) Amount Standing to the Credit of Partner's Capital Account .
- (ii) Interest on Capital @ 5 % Per Annum .
- (iii) Share of Goodwill on the Basis of Twice the Average of the Past Three Years Profit .
- (iv) Share of Profit from the Closing of the Last Financial Year to the Date of Death on the Basis of Last Year's Profit (2017 – 18) .
- (v) Profits for the Last Three Years were

Year	Profit (₹)
2015 – 16	12,000
2016 – 17	16,000
2017 – 18	14,000

Prepare Q's Capital Account on the Date of this Death . . .

[5 Marks]

Sol. Since Partnership is the Outcome of an Agreement , it is Essential that there must be some Terms and Conditions Agreed Upon by All the Partners . Such Terms and Conditions may be either Oral or Written . The Law does not make it Compulsory to have a Written Agreement . However , in order to Avoid All Misunderstanding and Disputes , it is always the Best Course to have a Written Agreement Duly Signed and Registered under the Act . Such a Written Document , which contains the Terms of Agreements is called “**Partnership Deed**” .

The Essential Clauses of a Partnership Deed are :

- The Name and Address of the Firm .
- Name and Addresses of the Partners .
- The Type and Nature of the Business the Firm Proposes to do .
- Amount of Capital to be Contributed by Each Partner and Whether the Capital Accounts will be Fixed or Fluctuating .
- **Interest on Capital** : Whether Interest is to be Allowed on Capitals . If so , The Rate of Interest .
- **Drawings** : How much Amount the Partners are Entitled to Withdraw for Personal Use .
- **Interest on Drawings** : Whether Interest will be Charged on Partner's Drawings . If so , the Rate of Interest .
- **Profit Sharing Ratio** : The Ratio in which Profits or Losses are to be Divided among Partners .

OR

Dr.	Q's Capital Account		Cr.
Particulars	(₹)	Particulars	(₹)
To Q's Executor A/c.	36,083	By Balance b/d.	20,000
		By Interest on Capital	250
		By P's Capital A/c.	4,666
		By R's Capital A/c.	4,667
		By Profit & Loss Suspense A/c.	,1167
		By General Reserve (₹16,000 x 1/3)	5,333
	36,083		36,083

Working Note :

Interest on Capital = ₹ 20,000 x (5/100) x (3/12) = ₹ 250

Goodwill = $\frac{₹ 12,000 + ₹ 16,000 + ₹ 14,000}{3} = \frac{₹ 42,000}{3} = ₹ 14,000$

= ₹ 14,000 x 2 = ₹ 28,000

Share of Goodwill = ₹ 28,000 x (1/3) = ₹ 9,333

Profit and Loss Calculation = ₹ 14,000 x (3/12) x (1/3) = ₹ 1,167

Q 17. (a) Differentiate between "Realization Account" and "Revaluation Account".

[5 Marks]

OR

(b) A and B are Partners , Sharing Profits Equally . Balance Sheet on September , 2018 was as follows :

Liabilities	(₹)	Assets	(₹)
Creditors	11,200	Sundry Assets	59,000
Bills Payable	1,800		
Reserve Fund	6,000		
Partners' Capital Accounts :			
A 20,000			
B <u>20,000</u>	40,000		
	59,000		59,000

The Firm is Dissolved on the Above Date . Assets are Realized at ₹ 49,600 . Creditors Allowed a Discount of 2 % and Dissolution Expenses came to ₹ 544 .

Pass Journal Entries to Close the Books of the Firm .

[5 Marks]

Sol. (a)

Distinction between Revaluation Account and Realization Account

S. No.	Basis	Revaluation Account	Realization Account
1.	When Prepared	This account is prepared on the Admission , Retirement or Death of a Partner .	This account is prepared on the Dissolution of Partnership Firm ..
2.	Object of Preparation	This account is prepared to make necessary Adjustments in the Value of Assets and Liabilities .	This account is prepared to find out the Profit or Loss on the Sale of Assets and Repayment of Liabilities
3.	Result	Even after the preparation of Revaluation Account , the Firm Continues to Function , though with a Change Relationship among the Partners .	The Firm comes to an End after the preparation of this account .
4.	Value of Assets and Liabilities Recorded	Only the Difference between the Book Values and Revised Values of Assets and Liabilities is Recorded in the Account .	Book Value of Assets and Liabilities the realized Value of Assets and the Actual Payment of Liabilities is recorded in this account .
5.	Why Prepared	This account may be required to be prepared many times during the Life time of a Firm .	This account is prepared only once during the Life Time of a Firm .

OR

(b)

Working Note :

Dr.		Realization Account		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Sundry Assets	59,000	By Creditors	11,200		
To Bank A/c.		By Bills Payable	1,800		
Creditors 10,976		By Bank (Realized Assets)	49,600		
Bills Payable 1,800		By Partners' Capital A/cs. :			
Realization Exp. <u>544</u>	13,320	A's 4,860			
		B's <u>4,860</u>	9,720		
		(Less on Realization)			
	72,320				72,320

Dr.		Partners' Capital Account				Cr.	
Particulars	A	B	Particulars	A	B		
	(₹)	(₹)		(₹)	(₹)		
To Realization A/c.	4,860	4,860	By Balance b/d.	20,000	20,000		
(Loss)	18,140	18,140	By Reserve Fund	3,000	3,000		
To Bank A/c.							
(Final Payment)							
	23,000	23,000		23,000	23,000		

Dr.	Bank Account		Cr.
Particulars	(₹)	Particulars	(₹)
To Realization A/c. (Assets Realized)	49,600	By Realization A/c. (Creditors , Bills Payable , Realization Expenses)	13,320
		By A's Capital A/c.	18,140
		By B's Capital A/c. (Final Payment)	18,140
	49,600		49,600

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Date	Particular	Dr. (₹)	Cr. (₹)
(i)	Creditors A/c. Dr. Bills Payable A/c. Dr. To Realization A/c.	11,200 1,800	13,000
(ii)	Realization A/c. Dr. To Assets A/c.	59,000	59,000
(iii)	Bank A/c. Dr. To Realization A/c. (Amount Realized on Sale of Assets)	48,600	48,600
(iv)	Realization A/c. Dr. To Bank A/c. (Creditor ₹ 10,976 , B/P 1,800 & Rent Dep. 544)	13,320	13,320
(v)	A's Capital A/c. Dr. B's Capital A/c. Dr. To Realization A/c. (Transfer on Loss on Realization)	4,860 4,860	9,720
(vi)	Reserve Funds A/c. Dr. To A's Capital A/c. To B's Capital A/c. (Reserve Fund Distributed)	6,000	3,000 3,000
(vii)	A's Capital A/c. Dr. B's Capital A/c. Dr. To Bank A/c. (Final Payment made to Partners)	18,140 18,140	36,280

Q 18. (a) Discuss the Process for Allotment of Shares of a Company in case of Oversubscription .

[5 Marks]

OR

(b) Prepare a Comparative Income Statement from the following Particulars : .

Particulars	2017 (₹)	2018 (₹)
Sales	4,00,000	5,00,000
Cost of Goods Sold	2,00,000	3,00,000
Administrative Expenses	40,000	1,00,000
Other Income	20,000	30,000
Income Tax	60,000	70,000

[5 Marks]

Sol. (a)

Shares Issued by Well Managed and Financially Strong Companies often get Over Subscribed . Shares are said to be Oversubscribed when the Number of Shares Applied for is More than the Number of Shares Offered to the Public for Subscription . However , as the Company Cannot Allot Shares More than that Offered for Subscription , the Board of Directors will have to Allot Shares on **Pro-Rata Basis** . It means that Smaller Number of Shares are Allotted to each Applicant , according to the Number of Shares Applied by Him .

OR

(b)

Comparative Balance Sheet
As at 31st March , 2017 and 31st March , 2018

Particulars	Note No.	31 st March , 2017	31 st March , 2018	Absolute Change (Increase or Decrease)	Percentage Change (Increase or Decrease)
1		2	3	4	5
		A	B	B – A = C	(C/A) x 100
		(₹)	(₹)	(₹)	%
Net Sales		4,00,000	5,00,000	1,00,000	25
Add : Other Income		20,000	30,000	10,000	50
TOTAL REVENUE		4,20,000	5,30,000	1,10,000	26.19
Less : Expenses					
Cost of Goods Sold		2,00,000	3,00,000	1,00,000	50
Administrative Expenses		40,000	1,00,000	60,000	150
TOTAL EXPENSES		2,40,000	4,00,000	1,60,000	66.66
Profit Before Tax		1,80,000	1,30,000	(50,000)	27.38
Less : Income Tax		60,000	70,000	10,000	16.67
PROFIT AFTER TAX		1,20,000	60,000	60,000	50

Q 19. Following is the Trial Balance of Rana and Raju as on 31st March , 2018 .

Dr.	Trial Balance		Cr.
Particulars	(₹)	Particulars	(₹)
Machinery	10,000	Partners' Capital :	
Furniture	20,860	Rana	65,000
Rent	19,740	Raju	<u>40,000</u>
Salaries	9,000	Creditors	18,400
Debtors	40,500	Commission	300
Cash in Hand	16,300	Bank Loan	5,000
Cash at Bank	45,000	Gross Profit	57,200
Drawings :		(Trading Account)	
Rana	4,000		
Raju	<u>3,000</u>		
Closing Stock	12,500		
Commission	5,000		
	1,85,900		1,85,900

Prepare the Profit and Loss Account and Profit and Loss Appropriation Account for the year ended 31st March , 2018 and the Balance Sheet of the Firm as on that Date , after taking into consideration the following Additional Information :

- (i) Depreciate Machinery @ 10 % Per Annum and Furniture @ 20 % Per Annum .
- (ii) Partners will get Interest on Capital @ 5 % Per Annum .
- (iii) Raju is Entitled to a Salary of ₹ 1,800 Per Annum .
- (iv) The Profit Sharing Ratio between Rana and Raju was 3 : 2 .

[8 Marks]

Sol.

Depreciation

Machinery = ₹ 10,000 @ 10 % Per Annum = ₹ 1,000

Furniture = ₹ 20,860 @ 20 % Per Annum = ₹ 4,172

Profit and Loss Account

Dr.		For the year ending 31 st March , 2018		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Rent A/c.	19,740	By Gross Profit b/d.	57,200		
To Salaries	9,000	By Commission	300		
To Commission	5,000				
To Depreciation on :					
Machinery 1,000					
Furniture <u>4,172</u>	5,172				
To Net Profit (Transferred to Partners' Capital A/c.)	18,588				
	57,500		57,500		

Profit and Loss Appropriation Account

Dr.		For the year ending 31 st March , 2018		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Interest on Capital :		By Net Profit as Per			
Rana's Capital 3,250		Profit and Loss A/c.	18,588		
Raju's Capital <u>2,000</u>	5,250				
To Salary to Raju	1,800				
To Net Profit Transferred to Partners' Capital A/cs. :					
Rana 6,923					
Raju <u>4,615</u>	11,538				
(Ratio 3 : 2)					
	18,588		18,588		

Dr.		Partners' Capital Account				Cr.	
Particulars	Rana (₹)	Raju (₹)	Particulars	Rana (₹)	Raju (₹)		
To Drawings	4,000	3,060	By Balance b/d.	65,000	40,000		
To Balance c/d.	71,173	45,415	By Interest on Capital	3,250	2,000		
			By Salary	—	1,800		
			By P & L Approp. A/c.	6,923	4,615		
	75,173	48,415		75,173	48,415		

Balance Sheet as at 31st March , 2018

Liabilities	(₹)	Assets	(₹)
Creditors	18,400	Cash in Hand	16,300
Bank Loan	5,000	Cash at Bank	45,000
Partners' Capital Accounts :		Debtors	40,500
Rana 71,173		Machinery	9,000
Raju <u>45,415</u>	1,16,588	(10,000 – 1,000)	
		Furniture	16,688
		(20,860 – 4,172)	
		Closing Stock	12,500
	1,39,988		1,39,988

Q 20. (a) M. S. Limited Issued 1,000 Equity Shares of ₹ 100 each Payable as follows :

- On Application ₹ 25 Per Share
- On Allotment ₹ 25 Per Share
- On First Call ₹ 20 Per Share
- On Final Call ₹ 30 Per Share

All the Shares were Duly Subscribed for ,. Called - Up and Paid – Up , Except Mr. A , Holding 400 Shares did not Pay the Final Call Money .

Show the Entries in the Cash Book and Journal of the Company for the above transactions .

[8 Marks]

OR

(b) Write Short Notes on :

- (i) Redemption of Debentures
- (ii) Loss on Issue of Debentures
- (iii) Minimum Subscription

[3 + 3 + 2 = 8 Marks]

Sol.

Dr.		Cash Book (Bank Column)		Cr.	
Particulars	(₹)	Particulars	(₹)		
To Equity Share Application A/c.	25,600	By Balance c/d.	88,000		
To Equity Share Allotment A/c.	25,000				
To Equity Share First Call A/c.	20,000				
To Equity Share Final Call A/c. (30,000 – 12,000)	18,000				
	88,000		88,000		

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Date	Particular		Dr. (₹)	Cr. (₹)
(i)	Equity Share Application A/c. To Share Capital A/c. (Shares Allotted)	Dr.	25,000	25,000
(ii)	Equity Share Allotment A/c. To Share Capital A/c. (Due on Allotment Call)	Dr.	25,000	25,000
(iii)	Equity Share First Call A/c. To Share Capital A/c. (Due on First Call)	Dr.	20,000	20,000
(iv)	Equity Share Final Call A/c. To Share Capital A/c. (Due on Final Call)	Dr.	30,000	30,000

OR

- (i) **Redemption of Debentures** : Redemption of Debentures means Repayment of the Amount of Debentures to Debenture Holders . In other words , Redemption refers to Discharge of Liability on Account of Debentures by Repaying the Due Amount of Debenture . The Terms and Conditions of Redemption are stated in the Prospectus Inviting Applications for the Issue of Debentures . The Terms of Redemption are also clearly stated in the Debenture Certificate . Hence the Redemption is made in Accordance with the Terms of Issue . Amount required for the Redemption of Debentures may be Managed by a Company from the following Sources :
- Redemption from the Proceeds of Fresh Issue of Shares and Debentures .
 - Redemption of Debentures Out of Capital .
 - Redemption of Debentures Out of Profits .
- (ii) **Loss on Issue of Debentures** : Sometimes the Debentures are Issued with the specific condition that the Company will pay a premium at the time of their redemption . Although such premium will be paid at the time of actual redemption . But as it is a known Loss , the Company records such Loss at the time of Issue by Debiting an Account called , “Loss on Issue of Debentures Account” . It is done in keeping with the Conventions of Conservatism . Loss on Issue of Debentures Account is a Loss on account of Promise to Pay Debentures at a Premium at the time of their Redemption . This is a Capital Loss and is Written Off from Security Premium Reserve or from Statement of Profit and Loss , gradually every year during the Lifetime of the Debentures . The entry for Writing Off will be :
- | | |
|--|------------|
| Statement of Profit and Loss A/c. | Dr. |
| To Loss on Issue of Debentures A/c. | |
- The Balance of “Loss on Issue of Debentures A/c.” is shown as “Unauthorized Expenses” on the Assets Side of the Balance Sheet .
- (iii) **Minimum Subscription** : Section 39 (1) of the Companies Act , 2013 provides that a Company cannot Allot any Securities of the Company to the Public , Unless the Amount Stated in the Prospectus as the “**Minimum Subscription**” has been Subscribed . Minimum Subscription means the Amount which in the opinion of the Directors , is the Minimum to be Raised by the Issue of Shares , so as to provide for the following Regulations :
- For the Payment of Purchase Price of any Property Purchased or Agreed to be Purchased

- For the Payment of Preliminary Expenses , including Underwriting Commission and Brokerage on Issue of Shares .
- For the Repayment of any Money , Borrowed by the Company for the above purposes .
- For Working Capital and any Other Expenditure required for the Usual Conduct of Business Operations .

Companies Act , 2013 has Not Prescribed the Minimum Subscription . According to SEBI Guidelines, Minimum Subscription has been Fixed at 90 % of the Issued Amount . As Per Section 79 (1) , the Company has to get a Minimum Subscription Within 30 Days from the Date of Issue of the Prospectus.

Q 21. (a)

S. K. Limited Issued 1,000 12 % Debentures of ₹ 100 each . Pass Journal Entries for Redemption of the Debentures, in the Books of the Company , under the following conditions :

- Issued at Par and Redeemable at Par , After 5 Years .
- Issued at Par an Redeemable at a Premium of 5 % , After 5 Years .
- Issued at a Premium of 5 % . Redeemable at Par , After 5 Years .

[2 + 3 + 3 = 8 Marks]

OR

(b) Write Short Notes on :

- Authorized Share Capital
- Calls-in-Arrears
- Pro-Rata Allotment
- Preference Share

[2 + 2 + 2 + 2 = 8 Marks]

Sol.

(i) Debentures Issued at Par and Redeemable at Par , After 5 Years .

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Date	Particular	Dr. (₹)	Cr. (₹)
(i)	Bank A/c. Dr. To 12 % Debenture App. & Allot. A/c. (Application Money Received)	1,00,000	1,00,000
(ii)	12 % Debenture App. & Allot. A/c. Dr. To 12 % Debentures A/c. (Debentures Issued)	1,00,000	1,00,000
(iii)	12 % Debenture A/c. Dr. To Debenture Holder A/c. (Redemption Due)	1,00,000	1,00,000
(iv)	Debenture Holder A/c. Dr. To Bank A/c. (Payment on Redemption)	1,00,000	1,00,000

(ii) **Debentures Issued at Par and Redeemable at a Premium of 5 % , After 5 Years .**

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Date	Particular	Dr. (₹)	Cr. (₹)
(i)	Bank A/c. Dr. To 12 % Debenture App. & Allot. A/c. (Application Money Received)	1,00,000	1,00,000
(ii)	12 % Debenture App. & Allot. A/c. Dr. Loss on Issue of Debenture A/c. Dr. To 12 % Debentures A/c. To Pre, on Redemp. of Debenture A/c. (Issue of Debentures)	1,00,000 5,000	1,00,000 5,000
(iii)	12 % Debenture A/c. Dr. Premium on Redemption A/c. To Debenture Holder A/c. (Redemption Due)	1,00,000 5,000	1,05,000
(iv)	Debenture Holder A/c. Dr. To Bank A/c. (Payment on Redemption)	1,05,000	1,05,000

(iii) **Debentures Issued at a Premium of 5 % , Redeemable at Par , After 5 Years .**

JOURNAL of S. K. Limited

Date	Particular	Dr. (₹)	Cr. (₹)
(i)	Bank A/c. Dr. To 12 % Debenture App. & Allot. A/c. (Application Money Received)	1,05,000	1,05,000
(ii)	12 % Debenture App. & Allot. A/c. Dr. To 12 % Debentures A/c. To Security Premium Reserve A/c. (Debentures Issued and Premium Reserve)	1,05,000	1,00,000 5,000
(iii)	12 % Debenture A/c. Dr. To Debenture Holder A/c. (Redemption Due)	1,00,000	1,05,000
(iv)	Debenture Holder A/c. Dr. To Bank A/c. (Payment on Redemption)	1,00,000	1,00,000

OR

- (i) **Authorized Share Capital** : Authorized Capital refers to that Amount which is Stated in the Memorandum of Association . This is the Minimum Capital for which a Company is Authorized to Issue Shares during its Lifetime . This Capital as also known by the name of Registered Capital or Nominal Capital .
- (ii) **Calls-in-Arrears** : It often happens that some Shareholders Fail to Pay the Amount of Allotment or Call when it becomes Due . This is known as **Calls-in-Arrears** .
There are Two Methods to Deal with Calls-in-Arrears :
- **Without Opening Calls-in-Arrears Account** : Under this Method there is No Need to Open Calls-in-Arrears Account . In such a case the Actual Amount Received from the

Shareholders is Credited to the Call Account and all Account will show a Debit Balance , Equal to the Unpaid Amount of the Call . On a Subsequent Date , when the Unpaid Amount is Received , Bank Account is Debited and the Relevant Call Account is Credited .

- **By Opening Calls-in-Arrear Account :** Under this Method, "Calls-in-Arrears Account" is Opened and the Account is Debited when Some Amount of Allotment or Calls is Not Received . On a Later Date , when the Arrear Amount is Received , Bank Account is Debited and the Calls-in-Arrear Account is Credited .

(iii) **Pro-Rata Allotment :** In this case , No Application as for Shares is Refused and No Applicant is Allotted the Shares in Full . Each Applicant Receives the Share in the same Proportion which is the Ratio of Total Number of Shares Offered to the Total Number of Shares Applied for . In this case , the Excess Application Money Received is Normally Adjusted towards the Amount Due on Allotment . In case, if the Excess Money is More than the Amount Due on Allotment of Shares , the Excess Amount may either be Refunded or Credited to Calls-in-Advance Account .

(iv) **Preference Share :** Preference Share are the Shares that carry the following Two Rights :

- They have a Right to Receive Dividend at a Fixed Rate before any Dividend is Paid on the Equity Shares .
- When the Company is Wound Up they have a Right to the Return of Capital before that of Equity Shares .

In addition to the above, the Preference Shares may carry some More Rights such as the Right to Participate in Excess Profits when a Specified Dividend has been Paid on the Equity Shares or the Right to Receive a Premium at the Time of Redemption .

Q 22.

(a) Vimal and Nirmal are Partners in a Firm , Sharing Profits and Losses in the Ratio of 3 : 2 . Their Balance Sheet as on 31st December , 2018 was as follows :

Liabilities	(₹)	Assets	(₹)
Sundry Creditors	20,000	Cash	14,000
Partners' Capital Accounts :		Debtors	18,000
Vimal 60,000		Machinery	50,000
Nirmal <u>32,000</u>	92,000	Stock	40,000
Profit and Loss Account	20,000	Goodwill	10,000
	1,32,000		1,32,000

On that Date , Kailash was Admitted as a New Partner . He Paid ₹ 40,000 as His Capital and ₹ 20,000 for the Share of Goodwill . The New Profit Sharing Ratio was Agreed to be 2 : 1 : 1 .

Pass Journal Entries in the Books of the Firm and Show the Balance Sheet of the New Firm .

[8 Marks]

OR

(b) What is Goodwill ? Mention FOUR Factors , Affecting the Goodwill of a Firm . Mention THREE Conditions , when Valuation of Goodwill becomes Necessary .

[8 Marks]

Sol. (a)

Working Note :

Old Ratio = 3 : 2

New Ratio = 2 : 1 : 1

O - N = + S - G

$$\text{Vimal} = \frac{3}{5} - \frac{2}{4} = \frac{12 - 10}{20} = \frac{2}{20}$$

$$\text{Nirmal} = \frac{2}{5} - \frac{1}{4} = \frac{8 - 5}{20} = \frac{3}{20}$$

Sacrificing Ratio : 2 : 3

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Date	Particular	Dr. (₹)	Cr. (₹)
(i)	Profit and Loss A/c. Dr. To Vimal's Capital A/c. To Nirmal's Capital A/c. (Distribution of Profit)	20,000	12,000 8,000
(ii)	Vimal's Capital A/c. Dr. Nirmal's Capital A/c. Dr. To Goodwill A/c. (Writing Off of Goodwill)	6,000 4,000	10,000
(iii)	Bank A/c. Dr. To Kailash's Capital A/c. To Premium for Goodwill A/c. (Capital and Goodwill Employed)	60,000	45,000 20,000
(iv)	Premium for Goodwill A/c. Dr. To Vimal's Capital A/c. To Nirmal's Capital A/c. (Distribution of Goodwill Brought)	20,000	8,000 12,000

Balance Sheet of the New Firm

Liabilities	(₹)	Assets	(₹)
Sundry Creditors	20,000	Cash and Bank	74,000
Partners' Capital Accounts :		Debtors	18,000
Vimal 74,000		Machinery	50,000
Nirmal 48,000		Stock	40,000
Kailash <u>40,000</u>	1,62,000		
	1,82,000		1,82,000

Dr.

Partners' Capital Account

Cr.

Particulars	Vimal (₹)	Nirmal (₹)	Kailash (₹)	Particulars	Vimal (₹)	Nirmal (₹)	Kailash (₹)
To Goodwill A/c.	6,000	4,000	—	By Balance b/d.	60,000	32,000	—
To Balance c/d.	74,000	48,000	40,000	By Cash	—	—	40,000
				By Goodwill Pre.	8,000	12,000	—
				By P & L A/c.	12,000	8,000	—
	80,000	52,000	40,000		80,000	52,000	40,000

OR

- (b) Goodwill is the Value of the Reputation of a Firm which enables it to Earn Higher Profits in Comparison to the Normal Profits Earned by Other Firms in the Same Trade . The Term Goodwill is generally used to Denote the Benefit Arising from Connections and Reputation .

Factors Affecting the Value of Goodwill :

- (i) **Favourable Locations of the Business :** If the Business is Located at a Convenient or Prominent Place , it will Attract More Customers and therefore will have More Goodwill .
- (ii) **Efficiency of Management :** If the Business is Run by Experienced and Efficient Management, its Profits will go on Increasing , which results in Increase in Value of Goodwill .
- (iii) **Nature of Goods :** If a Business Deals in Goods of Daily Use , it will have Steady Profits as the Demand for these Goods will be Stable . Such Business will have More Goodwill . But if it Deals in Fancy Goods , its Profit will be Uncertain and as such the Value of the Goodwill will be Less .
- (iv) **Trend of Profit :** If the Profits of a Business are Increasing Continuously , the Value of its Goodwill will be More . If the Profits are Declining or if the Profits are Uncertain , the Value of Goodwill will be Less .
- (v) **Other Factors :** Other Factors which affect the Value of Goodwill are :
- Good Industrial Relations .
 - Favourable Government Regulations .
 - Effective Advertising to Establish Brand Popularity .
 - Popularity of Product in Terms of Quality .

Need for Valuation of Goodwill :

The Need for Valuing the Goodwill in Partnership Arises in the following circumstances :

- (i) When there is a Change in the Profit Sharing Ratio among the Existing Partners .
- (ii) When a New Partner is Admitted .
- (iii) On Retirement or Death of a Partner .
- (iv) When the Firm is Sold .
- (v) When the Firm is Amalgamated with Another Firm .

Valuation of Goodwill can be done by the following THREE Methods :

- (i) Average Profit Method
- (ii) Super Profit Method
- (iii) Capitalization Method

Disclaimer Clause :

These Solutions are prepared by the Expert Faculty Team of RESONANCE .

Views and Answers provided may differ from ASSAM BOARD due to difference in assumptions taken in support of the answers.

In such case answers as provided by "ASSAM BOARD" will be deemed as final.