Subject Code : 349 | Question Paper Set Code : A
विषय कोड़ : 349 | प्रश्न पत्र सेट कोड़ : A

2019

BOOK KEEPING AND ACCOUNTANCY

बहीखाता तथा लेखाशास्त्र

Time : 3 Hours 15 Minutes (समय : 3 घन्टे 15 मिनट) **Full Marks (पूर्णांक) : 100**

Instructions for the Candidates :
परीक्षार्थियों के लिये निर्देश

1. First 15 Minutes are Allotted for the Candidates to Read the Paper .
प्रारम्भ के 15 मिनट परीक्षार्थियों को प्रश्नपत्र पढ़ने के लिये निर्धारित है।

2. All Questions are Compulsory .
सभी प्रश्न अनिवार्य है।

3. (i) Question Nos. 1 to 10 are Multiple Choice Type Questions , of 1 Mark each .
प्रश्न संख्या 1 से 10 तक बहुविकल्पीय प्रश्न है। प्रत्येक प्रश्न 1 अंक का है।

(ii) Question Nos. 11 to 20 are Very Short Answer Questions, of 2 Marks each . Each Question to be answered Within 30 Words.
प्रश्न संख्या 11 से 20 तक अति लघु उत्तरीय प्रश्न है। प्रत्येक प्रश्न 2 अंक का है जिनके उत्तर लगभग 30 शब्दों में लिखना है।

(iii) Question Nos. 21 to 26 are Short Answer Questions , of 5 Marks each . Each Question to be answered Within 100 Words.
प्रश्न संख्या 21 से 26 तक लघु उत्तरीय प्रश्न है। प्रत्येक प्रश्न 5 अंक का है जिनके उत्तर लगभग 100 शब्दों में लिखना है।

(iv) Question Nos. 27 to 30 are Long Answer Questions , of 10 Marks each . Each Question is to be Solved .
प्रश्न संख्या 27 से 30 तक विस्तत उत्तरीय प्रश्न है। प्रत्येक प्रश्न 10 अंक का है जिन्हें हल करना है।

MULTIPLE CHOICE QUESTIONS

Select the correct answers and write them in your answer book:

Q.1. When Interest is Allowed on the Capital of the Partners, it is generally Calculated on :

(A) Average Capital (B) Opening Capital

(C) Closing Capital (D) None of these

Sol. (B)

Q.2. In the absence of any agreement profit is divided among partners

(A) in the ratio of their contribution to the capital of the firm

(B) in the ratio of time devoted by them to business

(C) in the ratio of sales by each partner

(D) in equal ratio.

Sol. (D)

Q.3. Partnership Act was implemented in

(A) 1932 (B) 1956 (C) 1947 (D) 1952

Sol. (A)

Q.4. According to Garner v/s Murrey deficiency of capital of any insolvent partner is divided.

(A) in the ratio of profit &loss (B) in capital ratio

(C) in the ratio of pre-distribution capital (D) None of these

Sol. (B)

Q.5. Discount on issue of debentures is shown in

(A) Asset side of Balance sheet (B) Liability side of Balance sheet

(C) Debit side of Profit and Loss account (D) Credit side of Profit and Loss account

Sol. (A)

Q.6. The balance of share forfeited account is transferred to

(A) Share capital account (B) Reserve capital account

(C) Shareholder's account (D) General Reserve account

Sol. (C)

Q.7. Premium on issue of shares is transferred to

(A) Profit & Loss A/c (B) Reserve Capital Account

(C) Contingent Reserve A/c (D) None of these

Sol. (D)

Q.8. Under which method of depreciation the amount of asset is never reduced to zero ?

(A) Straight line method (B) Annuity method

(C) Sum of years digit method (D) Diminishing Balance method

Sol. (D)

Q.9. The credit balance in the income and expenditure account indicates

(A) excess of cash receipts over cash payments

(B) excess of income over income

(C) excess of expenditure over income

(D) excess of cash payments over cash receipts

Sol. (B)

Q.10. The liquidity level of any firm is properly disclosed by

(A) Current ratio (B) Receivable to turnover ratio

(C) Quick ratio (D) Inventory to turnover ratio

Sol. (C)

VERY SHORT ANSWER TYPE QUESTIONS

Q.11. What do you mean by Partnership Deed ?

Sol. Partnership Deed : 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 or written. The law does not make it compulsory to have a written agreement. However, in order to avoid all misunderstandings 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 agreement is called 'Partnership Deed'.

Q.12. What is Sacrificing Ratio ?

Sol. **Sacrificing Ratio:** Whenever there is a change in the profit sharing ratio, one or more of the existing partners have to surrender some of their old share in favor of one or more of other partners. The ratio of surrender of profit sharing ratio is called sacrificing ratio. It is calculated as follows:

Sacrificing Ratio = Old Ratio – New Ratio

Q.13. What is meant by Variable Capital Account ?

Sol. **Variable (Fluctuating) Capital Accounts :** When the capitals need not be fixed, the balance of capital accounts go on changing from time to time. The reason is that no separate Current Accounts are maintained, but all the entries relating to drawings, interest on capitals, interest on drawings, salary to partner, share of profit or loss etc., are recorded in the capital accounts itself.

Q.14. What do you understand by Calls in Arrear on Shares ?

Sol. If shareholders fail to make the payment of allotment or Calls on due date , it is known as Calls-in-Arrears . The company charges interest on calls in arrears at a specified rate mentioned in the Articles of Association . If the articles of the company are silent about the interest rate , Table-F shall follow and interest shall be charged @ 10 % Per Annum .

Q.15. What is meant by Debentures ?

Sol. A Debenture is an instrument issued by a company under its common seal as acknowledgement of a Debt. It contains Face Value of Debentures, Rate of Interest, Mode of Interest Payment , Tenure and Terms of Redemption.

Q.16. What are the Objectives of Ratio Analysis ?

Sol.

I. To locate the weak spots of business which need more attention.

II. To provide deeper analysis of the liquidity, solvency, activity and profitability of the business.

III. To provide information for making cross-sectional analysis, i.e., for making comparison with that of some selected firms in the same industry.

IV. To provide information for making time-series analysis i.e., for making comparision of a firm's present ratios with its past ratios.

V. To provide information useful for making estimates and preparing the plans for the future.

Q.17. What is Capital Profit ?

Sol. Capital Profit are those profits which are not earned in the normal course of the business. These reserves cannot be utilized for the distribution of dividends. Following are the items that give rise to Capital Profits .

(i) Profit on Sale of Fixed Assets

(ii) Profit on Revaluation of Fixed Assets

(iii) Premium on Issue of Shares and Debentures

(iv) Profit Earned by a Company Prior to its Incorporation

(v) Profit on Forfeiture and Re-issue of Shares

Q.18. What is meant by Preference Share ?

Sol. Preference share are the shares that carry the following two rights.

(i) They have a Right to Receive Dividend at a Fixed Rate before any Dividend is Paid on the Equity Shares .

(ii) 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.19. Define Current Asset.

Sol. Current assets are the assets which are likely to be converted into cash or cash equivalents within 12 months from the date of Balance Sheet or within the period of operating cycle.

Current Assets include the following assets:

(i) Current Investment

(ii) Inventories (Excluding Loose Tools, Stores and Spares)

(iii) Trade Receivables (Bills Receivables and Sundry Debtors less provision for doubtful debts)

(iv) Cash and Cash Equivalents (Cash in hand, Cash at Bank, Cheques / Drafts in hand etc.)

(v) Short Term Loans in Advance .

Q.20. What do you mean by Forfeiture of Shares ?

Sol. It means cancellation of shares for non-payment of allotment or calls due and seizure of the amount received from the defaulting shareholders, whose shares have been forfeited. Upon forfeiture, the name of original shareholder must be removed from the register of members. Articles of Association must empower the Company to forfeit the shares.

On forfeiture, the shares are cancelled and to that extent, share capital is reduced. The amount paid to that date is not refund him (them), it is forfeited and the unpaid call shown as calls-in-arrears, is also cancelled by passing a reverse entry.

SHORT ANSWER TYPE QUESTION

Q.21. What Rules of Partnership Apply in the Absence of Partnership Deed ?

Sol. Where there is neither partnership deed nor express agreement or partnership deed is there but it is silent on any matter, then the relevant provisions of The Indian Partnership Act, 1932, would be applicable.

Some of the provisions of the Act which have a direct bearing on the accounting treatment of the following items are as follows :

1. Salary/Commission to	- No remuneration for taking part in the conduct of business is to be allowed to any partner.
2. Sharing of Profits & Losses	- Profits & Losses are to be shared equally.
3. Interest on Capital	- No Interest is to be allowed on Capital. If the agreement provides for interest on capital, such Interest is payable only out of available profits.
4. Interest on Advances/ Loans by a partner	- Interest @ 6% p.a. is to be allowed on Advances/ Loans. Such interest is payable even if there are losses.
5. Interest on Drawings	- No Interest is to be charged on Drawings.

Q.22. How is the Amount Payable to the Executors of Deceased Partner calculated ?

Sol. **The executors of the deceased partners are entitled to receive the following payment, which should be credited to the Capital Account :**

- Amount standing to the credit side of the deceased partner's capital account.
- Amount standing to the credit side of the deceased partner's current account.

- His share of profit from the beginning of the current year to the date of death.
- His share of profit on revaluation of assets and liabilities.
- His share of undistributed profits and reserves or accumulated earnings.
- His share of goodwill.
- The amount of his salary,
- Interest on his capital account at the agreed rate, if agreement provides.

The following amounts are charged from the capital account of the deceased partner, as such they are debited to his capital account.

- Amount withdrawn by the deceased partner from the beginning of the current year to the date of death.
- Interest on his drawing at the agreed rate, if provided in the agreement.
- Share of profit or loss on revaluation of assets and liabilities.
- His share in the loss of the business, if any.
- His share in Goodwill (When Closed) .

Q.23. What is Security Premium ? State its uses.

Sol. When Shares are issued at a value that is higher than the face value of the shares , the shares are said to have been Issued at Premium, i.e. Issue Price is more than Face Value .

The Companies Act , 2013 requires that the amount of the Premium received should be Credited to Securities Premium Reserve Account . Securities Premium Reserve is a Capital Receipt .

Utilisation of Securities Premium Reserve

Under Section 52 (2) of the Companies Act , 2013 , the amount of Securities Premium Reserve may be used only for the following purposes :

– In Writing-off the Preliminary Expenses of the Company .

– For Writing-Off the Expenses, Commission or Discount Allowed on Issue of Debentures of the Company .

– For Issuing Fully Paid Bonus Shares to the Shareholders of the Company

– For providing for the Premium Payable on Redemption of Redeemable Preference Shares or Debentures of the Company .

Q.24. Explain Debenture Redemption Fund .

Sol. Debenture Redemption Fund is the amount set aside out of surplus, i.e. balance in statement of profit and loss for Redeeming the Debentures . Section 71(4) of the Companies Act, 2013, requires the Company to create debenture redemption reserve out of the profits available for payment of dividend and the amount so credited to DRR shall not be utilised by the Company except for the redemption of debentures. DRR is required to be created for Non-convertible Debentures (NCD) and non-convertible part of Partly Convertible Debentures (PCD) . Following Companies are required to create DRR of an amount equal to 25 % of the Value of Debentures .

(i) Non-Banking Financial Companies (NBFCs) registered with RBI.

(ii) Financial Institutions (other than All India Financial Institutions regulated by RBI).

(vi) Housing Finance Companies registered with National Housing Bank. DRR is not required for privately placed debenture by the above three classes companies.

On Creation of Debenture Redemption Reserve

Surplus i.e. Balance in Statement of Profit and Loss Dr
To Debenture Redemption Reserve A/c

Q.25. Differentiate between : Shares and Debentures .

Sol.

S. No.	Basis of Distinction	Share	Debenture
1.	**Capital vs Loan**	A share is a part of the Capital of the Company, therefore, the shareholders are the owners of the Company.	A debenture is a part of the loan and as such, the debenture holders are the creditors of the Company.
2.	**Dividend vs Interest**	A shareholder gets dividend from the Company,	A debenture holder gets interest from the Company.
3.	**Fluctuating or Fixed rate of** dividend **or interest**	Dividend is paid only when there are profits. The rate of dividend may fluctuate from year to year depending upon the profits and decision of the directors.	The rate of interest is fixed and it must be paid irrespective of the Company making a profit or incurring a loss.
4.	**Voluntary or compulsory redemption**	It is at the option of the Company to return the amount of shares by buying back its own shares.	The amount of debentures must be returned according to the terms of the issue.
5.	**Priority of repayment of principal in case of winding up**	In the case of winding up, the payment of share capital is made after the repayment of debentures.	In the case of winding up, the payment of debentures is made before the payment of share capital.

Q.26. What do you mean by Current Ratio ? Explain with suitable examples.

Sol. This Ratio explains the relationship between Current Assets and Current Liabilities of a Business . Formula for Calculating the Ratio is :

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

The Ratio is used to Access the Firm's Ability to meet its Short Term Liabilities on Time . According to Accounting Principles , a Current Ratio of 2 : 1 is supposed to be an Ideal Ratio .

Example :

Total Assets ₹ 8,00,000 ; Non-Current Assets ₹ 1,80,000 ;

Capital Employed ₹ 6,30,000 .

Calculate Current Ratio .

Sol.

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

$$\text{Current Assets} = \text{Total Assets} - \text{Non-Current Assets}$$

$$= ₹\ 8,10,000 - ₹\ 1,80,000 = ₹\ 6,30,000$$

$$\text{Current Liabilities} = \text{Total Assets} - \text{Capital Employed}$$

$$= ₹\ 8,10,000 - ₹\ 6,30,000 = ₹\ 1,80,000$$

$$\text{Current Ratio} = \frac{₹\ 6,30,000}{₹\ 1,80,000} = 3.5 : 1$$

LONG ANSWER TYPE QUESTION

Q.27. Partner's Balance Sheet as on 31st December, 2018 was as follows:

Liabilities		Amount (₹)	Assets	Amount (₹)
Bills payable		3,300	Cash	600
Creditors		6,000	Debtors	10,800
Capital			Stock	11,400
Ashu	16,800		Furniture	2,400
Neeraj	12,600		Building	19,500
Vivek	6,000	35,400		
		44,700		**44,700**

Ashu, Neeraj and Vivek share Profit and Loss in equal ratio. On 31st December, 2018 they admitted Suneel in partnership on the following conditions:

(i) Suneel brings Rs. 9,000 for goodwill and Rs. 15,000 for capital.

(ii) Half of the amount of goodwill is withdrawn by old partners.

(iii) Value of stock and furniture is reduced by 10%.

(iv) Reserve is to be made @ 5% for doubtful debts on debtors.

(v) Building was revalued at ₹ 27,000

Prepare Profit and Loss Adjustment Account and Balance Sheet of the new firm from the above information.

OR

What do you mean by Dissolution of Partnership Firm ? Differentiate between Dissolution of Partnership and Dissolution of Partnership Firm .

Sol. **Revaluation A/c (P & L Adjustment A/c)**

Dr.			**Cr.**
Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To stock A/c	1,140	By Building A/c	7,500
To Furniture A/c	240		
To P.B.D.	540		
To Partner's Capital A/c			
Anshu's 1860			
Neeraj 1860			
Vivek 1860	5580		
(Profit distribute in Equal Ratio)			
	7,500		**7,500**

Partner's Capital A/c

Dr.				
	Ashu	**Neeraj**	**Vivek**	**Suneel**
To Cash A/c	1,500	1500	1,500	-
To Balance c/d	20,160	15,960	9,360	15,000
	21,660	**17,460**	**10,860**	**15,000**

Cr.				
	Ashu	**Neeraj**	**Vivek**	**Suneel**
By Balance b/d.	16,800	12,600	6,500	—
By Cash A/c.	—	—	—	15,000
By Premium for Goodwill	3,000	3,000	3,000	—
By Revaluation A/c. (Profit)	1,860	1,860	1,860	—
	21,660	**17,460**	**10,860**	**15,000**

Balance Sheet

As at 31st Dec. 2018

Liabilities	Amount (₹)	Assets	Amount (₹)
Bills Payable	3,300	Cash in hand	20,100
Creditor	6,000	Debtor 10,800	
Partner's Capital		Less: P.B.D. 540	10,260
Ashu 20,160		Stock (11,400 – 1,140)	10,260
Neeraj 15,960		Furniture (2,400 - 240)	2,160
Vivek 9,360		Building	27,000
Suneel 15,000	60,480		
	69,780		**69,780**

Working Note:

Cash Account

To Balance b/d	600	By Ashu's capital	1,500
To Suneel Capital A/c	15,000	By Neeraj Capital's	1,500
To Pre. For Goodwill	9,000	By Vivek Capital's	1,500
		By Balance c/d	20,100
	24,600		**24, 600**

OR

Dissolution means Discontinuance of Existing relationship among the Partners. According to Section 39 of the Indian Partnership Act, 1932, "Dissolution of the firm means dissolution of partnership among all the partners in the firm." Dissolution of the firm means that the business is discontinued and the firm is wound up, i.e., dissolved. When the firm is dissolved, all assets are realized and liabilities are paid. The balance is paid to the partners in settlement of their Accounts .

DISTINCTION BETWEEN

DISSOLUTION OF PARTNERSHIP AND PARTNERSHIP FIRM

Bases of Difference	Dissolution of Partnership	Dissolution of Firm
Meaning	Dissolution of partnership is only a change in the partnership agreement. The firm may continue.	Dissolution of the firm is the discontinuance of all the business activities of firm.
Books of Accounts	In this situation, books of accounts may not be closed.	Books of accounts are necessarily closed.
Dissolution	Dissolution of partnership does not mean dissolution of firm. The firm may not be discontinued.	Dissolution of the firm is necessarily in case of the dissolution of partnership.
Nature	Dissolution of the partnership is voluntary. It emerges out of the agreement.	Dissolution of the firm may be both voluntary and compulsory
Assets and Liabilities	Assets and Liabilities are Revalued and New Balance Sheet is Drawn .	Assets are Sold and Realized and Liabilities are Paid Off .

Implication	It does not Imply Dissolution of the Firm .	It Implies Dissolution of the Partnership and the Firm.

Q.28. Jaishree Ltd. issued 30,000 equity shares of ₹ 100 each. Amount payable on shares was as follows : On application ₹ 2 per share, on allotment Rs. 3 per share, on First call ₹ 2 per share and on Second and Final call ₹ 3 per share. Ashok who has 1000 shares paid his second and final call in advance paid his second and final call in advance with the first call.

6% interest was payable on calls in advance. All calls were made and amounts were duly received. Interest was paid to shareholders. Pass the necessary Journal entries in the books of company.

OR

Describe various kinds of Preference Shares .. How are Preference Share Redeemed ?

Sol. 30,000 equity share @ ₹ 10 each

App	₹ 2
Allotment	₹ 3
First call	₹ 2
Second & Final call	₹ 3
	₹ 10

Calls in advance received with first call

10,100 × 3 = ₹ 3000

Interest = 3,000 @ 6% = ₹ 180

Journal of Jaishree Ltd.

Date	Particular		Dr.	Cr.
	Bank A/c	Dr.	60,000	
	To Equity share application			60,000
	Equity share application A/c	Dr.	60,000	
	To Eequity share capital A/c			60,000
	Equity share allotment A/c	Dr.	90,000	
	To Equity share capital A/c			90,000
	Bank A/c		90,000	
	To Equity share allotment A/c			90,000
	Equity share First call A/c	Dr.	60,000	
	To Equity share capital A/c			60,000
	Bank A/c	Dr.	63,000	
	To Equity share First Call A/c			60,000
	To calls in advance A/c			3,000
	Equity share second & final call A/c	Dr.	90,000	
	To Equity share capital A/c			90,000
	Bank A/c	Dr.	87,000	
	Calls in advance A/c	Dr.	3,000	
	To Equity Share second & Final Calls A/c			90,000
	Amount on calls in advance A/c	Dr.	180	
	To Bank A/c			180
	Total		**603,180**	**603,180**

OR

Preference Shares are Classified into FOUR Categories :

(i) On the Basis of Payment of Dividend :

Cumulative Preference Shares : If there are No Profits in one year and the Arrears of Dividends are to be Carried Forward and Paid Out of the Profits of Subsequent years , the Preference Shar is said to be Cumulative .

Non-Cumulative Preference Shares : If Unpaid Dividend Lapses , the Share is said to be Non-Cumulative Preference Share .

(ii) On the Basis of Convertibility :

Convertible Preference Shares : These Shares give the Right to the Holder to get them Converted into Equity Shares at their Option according to the Terms and Conditions of their Issue .

Non-Convertible Preference Shares : When the Holder of a Preference Share has Not been Conferred , Right to get His Holding Converted into Equity Shares .

(iii)

(iv) On the Basis of Redemption :

Redeemable Preference Shares : When Shares , Repaid after some Specified Time in accordance with the terms of Issue , they are called Redeemable Preference Shares .

Irredeemable Preference Shares : These are those Preference Shares , the Amount of which can be Returned by the Company to the Holders of such Shares when the Company is Wound Up

(v) On the Basis of Participation in Profits :

Participating Preference Shares : When Preference Shareholder Enjoys the Right to Participate in the Surplus Profits .

Non-Participating Preference Shares : When a Preference Shareholder Receives only a Fixed Rate of Dividend Every Year and Do Not Enjoy the Additional Participation in the Surplus Profits .

The Preference Shares can be Redeemed by the following method , according to the Provision of Section 55 of the Companies Act , 2013 .

(i) Redemption Out of Profits :

When Company is Redeeming the Preference Shares Out of Profits which are Otherwise Available for Distribution of Dividend the Accounting Entries will be as follows :

(**a**) Transfer to Capital Redemption Reserve Account :

General Reserve / P & L A/c. / Other Revenue Profit A/c. Dr.

To Capital Redemption Reserve A/c.

(Being amount equal to Nominal Value of Pref. Share Capital Transferred to Capital Redemption Reserve Account according To Section 55 of the Companies Act , 2013)

(b) Securities Premium / General Reserve / P & L A/c. Dr.

To Premium on Redemption of Preference Shares A/c.

(Being Premium on Redemption of Preference Shares Written Off)

(c) On Redemption of Preference Shares :

Preference Share Capital A/c. Dr.

Premium on Redemption of Preference Shares A/c. Dr.

To Preference Shareholders A/c.

(Being Amount Due on Redemption of Preference Shares)

(d) On Payment to Preference Shareholders :

Preference Share Holders A/c. Dr.

To Bank A/c.

(Being Payment made to Pref. Shareholders in Redemption)

(ii) Redemption Out of Process of Fresh Issue :

When a Company is interested to Redeem the Preference Shares out of Proceed of Fresh Issue the above all entries mentioned in **(i)** will be passed except amount transferred to Capital Redemption Reserve Account . In addition the entries for Fresh Issue of Shares will be Passed .

Following Entries for the Issue of New Shares will be Passed :

Bank A/c. Dr.

To Shares Application A/c.

(Being Application Money Received on Shares)

Shares Application A/c. Dr.

To Share Capital A/c.

To Security Premium Reserve A/c.

(Being Amount transferred to Share Capital Account on Allotment)

(iii) Redemption Out of Profits available for Dividend and Proceeds of New Issue of Shares :

When the Company is interested to Redeem the Preference Shares out of Proceeds of Fresh Shares and Profits available for Dividend , the Accounting will be same as above **(i)** and **(ii)** . Here the initial of the Amount Transferred to Capital Redemption Reserve and Process of Fresh Issue , Excluding Securities Premium should Not be Less than by the Nominal Value of Transferrable Preference Shares .

(iv) Redemption by Conversion of Shares :

Company can Convert the Preference Shares into Equity Shares or New Preference Shares if Articles Permit . In this method of Redemption first of all Number of Shares to be Issued will be Calculated by Dividing the Amount Payable to Preference Shareholders by the Issue Price of Shares or Debentures to be Issued on Conversion , then following entries will be passed :

(a)

Preference Share Capital A/c. Dr.
Premium on Redemption A/c. Dr.
  To Preference Shareholders A/c.
(Being Amount Due on Redemption of Preference Shares)

(b)

Preference Share Holders A/c. Dr.
  To Equity Share Capital A/c.
  To Preference Share (New) Capital A/c.
  To Security Premium Reserve A/c.
(Being Preference Shares Converted to Securities Premium Reserve)

Q.29. On 1st October, 2016 Lata Transport Company purchased a truck for ₹ 4,00,000. On 1st April, 2018 this truck was involved in a accident and was completely destroyed ₹ 3,00,000 was received from the insurance company in full settlement. On the same date another truck was purchased by the company for ₹ 5,00,000. The company writes off 20% depreciation per annum on Diminishing Balance Method. Prepare Trucks Accounts from 2016 to 2018. The accounts are closed on 31st December each year.

OR

What do you mean by Ratio Analysis ? Describe the different methods of Ratio analysis .

Sol. Diminishing Balance method

Rate of Depreciation = 20% p.a.

Accounts closed = 31 Dec. 2018

Calculation of Profit/Loss on Truck

W.D.V on 1 Jan, 2018	3,04,000
Less: Dep. (Three months)	15,200
	2,88,800

Received from Insurance Co.	3,00,000
Less: W.D.V.	2,88,800

Profit on Truck Settlement of

Dr.			Truck A/c		Cr.
Date	**Particulars**	**Amount (₹)**	**Date**	**Particulars**	**Amount (₹)**
2016 Oct, 1	To Bank A/c	4,00,000	2016 Dec, 31	By Dep. A/c $4,00,000 \times \frac{20}{100} \times \frac{3}{12}$	20,000
			2016 Dec, 31	By Balance c/d	3,80,000
		4,00,000			**4,00,000**
2017 Jan, 1	To Balance b/d	3,80,000	2017 Dec, 31	By Depreciation A/c 3,80,000@20%	76,000
			2017 Dec, 31	By Balance c/d	3,04,000
		3,80,000			**3,80,000**
2018 Jan, 1	To Balance b/d (i) 3,04,000	3,04,000	2018 April, 1	By Bank (Ins. Co.)	3,00,000
2018 April, 1	To Bank A/c (ii)	5,00,000		By Dep. A/c (i) $3,04,000 \times \frac{20}{100} \times \frac{3}{12}$	15,200
2018 Dec.31	To Profit & Loss A/c (profit)	11,200	2018 Dec., 31	By Dep., (ii) $5,00,000 \times \frac{20}{100} \times \frac{9}{12}$	75,000
			2018 Dec., 31	By Balance c/d	4,25,000
		8,15,200			**8,15,200**

OR

Accounting Ratio : A Ratio is simply one number expressed in relation to another and a study of the relationship between various items or groups of items is known as **"Ratio Analysis"** . It simplifies and summarizes a Long Array of Accounting Data to provide Useful Information regarding the Liquidity , Solvency , Profitability etc.

Methods or Classification of Ratio Analysis :

(i) **Liquidity Ratio** : "Liquidity" refers to the Ability of the Firm to meet its Current Liabilities . The Liquidity Ratios therefore are also called "Short Term Solvency Ratios" . These Ratios are used to Assess the Short Term Financial Position of the Concern . They indicate the Firm's Ability to meet its Current Obligations out of Current Resources .

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

$$\textbf{Quick Ratio or Acid Test Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

Liquid Assets = Current Assets – (Inventory + Prepaid Expenses)

(ii) Solvency Ratio : These Ratios are Calculated to Assess the Ability of the Firm to meet its Long Term Liabilities As and When they become Due . These Ratios Reveal as to How much amount in a Business has been Invested by Proprietors and How much amount has been Raised from Outside Sources . Solvency Ratios Disclose the Firm's Ability to meet the Interest Costs Regularly and Long Term Indebtedness at Maturity .

$$\textbf{Debt Equity Ratio} = \frac{\text{Debt}}{\text{Equity}} \text{ or } \frac{\text{Long Term Debts}}{\text{Shareholder's Funds or Net Worth}}$$

$$\textbf{Total Assets to Debt Ratio} = \frac{\text{Total Assets}}{\text{Debt}} \text{ or } \frac{\text{Total Assets}}{\text{Long Term Debts}}$$

$$\textbf{Proprietory Ratio} = \frac{\text{Equity}}{\text{Total Assets}} \text{ or } \frac{\text{Shareholder's Funds}}{\text{Total Assets}}$$

$$\textbf{Interest Coverage Ratio} = \frac{\text{Profit Before Charging Interest and Income Tax}}{\text{Fixed Interest Charges}}$$

(iii) Activity Ratio : These Ratios are calculated on the basis of "Cost of Revenue from Operations" or "Revenue from Operations" , therefore these Ratios are also called as "Turnover Ratios" . Turnover indicates the Speed or Number of Times the Capital Employed has been Rotated in the Process of doing Business .

$$\textbf{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}} = \underline{\qquad} \text{ Times}$$

Trade Receivables Turnover Ratio

$$= \frac{\text{Net Credit Revenue from Operations}}{\text{Average Trade Receivables}} = \underline{\qquad} \text{ Times}$$

$$\textbf{Trade Payable Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Trade Payables}} = \underline{\qquad} \text{ Times}$$

$$\textbf{Working Capital Turnover Ratio} = \frac{\text{Net Revenue from Operations}}{\text{Working Capital}} = \underline{\qquad} \text{ Times}$$

Working Capital = Current Assets – Current Liabilities

(iv) Profitability Ratios or Income Ratios : The main object of all the Business Concers is to Earn Profit . Profit is the Measurement of the Efficiency of the Business. Profitability Ratios measures the various aspects of the Profitability of a Company such as : "What is the Rate of Profit on Revenue from Operations" ; "Whether the Profits are Increasing or Decreasing .

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

Operating Ratio = $\frac{\text{Cost of Revenue from Operations + Operating Expenses}}{\text{Net Revenue from Operations}} \times 100$

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

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

Return on Investments = $\frac{\text{Net Profit Before Interest , Tax and Dividends}}{\text{Capital Employed}} \times 100$

Q.30. Trial Balance of Rotary Club on 31st March, 2018 is as follows:

Particulars	Amount (₹)	Particulars	Amount (₹)
Furniture	2,500	Sale of tickets	3,234
Almirah	1,250	Membership fees	10,560
Printing & Stationary	734	Entrance Fees	448
Office expenses	333	Sundry income	1,743
Salary	2,262	Creditors	2,600
Cash in hand	174	Last year Balance	4,000
Cash at Bank	4,800	(Excess of income	
Rent	3,194	over expenditure)	
Electric Charges	1,618		
Meeting Expenses	2,190		
Sundry Expenses	1,600		
Audit fees	760		
Debtors	1,170		
	22,585		**22,585**

Adjustments:

(i) Provide for depreciation @ 10% on furniture and 20% on almirah.

(ii) Rs. 250 of membership fees was outstanding on 31st March, 2018.

Prepare income and Expenditure Account and Balance Sheet for the year ending on 31st March, 2018.

OR

What are meant by Cum-interest and Ex-interest at the Time of Purchase and Sales of Investments ? Explain with illustrations.

Sol. **Income & expenditure A/c**

For the year ended 31st march, 2018.

Expenditure	Amount (₹)	Income	Amount (₹)
To Depreciation		By sell of tickets	3,234
Furniture A/c 250		By membership	
Almirah <u>125</u>	375	Fees 10,560	
To Printing & Stationary	734	Add: o/s <u>250</u>	10,810
To Office Exp.	333		
To Salary	2262	By Entrance Fees	448
To Rent	3194	By Sundry income	1743
To Electric charge	1618		
To Meeting Exp.	2190		
To Sundry Exp.	1600		
To Audit Fee	760		
To Surplus			
(Excess income over expenditure)	3169		
	16,235		**16,235**

Balance Sheet

As at 31st march, 2018.

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	2,600	Cash in hand	174
Capital Fund 4,000		Cash at Bank	4800
Add : Surplus <u>3169</u>	7,169	Debtors	1170
		O/s membership fees	250
		Furniture	2250
		Almirah	1125
	9,769		**9,769**

OR

Sol.

The Price of Interest Earning Securities in Stock / Share Market is Quoted by Two ways :

(i) **Cum-Interest Price :** Cum-Interest Price Quotation Denotes that the Accrued Interest from the Preceding Interest Due Date to the Date of Transaction is included in the Quoted Cum-Interest Price . **Example :**

Anand Purchased 8 % , 200 Government Securities of ₹ 100 each at ₹ 103 Cum-Interest Price on 1st June , 2016 , the Interest on which is Payable on 1st April and 1st October every year . In this example , Cum-Interest Price of ₹ 103 means that the Accrued Interest for Two Months from 1^{st} April , 2016 to 1^{st} June , 2016 is included in this Price .

Anand (Purchaser) is to Pay 200 x ₹ 103 = ₹ 20,600 to Purchase 200 , 8 % Government Securities . The Computed Cum-Interest Price ₹ 20,600 represents Partly towards Cost of Security (₹ 20,333) and Partly for Two Months Accrued Interest thereon (₹ 267) . It should be remembered that the Interest for Full 6 Months will be Received by the Purchaser on the Next Due Date of Interest i.e. on 1^{st} October , 2016 .

(ii) **Ex-Interest Price :** Ex-Interest Price indicates that the Accrued Interest from the Preceding Date of Interest Due to the Date of Transaction is Excluded (Not Included) in the Quoted Ex-Interest Price . In such a case , the Purchaser will have to Pay this much Amount of Accrued Interest in Addition to the Quoted Ex-Interest Price . Example :

Prateek Purchased 400 , 8 % Government Securities of ₹ 100 each @ ₹ 102 Ex-Interest Price on 1^{st} September , 2016 . The Interest on these Securities is Payable by Government on 1^{st} April and 1^{st} October . In this example , Ex-Interest Price means that the Accrued Interest for Five Months (From 1^{st} April , 2016 to 1^{st} September , 2016) is NOT Included in the Quoted Price and therefore Prateek will have to Pay Accrued Interest for these Five Months also . On the Next Interest Due Date (i.e. On 1^{st} October , 2016) the Purchaser will Received Interest for Full Period of Six Months on these Securities .

That is why He is Required to Pay (400 x ₹ 102 = ₹ 40,800) PLUS 5 Months Accrued Interest i.e. ₹ $\left(\frac{40{,}000 \times 8 \times 5}{100 \times 12}\right)$ = ₹ 1,333 to the Seller .

Thus for Purchase of 200 Government Securities Quoted at Ex-Interest Price , the Purchaser will be required to make Payment of (₹ 40,800 + ₹ 1,333) = ₹ 42,133 to the Seller .

Note :

If the Purchase and Sale of Securities are made on the Due Date of Interest Itself , the Market Price is Considered to be the Actual Cost of Purchase or Sale of the Security and No Accrued Interest is Included or Excluded in the Quoted Price .