Solved Paper 2017

ACCOUNTANCY

Time : 3 Hours **Class-XII** **Max. Marks : 80**

General Instructions :

(i) This question paper contains two parts A and B.

(ii) All parts of a question should be attempted at one place.

Delhi Set I **Code No. 67/1/1**

PART-A
(Accounting for Partnership Firms and Companies)

1. Does partnership firm has a separate legal entity ? Give reason in support of your answer. **1**

Ans. No

Reason: As per law, the partners and partnership firm have no separate legal entities.

2. A and B were partners in a firm sharing profits and losses in the ratio of 4 : 3. They admitted C as a new partner. The new profit sharing ratio between A, B and C was 3 : 2 : 2. A surrendered 1/4 of his share in favour of C. Calculate B's sacrifice. **1**

Ans. A's Old Share = 4/7

A's Sacrifice = 1/4 of 4/7 = 1/7

C's Share = 2/7

B's Sacrifice = C's Share – A's Sacrifice = 2/7 – 1/7 = 1/7

OR

B's Sacrifice = B's Old Share – B's New Share = 3/7 – 2/7 = 1/7

3. P and Q were partners in a firm sharing profits equally. Their fixed capitals were ₹ 1,00,000 and ₹ 50,000, respectively. The partnership deed provided for interest on capital at the rate of 10% per annum. For the year ended 31st March 2016 the profits of the firm were distributed without providing interest on capital.

Pass necessary adjustment entry to rectify the error. **1**

Ans.

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
2016 Apr. 1	Q's Current A/c Dr. To P's Current A/c (Being the adjustment of interest on capital omitted in previous year)		2,500	2,500

[CBSE Marking Scheme 2017] 1

4. **X Ltd. invited applications for issuing 1,000, 9% debentures of ₹ 100 each at a discount of 6%. Applications for 1,200 debentures were received. Pro-rata allotment was made to all the applicants.**

Pass necessary Journal Entries for the issue of debentures assuming that the whole amount was payable with applications. **1**

Ans. **Books of the Firm**

Journal Entries

Date	Particulars		L. F.	Debit Amount (₹)	Credit Amount (₹)
2016					
Jan. 1	Bank A/c	Dr.		1,12,800	
	To Debenture Application and Allotment A/c				1,12,800
	(Being application money received for 1,200 debentures @ ₹ 94 each)				
	9% Debenture Application and Allotment A/c	Dr.		1,12,800	
	Discount on Issue of Debentures A/c	Dr.		6,000	1,00,000
	To 9 % Debentures A/c				18,800
	To Bank A/c				
	(Being 1,000, 9% debentures allotted on pro-rata basis)				

5. **Y Ltd. forfeited 100 equity shares of ₹ 10 each for the non-payment of first call of ₹ 2 per share. The final call of ₹ 2 per share was yet to be made.**

   Calculate the maximum amount of discount at which these shares can be re-issued. **1**

Ans. The maximum amount of discount at which these shares can be re-issued is ₹ 6 per share or ₹ 600.

6. **Gupta and Sharma were partners in a firm. They wanted to admit two more members in the firm. List the categories of individuals other than minors who cannot be admitted by them.** **1**

Ans. Any two of the following:

(i) Persons of unsound mind/lunatic person

(ii) Insolvent persons

(iii) Any other person who has been disqualified by law

* 7. **Jain Motors Ltd. converted its 200, 8% debentures of ₹ 100 each issued at a discount of 6% into equity shares of ₹ 10 each, issued at a premium of 25%. Discount on issue of 8% debentures has not yet been written off.**

   Showing you working notes clearly pass necessary Journal Entries on conversion of 8% debentures into equity shares. **3**

8. **Amar, Ram, Mohan and Sohan were partners in a firm sharing profits in the ratio of 2 : 2 : 2 : 1. On 31st January, 2017 Sohan retired. On Sohan's retirement the goodwill of the firm was valued at ₹ 70,000. The new profit sharing ratio between Amar, Ram and Mohan was agreed as 5 : 1 : 1.**

   Showing your working notes clearly, pass necessary Journal Entry for the treatment of goodwill in the books of the firm on Sohan's retirement. **3**

Ans. **Books of the firm**

Journal Entries

Date	Particulars		L. F.	Debit Amount (₹)	Credit Amount (₹)
2017					
Jan. 1	Amar's Capital A/c	Dr.		30,000	
	To Ram's Capital A/c				10,000
	To Mohan's Capital A/c				10,000
	To Sohan's Capital A/c				10,000
	(Being adjustment of goodwill on Sohan's retirement)				

Working Notes:

1. Calculation of Gaining Ratio:

	Amar	Ram	Mohan	Sohan
New Ratio	$\frac{5}{7}$	$\frac{1}{7}$	$\frac{1}{7}$	–

* *Out of Syllabus*

Old Ratio	$\frac{2}{7}$	$\frac{2}{7}$	$\frac{2}{7}$	$\frac{1}{7}$
	$\frac{3}{7}$ (Gain)	$\frac{1}{7}$ (Sacrifice)	$\frac{1}{7}$ (Sacrifice)	$\frac{1}{7}$ (Sacrifice)

9. Z Ltd. purchased machinery from K Ltd. Z Ltd. paid K Ltd. as follows:

(i) By issuing 5,000 equity shares of ₹ 10 each at a premium of 30%.

(ii) By issuing 1,000, 8% Debentures of ₹ 100 each at a discount of 10%.

(iii) Balance by giving a promissory note of ₹ 48,000 payable after two months.

Pass necessary journal entries for the purchase of machinery and payment to K Ltd. in the books of Z Ltd. **3**

Ans.

Journal Entries

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
(i)	Machinery A/c Dr.		2,03,000	
	To K Ltd.			2,03,000
	(Being machinery purchased from K Ltd.)			
(ii)	K Ltd. Dr.		65,000	
	To Equity Share Capital A/c			50,000
	To Securities Premium Reserve A/c			15,000
	(Being 5,000 equity shares of ₹ 10 each issued at 30% premium)			
(iii)	K Ltd. Dr.		90,000	
	Discount on Issue of Debentures A/c Dr.		10,000	
	To 8% Debentures A/c			1,00,000
	(Being 1,000 8% debentures of ₹ 100 each issued at 10% discount)			
(iv)	K Ltd. Dr.		48,000	
	To Bills Payable A/c			48,000
	(Being balance payment made by giving two months' promissory note)			

Ans.

OR

Z Ltd.

Journal Entries

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
(i)	Machinery A/c Dr.		2,03,000	
	To K Ltd.			2,03,000
	(Being machinery purchased from K Ltd.)			
(ii)	K Ltd. Dr.		2,03,000	
	Discount on Issue of Debentures A/c Dr.		10,000	
	To Equity Share Capital A/c			50,000
	To 8% Debentures A/c			1,00,000
	To Bills Payable A/c			48,000
	To Securities Premium Reserve A/c			15,000
	(Being payment made to K Ltd.)			

Working Notes:

Purchase Consideration = ₹ 65,000 + ₹ 90,000 + ₹ 48,000 = ₹ 2,03,000

10. Akash Ltd. is registered with an authorised capital of ₹ 8,00,00,000 divided into equity shares of ₹ 10 each. Subscribed and fully paid up share capital of the company was ₹ 4,00,00,000. For providing employment to the local youth and for the development of the rural areas of the Jammu and Kashmir, the company decided to set up a food processing unit in Anantnag district. The company also decided to open skill development centres in Ladakh, Srinagar and Punch. To meet its new financial requirements the company decided to issue 1,00,000 equity shares of ₹ 10 each and 10,000, 9% debentures of ₹ 100 each. The debentures were redeemable after five years. The issue of equity shares and debentures was fully subscribed. A shareholder holding 1,000 shares failed to pay the final call of ₹ 2 per share.

Present the share capital in the Balance Sheet of the company as per the provisions of Schedule III of the Companies Act, 2013. Also, identify *any two values that the company wishes to propagate. 3

Ans.

Balance Sheet of Akash Ltd.

As at .... (As per revised schedule VI)

Particulars	Note No.	Amount Current Year	Amount Previous Year
Equity and Libilities			
I Shareholder's Funds :			
(a) Share Capital	1	4,09,98,000	

Notes to Accounts :

Particulars			Amount Previous Year
(1) Share Capital			
Authorised Capital :			
80,00,000 equity shares of ₹ 10 each			8,00,00,000
Issued Capital			
41,00,000 equity shares of ₹ 10 each			4,10,00,000
Subscribed Capital			
Subscribed and Fully Paid Capital			
40,99,000 shares of ₹ 10 each		4,09,90,000	
Subscribed but not Fully Paid Capital			
1,000 equity shares of 10 each	10,000		
Less : Calls in arrears (1,000 × 2)	2,000	8,000	4,09,98,000

11. Karan and Varun were partners in a firm sharing profits and losses in the ratio of 1 : 2. Their fixed capitals were ₹ 2,00,000 and ₹ 3,00,000, respectively. On 1st April 2016 Kishore was admitted as a new partner for $\frac{1}{4}^{th}$ share in the profits. Kishore brought ₹ 2,00,000 for his capital which was to be kept fixed like the capitals of Karan and Varun. Kishore acquired his share of profit from Varun.

Calculate goodwill of the firm on Kishore's admission and the new profit sharing ratio of Karan, Varun and Kishore. Also, pass necessary Journal Entry for the treatment of Goodwill on Kishore's admission considering that Kishore did not bring his share of goodwill premium in cash. 4

Ans. (a) Calculation of Hidden Goodwill:

Kishore's Share = $\frac{1}{4}$

Kishore's Capital = ₹ 2,00,000

(a) Total capital of the new firm = ₹ 2,00,000 × 4 = ₹ 8,00,000

(b) Existing total capital of Karan, Varun and Kishore = ₹ 2,00,000 + ₹ 3,00 000 + ₹ 2,00,000

= ₹ 7,00,000

Goodwill of the firm = ₹ 8,00,000 – ₹ 7,00,000 = ₹ 1,00,000

Thus, Kishore's share of goodwill = $\frac{1}{4}$ × ₹ 1,00,000 = ₹ 25,000

(b) Calculation of new profit sharing ratio:

Karan's new share = $\frac{1}{3}$ i.e., $\frac{4}{12}$

Varun's new share = $\frac{2}{3}-\frac{1}{4}=\frac{5}{12}$

Kishore's share = $\frac{1}{4}\times\frac{3}{3}=\frac{3}{12}$

New ratio = 4 : 5 : 3

(c) **Books of the firm**

Journal Entries

2016	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2016 Apr. 1	Kishore's Current A/c Dr. To Varun's Current A/c (Being credit given for goodwill to Varun on Kishore's admission)		25,000	25,000

12. Sandeep, Mandeep and Amandeep were partners in a firm sharing profits in the ratio of 2 : 2 : 1.

The firm closes its books on 31st March every year. On 30th September 2016, Mandeep died. The partnership deed provided that on the death of a partner his executors will be entitled to the following :

(1) Balance in his capital account and interest @ 12% p.a. on capital. On 1-4-2016, the balance in Mandeep's Capital Account was ₹ 1,00,000.

(2) His share in the profits of the firm in the year of his death which will be calculated on the basis of rate of net profit on sales of the previous year which was 25%. The sale of the firm till 30th September 2016 were ₹ 9,00,000.

(3) His share in the goodwill of the firm. The goodwill of the firm on Mandeep's death was valued at ₹ 1,50,000.

The partnership deed also provided that the following deductions will be made from the amount payable to the executor of the deceased partner:

(1) His drawings in the year of his death. Mandeep's drawings till 30th September, 2016 were ₹ 4,000.

(2) Interest on drawings @ 6% per annum which was calculated as ₹ 120.

The accountant of the firm prepared Mandeep's Capital Account to be presented to the executor of Mandeep but in a hurry, he left it incomplete. Mandeep's Capital Account prepared by Accountant of the firm is shown below:

Dr. **Mandeep's Capital Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2016			2016		
Sep. 30	....	4,000	April 1	....	1,00,000
Sep. 30	....	—	Sep. 30	....	6,000
Sep. 30	....	—	Sep. 30	....	90,000
			Sep. 30	....	40,000
			Sep. 30	....	20,000
		2,56,000			**2,56,000**

You are required to complete Mandeep's Capital Account. **4**

Ans. **Dr.** **Mandeep's Capital A/c** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2016			2016		
Sep. 30	To Drawings A/c	4,000	April 1	By Balance b/d	1,00,000
Sep. 30	To Interest on Drawings A/c	120	Sep. 30	By Interest on Capital A/c	6,000
			Sep. 30	By P & L Suspense A/c	90,000
Sep. 30	To Mandeep's Executor's A/c	2,51,880	Sep. 30	By Sandeep's Capital A/c	40,000
			Sep. 30	By Amandeep's Capital A/c	20,000
		2,56,000			**2,56,000**

13. S, T, U and V were partners in a firm sharing profits in the ratio of 4 : 3 : 2 : 1. On 1-4-2016, their Balance Sheet was as follows :

Balance Sheet of S, T, U and V as on 1-4-2016

Liabilities		Amount (₹)	Assets	Amount (₹)
Capitals :			Fixed Assets	4,40,000
S	2,00,000		Current Assets	2,00,000
T	1,50,000			
U	1,00,000			
V	50,000	5,00,000		
Sundry Creditors		80,000		
Workmen Compensation Reserve		60,000		
		6,40,000		**6,40,000**

From the above date, partners decided to share the future profits in 3 : 1 : 2 : 4 ratio. For this purpose, the goodwill of the firm was valued at ₹ 90,000. The partners also agreed for the following:

(i) The claim for workmen compensation has been estimated at ₹ 70,000.

(ii) To adjust the capitals of the partners according to new profit sharing ratio by opening partners' current accounts.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm. 6

Ans. **Dr.** **Revaluation A/c** **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Claim for Workmen Compensation	10,000	By Loss on Revaluation transferred to Partners' Capital A/cs		
		S	4,000	
		T	3,000	
		U	2,000	
		V	1,000	10,000
	10,000			**10,000**

Dr. **Partners' Capital A/c** **Cr.**

Particulars	S (₹)	T (₹)	U (₹)	V (₹)	Particulars	S (₹)	T (₹)	U (₹)	V (₹)
To Rev. A/c	4,000	3,000	2,000	1,000	By Bal. b/d	2,00,000	1,50,000	1,00,000	50,000
To S's Cap. A/c	—	—	—	9,000	By V's Cap. A/c	9,000	18,000	—	—

To T's Cap. A/c	—	—	—	18,000	By V's Current A/c	—	—	—	1,74,000
To Current A/cs	58,000	1,16,000	—	—					
To Bal. c/d	1,47,000	49,000	98,000	1,96,000					
	2,09,000	**1,68,000**	**1,00,000**	**2,24,000**		**2,09,000**	**1,68,000**	**1,00,000**	**2,24,000**

Balance Sheet of S, T, U and V
as at 31st March 2016

Liabilities		Amount (₹)	Assets	Amount (₹)
Sundry Creditors		80,000	Fixed Assets	4,40,000
Partners' Capital A/c:			Current Assets	2,00,000
S	1,47,000		V's Current A/c	1,74,000
T	49,000			
U	98,000			
V	1,96,000	4,90,000		
Claim for Workmen Compensation		70,000		
Partners' Current A/c:				
S	58,000			
T	1,16,000	1,74,000		
		8,14,000		**8,14,000**

14. On 1-4-2015 K. K. Ltd. issued 500, 9% Debentures of ₹ 500 each at a discount of 4%, redeemable at a premium of 5% after three years.

Pass necessary Journal Entries for the issue of debentures and debenture interest for the year ended 31-3-2016 assuming that interest is payable on 30th September and 31st March and the rate of tax deducted at source is 10%. The company closes its books on 31st March every year. **6**

Ans.

KK Ltd.
Journal Entries

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
2015 April 1	Bank A/c Dr. To 9% Debenture Application and Allotment A/c (Being application money received)		2,40,000	 2,40,000
	9% Debenture Application and Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. Loss on Issue of Debentures A/c Dr. To 9 % Debentures A/c To Premium on Redemption of Debentures A/c (Being transfer of application money to debenture account issued at discount of 4%, redeemable at premium of 5%)		2,40,000 10,000 12,500	 2,50,000 12,500
	Or			
	9% Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 9 % Debentures A/c To Premium on Redemption of Debentures A/c (Being transfer of application money to debenture account issued at discount of 4%, redeemable at premium of 5%)		2,40,000 22,500	 2,50,000 12,500

Sep. 30	Debenture Interest A/c Dr. To Debenture Holders A/c To TDS Payable A/c (Being interest payable on 9% debentures and tax deducted at source @ 10%)		11,250	 10,125 1,125
	Debenture Holders A/c Dr. TDS Payable A/c Dr. To Bank A/c (Being interest paid on debentures and TDS deposited)		10,125 1,125	 11,250
2016 March 31	Debenture Interest A/c Dr. To Debenture Holders A/c To TDS Payable A/c (Being interest payable on 9% debentures and tax deducted at source @ 10%)		11,250	 10,125 1,125
	Debenture Holders A/c Dr. TDS Payable A/c Dr. To Bank A/c (Being interest paid on debentures and TDS deposited)		10,125 1,125	 11,250
	Statement of Profit and Loss Dr. To Debenture Interest A/c (Being interest on debentures transferred to Statement to P & L)		22,500	 22,500

6

15. Pass necessary Journal Entries on the dissolution of a partnership firm in the following cases:

(i) L, a partner, was appointed to look after the dissolution process for which he was given a remuneration of ₹ 10,000.

(ii) Dissolution expenses ₹ 8,000 were paid by the partner M.

(iii) Dissolution expenses were ₹ 5,000.

(iv) P, a partner, was appointed to look after the process of dissolution for which he was allowed a remuneration of ₹ 7,000. P agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 4,000 were paid by P.

(v) N, a partner, was appointed to look after the process of dissolution for which he was allowed a remuneration of ₹ 9,000. N agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 4,000 were paid by the firm.

(vi) Q a partner was appointed to look after the process of dissolution for which he was allowed a remuneration of ₹ 18,000. Q agreed to take over stock worth ₹ 18,000 as his remuneration. The stock had already been transferred to Realisation Account. 6

Ans.

Books of the firm

Journal Entries

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
(i)	Realisation A/c Dr. To L's Capital A/c (Being remuneration given to L)		10,000	 10,000
(ii)	Realisation A/c Dr. To M's Capital A/c (Being dissolution expenses paid by partner M)		8,000	 8,000

(iii)	Realisation A/c Dr. To Cash/ Bank A/c (Being dissolution expenses paid)		5,000	 5,000
(iv)	Realisation A/c Dr. To P's Capital A/c (Being dissolution expenses paid by P)		7,000	 7,000
(v)	Realisation A/c Dr. To N's Capital A/c (Being remuneration given to N)		9,000	 9,000
	N's Capital A/c Dr. To Bank/ Cash A/c (Being the dissolution expenses paid by the firm on behalf of the partner)		4,000	 4,000
(vi)	Realisation A/c Dr. To Q's Capital A/c (Being remuneration given to Q)		18,000	 18,000
	Q's Capital A/c Dr. To Realisation A/c (Being stock taken over by Q as remuneration) **OR**		18,000	 18,000
	No Entry			

16. W and R are partners in a firm sharing profits in the ratio of 3 : 2. Their Balance Sheet as on 31st March 2016 was as follows:

Balance Sheet of W and R as on 31-3-2016

Liabilities		Amount (₹)	Assets	Amount (₹)
Sundry Creditors		20,000	Cash	12,000
Provision for Bad Debts		2,000	Debtors	18,000
Outstanding Salary		3,000	Stock	20,000
General Reserve		5,000	Furniture	40,000
Capitals:			Plant and Machinery	40,000
W	60,000			
R	40,000	1,00,000		
		1,30,000		**1,30,000**

On the above date C was admitted for $\frac{1}{6}^{th}$ share in the profits on the following terms:

(i) C will bring ₹ 30,000 as his capital and ₹ 10,000 for his share of goodwill premium, half of which will be withdrawn by W and R.

(ii) Debtors ₹ 1,500 will be written off as bad debts and a provision of 5% will be created for bad and doubtful debts.

(iii) Outstanding salary will be paid off.

(iv) Stock will be depreciated by 10%, Furniture by ₹ 500 and Plant and Machinery by 8%.

(v) Investments ₹ 2,500 not mentioned in the balance sheet were to be taken into account.

(vi) A creditor of ₹ 2,100 not recorded in the books was to be taken into account.

Pass necessary journal entries for the above transactions in the books of the firm on C's admission. 8

OR

M, N and G were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31-3-2016, their Balance Sheet was as under:

Balance Sheet of M, N and G as on 31-3-2016

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		55,000	Cash		40,000
General Reserve		30,000	Debtors	45,000	
Capitals:			Less : Provision	5,000	40,000
M	1,50,000		Stock		50,000
N	1,25,000		Machinery		1,50,000
G	75,000	3,50,000	Patents		30,000
			Building		1,00,000
			Profit and Loss A/c		25,000
		4,35,000			**4,35,000**

M retired on the above date and it was agreed that:

(i) Debtors of ₹ 2,000 will be written off as bad debts and a provision of 5% on debtors for bad and doubtful debts will be maintained.

(ii) Patents will be completely written off and stock, machinery and building will be depreciated by 5%.

(iii) An unrecorded creditor of ₹ 10,000 will be taken into account.

(iv) N and G will share the future profits in the ratio of 2 : 3.

(v) Goodwill of the firm on M's retirement was valued at ₹ 3,00,000.

Pass necessary Journal Entries for the above transactions in the books of the firm on M's retirement. **8**

Ans.

Books of the firm

Journal Entries

Date	Particulars		L. F.	Debit Amount (₹)	Credit Amount (₹)
	General Reserve A/c	Dr.		5,000	
	To W's Capital A/c				3,000
	To R's Capital A/c				2,000
	(Being general reserve distributed among partners)				
	Cash A/c	Dr.		40,000	
	To C's Capital A/c				30,000
	To Premium for Goodwill A/c				10,000
	(Being cash received as C's capital and premium for goodwill)				
	Premium for Goodwill A/c	Dr.		10,000	
	To W's Capital A/c				6,000
	To R's Capital A/c				4,000
	(Being premium for goodwill credited to old partners' capital account in sacrificing ratio)				
	W's Capital A/c	Dr.		3,000	
	R's Capital A/c	Dr.		2,000	
	To Cash A/c				5,000
	(Being half of goodwill amount withdrawn by W and R)				
	Bad Debts A/c	Dr.		1,500	
	To Debtors A/c				1,500
	(Being debtors ₹ 1,500 written off)				

	Provision for Bad and Doubtful Debts A/c Dr. To Bad Debts A/c (Being provision utilised for writing off bad debts)		1,500	 1,500
	Revaluation A/c Dr. To Provision for Bad and Doubtful Debts A/c (Being provision for bad debts created)		325	 325
	Outstanding Salary A/c Dr. To Cash A/c (Being outstanding salary paid)		3,000	 3,000
	Revaluation A/c Dr. To Stock A/c To Furniture A/c To Plant and Machinery A/c (Being decrease in assets recorded)		5,700	 2,000 500 3,200
	Investments A/c Dr. To Revaluation A/c (Being increase in investments recorded)		2,500	 2,500
	Revaluation A/c Dr. To Creditor A/c (Being increase in creditors recorded)		2,100	 2,100
	W's Capital A/c Dr. R's Capital A/c Dr. To Revaluation A/c (Being loss on revaluation transferred to Partners' Capital A/c)		3,375 2,250	 5,625
	Note: In case an examinee has combined entry number (vii), (ix) and (xi), full credit may be given. Revaluation A/c Dr. To Provision for Bad Debts A/c To Stock A/c To Furniture A/c To Plant and Machinery A/c To Creditor A/c (Being assets and liabilities revalued)		 8,125	 325 2,000 500 3,200 2,100

OR

Books of the firm

Journal Entries

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
	General Reserve A/c Dr. To M's Capital A/c To N's Capital A/c To G's Capital A/c (Being general reserve distributed among partners)		30,000	 15,000 9,000 6,000
	M's Capital A/c Dr. N's Capital A/c Dr. G's Capital A/c Dr. To Profit and Loss A/c (Being accumulated losses divided among partners)		12,500 7,500 5,000	 25,000

Bad Debts A/c Dr.		2,000	
To Debtors A/c			2,000
(Being debtors of ₹ 2,000 written off)			
Provision for Bad and Doubtful Debts A/c Dr.		2,000	
To Bad Debts A/c			2,000
(Being provision utilised for writing off bad debts)			
Provision for Bad and Doubtful Debts A/c Dr.		850	
To Revaluation A/c			850
(Being excess provision transferred to Revaluation A/c)			
Revaluation A/c Dr.		45,000	
To Patents A/c			30,000
To Stock A/c			2,500
To Machinery A/c			7,500
To Building A/c			5,000
(Being decrease in assets recorded)			
Revaluation A/c Dr.		10,000	
To Creditors A/c			10,000
(Being increase in creditors recorded)			
M's Capital A/c Dr.		27,075	
N's Capital A/c Dr.		16,245	
G's Capital A/c Dr.		10,830	
To Revaluation A/c			54,150
(Being loss on revaluation transferred to Partners' Capital A/c)			
N's Capital A/c Dr.		30,000	
G's Capital A/c Dr.		1,20,000	
To M's Capital A/c			1,50,000
(Being goodwill adjusted on M's retirement)			
M's Capital A/c Dr.		2,75,425	
To M's Loan A/c			2,75,425
(Being balance of M's Capital transferred to M's Loan A/c)			
Note: In case an examinee has combined entry number (vi) and (vii), full credit may be given.			
Revaluation A/c Dr.		55,000	
To Patents A/c			30,000
To Stock A/c			2,500
To Machinery A/c			7,500
To Building A/c			5,000
To Creditors A/c			10,000
(Being assets and liabilities revalued)			

Working Notes:

Amount payable to M = 1,50,000 + 15,000 – 12,500 – 27,075 + 1,50,000 = ₹ 2,75,425

17. AXN Ltd. invited applications for issuing 1,00,000 equity shares of ₹ 10 each at a premium of ₹ 6 per share. The amount was payable as follows:

On Application ₹ 4 per share (including ₹ 2 premium),

On Allotment ₹ 5 per share (including ₹ 2 premium),

On First Call ₹ 4 per share (including ₹ 2 premium),

On Second and Final Call – Balance Amount

The issue was fully subscribed.

Kumar the holder of 400 shares did not pay the allotment money and Ravi the holder of 1,000 shares paid his entire share money along with allotment money. Kumar's shares were forfeited immediately after allotment. Afterwards first call was made. Gupta a holder of 300 shares failed to pay the first call money and Gopal a holder of 600 shares paid the second call money also along with first call. Gupta's shares were forfeited immediately after the first call. Second and final call was made afterwards. The whole amount due on second call was received.

All the forfeited shares were re-issued at ₹ 9 per share fully paid up.

Pass necessary Journal Entries for the above transactions in the books of the company. 8

OR

XL Ltd. invited applications for issuing 1,00,000 equity shares of ₹ 10 each at par. The amount was payable as follows :

On Application ₹ 3 per share.

On Allotment ₹ 4 per share.

On First and Final Call ₹ 3 per share.

The issue was over-subscribed by three times. Applications for 20% shares were rejected and the money refunded. Allotment was made to the remaining applicants as follows :

Category	No. of Shares Applied	No. of Shares Allotted
I	1,60,000	80,000
II	80,000	20,000

Excess money received with applications was adjusted towards sums due on allotment and first and final call. All calls were made and were duly received except the final call by a shareholder belonging to Category I who has applied for 320 shares. His shares were forfeited. The forfeited shares were re-issued at ₹ 15 per share fully paid up.

Pass necessary Journal Entries for the above transactions in the books of XL Ltd., open calls-in-arrears and calls-in-advance account whenever required. 8

Ans. **AXN Ltd.**

Journal Entries

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr. To Equity Share Application A/c (Being application money received)		4,00,000	 4,00,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being application money transferred)		4,00,000	 2,00,000 2,00,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being share allotment money due)		5,00,000	 3,00,000 2,00,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share Allotment A/c To Calls in Advance A/c (Being allotment money received except on 400 shares and calls in advance received) **OR** Bank A/c Dr. To Equity Share Allotment A/c To Calls in Advance A/c (Being allotment money received except on 400 shares and calls in advance received)		5,05,000 2,000 5,05,000	 5,00,000 7,000 4,98,000 7,000

Equity Share Capital A/c Dr.	2,000	
Securities Premium Reserve A/c Dr.	800	
To Shares Forfeited A/c		800
To Calls in Arrears A/c/ Equity Share Allotment A/c		2,000
(Being 400 shares forfeited)		
Equity Share First Call A/c Dr.	3,98,400	
To Equity Share Capital A/c		1,99,200
To Securities Premium Reserve A/c		1,99,200
(Being first call money due on 99,600 shares)		
Bank A/c Dr.	3,95,000	
Calls in Arrears A/c Dr.	1,200	
Calls in Advance A/c Dr.	4,000	
To Equity Share First Call A/c		3,98,400
To Calls in Advance A/c		1,800
(Being first call money and calls in advance received, advance received earlier adjusted)		
OR		
Bank A/c Dr.	3,95,000	
Calls in Advance A/c Dr.	4,000	
To Equity Share First Call A/c		3,97,200
To Calls in Advance A/c		1,800
(Being first call money and calls in advance received, advance received earlier adjusted)		
OR		
(a)		
Bank A/c Dr.	3,95,000	
Calls in Arrears A/c Dr.	1,200	
To Equity Share First Call A/c		3,94,400
To Calls in Advance A/c		1,800
(Being first call money and calls in advance received)		
(b)		
Calls in Advance A/c Dr.	4,000	
To Equity Share First Call A/c		4,000
(Being advance received earlier adjusted)		
OR		
Bank A/c Dr.	3,95,000	
Calls in Arrears A/c Dr.	1,200	
Calls in Advance A/c Dr.	2,200	
To Equity Share First Call A/c		3,98,400
(Being first call money received, advance received earlier on 1,000 shares adjusted and second call in advance received on 600 shares)		
Equity Share Capital A/c Dr.	2,100	
Securities Premium Reserve A/c Dr.	600	
To Shares Forfeited A/c		1,500
To Calls in Arrears A/c/ Share First Call A/c		1,200
(Being 300 shares forfeited)		

	Equity Share Second and Final call A/c Dr.		2,97,900	
	To Equity Share Capital A/c			2,97,900
	(Being second call due on 99,300 shares)			
	Bank A/c Dr.		2,93,100	
	Calls in Advance A/c Dr.		4,800	
	To Equity Share Second and Final Call A/c			2,97,900
	(Being second and final call received and advance received earlier adjusted)			
	Bank A/c Dr.		6,300	
	Shares Forfeited A/c Dr.		700	
	To Equity Share Capital A/c			7,000
	(Being forfeited shares reissued)			
	Shares Forfeited A/c Dr.		1,600	
	To Capital Reserve A/c			1,600
	(Being gain on reissue on forfeited shares transferred to capital reserve account)			

OR

XL Ltd.

Journal Entries

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr.		9,00,000	
	To Equity Share Application A/c			9,00,000
	(Being application money received on 3,00,000 shares)			
	Equity Share Application A/c Dr.		9,00,000	
	To Equity Share Capital A/c			3,00,000
	To Bank A/c			2,20,000
	To Equity Share Allotment A/c			3,20,000
	To Calls in Advance A/c			60,000
	(Being application money transferred)			
	Equity Share Allotment A/c Dr.		4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being share allotment money due)			
	Bank A/c Dr.		80,000	
	To Equity Share Allotment A/c			80,000
	(Being balance amount received on allotment)			
	Equity Share First and Final Call A/c Dr.		3,00,000	
	To Equity Share Capital A/c			3,00,000
	(Being first and final call money due)			
	Bank A/c Dr.		2,39,520	
	Calls in Arrears A/c Dr.		480	
	Calls in Advance A/c Dr.		60,000	
	To Equity Share First and Final Call A/c			3,00,000
	(Being money received on first and final call and advance received earlier adjusted)			

	Equity Share Capital A/c Dr. To Shares Forfeited A/c To Calls in Arrears A/c (Being 160 shares forfeited)		1,600	 1,120 480
	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being forfeited shares reissued)		2,400	 1,600 800
	Shares Forfeited A/c Dr. To Capital Reserve A/c (Being gain on reissue of forfeited shares transferred to capital reserve account)		1,120	 1,120

PART-B
(Analysis of Financial Statements)

18. Short-term investments are not considered while preparing cash flow statement. Why? 1

Ans. Short term investments are not considered while preparing cash flow statement as they, being cash and cash equivalents, are part of cash management of the enterprise.

19. Net increase in working capital other than cash and cash equivalents will increase, decrease or not change cash flow from operating activities. Give reason in support of your answer. 1

Ans. Decrease

Reason: Net increase in working capital implies the outflow of cash from operating activities.

20. State the objectives of 'Analysis of Financial Statements'. 4

Ans. Objectives of 'Financial Statement Analysis': (Any four)

(i) Assessing the earning capacity or profitability of the firm as a whole as well as its different departments so as to judge the financial health of the firm.

(ii) Assessing the managerial efficiency by using financial ratios to identify favourable and unfavourable variations in managerial performance.

(iii) Assessing the short term and the long term solvency of the enterprise to assess the ability of the company to repay principal amount and interest.

(iv) Assessing the performance of business in comparison to that of others through inter firm comparison.

(v) Assessing developments in future by forecasting and preparing budgets.

(vi) To ascertain the relative importance of different components of the financial position of the firm.

21. The quick ratio of a company is 0.8 : 1. State with reason whether the following transactions will increase, decrease or not change the quick ratio:

(1) Purchase loose tools ₹ 2,000.
(2) Insurance premium paid in advance ₹ 500.
(3) Sale of goods on credit ₹ 3,000.
(4) Honoured a bills payable ₹ 5,000 on maturity. 4

Ans.

Transaction	Effect on Quick Ratio	Reasons
(i)	Decrease	Quick assets have decreased but current liabilities have not changed
(ii)	Decrease	Quick assets have decreased but current liabilities have not changed
(iii)	Increase	Quick assets have increased but current liabilities have not changed
(iv)	Decrease	Both quick assets and current liabilities have decreased by the same amount

22. Financial statements are prepared following the consistent accounting concepts, principles, procedures and also the legal environment in which the business organisations operate. These statements are the sources of information on the basis of which conclusions are drawn about the profitability and financial position of a company so that their users can easily understand and use them in their economic decisions in a meaningful way.

From the above statement identify *any two values that a company should observe while preparing its financial statements.

State under which major heading and sub-headings the following items will be presented in the balance sheet of a company as per Schedule III of the Companies Act, 2013:

General reserves, Short-term loans and advances, Capital work-in-progress and design. 4

	Heads	Sub-heads
General reserves	Shareholders' funds	Reserves and surplus
Short term loans and advances	Current assets	–
Capital work in progress	Non current assets	Fixed assets
Design	Non current assets	Fixed assets/intangible assets

***23. Following is the Balance Sheet of R.S. Ltd. as at 31-3-2016:**

R.S. Ltd. Balance Sheet as at 31-3-2016

Particulars	Note No.	31-3-2016 (₹)	31-3-2015 (₹)
I. Equity and Liabilities:			
(1) Shareholders' Funds:			
(a) Share Capital		9,00,000	7,00,000
(b) Reserves and Surplus	1	4,50,000	2,25,000
(2) Non-Current Liabilities:			
Long-Term Borrowings	2	4,50,000	3,50,000
(3) Current Liabilities:			
(a) Short-Term Borrowings	3	1,50,000	75,000
Total		**19,50,000**	**13,50,000**
II. Assets:			
(1) Non-Current Assets:			
(a) Fixed Assets:			
(i) Tangible	4	14,65,000	9,15,000
(ii) Intangible	5	1,00,000	1,50,000
(b) Non-Current Investments		1,50,000	1,00,000
(2) Current Assets:			
(a) Current Investments		40,000	70,000
(b) Inventories	6	1,22,000	72,000
(c) Cash and Cash Equivalents		73,000	43,000
Total		**19,50,000**	**13,50,000**

Notes to Accounts:

Note No.	Particulars	31-3-2016 (₹)	31-3-2015 (₹)
1.	**Reserves and Surplus:**		
	(Surplus, i.e. Balance in the Statement of Profit and Loss)	4,50,000	2,25,000
		4,50,000	**2,25,000**
2.	**Long-Term Borrowings:**		
	12% Debentures	4,50,000	3,50,000
		4,50,000	**3,50,000**

* *Out of Syllabus*

3.	**Short-Term Borrowings:**		
	Bank Overdraft	1,50,000	75,000
		1,50,000	**75,000**
4.	**Tangible Assets:**		
	Machinery	16,75,000	10,55,000
	Accumulated Depreciation	(2,10,000)	(1,40,000)
		14,65,000	**9,15,000**
5.	**Intangible Assets:**		
	Goodwill	1,00,000	1,50,000
		1,00,000	**1,50,000**
6.	**Inventories:**		
	Stock in Trade	1,22,000	72,000
		1,22,000	**72,000**
7.	**Contingent Liabilities:**		
	Proposed Dividend	2,00,000	1,25,000
		2,00,000	**1,25,000**

Additional Information:

(i) ₹ 1,00,000, 12% Debentures were issued on 31-3-2016.

(ii) During the year a piece of machinery costing ₹ 80,000, on which accumulated depreciation was ₹ 40,000, was sold at a loss of ₹ 10,000.

Prepare a Cash Flow Statement. 6

Ans. **Cash flow statement of R.S. Ltd.**

For the year ended 31st March, 2016 as per AS-3 (Revised)

Particulars	Amount	Amount
A. Cash Flows from Operating Activities:		
Net Profit before Tax and Extraordinary Items (Note 1)	3,50,000	
Add: Non Cash and Non-Operating Charges		
Goodwill Written Off	50,000	
Depreciation on Machinery	1,10,000	
Interest on Debentures	42,000	
Loss on Sale of Machinery	10,000	
Operating Profit before Working Capital Changes	5,62,000	
Less: Increase in Current Assets		
Increase in Inventories	(50,000)	
Net Cash Generated from Operating Activities		5,12,000
B. Cash Flows from Investing Activities:		
Purchase of Machinery	(7,00,000)	
Sale of Machinery	30,000	
Purchase of Non Current Investments	(50,000)	
Net Cash used in Investing Activities		(7,20,000)
C. Cash Flows from Financing Activities:		
Issue of Share Capital	2,00,000	
Issue of 12% Debentures	1,00,000	
Interest on Debentures Paid	(42,000)	
Dividend Paid	(1,25,000)	
Bank Overdraft Raised	75,000	

Net Cash Flow from Financing Activities		2,08,000
Net Increase/ Decrease in Cash and Cash Equivalents (A+B+C)		Nil
Add: Opening Balance of Cash & Cash Equivalents		
Current Investments	70,000	
Cash and Cash Equivalents	43,000	
Closing Balance of Cash and Cash Equivalents		1,13,000

Notes:

Calculation of Net Profit before Tax:

Net Profit as per Statement of Profit and Loss	2,25,000
Add: Dividend Payable	1,25,000
Net Profit before Tax and Extraordinary Items	3,50,000

Dr. **Machinery A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	10,55,000	By Cash A/c	30,000
To Cash A/c (Bal. figure)	7,00,000	By Statement of P/L	10,000
(Purchase)		By Accumulated Depreciation A/c	40,000
		By Balance c/d	16,75,000
	17,55,000		**17,55,000**

Dr. **Accumulated Depreciation A/c** **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c	40,000	By Balance b/d	1,40,000
To Balance c/d	2,10,000	By Statement of P/L (Bal. figure)	1,10,000
	2,50,000		**2,50,000**

Delhi Set II — Code No. 67/1/2

Note : Except these, all other questions are from Set-I.

PART-A
(Accounting for Partnership Firms and Companies)

* **7. XXL Ltd. converted its 500, 9% debentures of ₹ 100 each issued at a discount of 8% into equity shares of ₹ 10 each issued at a premium of 25%. Discount on issue of debentures has not yet been written off.**

Showing your working notes clearly pass necessary Journal Entries on conversion of 9% debentures into equity shares. **3**

8. A, B, C and D were partners in a firm sharing profits in 3 : 3 : 3 : 1 ratio. On 31st January 2017, D retired. A, B and C decided to share future profits in the ratio of 5 : 1 : 1. On D's retirement the goodwill of the firm was valued at ₹ 4,90,000.

Showing your working notes clearly, pass necessary Journal Entry for the treatment of goodwill in the books of the firm on D's retirement. **3**

* *Out of Syllabus*

Ans. **Working Notes**

Calculation of gaining ratio

	A	B	C	D
New Ratio	$\frac{5}{7}$	$\frac{1}{7}$	$\frac{1}{7}$	–
Old Ratio	$\frac{3}{10}$	$\frac{3}{10}$	$\frac{3}{10}$	$\frac{1}{10}$
	$\frac{29}{70}$ (Gain)	$\frac{11}{70}$ (Sacrifice)	$\frac{11}{70}$ (Sacrifice)	$\frac{7}{70}$ (Sacrifice)

Journal

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
	A's Capital A/c Dr.		2,03,000	
	To B's Capital A/c			77,000
	To C's Capital A/c			77,000
	To D's Capital A/c			49,000
	(Being adjustment for goodwill on D's retirement)			

13. Ram, Mohan, Sohan and Hari were partners in a firm sharing profits in the ratio of 4 : 3 : 2 : 1. On 1-4-2016, their Balance Sheet was as follows:

Balance Sheet of Ram, Mohan, Sohan and Hari as on 1-4-2016

Liabilities		Amount (₹)	Assets	Amount (₹)
Capitals:			Fixed Assets	9,00,000
Ram	4,00,000		Current Assets	5,20,000
Mohan	4,50,000			
Sohan	2,50,000			
Hari	2,00,000	13,00,000		
Workmen Compensation Reserve		1,20,000		
		14,20,000		**14,20,000**

From the above date, the partners decided to share the future profits in the ratio of 1 : 2 : 3 : 4. For this purpose, the goodwill of the firm was valued at ₹ 1,80,000. The partners also agreed for the following:

(i) The claim for workmen compensation has been estimated at ₹ 1,50,000.

(ii) Adjust the capitals of the partners according to new profit sharing ratio by opening partners' current accounts.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm. 6

Ans.

Dr. **Revaluation A/c** **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Claim for Workmen Compensation	30,000	By Loss on Revaluation Transferred to Partners' Capital A/c		
		Ram's Capital A/c	12,000	
		Mohan's Capital A/c	9,000	
		Sohan's Capital A/c	6,000	
		Hari's Capital A/c	3,000	30,000
	30,000			**30,000**

Dr. Partners' Capital Accounts Cr.

Particulars	Ram (₹)	Mohan (₹)	Sohan (₹)	Hari (₹)	Particulars	Ram (₹)	Mohan (₹)	Sohan (₹)	Hari (₹)
To Rev. A/c	12,000	9,000	6,000	3,000	By Bal. c/d	4,00,000	4,50,000	2,50,000	2,00,000
To Ram's Capital A/c	—	—	13,500	40,500	By Sohan's Capital A/c	13,500	4,500		—
To Moahn's Capital A/c	—	—	4,500	13,500	By Hari' Capital A/c	40,500	13,500		—
To Current A/c	3,15,000	2,05,000	—	—	By Current A/c	—	—	1,55,000	3,65,000
To Bal. c/d	1,27,000	2,54,000	3,81,000	5,08,000					
	4,54,000	**4,68,000**	**4,05,000**	**5,65,000**		**4,54,000**	**4,68,000**	**4,05,000**	**5,65,000**

Balance Sheet of Ram, Mohan, Sohan and Hari

as at 31st March 2016

Liabilities		Amount (₹)	Assets		Amount (₹)
Capitals :			Fixed Assets		9,00,000
Ram	1,27,000		Current Assets		5,20,000
Mohan	2,54,000		Current A/c s :		
Sohan	3,81,000		Ram	1,55,000	
Hari	5,08,000	12,70,000	Mohan	3,65,000	5,20,000
Current A/cs :					
Sohan	3,15,000				
Hari	2,05,000	5,20,000			
Claim against WCF		1,50,000			
		19,40,000			**19,40,000**

[CBSE Marking Scheme 2017] 2+2+2=6

Working Note:

Journal Entry for Goodwill

Date	Particulars		L.F.	Dr. Amount (₹)	Cr. Amount (₹)
	Sohan's Capital A/c	Dr.		18,000	
	Hari's Capital A/c	Dr.		54,000	
	To Ram's Capital A/c				54,000
	To Mohan's Capital A/c				18,000
	(Being Sohan and Hari compensate to Ram and Mohan in their gaining ratio)				

(2) Calculation of Adjusted Capital:

Ram = ₹ 4,54,000 – ₹ 12,000 = ₹ 4,42,000

Mohan = ₹ 4,68,000 – ₹ 9,000 = ₹ 4,59,000

Sohan = ₹ 2,50,000 – ₹ 24,000 = ₹ 2,26,000

Hari = ₹ 2,00,000 – ₹ 57,000 = ₹ 1,43,000

Total Combined Capital = ₹ 12,70,000

(3) Calculation of New Capital:

$$\text{Ram} = ₹\,12{,}70{,}000 \times \frac{1}{10} = ₹\,1{,}27{,}000$$

$$\text{Mohan} = ₹\,12{,}70{,}000 \times \frac{2}{10} = ₹\,2{,}54{,}000$$

$$\text{Sohan} = ₹\,12{,}70{,}000 \times \frac{3}{10} = ₹\,3{,}81{,}000$$

$$\text{Hari} = ₹\,12{,}70{,}000 \times \frac{4}{10} = ₹\,5{,}08{,}000$$

14. On 1-4-2015, V.V.L. Ltd. issued 1,000, 9% debentures of ₹ 100 each at a discount of 6%, redeemable at a premium of 10%, after three years.

Pass necessary journal entries for the issue of debentures and debenture interest for the year ended 31-3-2016, assuming that interest is payable on 30th September and 31st March and the rate of tax deducted at source is 10%. The company closes its books on 31st March every year. **6**

Ans. **V.V.L Ltd.**

Journal Entries

Date	Particulars		L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2015 April 01	Bank A/c	Dr.		94,000	
	To 9% Debenture Application and Allotment A/c				94,000
	(Being application money received)				
April 01	9% Debenture Application and Allotment A/c	Dr.		94,000	
	Discount on Issue of Debentures A/c	Dr.		6,000	
	Loss on Issue of Debentures A/c	Dr.		10,000	
	To 9 % Debentures A/c				1,00,000
	To Premium on Redemption of Debentures A/c				10,000
	(Being transfer of application money to debenture account issued at discount of 6%, redeemable at premium of 10%)				
	OR				
	9% Debenture Application and Allotment A/c	Dr.		94,000	
	Loss on Issue of Debentures A/c	Dr.		16,000	
	To 9 % Debentures A/c				1,00,000
	To Premium on Redemption of Debentures A/c				10,000
	(Being transfer of application money to debenture account issued at discount of 6%, redeemable at premium of 10%)				
Sep. 30	Debenture Interest A/c	Dr.		4,500	
	To Debenture Holders' A/c				4,050
	To TDS Payable A/c				450
	(Being interest payable on 9% debentures and tax deducted at source @ 10%)				

	Debenture Holders' A/c Dr.		4,050	
	TDS Payable A/c Dr.		450	
	To Bank A/c			4,500
	(Being interest paid on debentures and TDS deposited)			
2016	Debenture Interest A/c Dr.		4,500	
March 31	To Debenture Holders' A/c			4,050
	To TDS Payable A/c			450
	(Being interest payable on 9% debentures and tax deducted at source @ 10%)			
March 31	Debenture Holders' A/c Dr.		4,050	
	TDS Payable A/c Dr.		450	
	To Bank A/c			4,500
	(Being interest paid on debentures and TDS deposited)			
March 31	Statement of Profit and Loss Dr.		9,000	
	To Debenture Interest A/c			9,000
	(Being interest on debentures transferred to Statement of P & L)			

PART-B
(Analysis of Financial Statements)

18. 'Net decrease in working capital other than cash and cash equivalents' will increase, decrease or not change cash flow from operating activities. Give reason in support of your answer. **1**

Ans. **Increase.**

Reason: Net decrease in working capital implies the inflow of cash from operating activities **1**

19. 'Payment and Receipt of interest and dividend' is classified as which type of activity while preparing cash flow statement. **1**

Ans. Payment of Interest and Dividend: Financing Activity

Receipt of Interest and Dividend: Investing Activity **1**

20. State any four limitations of analysis of financial statements. **4**

Ans. Limitations of 'Financial Statement Analysis': **(Any four)**

(i) It is a historical analysis as it analyses what has happened till date. It doesn't reflect the future.

(ii) It ignores price level changes as a change in price level makes analysis of financial statements of different accounting years invalid.

(iii) It ignores qualitative aspect as the quality of management, quality of staff, etc. are ignored while carrying out the analysis of financial statements.

(iv) It suffers from the limitations of financial statements as the analysis is based on the information given in the financial statements.

(v) It is not free from bias of accountants such as method of inventory valuation , method of depreciation, etc.

(vi) It may lead to window dressing i.e. showing a better financial position than what actually is by manipulating the books of accounts.

(vii) It may be misleading without the knowledge of the changes in accounting procedure by a firm.

Delhi Set III — Code No. 67/1/3

Note : Except these, all other questions are from Set-I and II.

PART-A
(Accounting for Partnership Firms and Companies)

13. P, Q, R and S were partners in a firm sharing profits in the ratio of 1 : 4 : 2 : 3. On 1-4-2016, their Balance Sheet was as follows:

Balance Sheet of P, Q, R and S as on 1-4-2016

Liabilities		Amount (₹)	Assets	Amount (₹)
Capitals :			Fixed Assets	12,70,000
P	2,00,000		Current Assets	5,30,000
Q	3,00,000			
R	4,00,000			
S	5,00,000	14,00,000		
Sundry Creditors		2,30,000		
Workmen Compensation Reserve		1,70,000		
		18,00,000		**18,00,000**

From the above date, the partners decided to share the future profits equally. For this purpose the goodwill of the firm was valued at ₹ 2,70,000.

The partners also agreed for the following:

(i) Claim against workmen compensation reserve was estimated at ₹ 2,00,000.

(ii) Capitals of the partners was to be adjusted according to the new profit sharing ratio by bringing or paying cash as the case may be.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm. 6

Ans.

Dr. Revaluation Account Cr.

Particulars	Amount (₹)	Particulars		Amount (₹)
To Claim for Workmen Compensation	30,000	By Loss on Revaluation Transferred to Partners' Capital A/c		
		P	3,000	
		Q	12,000	
		R	6,000	
		S	9,000	30,000
	30,000			**30,000**

Dr. Partners' Capital Accounts Cr.

Particulars	P	Q	R	S	Particulars	P	Q	R	S
To Rev. A/c	3,000	12,000	6,000	9,000	By Bal. b/d	2,00,000	3,00,000	4,00,000	5,00,000
To Q's Capital A/c	30,375	—	10,125	—	By P's Capital A/c	—	30,375	—	10,125
To S's Capital A/c	10,125	—	3,375	—	By R's Capital A/c	—	10,125	—	3,375
To Cash A/c	—	—	38,000	1,62,000	By Cash A/c	1,86,000	14,000	—	—
To Bal. c/d	3,42,500	3,42,500	3,42,500	3,42,500					
	3,86,000	**3,54,500**	**4,00,000**	**5,13,500**		**3,86,000**	**3,54,500**	**4,00,000**	**5,13,500**

Balance Sheet of P, Q , R and S
as at 31st March 2016

Liabilities		Amount (₹)	Assets	Amount (₹)
Capitals :			Fixed Assets	12,70,000
P	3,42,500		Current Assets	5,30,000
Q	3,42,500			
R	3,42,500			
S	3,42,500	13,70,000		
Claim for Workmen Compensation		2,00,000		
Sundry Creditors		2,30,000		
		18,00,000		**18,00,000**

[CBSE Marking Scheme 2017] 6

14. On 1-4-2015, PVR Ltd. issued 750, 11% debentures of ₹ 1,000 each at a discount of 5%, redeemable at a premium of 10% after three years. Interest on debentures is payable on 30th September and 31st March. PVR Ltd. closes its books on 31st March every year. The rate of tax deducted at source is 10%.
Pass necessary Journal Entries for the issue of debentures and the payment of interest for the year ended 31st March, 2016. **6**

Ans.

PVR Ltd.
Journal Entries

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
2015				
April 01	Bank A/c Dr.		7,12,500	
	To 11% Debenture Application and Allotment A/c			7,12,500
	(Being application money received)			
April 01	11% Debenture Application and Allotment A/c Dr.		7,12,500	
	Discount on Issue of Debentures A/c Dr.		37,500	
	Loss on Issue of Debentures A/c Dr.		75,000	
	To 11 % Debentures A/c			7,50,000
	To Premium on Redemption of Debentures A/c			75,000
	(Being transfer of application money to debenture account issued at discount of 5%, redeemable at premium of 10%)			
	OR			
	11% Debenture Application and Allotment A/c Dr.		7,12,500	
	Loss on Issue of Debentures A/c Dr.		1,12,500	
	To 11 % Debentures A/c			
	To Premium on Redemption of Debentures A/c			7,50,000
	(Being transfer of application money to debenture			75,000
	account issued at discount of 5%, redeemable at premium of 10%)			
Sep. 30	Debenture Interest A/c Dr.		41,250	
	To Debenture holders A/c			37,125
	To TDS Payable A/c			4,125
	(Being interest payable on 11% debentures and tax deducted at source @ 10%)			
	Debenture Holders' A/c Dr.		37,125	
	TDS Payable A/c Dr.		4,125	
	To Bank A/c			41,250
	(Being interest paid on debentures and TDS deposited)			

2016 March 31	Debenture Interest A/c Dr. To Debenture Holders' A/c To TDS Payable A/c (Being interest payable on 11% debentures and tax deducted at source @ 10%)		41,250	 37,125 4,125
	Debenture Holders' A/c Dr. TDS Payable A/c Dr. To Bank A/c (Being interest paid on debentures and TDS deposited)		37,125 4,125	 41,250
	Statement of Profit and Loss Dr. To Debenture Interest A/c (Being interest on debentures transferred to Statement to P & L)		82,500	 82,500

15. Pass necessary Journal Entries on the dissolution of a firm in the following cases:

(i) Dharam, a partner, was appointed to look after the process of dissolution at a remuneration of ₹ 12,000 and he had to bear the dissolution expenses. Dissolutions expenses ₹ 11,000 were paid by Dharam.

(ii) Jay, a partner, was appointed to look after the process of dissolution and was allowed a remuneration of ₹ 15,000. Jay agreed to bear dissolution expenses. Actual dissolution expenses ₹ 16,000 were paid by Vijay another partner on behalf of Jay.

(iii) Deepa, a partner, was to look after the process of dissolution and for this work she was allowed a remuneration of ₹ 7,000. Deepa agreed to bear dissolution expenses. Actual dissolution expenses ₹ 6,000 were paid from the firm's bank account.

(iv) Dev, a partner, agreed to do the work of dissolution for ₹ 7,500. He took away stock of the same amount as his commission. The stock had already been transferred to realisation account.

(v) Jeev, a partner, agreed to do the work of dissolution for which he was allowed a commission of ₹ 10,000. He agreed to bear the dissolution expenses. Actual dissolution expenses paid by Jeev were ₹ 12,000. These expenses were paid by Jeev by drawing cash from the firm.

(vi) A debtor of ₹ 8,000 already transferred to realisation account agreed to pay the realisation expenses of ₹ 7,800 in full settlement of his account. **6**

Ans.

Books of the firm

Journal Entries

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
(i)	Realisation A/c Dr. To Dharam's Capital A/c (Being remuneration given to Dharam)		12,000	 12,000
(ii) (a)	Realisation A/c Dr. To Jay's Capital A/c (Being remuneration paid to Jay)		15,000	 15,000
(ii) (b)	Jay's Capital A/c Dr. To Vijay's Capital A/c (Being expenses paid by Vijay on behalf of Jay)		16,000	 16,000
	Note: In case, an examinee has not passed the second entry, full credit may be given for the first entry only			

(iii) (a)	Realization A/c Dr. To Deepa's Capital A/c (Being remuneration given to Deepa)		7,000	7,000
(iii) (b)	Deepa's Capital A/c Dr. To Bank A/c (Being the dissolution expenses paid by the firm on behalf of partner)		6,000	6,000
(iv) (a)	Realization A/c Dr. To Dev's Capital A/c (Being commission given to Dev)		7,500	7,500
(iv) (b)	Dev's Capital A/c Dr. To Realization A/c (Being stock taken over by Dev as remuneration)		7,500	7,500
(v) (a)	Realization A/c Dr. To Jeev's Capital A/c (Being commission given to Jeev)		10,000	10,000
(v) (b)	Jeev's Capital A/c Dr. To Cash A/c (Being the dissolution expenses paid by the firm on behalf of Jeev)		12,000	12,000
(vi)	No Entry			

PART-B
(Analysis of Financial Statements)

18. 'Cheques and drafts in hand' are not considered while preparing cash flow statement. Why? 1

Ans. Cheques and drafts in hand are not considered while preparing cash flow statements as they, being cash and cash equivalents, are part of cash management of the enterprise. 1

19. State any two advantages of preparing cash flow statement. 1

Ans. Advantages of Cash Flow Statements: (Any two)

(i) It helps in short term financial planning by providing information about sources and application of cash and cash equivalents for a specific period.
(ii) It helps in efficient cash management as it gives information relating to surplus and deficit of cash.
(iii) It facilitates comparative study by enabling comparison of actual cash flows with budgeted cash flows.
(iv) It helps investors and creditors evaluate management decisions by providing information relating to company's investing and financing activities.
(v) It helps in deciding how much dividend should be paid as it provides information about availability of cash and cash equivalents.
(vi) It helps to identify reasons for a low or high cash position in comparison to the profit position.
(vii) It helps the users to assess the liquidity and solvency of the enterprise.
(viii) It helps in balancing cash inflows and outflows keeping in response to the changing condition.

[CBSE Marking Scheme 2017] $\frac{1}{2}\times2=1$

20. State any two limitations and any two objectives of 'Analysis of Financial Statements'. 4

Ans. Limitations of 'Financial Statements Analysis': (Any two)

(i) It is a historical analysis as it analyses what has happened till date. It doesn't reflect the future.
(ii) It ignores price level changes as a change in price level makes analysis of financial statements of different accounting years invalid.
(iii) It ignores qualitative aspect as the quality of management, quality of staff, etc. are ignored while carrying out the analysis of financial statements.

(iv) It suffers from the limitations of financial statements as the analysis is based on the information given in the financial statements.

(v) It is not free from bias of accountants such as method of inventory valuation , method of depreciation, etc.

(vi) It may lead to window dressing, i.e., showing a better financial position than what actually is by manipulating the books of accounts.

(vii) It may be misleading without the knowledge of the changes in accounting procedure by a firm.

Objectives of 'Financial Statements Analysis': (Any two)

(i) Assessing the earning capacity or profitability of the firm as a whole as well as its different departments so as to judge the financial health of the firm.

(ii) Assessing the managerial efficiency by using financial ratios to identify favourable and unfavourable variations in managerial performance.

(iii) Assessing the short term and the long term solvency of the enterprise to assess the ability of the company to repay principal amount and interest.

(iv) Assessing the performance of business in comparison to that of others through inter firm comparison.

(v) Assessing developments in future by forecasting and preparing budgets.

(vi) To ascertain the relative importance of different components of the financial position of the firm.

Outside Delhi Set I — Code No. 67/1

PART-A
(Accounting for Partnership Firms and Companies)

1. Distinguish between 'Fixed Capital Account' and 'Fluctuating Capital Account' on the basis of credit balance. 1

Ans. Fixed Capital Accounts always show a credit balance while fluctuating capital accounts may show credit or debit balance.

2. A and B were partners in a firm sharing profits and losses in the ratio of 5 : 3. They admitted C as a new partner. The new profit sharing ratio between A, B and C was 3 : 2 : 3. A surrendered 1/5 of his share in favour of C. Calculate B's sacrifice. 1

Ans. A's Old Share = 5/8

A's Sacrifice = 1/5 of 5/8 = 1/8

C's Share = 3/8

B's Sacrifice = C's Share – A's Sacrifice = 3/8 – 1/8 = 2/8

OR

B's Old Share = 3/8

B's New share = 2/8

B's Sacrifice = 3/8 – 2/8 = 1/8

3. P and Q were partners in a firm sharing profits and losses equally. Their fixed capitals were ₹ 2,00,000 and ₹ 3,00,000, respectively. The partnership deed provided for interest on capital @ 12% per annum. For the year ended 31st March 2016, the profits of the firm were distributed without providing interest on capital.

Pass necessary adjustment entry to rectify the error. 1

Ans. **Books of the Firm**
Journal Entries

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
	P's Current A/c Dr. To Q's Current A/c (Being the adjustment of interest on capital omitted in previous year)		6,000	 6,000

[CBSE Marking Scheme 2017] 1

4. **X Ltd. invited applications for issuing 500, 12% debentures of ₹ 100 each at a discount of 5%. These debentures were redeemable after three years at par. Applications for 600 debentures were received. Pro-rata allotment was made to all the applicants.**
Pass necessary Journal Entries for the issue of debentures assuming that the whole amount was payable with application. **1**

Ans. **Books of the firm**
Journal Entries

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
2016				
Jan. 1	Bank A/c Dr.		57,000	
	To 12% Debenture Application and Allotment A/c			57,000
	(Being application money received for 600 debentures @ ₹ 95 each)			
	12% Debenture Application and Allotment A/c Dr.		57,000	
	Discount on Issue of Debentures A/c Dr.		2,500	
	To 12 % Debentures A/c			50,000
	To Bank A/c			9,500
	(Being 500, 12% debentures allotted on pro-rata basis)			

5. **Z Ltd. forfeited 1,000 equity shares of ₹ 10 each for the non-payment of the first call of ₹ 2 per share. The final call of ₹ 3 per share was yet to be made.**
Calculate the maximum amount of discount at which these shares can be re-issued. **1**

Ans. The maximum amount of discount at which these shares can be re-issued is ₹ 5 per share or ₹ 5000.
[CBSE Marking Scheme 2017] 1

6. **Durga and Naresh were partners in a firm. They wanted to admit five more members in the firm. List any two categories of individuals other than minors who cannot be admitted by them.** **1**

Ans. Any two of the following:
(i) Persons of unsound mind / lunatics
(ii) Insolvent persons
(iii) Any other individual who have been disqualified by law **[CBSE Marking Scheme 2017] 1**

* 7. **BPL Ltd. converted 500, 9% debentures of ₹ 100 each issued at a discount of 6% into equity shares of ₹ 100 each issued at a premium of ₹ 25 per share. Discount on issue of 9% debentures has not yet been written off.**
Showing your working notes clearly, pass necessary journal entries for conversion of 9% debentures into equity shares. **3**

8. **Kavi, Ravi, Kumar and Guru were partners in a firm sharing profits in the ratio of 3 : 2 : 2 : 1. On 1.2.2017, Guru retired and the new profit sharing ratio decided between Kavi, Ravi and Kumar was 3 : 1 : 1. On Guru's retirement the goodwill of the firm was valued at ₹ 3,60,000.**
Showing your working notes clearly, pass necessary Journal Entry for the treatment of goodwill on Guru's retirement. **3**

Ans. **Books of the firm**
Journal Entries

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
2017	Kavi's Capital A/c Dr.		81,000	
Jan. 31	To Ravi's Capital A/c			18,000
	To Kumar's Capital A/c			18,000
	To Guru's Capital A/c			45,000
	(Being adjustment of goodwill on Guru's retirement)			

* *Out of Syllabus*

Working Note :

Calculation of Gaining Ratio:

	Kavi	**Ravi**	**Kumar**	**Guru**
New Ratio	$\frac{3}{5}$	$\frac{1}{5}$	$\frac{1}{5}$	–
Old Ratio	$\frac{3}{8}$	$\frac{2}{8}$	$\frac{2}{8}$	$\frac{1}{8}$
	$\frac{9}{40}$ (Gain)	$\frac{2}{40}$ (Sacrifice)	$\frac{2}{40}$ (Sacrifice)	$\frac{1}{8}$ (Sacrifice)

[CBSE Marking Scheme 2017] 2+1=3

9. Disha Ltd. purchased machinery from Nisha Ltd. and paid to Nisha Ltd. as follows :

(i) By issuing 10,000 equity shares of ₹ 10 each at a premium of 10%.

(ii) By issuing 200, 9% Debentures of ₹ 100 each at a discount of 10%.

(iii) Balance by accepting a bill of exchange of ₹ 50,000 payable after one month.

Pass necessary journal entries in the books of Disha Ltd. for the purchase of machinery and making payment to Nisha Ltd. **3**

Ans. **Disha Ltd.**

Journal Entries

Date	Particulars		L. F.	Debit Amount (₹)	Credit Amount (₹)
(i)	Machinery A/c	Dr.		1,78,000	
	To Nisha Ltd.				1,78,000
	(Being machinery purchased from Nisha Ltd.)				
(ii)	Nisha Ltd.	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)				
(iii)	Nisha Ltd.	Dr.		18,000	
	Discount on Issue of Debentures A/c	Dr.		2,000	
	To 9% Debentures A/c				20,000
	(Being 200 9% debentures of ₹ 100 each issued at 10% discount)				
(iv)	Nisha Ltd.	Dr.		50,000	
	To Bills Payable A/c				50,000
	(Being balance payment made by accepting one month bill of exchange)				

OR

Disha Ltd.

Journal Entries

Date	Particulars		L. F.	Debit Amount (₹)	Credit Amount (₹)
(i)	Machinery A/c	Dr.		1,78,000	
	To Nisha Ltd.				1,78,000
	(Being machinery purchased from Nisha Ltd.)				

(ii)	Nisha Ltd. Dr.		1,78,000	
	Discount on Issue of Debentures A/c Dr.		2,000	
	To Equity Share Capital A/c			1,00,000
	To 9% Debentures A/c			20,000
	To Bills Payable A/c			50,000
	To Securities Premium Reserve A/c			10,000
	(Being payment made to Nisha Ltd.)			

Working Notes:

Purchase Consideration = ₹ 1,10,000 + ₹ 18,000 + ₹ 50,000 = ₹ 1,78,000 ½+2½=3

10. Ganesh Ltd. is registered with an authorised capital of ₹ 10,00,00,000 divided into equity shares of ₹ 10 each. Subscribed and fully paid up capital of the company was ₹ 6,00,00,000. For providing employment to the local youth and for the development of the tribal areas of Arunachal Pradesh the company decided to set up a hydro power plant there. The company also decided to open skill development centres in Itanagar, Pasighat and Tawang. To meet its new financial requirements, the company decided to issue 1,00,000 equity shares of ₹ 10 each and 1,00,000, 9% debentures of ₹ 100 each. The debentures were redeemable after five years at par. The issue of shares and debentures was fully subscribed. A shareholder holding 2,000 shares failed to pay the final call of ₹ 2 per share.

Show the share capital in the Balance Sheet of the company as per the provisions of Schedule III of the Companies Act, 2013.

Also identify *any two values that the company wishes to propagate. 3

Ans. **Balance Sheet of Ganesh Ltd.**

as at ....(As per revised Schedule III)

Particulars	Note No.	Amount (₹)
Equity and Liabilities		
I Shareholders' Funds:		
a) Share Capital	1	6,09,96,000

Notes to Accounts :

Note No.	Particulars			Amount
1.	**(1) Share Capital**			
	Authorised Capital:			
	1,00,00,000 equity shares of ₹10 each			10,00,00,000
	Issued Capital			
	61,00,000 equity shares of ₹ 10 each			6,10,00,000
	Subscribed Capital			
	Subscribed and Fully Paid			
	60,98,000 shares of ₹10 each		6,09,80,000	
	Subscribed but not Fully Paid			
	2,000 equity shares of 10 each	20,000		
	Less: Calls in arrears (2,000 × 2)	(4,000)	16,000	6,09,96,000

11. Madhu and Neha were partners in a firm sharing profits and losses in the ratio of 3 : 5. Their fixed capitals were ₹ 4,00,000 and ₹ 6,00,000, respectively. On 1.1.2016, Tina was admitted as a new partner for $\frac{1}{4}^{th}$ share in the profits. Tina acquired her share of profit from Neha. Tina brought ₹ 4,00,000 as her capital which was to be kept fixed like the capitals of Madhu and Neha. Calculate the goodwill of the firm on Tina's admission and the new profit sharing ratio of Madhu, Neha and Tina. Also, pass necessary journal entry for the treatment of goodwill on Tina's admission considering that Tina did not bring her share of goodwill premium in cash. 4

Ans. (a) Calculation of Hidden Goodwill:

Tina's share = ¼

Tina's capital = ₹ 4,00,000

(a) Total capital of the new firm = ₹ 4,00,000 × 4 = ₹ 16,00,000

(b) Existing total capital of Madhu, Neha and Tina = ₹ 4,00,000 + ₹ 6,00 000 + ₹ 4,00,000

= ₹ 14,00,000

Goodwill of the firm = ₹ 16,00,000 – ₹ 14,00,000 = ₹ 2,00,000

Thus, Tina's share of goodwill = ¼ × ₹ 2,00,000 = ₹ 50,000

(b) Calculation of New Profit Sharing ratio :

Madhu's new share = $\frac{3}{8}$

Neha's new share = $\frac{5}{8}-\frac{1}{4}=\frac{3}{8}$

Tina's share = $\frac{1}{4}$ i.e. $\frac{2}{8}$

New ratio = 3 : 3 : 2

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
2016 Jan. 1	Tina's Current A/c Dr. To Neha's Current A/c (Being credit given for goodwill to Neha on Tina's admission)		50,000	 50,000

[CBSE Marking Scheme 2017] 1+1+2=4

12. Ashok, Babu and Chetan were partners in a firm sharing profits in the ratio of 4 : 3 : 3. The firm closes its books on 31st March every year. On 31st December 2016 Ashok died. The partnership deed provided that on the death of a partner his executors will be entitled for the following :

(i) Balance in his capital account. On 1.4.2016, there was a balance of ₹ 90,000 in Ashok's Capital Account.

(ii) Interest on capital @ 12% per annum.

(iii) His share in the profits of the firm in the year of his death will be calculated on the basis of rate of net profit on sales of the previous year, which was 25%. The sales of the firm till 31st December 2016 were ₹ 4,00,000.

(iv) His share in the goodwill of the firm. The goodwill of the firm on Ashok's death was valued at ₹ 4,50,000. The partnership deed also provided for the following deductions from the amount payable to the executor of the deceased partner:

(i) His drawings in the year of his death. Ashok's drawings till 31.12.2016 were ₹ 15,000.

(ii) Interest on drawings @ 12% per annum which was calculated as ₹ 1,500.

The accountant of the firm prepared Ashok's Capital Account to be presented to the executor of Ashok but in a hurry. He left it incomplete. Ashok's Capital Account as prepared by the firm's accountant is given below:

Dr. **Ashok's Capital Account** **Cr.**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2016			2016		
Dec. 31	....	15,000	April 1	....	90,000
Dec. 31	....	—	Dec. 31	....	8,100
Dec. 31	....	—	Dec. 31	....	40,000
			Dec. 31	....	90,000
			Dec. 31	....	90,000
		3,18,100			**3,18,100**

You are required to complete Ashok's Capital Account. **4**

Ans. **Ashok's Capital A/c**

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2016			2016		
Dec. 31	To Drawings A/c	15,000	April 1	By Balance b/d	90,000
Dec. 31	To Interest on Drawings A/c	1,500	Dec. 31	By Interest on Capital A/c	8,100
Dec. 31	To Ashok's Executor's A/c	3,01,600	Dec. 31	By P & L Suspense A/c	40,000
			Dec. 31	By Babu's Capital A/c	90,000
			Dec. 31	By Chetan's Capital A/c	90,000
		3,18,100			**3,18,100**

13. A, B, C and D were partners in a firm sharing profits in the ratio of 3 : 2 : 3 : 2. On 1-4-2016, their Balance Sheet was as follows:

Balance Sheet of A, B, C and D as on 1-4-2016

Liabilities		Amount (₹)	Assets	Amount (₹)
Capitals :			Fixed Assets	8,25,000
A	2,00,000		Current Assets	3,00,000
B	2,50,000			
C	2,50,000			
D	3,10,000	10,10,000		
Sundry Creditors		90,000		
Workmen Compensation Reserve		25,000		
		11,25,000		**11,25,000**

From the above date, the partners decided to share the future profits in the ratio 4 : 3 : 2 : 1. For this purpose, the goodwill of the firm was valued at ₹ 2,70,000. It was also considered that :

(i) The claim against workmen compensation reserve has been estimated at ₹ 30,000 and fixed assets will be depreciated by ₹ 25,000.

(ii) Adjust the capitals of the partners according to new profit sharing ratio by opening Current Accounts of the partners.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm. **6**

Ans.

Dr. **Revaluation Account** **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Claim for Workmen Compensation	5,000	By Loss on Revaluation		
To Fixed Assets A/c	25,000	Transferred to Partners' Capital A/c		
		A	9,000	
		B	6,000	
		C	9,000	
		D	6,000	30,000
	30,000			**30,000**

Dr. **Partners' Capital Accounts** **Cr.**

Particulars	A (₹)	B (₹)	C (₹)	D (₹)	Particulars	A (₹)	B (₹)	C (₹)	D (₹)
To C's Cap. A/c	13,500	13,500	—	—	By Bal. b/d	2,00,000	2,50,000	2,50,000	3,10,000
To D's Cap. A/c	13,500	13,500	—	—	By A's Cap. A/c	—	—	13,500	13,500
To Rev. A/c	9,000	6,000	9,000	6,000	By B's Cap. A/c	—	—	13,500	13,500
To Current A/c	—	—	72,000	2,33,000	By Current A/c	2,28,000	77,000		
To Bal. c/d	3,92,000	2,94,000	1,96,000	98,000					
	4,28,000	**3,27,000**	**2,77,000**	**3,37,000**		**4,28,000**	**3,27,000**	**2,77,000**	**3,37,000**

Balance Sheet of A, B, C and D
as at 31st March 2016

Liabilities		Amount (₹)	Assets		Amount (₹)
Sundry Creditors		90,000	Fixed Assets		8,00,000
Partners' Capital A/c:			Current Assets		3,00,000
A	3,92,000		Partners' Current A/c:		
B	2,94,000		A	2,28,000	
C	1,96,000		B	77,000	3,05,000
D	98,000	9,80,000			
Claim for Workmen Compensation		30,000			
Partners' Current A/c:					
C	72,000				
D	2,23,000	3,05,000			
		14,05,000			**14,05,000**

14. On 1-4-2015 J. K. Ltd. issued 8,000, 9% Debentures of ₹ 1,000 each at a discount of 6%, redeemable at a premium of 5% after three years. The company closes its books on 31st March every year. Interest on 9% debentures is payable on 30th September and 31st March every year. The rate of tax deducted at source is 10%.

Pass necessary Journal Entries for the issue of debentures and debenture interest for the year ended 31-3-2016. 6

Ans. **J.K. Ltd.**
Journal Entries

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
2015 Apr. 1	Bank A/c Dr.		75,20,000	
	To 9% Debenture Application and Allotment A/c			75,20,000
	(Being application money received)			

	9% Debenture Application and Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. Loss on Issue of Debentures A/c Dr. To 9 % Debentures A/c To Premium on Redemption of Debentures A/c (Being transfer of application money to debenture account issued at discount of 6%, redeemable at premium of 5%) **Or** 9% Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 9 % Debentures A/c To Premium on Redemption of Debentures A/c (Being transfer of application money to debenture account issued at discount of 6%, redeemable at premium of 5%)		75,20,000 4,80,000 4,00,000 75,20,000 8,80,000	 80,00,000 4,00,000 80,00,000 4,00,000
Sep. 30	Debenture Interest A/c Dr. To Debenture Holders' A/c To TDS Payable A/c (Being interest payable on 9% debentures and tax deducted at source @ 10%)		3,60,000	 3,24,000 36,000
	Debenture Holders' A/c Dr. TDS Payable A/c Dr. To Bank A/c (Being interest paid to debenture holders and TDS deposited)		3,24,000 36,000	 3,60,000
2016 March 31	Debenture Interest A/c Dr. To Debenture Holders' A/c To TDS Payable A/c (Being interest payable on 9% debentures and tax deducted at source @ 10%)		3,60,000	 3,24,000 36,000
March 31	Debenture Holders' A/c Dr. TDS Payable A/c Dr. To Bank A/c (Being interest paid to debenture holders and TDS deposited)		3,24,000 36,000	 3,60,000
March 31	Statement of Profit and Loss Dr. To Debenture Interest A/c (Being interest on debentures transferred to Statement to P & L)		7,20,000	 7,20,000

15. Pass necessary Journal Entries on the dissolution of a partnership firm in the following cases:

(i) Dissolution expenses were ₹ 800.

(ii) Dissolution expenses ₹ 800 were paid by Prabhu, a partner.

(iii) Geeta, a partner, was appointed to look after the dissolution work, for which she was allowed a remuneration of ₹ 10,000. Geeta agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 9,500 were paid by Geeta.

(iv) Janki, a partner, agreed to look after the dissolution work for a commission of ₹ 5,000. Janki agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 5,500 were paid by Mohan, another partner, on behalf of Janki.

(v) A partner, Kavita, agreed to look after the dissolution process for a commission of ₹ 9,000. She also agreed to bear the dissolution expenses. Kavita took over furniture of ₹ 9,000 for her commission. Furniture had already been transferred to realisation account.

(vi) A debtor, Ravinder, for ₹ 19,000 agreed to pay the dissolution expenses which were ₹ 18,000 in full **settlement of his debt. 6**

Ans. **Books of the firm**

Journal Entries

S. No	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
(i)	Realisation A/c Dr. To Cash/ Bank A/c (Being dissolution expenses paid)		800	800
(ii)	Realisation A/c Dr. To Prabhu's Capital A/c (Being dissolution expenses paid by partner)		800	800
(iii)	Realisation A/c Dr. To Geeta's Capital A/c (Being dissolution expenses paid by Geeta and compensated by firm)		10,000	10,000
(iv)	Realisation A/c Dr. To Janki's Capital A/c (Being dissolution expenses paid by Janki and compensated by firm)		5,000	5,000
	Janki's Capital A/c Dr. To Mohan's Capital A/c (Being Mohan paid dissolution expenses on behalf of Janki) **Note:** If part a. is correctly done, full credit is to be given		5,500	5,500
(v) a.	Realisation A/c Dr. To Kavita's Capital A/c (Being commission given to Kavita)		9,000	9,000
(v) b.	Kavita's Capital A/c Dr. To Realisation A/c (Being furniture taken over by Kavita as remuneration)		9,000	9,000
	OR			
a + b	No Entry			
(vi)	No Entry			

16. C and D are partners in a firm sharing profits in the ratio of 4 : 1. On 31.3.2016, their Balance Sheet was as follows :

Balance Sheet of C and D as on 31-3-2016

Liabilities		Amount (₹)	Assets	Amount (₹)
Sundry Creditors		40,000	Cash	24,000
Provision for Bad Debts		4,000	Debtors	36,000
Outstanding Salary		6,000	Stock	40,000
General Reserve		10,000	Furniture	80,000
Capitals :			Plant and Machinery	80,000
C	1,20,000			
D	80,000	2,00,000		
		2,60,000		**2,60,000**

On the above date, E was admitted for $\frac{1}{4}^{th}$ share in the profits on the following terms:

(i) E will bring ₹ 1,00,000 as his capital and ₹ 20,000 for his share of goodwill premium, half of which will be withdrawn by C and D.

(ii) Debtors ₹ 2,000 will be written off as bad debts and a provision of 4% will be created on debtors for bad and doubtful debts.

(iii) Stock will be reduced by ₹ 2,000, furniture will be depreciated by ₹ 4,000 and 10% depreciation will be charged on plant and machinery.

(iv) Investments of ₹ 7,000 not shown in the Balance Sheet will be taken into account.

(v) There was an outstanding repairs bill of ₹ 2,300 which will be recorded in the books.

Pass necessary journal entries for the above transactions in the books of the firm on E's admission. 8

OR

Sameer, Yasmin and Saloni were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 3 On 31-3-2016, their Balance Sheet was as follows:

Balance Sheet of Sameer, Yasmin and Saloni as on 31-3-2016

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		1,10,000	Cash		80,000
General Reserve		60,000	Debtors	90,000	
Capitals :			Less : Provision	10,000	80,000
Sameer	3,00,000		Stock		1,00,000
Yasmin	2,50,000		Machinery		3,00,000
Saloni	1,50,000	7,00,000	Building		2,00,000
			Patents		60,000
			Profit and Loss A/c		50,000
		8,70,000			**8,70,000**

On the above date, Sameer retired and it was agreed that:

(i) Debtors of ₹ 4,000 will be written off as bad debts and a provision of 5% on debtors for bad and doubtful debts will be maintained.

(ii) An unrecorded creditor of ₹ 20,000 will be recorded.

(iii) Patents will be completely written off and 5% depreciation will be charged on stock, machinery and building.

(iv) Yasmin and Saloni will share future profits in the ratio of 3 : 2.

(v) Goodwill of the firm on Sameer's retirement was valued at ₹ 5,40,000.

Pass necessary Journal Entries for the above transactions in the books of the firm on Sameer's retirement. 8

Ans.

Books of the firm

Journal Entries

Date	Particulars		L. F.	Debit Amount (₹)	Credit Amount (₹)
(i)	General Reserve A/c	Dr.		10,000	
	To C's Capital A/c				8,000
	To D's Capital A/c				2,000
	(Being general reserve distributed among partners)				
(ii)	Cash A/c	Dr.		1,20,000	
	To E's Capital A/c				1,00,000
	To Premium for Goodwill A/c				20,000
	(Being cash received as E's capital and premium for goodwill)				
(iii)	Premium for Goodwill A/c	Dr.		20,000	
	To C's Capital A/c				16,000
	To D's Capital A/c				4,000
	(Being premium for goodwill credited to old partner's capital account in sacrificing ratio)				
(iv)	C's Capital A/c	Dr.		8,000	
	D's Capital A/c	Dr.		2,000	
	To Cash A/c				10,000
	(Being half of goodwill amount withdrawn by C and D)				

(v)	Bad Debts A/c Dr. To Debtors A/c (Being debtors ₹ 2,000 written off)		2,000	 2,000
(vi)	Provision for Bad and Doubtful Debts A/c Dr. To Bad Debts A/c (Being provision utilised for writing off bad debts)		2,000	 2,000
(vii)	Provision for Bad and Doubtful Debts A/c Dr. To Revaluation A/c (Being provision for bad debts decreased)		640	 640
(viii)	Revaluation A/c Dr. To Stock A/c To Furniture A/c To Plant and Machinery A/c (Being decrease in assets recorded)		14,000	 2,000 4,000 8,000
(ix)	Investments A/c Dr. To Revaluation A/c (Being increase in investments recorded)		7,000	 7,000
(x)	Revaluation A/c Dr. To Outstanding Repairs A/c (Being increase in liabilities recorded)		2,300	 2,300
(xi)	C's Capital A/c Dr. D's Capital A/c Dr. To Revaluation A/c (Being loss on revaluation transferred to Partner's Capital A/c) **Note:** In case an examinee has combined entry number (viii) and (x) or (vii) and (ix), full credit may be given.		6,928 1,732	 8,660

OR
Journal Entries

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
(i)	General Reserve A/c Dr. To Sameer's Capital A/c To Yasmin's Capital A/c To Saloni's Capital A/c (Being general reserve distributed among partners)		60,000	 24,000 18,000 18,000
(ii)	Sameer's Capital A/c Dr. Yasmin's Capital A/c Dr. Saloni's Capital A/c Dr. To Profit and Loss A/c (Being accumulated losses divided among partners)		20,000 15,000 15,000	 50,000
(iii)	Bad Debts A/c Dr. To Debtors A/c (Being debtors of ₹ 4000 written off)		4,000	 4,000
(iv)	Provision for bad and doubtful debts A/c Dr. To Bad Debts A/c (Being provision utilised for writing off bad debts)		4,000	 4,000

(v)	Provision for Bad and Doubtful Debts A/c Dr.		1,700	
	To Revaluation A/c			1,700
	(Being excess provision transferred to Revaluation A/c)			
(vi)	Revaluation A/c Dr.		20,000	
	To Creditors A/c			20,000
	(Being increase in creditors recorded)			
(vii)	Revaluation A/c Dr.		90,000	
	To Patents A/c			60,000
	To Stock A/c			5,000
	To Machinery A/c			15,000
	To Building A/c			10,000
	(Being decrease in assets recorded)			
(viii)	Sameer's Capital A/c Dr.		43,320	
	Yasmin's Capital A/c Dr.		32,490	
	Saloni's Capital A/c Dr.		32,490	
	To Revaluation A/c			
	(Being loss on revaluation transferred to Partners' Capital A/c)			1,08,300
(ix)	Yasmin's Capital A/c Dr.		1,62,000	
	Saloni's Capital A/c Dr.		54,000	
	To Sameer's Capital A/c			2,16,000
	(Being goodwill adjusted on Sameer's retirement)			
(x)	Sameer's Capital A/c Dr.		4,76,680	
	To Sameer's Loan A/c			4,76,680
	(Being balance of Sameer's capital transferred to Sameer's Loan A/c)			
(xi)	**Note:** In case an examinee has combined entry number (vi) and (vii), full credit may be given.			
	Revaluation A/c Dr.		1,10,000	
	To Patents A/c			60,000
	To Stock A/c			5,000
	To Machinery A/c			15,000
	To Building A/c			10,000
	To Creditors A/c			20,000
	(Being assets and liabilities revalued)			

Working Notes:

Amount payable to Sameer = ₹ (43,320) + ₹ 24,000 – ₹ 20,000 + ₹ 2,16,000 + ₹ 3,00,000 = ₹ 4,76,680

17. VXN Ltd. invited applications for issuing 50,000 equity shares of ₹ 10 each at a premium of ₹ 8 per share. The amount was payable as follows :

On Application : ₹ 4 per share (including ₹ 2 premium)

On Allotment : ₹ 6 per share (including ₹ 3 premium)

On First Call : ₹ 5 per share (including ₹ 1 premium)

On Second and Final Call : Balance amount

The issue was fully subscribed. Gopal, a shareholder holding 200 shares, did not pay the allotment money and Madhav, a holder of 400 shares, paid his entire share money along with the allotment money. Gopal's shares were immediately forfeited after allotment. Afterwards, the first call was made. Krishna, a holder of 100 shares, failed to pay the first call money and Girdhar, a holder of 300 shares, paid the second and final call money also along with the first call. Krishna's shares were forfeited immediately after the first call. Second and final call was made afterwards and was duly received. All the forfeited shares were reissued at ₹ 9 per share fully paid up.

Pass necessary journal entries for the above transactions in the books of the company. **8**

OR

JJK Ltd. invited applications for issuing 50,000 equity shares of ₹ 10 each at par. The amount was payable as follows :

On Application : ₹ 2 per share

On Allotment : ₹ 4 per share

On First and Final Call : Balance amount

The issue was oversubscribed three times. Applications for 30% shares were rejected and money refunded. Allotment was made to the remaining applicants as follows :

Category	No. of Shares Applied	No. of Shares Allotted
I	80,000	40,000
II	25,000	10,000

Excess money paid by the applicants who were allotted shares was adjusted towards the sums due on allotment.

Deepak, a shareholder belonging to Category I, who had applied for 1,000 shares, failed to pay the allotment money. Raju, a shareholder holding 100 shares, also failed to pay the allotment money. Raju belonged to Category II. Shares of both Deepak and Raju were forfeited immediately after allotment.

Afterwards, first and final call was made and was duly received. The forfeited shares of Deepak and Raju were reissued at ₹ 11 per share fully paid up.

Pass necessary journal entries for the above transactions in the books of the company. **8**

Ans. **VXN Ltd.**

Journal Entries

S. No	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
(i)	Bank A/c Dr.		2,00,000	
	To Equity Share Application A/c			2,00,000
	(Being application money received)			
(ii)	Equity Share Application A/c Dr.		2,00,000	
	To Equity Share Capital A/c			1,00,000
	To Securities Premium Reserve A/c			1,00,000
	(Being application money transferred)			
(iii)	Equity Share Allotment A/c Dr.		3,00,000	
	To Equity Share Capital A/c			1,50,000
	To Securities Premium Reserve A/c			1,50,000
	(Being share allotment money due)			
(iv)	Bank A/c Dr.		3,02,000	
	Calls in Arrears A/c Dr.		1,200	
	To Equity Share Allotment A/c			3,00,000
	To Calls in advance A/c			3,200
	Being allotment money received except on 200 shares and calls in Advance received)			
	OR			
	Bank A/c Dr.		3,02,000	
	To Equity Share Allotment A/c			2,98,800
	To Calls in Advance A/c			3,200
	(Being allotment money received except on 200 shares and calls in advance received)			
(v)	Equity Share Capital A/c Dr.		1,000	
	Securities Premium Reserve A/c Dr.		600	
	To Shares Forfeited A/c			400
	To Equity Share Allotment A/c/ Calls in Arrears A/c			1,200
	(Being 200 shares forfeited)			

(vi)	Equity Share First Call A/c Dr.		2,49,000	
	To Equity Share Capital A/c			1,99,200
	To Securities Premium Reserve A/c			49,800
	(Being first call money due on 49,800 shares)			
(vii)	Bank A/c Dr.		2,47,400	
	Calls in Arrears A/c Dr.		500	
	Calls in Advance A/c Dr.		2,000	
	To Equity Share First Call A/c			2,49,000
	To Calls in Advance A/c			900
	(Being first call money and calls in advance received, advance received earlier adjusted)			
	OR			
	Bank A/c Dr.		2,47,400	
	Calls in Advance A/c Dr.		2,000	
	To Equity Share First Call A/c			2,48,500
	To Calls in Advance A/c			900
	(Being first call money and calls in advance received, advance received earlier adjusted)			
	OR			
	(a)			
	Bank A/c Dr.		2,47,400	
	Calls in Arrears A/c Dr.		500	
	To Equity Share First Call A/c			2,47,000
	To Calls in Advance A/c			900
	(Being first call money and calls in advance received)			
	(b)			
	Calls in Advance A/c Dr.			
	To Equity Share First Call A/c		2,000	
	(Being advance received earlier adjusted)			2,000
	OR			
	Bank A/c Dr.			
	Calls in Arrears A/c Dr.		2,47,400	
	Calls in Advance A/c Dr.		500	
	To Equity Share First Call A/c		1,100	
	(Being first call money received, advance received earlier on 1,000 shares adjusted and second call in advance received on 600 shares)			2,49,000
(viii)	Equity Share Capital A/c Dr.		900	
	Securities Premium Reserve A/c Dr.		100	
	To Shares Forfeited A/c			500
	To Calls in Arrears A/c/ Equity Share First Call A/c			500
	(Being 100 shares forfeited)			
(ix)	Equity Share Second and Final Call A/c Dr.		1,49,100	
	To Equity Share Capital A/c			49,700
	To Securities Premium Reserve A/c			99,400
	(Being second call due on 49,700 shares)			

(x)	Bank A/c Dr.		1,47,000	
	Calls in Advance A/c Dr.		2,100	
	To Equity Share Second and Final Call A/c			1,49,100
	(Being second and final call received and advance received earlier adjusted)			
(xi)	Bank A/c Dr.		2,700	
	Shares Forfeited A/c Dr.		300	
	To Equity Share Capital A/c			3,000
	(Being forfeited shares reissued)			
(xii)	Shares Forfeited A/c Dr.		600	
	To Capital Reserve A/c			600
	(Being gain on reissue on forfeited shares transferred to capital reserve account)			

OR

Journal Entries

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
(i)	Bank A/c Dr.		3,00,000	
	To Equity Share Application A/c			3,00,000
	(Being application money received on 1,50,000 shares)			
(ii)	Equity Share Application A/c Dr.		3,00,000	
	To Equity Share Capital A/c			1,00,000
	To Bank A/c			90,000
	To Equity Share Allotment A/c			1,10,000
	(Being application money transferred)			
(iii)	Equity Share Allotment A/c Dr.		2,00,000	
	To Equity Share Capital A/c			2,00,000
	(Being share allotment money due)			
(iv)	Bank A/c Dr.		88,900	
	Calls in Arrears A/c Dr.		1,100	
	To Equity Share Allotment A/c			90,000
	(Being Balance amount received on allotment)			
	OR			
	Bank A/c Dr.		88,900	
	To Equity Share Allotment A/c			88,900
	(Being Balance amount received on allotment)			
(v)	Equity Share Capital A/c Dr.		3,600	
	To Forfeited Shares A/c			2,500
	To Calls in Arrears A/c			1,100
	(Being shares forfeited on which allotment money was not received)			
(vi)	Equity Share First and Final Call A/c Dr.		1,97,600	
	To Equity Share Capital A/c			1,97,600
	(Being first and final call money due)			
(vii)	Bank A/c Dr.		1,97,600	
	To Equity Share First and Final Call A/c			1,97,600
	(Being first and final call money received)			

(viii)	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being forfeited shares reissued)		6,600	 6,000 600
(ix)	Shares Forfeited A/c Dr. To Capital Reserve A/c (Being gain on reissue of forfeited shares transferred to capital reserve account)		2,500	 2,500

PART-B
(Analysis of Financial Statements)

18. Normally, what should be the maturity period for a short-term investment from the date of its acquisition to be qualified as cash equivalents? 1

Ans. Maximum maturity period is 90 days/ 3 months for a short term investment from the date of acquisition to be qualified as cash equivalents.

19. State the primary objective of preparing a cash flow statement. 1

Ans. To find out the inflows and outflows of cash and cash equivalents from Operating, Investing and Financing activities.

20. What is meant by 'Analysis of Financial Statements'? State any two objectives of such an analysis. 4

Ans. **Analysis of Financial Statements** is the process of critical evaluation of the financial information contained in the financial statements in order to understand and make decisions regarding the operations of the firm.

(Or any other suitable meaning)

Objectives of 'Financial Statements Analysis': (Any two)

(i) Assessing the earning capacity or profitability of the firm as a whole as well as its different departments so as to judge the financial health of the firm.

(ii) Assessing the managerial efficiency by using financial ratios to identify favourable and unfavourable variations in managerial performance.

(iii) Assessing the short term and the long term solvency of the enterprise to assess the ability of the company to repay principal amount and interest.

(iv) Assessing the performance of business in comparison to that of others through inter firm comparison.

(v) Assessing developments in future by forecasting and preparing budgets.

(vi) To ascertain the relative importance of different components of the financial position of the firm.

21. The proprietary ratio of M. Ltd. is 0.80 : 1.

State with reasons whether the following transactions will increase, decrease or not change the proprietary ratio:

(i) Obtained a loan from bank ₹ 2,00,000 payable after five years.

(ii) Purchased machinery for cash ₹ 75,000.

(iii) Redeemed 5% redeemable preference shares ₹ 1,00,000.

(iv) Issued equity shares to the vendors of machinery purchased for ₹ 4,00,000. 4

Ans.

Transaction	Effect on Proprietary Ratio	Reasons
(i)	Decrease	No change in shareholders' funds but total assets will increase by ₹ 2,00,000
(ii)	No Change	No change in total assets and shareholders' funds
(iii)	Decrease	Both shareholders' funds and total assets are decreased by same amount
(iv)	Increase	Shareholders' funds and total assets both are increased

22. Financial statements are prepared following the consistent accounting concepts, principles, procedures and also the legal environment in which the business organisations operate. These statements are the sources of information on the basis of which conclusions are drawn about the profitability and financial position of a company so that their users can easily understand and use them in their economic decisions in a meaningful way.

From the above statement identify *any two values that a company should observe while preparing its financial statements.

State under which major headings and sub-headings the following items will be presented in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013 :

(i) Capital Reserve **(ii) Calls-in-Advance**

(iii) Loose Tools **(iv) Bank Overdraft.** 4

Ans.

Items	Heads	Sub-heads
Capital reserves	Shareholders' funds	Reserves and surplus
Calls-in-advance	Current liabilities	Other current liabilities
Loose tools	Current assets	Inventories
Bank overdraft	Current liabilities	Short term borrowings

***23. From the following Balance Sheet of SRS Ltd. and the additional information as at 31-3-2016, prepare a Cash Flow Statement.**

Balance Sheet SRS Ltd. as at 31-3-2015 and 31-3-2016

Particulars	Note No.	31-3-2016 ₹	31-3-2015 ₹
I. <u>Equity and Liabilities :</u>			
(1) Shareholders' Funds :			
(a) Share Capital		4,50,000	3,50,000
(b) Reserves and Surplus	1	2,25,000	1,12,500
(2) Non-Current Liabilities :			
Long-Term Borrowings	2	2,25,000	1,75,000
(3) Current Liabilities :			
(a) Short-Term Borrowings	3	75,000	37,500
Total		**9,75,000**	**6,75,000**
II. <u>Assets :</u>			
(1) Non-Current Assets :			
(a) Fixed Assets :			
(i) Reserves and Surplus	5	7,32,500	4,52,500
(ii) Intangible	6	50,000	75,000
(b) Non-Current Investments		75,000	50,000
(2) Current Assets :			
(a) Current Investments		20,000	35,000
(b) Inventories	7	61,000	36,000
(c) Cash and Cash Equivalents		36,500	26,500
Total		**9,75,000**	**6,75,000**

* *Out of Syllabus*

Notes to Accounts :

Note No.	Particulars	31-3-2016 ₹	31-3-2015 ₹
1.	**Reserves and Surplus:**		
	Surplus, i.e., Balance in Statement of Profit and Loss	2,25,000	1,12,000
		2,25,000	**1,12,000**
2.	**Long-Term Borrowings:**		
	12% Debentures	2,25,000	1,75,000
		2,25,000	**1,75,000**
3.	**Short-term Borrowings:**		
	Bank Overdraft	75,000	37,500
		75,000	**37,500**
4.	**Tangible Assets:**		
	Machinery	8,37,500	5,22,500
	Accumulated Depreciation	(1,05,000)	(70,000)
		7,32,500	**4,52,500**
5.	**Intangible Assets:**		
	Goodwill	50,000	75,000
		50,000	**75,000**
6.	**Inventories:**		
	Stock in Trade	61,000	36,000
		61,000	**36,000**
7.	**Contingent Liabilitie:**		
	Proposed Dividend	1,00,000	62,500
		1,00,000	**62,500**

Additional Information :

(i) ₹ 50,000, 12% debentures were issued on 31-03-2016.

(ii) During the year a piece of machinery costing ₹ 40,000, on which accumulated depreciation was ₹ 20,000, was sold at a loss of ₹ 5,000. 6

Ans. **Cash flow statement of SRS Ltd.**

For the year ended 31st March, 2016 as per AS-3 (Revised)

Particulars	Detail (₹)	Amount (₹)
A. Cash Flows from Operating Activities:		
Net Profit before Tax & Extraordinary Items (note 1)	1,75,000	
Add: Non Cash and Non-Operating Charges		
Goodwill Written Off	25,000	
Depreciation on Machinery	55,000	
Interest on Debentures	21,000	
Loss on sale of Machinery	5,000	
Operating, Profit before Working Capital Changes	2,81,000	
Less: Increase in Current Assets		
Increase in Inventories	(25,000)	
Net Cash Generated from Operating Activities		2,56,000
B. Cash Flows from Investing Activities :		
Purchase of Machinery	(3,55,000)	
Sale of Machinery	15,000	
Purchase of Non Current Investments	(25,000)	
Net Cash used in Investing Activities		(3,65,000)

C. Cash Flows from Financing Activities:		
Issue of Share Capital	1,00,000	
Issue of 12% Debentures	50,000	
Interest on Debentures Paid	(21,000)	
Dividend Paid	(62,500)	
Bank Overdraft Raised	37,500	
Net Cash Flow from Financing Activities		1,04,000
Net Decrease in Cash and Cash Equivalents (A+B+C)		(5,000)
Add: Opening balance of Cash and Cash Equivalents		
Current Investments	35,000	
Cash and Cash Equivalents	26,500	61,500
Closing Balance of Cash and Cash Equivalents		56,500

Notes:

Calculation of Net Profit Before Tax:

Net Profit as per Statement of Profit and Loss	1,12,500
Add: Proposed Dividend	62,500
Net Profit Before Tax and Extraordinary Items	1,75,000

Dr. **Machinery A/c** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Balance b/d	5,22,500	By Cash A/c	15,000
To Cash A/c (Purchase)	3,55,000	By Statement of P/L (Bal. fig.)	5,000
		By Accumulated Depreciation A/c	20,000
		By Balance c/d	8,37,500
	8,77,500		**8,77,500**

Dr. **Accumulated Depreciation A/c** **Cr.**

Particulars	Amount ₹	Particulars	Amount ₹
To Machinery A/c	20,000	By Balance b/d	70,000
To Balance c/d	1,05,000	By Statement of P/L	55,000
	1,25,000		**1,25,000**

6

Outside Delhi Set II — Code No. 67/2

Note : Except these, all other questions are from Outside Delhi Set-I.

PART-A
(Accounting for Partnership Firms and Companies)

13. Suresh, Ramesh, Mahesh and Ganesh were partners in a firm sharing profits in the ratio of 2 : 2 : 3 : 3. On 1.4.2016, their Balance Sheet was as follows :

Balance Sheet of Suresh, Ramesh, Mahesh and Ganesh
as on 1.4.2016

Liabilities		Amount (₹)	Assets	Amount (₹)
Capitals :			Fixed Assets	6,00,000
Suresh	1,00,000		Current Assets	3,45,000
Ramesh	1,50,000			
Mahesh	2,00,000			
Ganesh	2,50,000	7,00,000		

Sundry Creditors	1,70,000		
Workmen Compensation Reserve	75,000		
	9,45,000		**9,45,000**

From the above date, the partners decided to share the future profits equally. For this purpose, the goodwill of the firm was valued at ₹ 90,000. It was also agreed that :

(i) Claim against Workmen Compensation Reserve will be estimated at ₹ 1,00,000 and fixed assets will be depreciated by 10%.

(ii) The capitals of the partners will be adjusted according to the new profit sharing ratio. For this, necessary cash will be brought or paid by the partners as the case may be.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.

Ans. Dr. Revaluation Account Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Claim for Workmen Compensation	25,000	By Loss on Revaluation Transferred to Partners' Capital A/c	
To Fixed Assets A/c	60,000	Suresh 17,000	
		Ramesh 17,000	
		Mahesh 25,500	
		Ganesh 25,500	85,000
	85,000		**85,000**

Dr. Partners' Capital Accounts Cr.

Particulars	Suresh	Ramesh	Mahesh	Ganesh	Particulars	Suresh	Ramesh	Mahesh	Ganesh
To Rev. A/c	17,000	17,000	25,500	25,500	By Bal. b/d	1,00,000	1,50,000	2,00,000	2,50,000
To Mahesh's Capital A/c	2,250	2,250	—	—	By Suresh's Capital A/c	—	—	2,250	2,250
To Ganesh's Capital A/c	2,250	2,250	—	—	By Ramesh's Capital A/c	—	—	2,250	2,250
To Cash A/c	—	—	25,250	75,250	By Cash A/c	75,250	25,250	—	—
To Bal. c/d	1,53,750	1,53,750	1,53,750	1,53,750					
	1,75,250	**1,75,250**	**2,04,500**	**2,54,500**		**1,75,250**	**1,75,250**	**2,04,500**	**2,54,500**

Balance Sheet of Suresh, Ramesh, Mahesh and Ganesh
as at 31st March 2016

Liabilities	Amount (₹)	Assets	Amount (₹)
Partners' Capital A/c:		Fixed Assets	5,40,000
Suresh 1,53,750		Current Assets	3,45,000
Ramesh 1,53,750			
Mahesh 1,53,750			
Ganesh 1,53,750	6,15,000		
Claim for Workmen Compensation	1,00,000		
Sundry Creditors	1,70,000		
	8,85,000		**8,85,000**

14. On 1.4.2015, KVK Ltd. issued 15,000, 9% debentures of ₹ 100 each at a discount of 7%, redeemable at a premium of 10% after 10 years. The company closes its books on 31st March every year. Interest on 9% debentures is payable on 30th September and 31st March every year. The rate of tax deducted at source is 10%.

Pass necessary journal entries for the issue of 9% debentures and debenture interest for the year ended 31st March 2016. **6**

Ans. **Journal Entries**

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2015				
Apr. 1	Bank A/c Dr.		13,95,000	
	To 9% Debenture Application and Allotment A/c			13,95,000
	(Being application money received)			
	9% Debenture Application and Allotment A/c Dr.		13,95,000	
	Discount on Issue of Debentures A/c Dr.		1,05,000	
	Loss on Issue of Debentures A/c Dr.		1,50,000	
	To 9 % Debentures A/c			
	To Premium on Redemption of Debentures A/c			15,00,000
	(Being transfer of application money to debenture account issued at discount of 7%, but redeemable at premium of 10%)			1,50,000
	Or			
	9% Debenture Application and Allotment A/c Dr.		13,95,000	
	Loss on Issue of Debentures A/c Dr.		2,55,000	
	To 9 % Debentures A/c			
	To Premium on Redemption of Debentures A/c			15,00,000
	(Being transfer of application money to debenture account issued at discount of 7%, but redeemable at premium of 10%)			1,50,000
Sep. 30	Debenture Interest A/c Dr.		67,500	
	To Debenture Holders' A/c			60,750
	To TDS Payable A/c			6,750
	(Being interest payable on 9% debentures and tax deducted at source @ 10%)			
Sep. 30	Debenture Holders' A/c Dr.		60,750	
	TDS Payable A/c Dr.		6,750	
	To Bank A/c			67,500
	(Being interest paid to debenture Holders and TDS deposited)			
2016				
March 31	Debenture Interest A/c Dr.		67,500	
	To Debenture Holders' A/c			60,750
	To TDS Payable A/c			6,750
	(Being interest payable on 9% debentures and tax deducted at source @ 10%)			
	Debenture Holders' A/c Dr.		60,750	
	TDS Payable A/c Dr.		6,750	
	To Bank A/c			67,500
	(Being interest paid to debenture holders and TDS deposited)			
	Statement of Profit and Loss Dr.		1,35,000	
	To Debenture Interest A/c			1,35,000
	(Being interest on debentures transferred to Statement to P & L)			

15. Pass necessary journal entries on the dissolution of a partnership firm in the following cases:

(i) Expenses of dissolution were ₹ 9,000.

(ii) Expenses of dissolution ₹ 3,400 were paid by a partner, Vishal.

(iii) Shiv, a partner, agreed to do the work of dissolution for a commission of ₹ 4,500. He also agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 3,900 were paid from the firm's bank account.

(iv) Naveen, a partner, agreed to look after the dissolution work for which he was allowed a remuneration of ₹ 3,000. Naveen also agreed to bear the dissolution expenses. Actual expenses on dissolution ₹ 2,700 were paid by Naveen.

(v) Vivek, a partner, was appointed to look after the dissolution work for a remuneration of ₹ 7,000. He agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 6,500 were paid by Rishi, another partner, on behalf of Vivek.

(vi) Gaurav, a partner, was appointed to look after the work of dissolution for a commission of ₹ 12,500. He agreed to bear the dissolution expenses. Gaurav took over furniture of ₹ 12,500 as his commission. The furniture had already been transferred to realisation account. **6**

Ans. **Books of the firm**

Journal Entries

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
(i)	Realization A/c Dr.		9,000	
	To Cash/ Bank A/c			9,000
	(Being dissolution expenses paid)			
(ii)	Realization A/c Dr.		3,400	
	To Vishal's Capital A/c			3,400
	(Being dissolution expenses paid by Vishal)			
(iii)	Realization A/c Dr.		4,500	
	To Shiv's Capital A/c			4,500
	(Being commission given to Shiv)			
	Shiv's Capital A/c Dr.		3,900	
	To Bank A/c			3,900
	(Being dissolution expenses paid by firm on behalf of the partner)			
(iv)	Realization A/c Dr.		3,000	
	To Naveen's Capital A/c			3,000
	(Being dissolution expenses paid by Naveen and compensated by firm)			
(v) a.	Realization A/c Dr.		7,000	
	To Vivek's Capital A/c			7,000
	(Being partner Vivek remunerated for dissolution expenses)			
(v) b.	Vivek's Capital A/c Dr.		6,500	
	To Rishi's Capital A/c			6,500
	(Being dissolution expenses paid by Rishi on behalf of Vivek)			
	Note: If part a. is correctly done, full credit is to be given.			
(vi) a.	Realization A/c Dr.		12,500	
	To Gaurav's Capital A/c			12,500
	(Being commission given to Gaurav)			

	Gaurav's Capital A/c Dr.		12,500	
	To Realization A/c			12,500
	(Being furniture taken over by Gaurav as remuneration)			
b.	**OR**			
a.+b.	No Entry			

PART-B
(Analysis of Financial Statements)

18. State whether the following will increase, decrease or have no effect on cash flow from operating activities while preparing 'Cash Flow Statement':

(i) Decrease in outstanding employees benefits expenses by ₹ 3,000.

(ii) Increase in prepaid insurance by ₹ 2,000 **1**

Ans. **(i)** Decrease

(ii) Decrease

19. Will 'acquisition of machinery by issue of equity shares' be considered while preparing 'Cash Flow Statement'? Give reason in support of your answer. **1**

Ans. No

Reason: It is a non-cash transaction which doesn't result in any inflow or outflow of cash.

20. State the objectives of 'Analysis of Financial Statements'. **4**

Ans. **Objectives of 'Financial Statements Analysis':** **(Any four)**

(i) To assess the earning capacity or profitability of the firm as a whole as well as its different departments so as to judge the financial health of the firm.

(ii) To assess the managerial efficiency by using financial ratios.

(iii) To assess the short term and the long term solvency of the enterprise.

(iv) To assess their own performance as well as of others through inter firm comparison.

(v) To assess developments in future by forecasting and preparing budgets.

(vi) To ascertain the relative importance of different components of the financial position of the firm.

Outside Delhi Set III — Code No. 67/3

Note : Except these, all other questions are from Set-I and II.

PART-A
(Accounting for Partnership Firms and Companies)

13. Kapil, Mohit, Roshan and Rakesh were partners in a firm sharing profits in the ratio of 5 : 2 : 2 : 1. On 1.4.2016, their Balance Sheet was as follows:

Balance Sheet of Kapil, Mohit, Roshan and Rakesh
as on 1.4.2016

Liabilities		Amount (₹)	Assets	Amount (₹)
Capitals :			Fixed Assets	8,00,000
Kapil	3,50,000		Current Assets	4,00,000
Mohit	3,00,000			
Roshan	2,50,000			
Rakesh	2,00,000	11,00,000		
Sundry Creditors		50,000		
Workmen Compensation Reserve		50,000		
		12,00,000		**12,00,000**

From the above date, the partners decided to share the future profits equally. For this purpose, the goodwill of the firm was valued at ₹ 72,000. It was also agreed that :

(i) Fixed assets will be depreciated by 10% and the claim against Workmen Compensation Reserve will be estimated at ₹ 70,000.

(ii) The capitals of the partners will be adjusted according to their new profit sharing ratio. For this, Partners' Current Accounts will be opened.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm. **6**

Ans.

Dr. **Revaluation Account** **Cr.**

Particulars	Amount (₹)	Particulars		Amount (₹)
To Claim for Workmen Compensation	20,000	By Loss on Revaluation Transferred to Partners' Capital A/c :		
To Fixed Assets A/c	80,000	Kapil	50,000	
		Mohit	20,000	
		Roshan	20,000	
		Rakesh	10,000	1,00,000
	1,00,000			**1,00,000**

Dr. **Partners', Capital Accounts** **Cr.**

Particulars	Kapil (₹)	Mohit (₹)	Roshan (₹)	Rakesh (₹)	Particulars	Kapil (₹)	Mohit (₹)	Roshan (₹)	Rakesh (₹)
To Rev. A/c	50,000	20,000	20,000	10,000	By Bal. b/d	3,50,000	3,00,000	2,50,000	2,00,000
To Kapil's Capital A/c	—	3,600	3,600	10,800	By Mohit's Capital A/c	3,600	—	—	—
To Current A/c	68,000	26,400	—	—	By Roshan's Capital A/c	3,600	—	—	—
To Bal. c/d	2,50,000	2,50,000	2,50,000	2,50,000	By Rakesh's Capital A/c	10,800	—	—	—
					By Current A/c	—	—	23,600	70,800
	3,68,000	**3,00,000**	**2,73,600**	**2,70,800**		**3,68,000**	**3,00,000**	**2,73,600**	**2,70,800**

Balance Sheet of P, Q , R and S
as at 31st March 2016

Liabilities		Amount (₹)	Assets		Amount (₹)
Partners' Capital A/c:			Fixed Assets		7,20,000
Kapil	2,50,000		Current Assets		4,00,000
Mohit	2,50,000		Partners' Current A/c:		
Roshan	2,50,000		Kapil	23,600	
Rakesh	2,50,000	10,00,000	Mohit	70,800	94,400
Claim for Workmen Compensation		70,000			
Sundry Creditors		50,000			
Partners' Current A/c:					
Roshan	68,000				
Rakesh	26,400	94,400			
		12,14,400			**12,14,400**

[CBSE Marking Scheme 2017] 1 ½+2 ½+2=6

14. On 1.4.2015, MKM Ltd. issued 12,000, 11% debentures of ₹ 100 each at a discount of 8%, redeemable at a premium of 10% after three years. The company closes its books on 31st March every year. Interest on 11% debentures is payable on 30th September and 31st March every year. The rate of tax deducted at source is 10%.

Pass necessary journal entries for the issue of 11% debentures and debenture interest for the year ended 31st March 2016. **6**

Ans. **Journal Entries**

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
2015				
Apr. 1	Bank A/c Dr.		11,04,000	
	To 11% Debenture Application and Allotment A/c			11,04,000
	(Being application money received)			
	11% Debenture Application and Allotment A/c Dr.		11,04,000	
	Discount on Issue of Debentures A/c Dr.		96,000	
	Loss on Issue of Debentures A/c Dr.		1,20,000	
	To 11 % Debentures A/c			12,00,000
	To Premium on Redemption of Debentures A/c			1,20,000
	(Being transfer of application money to debenture account issued at discount of 8%, but redeemable at premium of 10%)			
	Or			
	11% Debenture Application and Allotment A/c Dr.		11,04,000	
	Loss on Issue of Debentures A/c Dr.		2,16,000	
	To 11 % Debentures A/c			12,00,000
	To Premium on Redemption of Debentures A/c			1,20,000
	(Being transfer of application money to debenture account issued at discount of 8%, but redeemable at premium of 10%)			
Sep. 30	Debenture Interest A/c Dr.		66,000	
	To Debenture Holders' A/c			59,400
	To TDS Payable A/c			6,600
	(Being interest payable on 11% debentures and tax deducted at source @ 10%)			
	Debenture Holders' A/c Dr.		59,400	
	TDS Payable A/c Dr.		6,600	
	To Bank A/c			66,000
	(Being interest paid to debentures holders and TDS deposited)			
2016				
Mar. 31	Debenture Interest A/c Dr.		66,000	
	To Debenture Holders' A/c			59,400
	To TDS Payable A/c			6,600
	(Being interest payable on 11% debentures and tax deducted at source @ 10%)			

	Debenture Holders' A/c Dr.		59,400	
	TDS Payable A/c Dr.		6,600	
	To Bank A/c			66,000
	(Being interest paid to debentures Holders and TDS deposited)			
	Statement of Profit and Loss Dr.		1,32,000	
	To Debenture Interest A/c			1,32,000
	(Being interest on debentures transferred to Statement to P & L)			

15. Pass necessary journal entries on the dissolution of a partnership firm in the following cases:

(i) Expenses of dissolution ₹ 500 were paid by John, a partner.

(ii) Joney, a partner, agreed to bear the dissolution expenses for a commission of ₹ 750. Actual dissolution expenses ₹ 650 were paid by Joney.

(iii) Bony, a partner, agreed to look after the dissolution work for a remuneration of ₹ 3,700. He also agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 4,200 were paid by Bony from the firm's cash.

(iv) Sony, a partner, was appointed to look after the dissolution work for a remuneration of ₹10,000. Sony agreed to bear the dissolution expenses, Sony took away stock worth ₹ 10,000 as his remuneration. Stock had already been transferred to realisation account.

(v) Vikky, a partner, agreed to look after the dissolution work for a remuneration of ₹ 12,000. Vikky also agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 12,500 were paid by another partner, Clive, on behalf of Vikky.

(vi) Dissolution expenses were ₹ 5,000. **6**

Ans.

Books of the firm

Journal Entries

Date	Particulars	L.F.	Amount Dr. (₹)	Amount Cr. (₹)
(i)	Realization A/c Dr. To John's Capital A/c (Being remuneration given to John)		500	 500
(ii)	Realization A/c Dr. To Joney's Capital A/c (Being dissolution expenses paid by partner)		750	 750
(iii) a.	Realization A/c Dr. To Bony's Capital A/c (Being remuneration given to Bony)		3,700	 3,700
b.	Bony's Capital A/c Dr. To Bank/ Cash A/c (Being the dissolution expenses paid by the firm on behalf of partner)		4,200	 4,200
(iv) a.	Realization A/c Dr. To Sony's Capital A/c (Being remuneration given to Sony)		10,000	 10,000
b.	Sony's Capital A/c Dr. To Realization A/c (Being stock taken over by Sony as remuneration)		10,000	 10,000
	OR			
a.+b.	No Entry			

(v) a.	Realisation A/c Dr. To Vikky's Capital A/c (Being partner Vikky remunerated for dissolution expenses)		12,000	 12,000
b.	Vikky's Capital A/c Dr. To Clive's Capital A/c (Being the dissolution expenses paid by Clive on behalf of Vikky, debited to his capital A/c)		12,500	 12,500
	Note: If part a. is correctly done, full credit is to be given.			
(vi)	Realisation A/c Dr. To Bank/ Cash A/c (Being dissolution expenses paid)		5,000	 5,000

PART-B
(Analysis of Financial Statements)

18. What is meant by 'Cash Flow Statement'? 1

Ans. Cash Flow Statement records the inflows and outflows of cash and cash equivalents during a particular period of time.

19. Will 'Net decrease in working capital' other than cash and cash equivalents, increase, decrease or not change Cash Flow from Operating Activities? Give reason in support of your answer. 1

Ans. Increase

Reason: Net decrease in working capital implies inflow of cash and cash equivalents.

20. State any four limitations of 'Analysis of Financial Statements'. 4

Ans. Limitations of 'Financial Statements Analysis': (Any four)

(i) It is a historical Analysis as it analyses what has happened till date. It doesn't reflect the future.

(ii) It ignores price level changes as a change in price level makes analysis of financial statements of different accounting years invalid.

(iii) It ignores qualitative aspect as the quality of management, quality of staff, etc. are ignored while carrying out the analysis of financial statements.

(iv) It suffers from the limitations of financial statements as the analysis is based on the information given in the financial statements.

(v) It is not free from bias of accountants such as method of inventory valuation , method of depreciation, etc.

(vi) It may lead to window dressing i.e. showing a better financial position than what actually is by manipulating the books of accounts.

(vii) It may be misleading without the knowledge of the changes in accounting procedure by a firm.

❑❑❑