

Solutions to RSPL/1

1. At the time of change in the profit sharing ratio, goodwill is adjusted in order to enable the gaining partner whose share has increased to compensate the sacrificing partner, whose share has decreased.

2. **Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Realisation A/c Dr. To Bank A/c (Being payment done to creditors, who took machine as part payment)		20,000	20,000

3. **Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Investment Fluctuation Fund A/c Dr. To Investment A/c To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Being IFF distributed)		21,000	20,000 600 300 100

4. Yes, a retiring partner/legal representative of a deceased partner, if the amount due is not paid, at his option is entitled to receive either interest @ 6% p.a. on the balance due or share in profit earned proportionate to his amount outstanding to total capital.
5. Amount to be transferred to capital reserve = ₹ 30 × 120 = ₹ 360

6. **Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr. Calls-in-arrears A/c Dr. To Share Allotment A/c To Calls-in-advance A/c (Being allotment money received on all except 500 shares and call money on 1000 shares received in advance)		2,25,750 2,250	2,25,000 3,000

7. The two necessary condition for forfeiture of shares are:
- (a) The Article of Association of the company permits it.
 - (b) 14 days notice must be given to the defaulting shareholder before forfeiting the shares.
- The amount of share forfeiture is used to write off the discount on reissue of forfeited shares.

8. **Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Heena's Current A/c Dr.		9,000	
	Meena's Current A/c Dr.		11,000	
	To Reena's Current A/c			20,000
	(Being error done now rectified)			

Adjustment table

Particulars		Heena	Reena	Meena
Salary to Heena	Dr.	60,000	–	–
Interest on Capital	Dr.	25,000	50,000	75,000
Profit	Dr.	6,000	12,000	18,000
		91,000	62,000	93,000
Profit to be distributed equally	Cr.	82,000	82,000	82,000
Net effect		9,000(Dr.)	20,000(Cr.)	11,000(Dr.)

9. **In the books of Talpro Ltd.**

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Building A/c Dr.		6,50,000	
	Machinery A/c Dr.		2,10,000	
	Debtors A/c Dr.		50,000	
	Inventories A/c Dr.		80,000	
	Goodwill A/c (Bal. Fig.) Dr.		50,000	
	To Creditors A/c			1,20,000
	To Seekha Ltd.			9,20,000
	(Being Business purchased)			
	Seekha Ltd. Dr.		36,800	
	To Bank A/c			36,800
	(Being 4% payment done through cheque)			
	Seekha Ltd. Dr.		8,83,200	
	Discount on issue of debentures A/c Dr.		2,20,800	
	To 9% Debenture A/c			11,04,000
	(Being purchase consideration paid through issue of 11040 9% Debentures at a discount of 20%)			

10.

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	10% Debentures A/c To Debentureholders A/c (Being 10,000, 10% Debentures due for redemption)	Dr.	10,00,000	10,00,000
	Debentureholders A/c To 6% Preference Share Capital A/c To Securities Premium Reserve A/c (Being debentureholders claim settled by issue of 8000 6% preference shares)	Dr.	10,00,000	8,00,000 2,00,000

Values highlighted here are:

- timely decision making to safeguard interest of the investors.
- upgrading technology for development.

11. **Dr.****Naresh's Capital A/c****Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Goodwill A/c	3,600	By Balance b/d	2,00,000
To Drawings A/c	37,000	By General Reserve	15,600
		By Interest on Capital (@ 10% for 6 months)	10,000
		By Profit and loss Suspense A/c	8,550
To Naresh's Executor's A/c	2,43,950	By Dinesh's Capital A/c	36,000
		By Umesh's Capital A/c	14,400
	<u>2,84,550</u>		<u>2,84,550</u>

Working notes:

$$1. \text{ Average Profit of 4 years} = \frac{2,24,000}{4} = ₹ 56,000$$

$$\text{Goodwill} = 3 \times 56,000 = ₹ 1,68,000$$

$$\text{Naresh's share of Goodwill} = 1,68,000 \times \frac{3}{10} = 50,400$$

$$\text{Dinesh's Capital A/c} \quad \text{Dr.} \quad 36,000$$

$$\text{Umesh's Capital A/c} \quad \text{Dr.} \quad 14,400$$

$$\text{To Naresh's Capital A/c} \quad 50,400$$

(Being share of Goodwill provided)

$$2. \text{ Naresh's Share of Profit} = 57,000 \times \frac{6}{12} \times \frac{3}{10} = ₹ 8,550$$

$$(\text{Average Profit of last two years} = \frac{50,000 + 64,000}{2} = 57,000)$$

12.

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2016 1 st April	L's Capital A/c Dr. M's Capital A/c Dr. N's Capital A/c Dr. O's Capital A/c Dr. To Goodwill A/c (Being existing goodwill written off.)		96,000 72,000 48,000 24,000	2,40,000
	M's Capital A/c Dr. To L's Capital A/c Dr. To N's Capital A/c Dr. To O's Capital A/c Dr. (Being the adjustment for goodwill made on retirement of O)		72,000 24,000 12,000 36,000	

Working notes:

Calculation of gaining/sacrificing ratio

$$L : \frac{4}{10} - \frac{2}{6} = \frac{24 - 20}{60} = \frac{4}{60} \text{ sacrifice}$$

$$M : \frac{3}{10} - \frac{3}{6} = \frac{18 - 30}{60} = \left(\frac{12}{60}\right) \text{ gain}$$

$$N : \frac{2}{10} - \frac{1}{6} = \frac{12 - 10}{60} = \frac{2}{60} \text{ sacrifice}$$

$$O : \frac{1}{10} \times \frac{6}{6} = \frac{6}{60} \text{ sacrifice}$$

13. Dr.

Realisation A/c

Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Land and Building A/c	4,00,000	By Provision for Bad Debts	4,000
To Machinery A/c	2,50,000	By Investment fluctuation fund	1,00,000
To Investments A/c	1,20,000	By Employee Provident fund	70,000
To Debtors A/c	80,000	By Creditors	80,000
To Bank A/c (EPF)	70,000	By Bank	
		Debtors	78,400
		Investment	20,000
		Other Assets	5,10,000
To Sagar's Capital A/c (Realisation expenses)	800	By loss transferred to:	6,08,400
		Sagar	23,360
		Prateek	35,040
	9,20,800		58,400
			9,20,800

Dr.

Capital A/c

Cr.

Particulars	Sagar (₹)	Prateek (₹)	Particulars	Sagar (₹)	Prateek (₹)
To Realisation A/c	23,360	35,040	By Balance b/d	2,12,000	4,26,000
To Bank A/c	1,89,440	3,90,960	By Realisation A/c	800	-
	2,12,800	4,26,000		2,12,800	4,26,000

Dr.		Bank A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To balance b/d	42,000	By Realisation A/c	7,000		
To Realisation A/c	6,08,400	By Sagar's Capital A/c	1,89,440		
		By Prateek's Capital A/c	3,90,960		
	6,50,400		6,50,400		

14. **Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(a)	A's Capital A/c Dr. C's Capital A/c Dr. To B's Capital A/c (Being goodwill adjusted for change in PSR)		12,000 8,000	20,000
(b)	Investment Fluctuation Fund A/c Dr. To Investment A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c (Being IFF utilized)		50,000	20,000 12,000 10,000 8,000
(c)	Building A/c Dr. Creditors A/c Dr. Revaluation A/c Dr. To Debtors A/c To Machinery A/c (Being assets and liabilities revalued)		30,000 5,000 15,000	15,000 35,000
(d)	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Revaluation A/c (Being loss transferred)		6,000 5,000 4,000	15,000
(e)	B's Capital A/c Dr. To A's Capital A/c To C's Capital A/c (Being advertisement suspense adjusted)		10,000	6,000 4,000

Working notes:

Calculation of gain/sacrifice

$$A : \frac{6}{15} - \frac{3}{6} = \frac{12 - 15}{30} = \left(\frac{3}{30} \right) \text{ gain}$$

$$B : \frac{5}{15} - \frac{1}{6} = \frac{10 - 5}{30} = \frac{5}{30} \text{ sacrifice}$$

$$C : \frac{4}{15} - \frac{2}{6} = \frac{8 - 10}{30} = \left(\frac{2}{30} \right) \text{ gain}$$

15.

**In the books of Varun Ltd.
Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(a)	9% Debentures A/c Dr. To Debentureholder A/c (Being debentures due for redemption)		4,50,000	4,50,000
	Debentureholder's A/c Dr. To Bank A/c (Being debentures redeemed)		4,50,000	4,50,000
(b)	6% Debentures A/c Dr. Premium on redemption of Debenture A/c Dr. To Debentureholder A/c (Being debentures due for redemption)		60,000 12,000	72,000
	Debentureholder A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Converted 6% Debentures into equity shares issued at a premium of 25%)		72,000	57,600 14,400
(c)	Interest on Debentures A/c Dr. To Debentureholders A/c (Being interest due)		1,08,000	1,08,000
	Debentureholder A/c Dr. To Bank A/c (Being interest paid)		1,08,000	1,08,000

16. Dr. Revaluation A/c Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Stock A/c	2,200	By Plant	3,750
To Profit transferred to:		By Bad Debts recovered	500
A	1,025		
B	615		
C	410		
	2,050		
	4,250		4,250

Dr. Partner's Capital A/c Cr.

Particulars	A (₹)	B (₹)	C (₹)	D (₹)	Particulars	A (₹)	B (₹)	C (₹)	D (₹)
To Goodwill A/c	10,000	6,000	4,000		By Balance b/d	50,000	30,000	20,000	
To balance c/d	87,500	52,500	35,000	35,000	By General Reserve A/c	4,500	2,700	1,800	
					By Bank A/c				35,000
					By Premium for Goodwill	5,000	3,000	2,000	
					By Revaluation A/c	1,025	615	410	
					By Bank A/c	36,975	22,185	14,790	
	97,500	58,500	39,000	35,000		97,500	58,500	39,000	35,000

Working notes:

Dr.		Bank A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To balance b/d	12,000	By Balance c/d	1,31,450		
To D's Capital A/c	35,000				
To Premium for Goodwill A/c	10,000				
To A's Capital A/c	36,975				
To B's Capital A/c	22,185				
To C's Capital A/c	14,790				
To Bad debts recovered	500				
	1,31,450		1,31,450		

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Building	65,000
A	87,500	Plant	18,750
B	52,500	Debtors	27,000
C	35,000	Stock	27,800
D	35,000	Cash at Bank	1,31,450
Creditors	60,000		
	2,70,000		2,70,000

$$\text{New PSR} = A = \frac{5}{6} \times \frac{5}{10} = \frac{25}{60} \quad 25:15:10:10$$

$$B = \frac{5}{6} \times \frac{3}{10} = \frac{15}{60} \quad \text{i.e. } 5:3:2:2$$

$$C = \frac{5}{6} \times \frac{2}{10} = \frac{10}{60}$$

Or

Dr.		Revaluation A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Stock A/c	2,000	By Building A/c	60,000		
To Provision for bad debts	1,500				
To Liability against Workmen Compensation	8,100				
To profit transferred to					
Atul	24,200				
Bilal	18,150				
Charu	6,050				
	60,000		60,000		

Dr.		Partner's Capital A/c				Cr.	
Particulars	Atul (₹)	Bilal (₹)	Charu (₹)	Particulars	Atul (₹)	Bilal (₹)	Charu (₹)
By Bilal's Capital A/c			18,000	By Balance b/d	80,000	60,000	50,000
By Cash A/c		96,150		By Revaluation A/c	24,200	18,150	6,050
By Balance c/d	1,20,700		1,20,700	By Charu's Capital A/c		18,000	
				By Cash A/c	16,500		82,650
	1,20,700	96,150	1,38,700		1,20,700	96,150	1,38,700

Working notes:**Total Capital of new firm:**

Atul's Adjusted Capital	1,04,200
Charu's Adjusted Capital	38,050
Bilal's Capital	96,150
Minimum Cash	3,000
	<u>2,41,400</u>

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital:		Building	2,00,000
Atul	1,20,700	Patents	30,000
Charu	1,20,700	Debtors	30,000
Sundry Creditor	48,000	Less: Provision	<u>-1,500</u>
Liability for workmen Compensation	8,100	Stock	24,000
		Bank	15,000
	<u>2,97,500</u>		<u>2,97,500</u>

17. Dr. Cash Book Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Share Application A/c	1,25,000	By Balance c/d	2,40,375
To Share Allotment A/c	73,875		
To Share Final Call A/c	39,400		
To Share Capital A/c	2,100		
	<u>2,40,375</u>		<u>2,40,375</u>

Journal of Hi Tech Ltd.

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(a)	Share Application A/c Dr. To Share Capital To Share Allotment A/c (Being shares allotted)		1,25,000	1,00,000 25,000
(b)	Share Allotment A/c Dr. To Share Capital To Securities Premium Reserve A/c (Being share allotment due)		1,00,000	60,000 40,000
(c)	Share Final Call A/c Dr. To Share Capital A/c (Being share call due)		40,000	40,000
(d)	Share Capital A/c Dr. Securities Premium Reserve A/c To Share forfeiture A/c To Share Allotment A/c To Share Final Call A/c (Being shares forfeited)		3,000 600	1,875 1,125 600

(e)	Share forfeiture A/c To Share Capital A/c (Being shares reissued)	Dr.		900	900
(f)	Share forfeiture A/c To Capital Reserve A/c (Being profit on reissue transferred)	Dr.		975	975

Or
Journal of Vijeta Computers Ltd.

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c To Share Application A/c (Being application money received)	Dr.	90,000	90,000
	Share Application A/c To Share Capital A/c (Being application money transferred)	Dr.	90,000	90,000
	Share Allotment A/c To Share Capital A/c (Being allotment money due)	Dr.	1,35,000	1,35,000
	Bank A/c To Share Allotment A/c (Being allotment money received)	Dr.	1,26,000	1,26,000
	Share First Call A/c To Share Capital A/c (Being first call due)	Dr.	1,35,000	1,35,000
	Bank A/c To Share First Call A/c (Being share call received)	Dr.	1,11,000	1,11,000
	Share Second Call A/c To Share Capital A/c (Being second call due)	Dr.	90,000	90,000
	Bank A/c To Share Second Call A/c (Being share call received)	Dr.	70,000	70,000
	Share Capital A/c To Share Forfeiture A/c To Share Allotment A/c To Share First Call A/c To Share Second Call A/c (Being share forfeited)	Dr.	80,000	31,000 9,000 24,000 16,000
	Bank A/c Share Forfeiture A/c To Share Capital A/c (Being shares reissued)	Dr. Dr.	64,000 16,000	80,000
	Share Forfeiture A/c To Capital Reserve A/c (Being profit on reissue transferred)	Dr.	15,000	15,000

23.

Cash Flow Statement
for the year ended 31st March 2016

	Particulars	(₹)	(₹)
A.	Cash Flows from Operating Activities:	1,05,000	
	Net Profit before Tax (Wn 1)	10,000	
	Add: Depreciation on Building	85,000	
	Depreciation on Plant	8,000	
	Interest on Debentures	(15,000)	
	Less: Profit on Sale of Machine	1,93,000	
	Operating Profit before Working Capital changes	40,000	
	Add: Decrease in Trade Receivables	20,000	
	Increase in Trade Payables	(30,000)	
	Less: Increase in inventories	2,23,000	
		65,000	
	Less: Tax paid	1,58,000	
	Net cash flow from operations		1,58,000
B.	Cash Flows from Investing Activities:	(2,80,000)	
	Purchase of Machinery	70,000	
	Sale of Machine	(2,10,000)	
	Cash used in investing activities		(2,10,000)
C.	Cash Flows from Financing Activities:		
	Issue of Equity shares	1,00,000	
	Issue of 8% Debentures	50,000	
	Dividend Paid	(60,000)	
	Interest on Debentures	(8,000)	
	Net Cash flow from financing activities	82,000	82,000
D.	Net increase in Cash and Cash Equivalents		30,000
E.	Add: Opening Cash and Cash Equivalent		1,80,000
F.	Closing Cash and Cash Equivalent		2,10,000

Working notes:

Balance as per Statement of profit and loss	45,000
Add: Transfer to General Reserve	5,000
Provision for Tax	5,000
Proposed Dividend	50,000
	1,05,000

Dr. Provision for Tax Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	65,000	By Balance b/d	1,20,000
To Balance c/d	60,000	By Statement of Profit and Loss	5,000
	1,25,000		1,25,000

Dr. Machinery A/c Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	70,000	By Depreciation	85,000
To Bank A/c	2,80,000	By Bank (Sale)	70,000
To Statement of Profit and Loss	15,000	By Balance c/d	2,10,000
	3,65,000		3,65,000