

Solutions to RSPL/2

1. If the amount due to the retiring partner or legal representative of the deceased partner is not paid and the business is carried on, the retiring partner/legal representative of the deceased partner at his option, is entitled to receive either interest @ 6% p.a. on the balance amount or share in the profit earned by using the amount due to him, till the amount is paid off (Section 37, Indian Partnership Act, 1932)

2. **Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(a)	Charity A/c Dr. To Bank A/c (Being donation given)		60,000	60,000

The value of sensitivity towards cleanliness and care of environment is reflected here.

3. Revaluation of assets and liabilities are done to prevent the incoming partner from any advantage on disadvantage arising due to the change in these values. To ensure this, revaluation account is prepared.
4. ₹ 1800 (i.e. 300×6)
5. It is a scheme under which a company gives an option to its employee directors and employees to apply for shares at a price lesser than the market price.
6. Normal Profit = 15% of ₹ 10,00,000 = ₹ 1,50,000
 Super Profit = 3,00,000 – 1,50,000 = ₹ 1,50,000
 Goodwill = $1,50,000 \times \frac{100}{15} = ₹ 10,00,000$

7. **In the books of VK Ltd.
Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(a)	Assets A/c Dr. Goodwill A/c Dr. To Liabilities A/c To M/s PKL Ltd. A/c (Being assets and liabilities purchased)		21,00,000 25,000	2,50,000 18,75,000
(b)	M/s PLK Ltd. Dr. Discount on issue of Debentures A/c Dr. To Bank A/c To 6% Debentures A/c (Being purchase consideration paid through cheque and by the issue of 25,000 6% debentures of ₹ 100 each at a discount of 30%)		18,75,000 7,50,000	1,25,000 25,00,000

8. (a) Amount to be paid to B = 1,05,000 + 7,200 = ₹ 1,12,200
 (b) Calculation of new profit sharing ratio:

$$A's \text{ Share} = \frac{4}{9} + \left(\frac{3,900}{7,200} \times \frac{3}{9} \right) = \frac{4}{9} + \frac{13}{72} = \frac{45}{72}$$

$$C's \text{ Share} = \frac{2}{9} + \left(\frac{3,300}{7,200} \times \frac{3}{9} \right) = \frac{2}{9} + \frac{11}{72} = \frac{27}{72}$$

New ratio is 45 : 27 i.e. 5 : 3.

9.

Balance Sheet of Gamon India Ltd.

as at

Particulars	Note No.	31.3.16	31.3.15
Equity and Liabilities			
Shareholder's Fund			
Share Capital	1	27,93,000	

Note to Accounts

Sr. No.	Particulars	Amount ₹
1.	Share Capital	
	Authorised Capital	
	5,00,000 Equity Shares of ₹ 10 each.	50,00,000
	Issued Capital	
	30,000 Equity Shares of ₹ 10 each (issued for consideration other than cash)	3,00,000
	2,50,000 Equity Shares of ₹ 10 each.	25,00,000
		28,00,000
	Subscribed Capital	
	Subscribed and fully paid	
	30,000 Equity shares of ₹ 10 each	3,00,000
	(issued for consideration other than cash)	
	2,46,500 Equity shares of ₹ 10 each	24,65,000
		<u>27,65,000</u>
	Subscribed but not fully paid	
	500 shares of ₹ 10 each	5,000
	Less: Calls-in-arrears	(1,000)
	Add: Forfeited shares	24,000
		<u>28,000</u>
		27,93,000

10.

In the books of Ravinder Ltd.

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr.		10,60,000	
	To Debenture Application and Allotment A/c (Being debentures issued at a premium of 6%)			10,60,000

Accountancy – 12

Debentures Application and Allotment A/c	Dr.	10,60,000	
Loss on issue of Debentures A/c	Dr.	40,000	
To 10% Debentures A/c			10,00,000
To Securities Premium Reserve A/c			60,000
To Premium on redemption of Debentures A/c			40,000
(Being 10,000 10% Debentures issued at a premium of 6% redeemable at a premium of 4%)			

Values highlighted here are:

- Spreading literacy
- Uplifted of weaker section of the society

11. Dr. Sarah's Capital A/c Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Sarah's Loan A/c	20,000	By Balance b/d	1,20,000
To Profit and Loss A/c	22,200	By General Reserve	3,000
To Sarah's Executor's A/c	1,51,300	By Riya's Capital A/c	20,571
		By Kaya's Capital A/c	27,429
		By Profit and Loss Supense A/c	22,500
	1,93,500		1,93,500

Working notes:

- Goodwill = 80,000 × 2 = ₹ 1,60,000

$$\text{Sarah's Share of Goodwill} = 1,60,000 \times \frac{3}{10} = ₹ 48,000$$

Riya's Capital A/c	Dr.	20,571	
Kaya's Capital A/c	Dr.	27,429	
To Sarah's Capital A/c			48,000
(Being Goodwill adjusted)			

- Sarah's Share of Profit :

$$\frac{2,00,000}{8,00,000} \times 3,00,000 \times \frac{3}{10} = ₹ 22,500$$

12. Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(a)	Vineet's Capital A/c	Dr.	32,000	
	Sachin's Capital A/c	Dr.	8,000	
	To Goodwill A/c			40,000
	(Being goodwill written off)			

(b)	Bank A/c To Premium for Goodwill A/c (Being premium brought in by Arvind)	Dr.		50,000	50,000
(c)	Sachin's Capital A/c Premium for Goodwill A/c To Vineet's Capital A/c (Being sacrificing partner compensated)	Dr. Dr.		20,000 50,000	70,000

Working notes:

Calculation of Sacrificing/gaining ratio:

$$\text{Vineet} = \frac{4}{5} - \frac{1}{3} = \frac{12-5}{15} = \frac{7}{15} \text{ sacrifice}$$

$$\text{Sachin} = \frac{1}{5} - \frac{1}{3} = \frac{3-5}{15} = \left(\frac{2}{15}\right) \text{ gain}$$

$$\text{Arvind} = \left(\frac{5}{15}\right) \text{ gain}$$

13.

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Kashish's Current A/c To Kumar's Current A/c To Rama's Current A/c (Being error rectified)	Dr.	42,000	24,000 18,000

Adjustment table

Particulars	Kumar	Kashish	Rama
Profit already distributed to be debited	1,00,000 (Dr)	1,00,000 (Dr)	1,00,000 (Dr)
Interest on Capital	30,000 (Cr)	15,000 (Cr)	15,000 (Cr)
Salary	–	–	60,000 (Cr)
Commission	8,000 (Cr)	–	–
Remaining Profit in ratio of 2 : 1 : 1	86,000 (Cr)	43,000 (Cr)	43,000 (Cr)
	1,24,000 (Cr)	58,000 (Cr)	1,18,000 (Cr)
Net adjustment to be done	24,000 (Cr)	42,000 (Dr)	18,000 (Cr)

14. Dr. Realisation A/c Cr.

Particulars		Amount (₹)	Particulars		Amount (₹)
To Sundry Assets			By Sundry Liabilities		
Land and Building	47,000		Accounts Payable	14,000	
Office Equipment	8,000		Employees P.F.	1,000	
Stock	56,000		Bank Overdraft	12,000	
Accounts Receivable	18,000		Workmen Comp. Fund	5,000	32,000
Investments	15,000	1,44,000	By Bank		
To Bank			Land and Building	1,20,000	
Creditors	7,000		Stock	40,000	
Workmen Comp. Fund	5,000		Accounts Receivable	15,000	
Expenses	3,000		Investment	9,000	1,84,000
Employee's PF	1,000				
Bank Overdraft	12,000	28,000			
To Profit transferred to					
P	8,800				
Q	17,600				
R	17,600	44,000			
		2,16,000			2,16,000

Dr. Partners' Capital A/c Cr.

Particulars	P (₹)	Q (₹)	R (₹)	Particulars	P (₹)	Q (₹)	R (₹)
To Bank	30,800	61,600	61,600	By Balance b/d	19,000	38,000	38,000
				By WCF	3,000	6,000	6,000
				By Realisation A/c	8,800	17,600	17,600
	30,800	61,600	61,600		30,800	61,600	61,600

15. (a) Journal of XYZ Ltd

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(i)	Bank A/c Dr. To Debenture Application and Allotment A/c (Being debenture application received)		3,00,000	3,00,000
	Debenture Application and Allotment A/c Dr. To 10% Debentures A/c To Securities Premium Reserve A/c (Being 2,500, 10% Debentures of ₹ 100 each issued at a premium of 20%)		3,00,000	2,50,000 50,000

(ii)	Debenture Suspense A/c To 10% Debentures A/c (Being 2,500; 10% Debentures issued as collateral security)	Dr.		2,50,000	2,50,000
(iii)	Machinery A/c To Vendors A/c (Being Machinery purchased)	Dr.		2,50,000	2,50,000
	Vendors A/c To 10% Debentures A/c (Being 2,500, 10% Debentures of ₹ 100 each issued for consideration other than cash)	Dr.		2,50,000	2,50,000

(b) **Journal of Siya Ram International Ltd.**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Surplus i.e. balance in Statement of profit and loss A/c To Debenture Redemption Reserve A/c (Being DRR created)	Dr.	25,000	25,000
	Debentures Redemption Investment A/c To Bank A/c (Being investment purchased)	Dr.	15,000	15,000
	Bank A/c To Debentures Redemption Investment A/c To Interest A/c (Being investments encashed)	Dr.	16,200	15,000 1,200
	10% Debentures A/c Premium on Redemption of Debentures A/c To Debentureholders A/c (Being debentures due for redemption)	Dr. Dr.	1,00,000 10,000	1,10,000
	Debentureholder's A/c To Bank A/c (Being debentures redeemed)	Dr.	1,10,000	1,10,000
	Debenture Redemption Reserve A/c To General Reserve A/c (Being DRR transferred to general reserve)	Dr.	25,000	25,000

16. Dr. Revaluation A/c Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Stock	5,000	By Loss transferred to:	
To Fixed Assets	4,000	X's Capital A/c	5,400
		Y's Capital A/c	3,600
	9,000		9,000

Dr. Partners' Capital A/c Cr.

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Revaluation A/c	5,400	3,600		By Balance b/d	60,000	35,000	
To Profit and Loss A/c	4,800	3,200		By WCF	3,000	2,000	
To Cash A/c	3,000			By Premium for Goodwill	7,200	4,800	
To Balance c/d	63,000	42,000	26,250	By Reserve	6,000	4,000	
				By Cash	-	3,000	26,250
	76,200	48,800	26,250		76,200	48,800	26,250

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Fixed Assets	60,000
X	63,000	Stock	30,000
Y	42,000	Book Debts	25,000
Z	<u>26,250</u>	Cash	47,250
Workmen Compensation Liability	1,000		
Creditors	30,000		
	1,62,250		1,62,250

Working notes:

Adjusted Capital of X and Y = 66,000 + 39,000 = 1,05,000

Proportionate capital to be bought by Z = 1,05,000 × $\frac{5}{4}$ × $\frac{1}{5}$ = ₹ 26,250

Total Capital of the firm based on Z's Capital = 26,250 × 5 = ₹ 1,31,250

∴ X's Capital = 1,31,250 × $\frac{12}{25}$ = ₹ 63,000

Y's Capital = 1,31,250 × $\frac{8}{25}$ = ₹ 42,000

Or

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Revaluation A/c Dr.		4,400	
	To Stock A/c			1,500
	To Furniture A/c			1,200
	To Provision for doubtful debts A/c			1,400
	To Outstanding Expense A/c			300
	(Being assets and liabilities revalued)			

A's Capital A/c	Dr.	1,650	
B's Capital A/c	Dr.	1,650	
C's Capital A/c	Dr.	1,100	
To Revaluation A/c			4,400
(Being loss on revaluation transferred)			
General Reserve A/c	Dr.	4,000	
To A's Capital A/c			1,500
To B's Capital A/c			1,500
To C's Capital A/c			1,000
(Being general reserve distributed)			

Dr. Partners' Capital A/c Cr.

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)
To Revaluation A/c	1,650	1,650	1,100	By Balance b/d	16,000	15,000	10,000
To B's Capital A/c	3,000		1,500	By General Reserve	1,500	1,500	1,000
To Bank A/c		19,350		By A's Capital A/c		3,000	
To Balance c/d	22,250		13,350	By C's Capital A/c		1,500	
				By Bank	9,400		4,950
	26,900	21,000	15,950		26,900	21,000	15,950

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Capitals:		Patents	4,000
A	22,250	Furniture	10,800
C	<u>13,350</u>	Stock	28,500
Creditors		Debtors	28,000
Outstanding Expenses	300	Less: Provision	<u>(1,400)</u>
		Bank	1,000
	70,900		70,900

Working notes:

Adjusted Capital of A and C	= 12,850 + 8,400 = 21,250
Amount to be paid to B	= 19,350
Less: Cash at Bank	= (5,000)
Total Capital of firm	= <u>35,600</u>

17.

Journal in the books of X Ltd.

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr. To Share Application A/c (Being application receive for 1,24,000 shares)		2,48,000	2,48,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Bank A/c (Being application money transferred)		2,48,000	80,000 1,47,000 21,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being allotment due)		1,80,000	80,000 1,00,000
	Bank A/c Dr. Calls-in-arrears A/c Dr. To Share Allotment A/c (Being allotment received)		30,500 2,500	33,000
	Share Final Call A/c Dr. To Share Capital A/c (Being call money due)		2,40,000	2,40,000
	Bank A/c Dr. Calls-in-arrears A/c Dr. To Share Capital A/c (Being call money received)		2,34,000 6,000	2,40,000
	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Calls-in-arrears A/c To Share Forfeiture A/c (Being share forfeited)		10,000 2,500	8,500 4,000

Or**Journal in the books of Krishan Company**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr. To Share Application A/c (Being application money received)		3,00,000	3,00,000

Share Application A/c	Dr.	3,00,000	
To Share Capital A/c			1,50,000
To Share Allotment A/c			1,45,000
To Bank A/c			5,000
(Being application money transferred)			
Share Allotment A/c	Dr.	2,25,000	
To Share Capital A/c			2,25,000
(Being share allotment due)			
Bank A/c	Dr.	77,000	
Calls-in-arrears A/c	Dr.	3,000	
To Share Allotment A/c			80,000
(Being allotment money received)			
Bank A/c	Dr.	15,000	
To Calls-in-advance A/c			15,000
(Being call received in advance)			
Share Call A/c	Dr.	3,75,000	
To Share Capital			3,75,000
(Being call money due)			
Bank A/c	Dr.	3,50,000	
Calls-in-arrears A/c	Dr.	10,000	
Calls-in-advance A/c	Dr.	15,000	
To Share Call A/c			3,75,000
(Being call money received)			
Share Capital A/c	Dr.	20,000	
To Share Forfeiture A/c			7,000
To Calls-in-arrears A/c			13,000
(Being shares forfeited)			
Bank A/c	Dr.	16,000	
Share Forfeiture A/c	Dr.	4,000	
To Share Capital A/c			20,000
(Being shares reissued)			
Share Forfeiture A/c	Dr.	3,000	
To Capital Reserve			3,000
(Being profit on reissue transferred)			

- 18.** An increase in goodwill will be shown as an outflow of cash in investing activities as purchase of goodwill. A decrease in goodwill will be added to Net profit while calculating cash from operating activities as it is a non cash expense due to amortisation of goodwill.
- 19.** No flow of cash and cash equivalent as it is simply a book entry.

20. (a) The finance manager can take many crucial decision on the basis of financial statement and its analysis.

(b)	Items	Major-Head	Sub-Head
	(i) Land and Building	Non-Current Assets	Fixed Assets (Tangible)
	(ii) Computer Software	Non-Current Assets	Fixed Assets (Intangible)
	(iii) Deposits	Current Liabilities	Short-term Borrowings
	(iv) Provision for Tax	Current Liabilities	Short-term Provisions
	(v) Interest accrued but not due	Current Liabilities	Other Current Liabilities
	(vi) Provision for doubtful debts	Current Assets	Deducted from Debtors

21. **Common size statement of Profit and Loss**
for the year ended 31st March 2015 and 2016

Particulars	Note No.	Absolute Amounts		Percentage of Revenue from operations	
		31.3.2015	31.3.2016	31.3.2015	31.3.2016
		(₹)	(₹)	(₹)	(₹)
Revenue from Operations		6,00,000	8,40,000	100%	100%
Cost of material consumed		3,00,000	6,72,000	50%	80%
Other Expenses		60,000	84,000	10%	10%
Total Expenses		3,60,000	7,56,000	60%	90%
Profit before Tax		2,40,000	84,000	40%	10%
Less: Tax		72,000	25,200	12%	3%
Profit after Tax		1,68,000	58,800	28%	7%

22. (a) Operating Ratio = $\frac{\text{Operating Cost}}{\text{Revenue from operations}} \times 100$

Operating cost = Cost of Revenue from operation + Operating Expenses

Cost of Revenue from operation = 27,20,000 – 3,20,000

$$= ₹ 24,00,000$$

As Gross Profit ratio is 25% \Rightarrow Cost of Revenue from operations is 75%

\therefore Sales is ₹ 32,00,000

$$\text{Operating Ratio} = \frac{27,20,000}{32,00,000} \times 100 = 85\%$$

(b) Net Profit Before Interest, Tax and Dividend = Net Profit After Interest and Tax + Interest on Debenture + Tax

$$= 6,00,000 + 6,00,000 + 1,00,000$$

$$= 13,00,000$$

$$\begin{aligned} \text{Return on Investment} &= \frac{\text{Net Profit before, Interest and Tax}}{\text{Capital employed}} \times 100 \\ &= \frac{13,00,000}{80,00,000} \times 100 \\ &= 16.25\% \end{aligned}$$

23.

Cash Flow Statement

for the year ended 31st March 2016

Sr. No.	Particulars	Details ₹	Total ₹
A.	Cash Flows from Operating Activities :		
	Net Profit before tax	2,50,000	
	<i>Add</i> : Depreciation	1,30,000	
	Loss on sale of machine	15,000	
		3,95,000	
	<i>Add</i> : Decrease Inventories	20,000	
	Decrease in Trade Receivables	5,000	
		4,20,000	
	Less: Tax Paid	(30,000)	
	Cash flow from operating activity	(3,90,000)	3,90,000
B.	Cash Flows from Investing Activities :		
	Purchase of machinery	(4,90,000)	
	Sale of machinery	45,000	
	Cash used in investing activities	(4,45,000)	4,45,000
C.	Cash Flows from Financing Activities :		
	Issue of Share Capital	1,00,000	
	Proceeds from Long term Borrowing	30,000	
	Dividend paid	(50,000)	
	Cash flow from financing activities	80,000	80,000
D.	Net increase in Cash and Cash Equivalents		25,000
E.	<i>Add</i> : Opening Cash and Cash Equivalents		1,05,000
F.	Closing Cash and Cash Equivalents		1,30,000

Working notes:

1. Calculation of Net Profit before tax:

Balance as per Statement of profit and loss	1,50,000
Add: Provision for Tax	42,000
Proposed Dividend	58,000
Net Profit before Tax	<u>2,50,000</u>

2. Dr.		Machinery A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Balance b/d	5,00,000	By Depreciation A/c	1,30,000		
		By Cash/Bank A/c	45,000		
		By Statement of Profit and Loss A/c	15,000		
To Cash/Bank A/c (Purchase)	4,90,000	By Balance c/d	8,00,000		
	9,90,000		9,90,000		