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SUBJECT- ADVANCED ACCOUNTS

Test Code – CIM 8470

BRANCH - () (Date :)

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ANSWER 1**M/s Red, Black and White****Statement of Profit & Loss for the year ended on 31st March, 2019**

	Rs.		Rs.
To Depreciation on Building (1,20,000 x 5%)	6,000	By Trading Profit	80,000
To Interest on Red's loan (20,000 x 6%)	1,200	By Interest on Debentures	2,400
To Net Profit to :			
Red's Capital A/c	45,120		
Black's Capital A/c	15,040		
White's Capital A/c	<u>15,040</u>		
	<u>82,400</u>		<u>82,400</u>

(2 MARKS)**Balance Sheet of the RBW Pvt. Ltd. as on 1-4-2019**

		Notes No.	Rs.
I	Equity and Liabilities		
	Share-holders funds		2,39,040
	Non-current liabilities		
	Long term borrowings	1	<u>21,200</u>
	Total		<u>2,60,240</u>
II	Assets		
	Non-current assets		
	Property, Plant & Equipment		
	Tangible assets	2	1,14,000
	Non-current investments		40,000
	Current assets		
	Inventories		80,000
	Cash and cash equivalents		<u>26,240</u>
	Total		<u>2,60,240</u>

(3 MARKS)**Notes to Account:**

		Rs.
1.	Borrowings	
	Loan from Red	21,200
2.	Tangible assets	
	Land and Building Rs.(1,20,000 – 6,000)	1,14,000

(1 MARK)

Working Notes:**1. Calculation of goodwill****Year ended March, 31**

	2014	2015	2016	2017	2018
	Rs.	Rs.	Rs.	Rs.	Rs.
Book Profits	40,000	(20,000)	40,000	50,000	60,000
Adjustment for extraneous profit of 2014 and abnormal loss for 2015	<u>(60,000)</u>	<u>40,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	(20,000)	20,000	40,000	50,000	60,000
Add Back: Remuneration of Red	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>
	(8,000)	32,000	52,000	62,000	72,000
Less: Debenture Interest being non-operating income	<u>(2,400)</u>	<u>(2,400)</u>	<u>(2,400)</u>	<u>(2,400)</u>	<u>(2,400)</u>
	<u>(10,400)</u>	<u>29,600</u>	<u>49,600</u>	<u>59,600</u>	<u>69,600</u>
Total Profit from 2015 to 2018					2,08,400
Less: Loss for 2014					<u>(10,400)</u>
Accumulated Profit					<u>1,98,000</u>
Average Profit					39,600
Goodwill equal to 2 years' purchase					79,200
Contribution from White, equal to 1/5					15,840

(4 MARKS)**2. Partners' Capital Accounts**

	Red	Black	White		Red	Black	White
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Drawings	24,000	24,000	24,000	By Balance b/d	80,000	1,00,000	—
To Black A/c			15,840	By General Reserve	12,000	8,000	—
To Balance c/d	1,13,120	1,14,880	11,040	By White A/c		15,840	—
				By Bank A/c	—	—	35,840
				By Profit & Loss A/c	45,120	15,040	15,040
	1,37,120	1,38,880	50,880		1,37,120	1,38,880	50,880

(3 MARKS)**3. Balance Sheet as on 31st March, 2019**

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Red's Capital		1,13,120	Land & Building	1,20,000	
Black's Capital		1,14,880	Less: Depreciation	<u>(6,000)</u>	1,14,000
White's Capital		11,040	Investments		40,000
Red's Loan	20,000		Stock-in-trade		80,000
Add: Interest due	<u>1,200</u>	<u>21,200</u>	Cash (Balancing figure)		<u>26,240*</u>
		2,60,240			2,60,240

(2 MARKS)

4. Conversion into Company

		Rs.
Capital:	Red	1,13,120
	Black	1,14,880
	White	<u>11,040</u>
Share Capital		2,39,040
Distribution of share:	Red (3/5)	1,43,424
	Black (1/5)	47,808
	White (1/5)	47,808

Red should subscribe shares of Rs. 30,304 (Rs. 1,43,424 – Rs. 1,13,120) and White should subscribe shares of Rs. 36,768 (Rs. 47,808 less 11,040). Black withdraws Rs. 67,072 (Rs. 47,808 – Rs.1,14,880).

(2 MARKS)

5. Adjustment for Goodwill

	To be raised in old Ratio	To be written off in new ratio	Difference
Red	47,520	47,520	Nil
Black	31,680	15,840	15,840 Cr.
White		15,840	15,840 Dr.

(1 MARK)

6. Closing cash balance* can also be derived as shown below:

	Rs.	Rs.
Trading profit (assume realised)		80,000
Add: Debenture Interest		2,400
Add: Decrease in Debtors Balance		<u>40,000</u>
		1,22,400
Less: Increase in stock	20,000	
Less: Decrease in creditors	<u>40,000</u>	<u>(60,000)</u>
Cash Profit		62,400
Add: Opening cash balance		20,000
Add: Cash brought in by White		<u>35,840</u>
		1,18,240
Less: Drawings	72,000	
Less: Additions to Building	<u>20,000</u>	<u>(92,000)</u>
		26,240

(2 MARKS)

ANSWER 2

Statement of Distribution of Cash by 'Maximum Loss Method'

	Creditors	G's Loan	E	F	G	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	
Feb: Balance due	51,600	15,000	1,93,500	53,400	55,500	3,02,400*
Cash available	29,700					
Collection from debtors	<u>51,900</u>					
	81,600					
Less: prov for expenses	<u>13,500</u>					
	68,100					
Creditors & Loan paid (50,400 + 15,000)	<u>65,400</u>	<u>(15,000)</u>				
	1,200	-				
Discount written off	<u>(1,200)</u>					
Available for E, F & G	-					
Maximum possible loss (3,02,400 - 2,700) =						
In ratio of 3:2:1			(1,49,850)	(99,900)	(49,950)	(2,99,700)
			43,650	(46,500)	5,550	
Adjustment for F's deficiency in ratio of 1,13,100: 31,500			(36,370)	46,500	(10,130)	
			7,280	-	(4,580)	
Adjustment for G's deficiency			(4,580)	-	4,580	
			2,700			
Cash paid to E			2,700			
Balance due			1,90,800	53,400	55,500	(2,99,700)
March						
Cash available	Rs. 1,39,500					
Maximum possible loss Rs. 2,99,700 – Rs. 1,39,500 = Rs. 1,60,200 in ratio of 3:2:1						
			<u>(80,100)</u>	<u>(53,400)</u>	<u>(26,700)</u>	<u>(1,60,200)</u>
Cash paid			1,10,700	-	28,800	1,39,500
Balance			80,100	53,400	26,700	1,60,200
April						
18,000 + 3,900 (saving in expenses) =	21,900					
Maximum possible loss Rs. 1,60,200 - 21,900 =	1,38,300					
in ratio of 3:2:1						
			<u>(69,150)</u>	<u>(46,100)</u>	<u>(23,050)</u>	<u>(1,38,300)</u>
Cash paid			10,950	7,300	3,650	21,900
Balance						

May			69,150	46,100	23,050	1,38,300
Investment taken by G					<u>6300</u>	<u>6300</u>
Balance			69150	46100	16750	132000
Maximum loss (1,38,300 less 6,300)			(66,000)	(44,000)	(22,000)	(1,32,000)
Balance			3,150	2,100	1,050	6,300
Cash brought by G (6,300 less 1,050)					5,250	5,250
Cash paid to E and F			(3,150)	(2,100)		(5,250)
Balance			66,000	44,000	22,000	1,32,000
June						
Stock	96,000					
Maximum loss (1,32,000-96,000)			(18,000)	(12,000)	(6,000)	36,000
<u>Cash paid</u>			<u>48,000</u>	<u>32,000</u>	<u>16,000</u>	<u>96,000</u>
<u>Unpaid balance</u>			<u>(18,000)</u>	<u>(12,000)</u>	<u>(6,000)</u>	<u>36,000</u>

(13 MARKS)

*Partners' capital balances after adjusting reserves and current A/c balance.

Working Note:

Statement showing the cash available for distribution:

Feb. Rs. 29,700 + 51,900 - 13,500 = Rs. 68,100

March Rs. 1,39,500

April Rs. 18,000 + 3,900 = 21,900

May - Nil

June Rs.96,000

(2 MARKS)

ANSWER 3

1. Adjustment for raising & writing off of Goodwill

Particulars	P	Q	R	Total
Goodwill of P & Co. (raised in 3:1)	90,000	30,000	-	1,20,000
Goodwill of Q & Co. (raised in 2:1)	-	40,000	20,000	60,000
Total(Cr.)	90,000	70,000	20,000	1,80,000
Written off in New Ratio (3:2:1) (Dr.)	90,000	60,000	30,000	1,80,000
Difference	-	Cr. 10,000	Dr. 10,000	-

(3 MARKS)

2. Revaluation A/c in the books of P & Co.

Particulars	Rs.	Rs.	Particulars	Rs.
To Provision for Doubtful Debts		12,000	By Building	50,000
To Partners' Capital A/c (transfer in 3:1)			By Plant & Machinery	1,00,000
- P	1,21,500		By Stock	24,000
- Q	40,500	1,62,000		
Total		1,74,000	Total	1,74,000

(2 MARKS)

3. Partners' Capital A/c in the Books of P & Co.

Particulars	P	Q	Particulars	P	Q
To balance c/d	3,99,000	2,13,000	By balance b/d	2,40,000	1,60,000
			By Reserves (3:1)	37,500	12,500
			By Revaluation A/c (3:1)	1,21,500	40,500
Total	3,99,000	2,13,000	Total	3,99,000	2,13,000

(1 MARK)

4. Revaluation A/c in the books of R & Co.

Particulars		Particulars	Rs.
To Provision for Doubtful Debts	26,000	By Plant & Machinery	40,000
To Partners Capital A/c (transfer in 2:1)		By Stock-in-Trade	28,000
- P 28,000			
- Q 14,000	42,000		
Total	68,000	Total	68,000

(2 MARKS)

5. Partners' Capital A/c in the books of R & Co.

Particulars	Q	R	Particulars	Q	R
To balance c/d	3,28,000	1,64,000	By balance b/d	2,00,000	1,00,000
			By Reserves(2:1)	1,00,000	50,000
			By Revaluation A/c(2:1)	28,000	14,000
Total	3,28,000	1,64,000	Total	3,28,000	1,64,000

(1 MARK)

6. Computation of Capital of the Partners in New Firm

	Particulars	P	Q	R
	Transferred from P & Co.	3,99,000	2,13,000	-
	Transferred from R & Co.	-	3,28,000	1,64,000
	Total Capital Balance	3,99,000	5,41,000	1,64,000
(+)/(-):	Adjustment for Goodwill		10,000	(10,000)
(a)	Capital Balance after Adjustment for Goodwill	3,99,000	5,51,000	1,54,000
(b)	Profit Sharing Ratio	3	2	1
(c)	Capital per unit of Profit (b ÷ a)	1,33,000	2,75,500	1,54,000
(d)	Taking Q's Capital as Base Capital, Total Capital of the Partners	8,26,500	5,51,000	2,75,500

(e)	Cash Brought by the Partners (a - d)	4,27,500	-	1,21,500
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Note: For this purpose, Partner having the Highest Capital per unit of Profit shall be considered, since any other criteria will result in refund of money to Partners, thereby reducing the Capital Base of the Firm.

(3 MARKS)

7. Balance Sheet of M/s. PQR & Co.

Capital and Liabilities	Rs.	Rs.	Properties and Assets	Rs.
Capital account :			Non-Current Assets : Tangible Assets	
- P	8,26,500		Building	1,60,000
- Q	5,51,000		Plant and Machinery	4,50,000
- R	2,75,500	16,53,000	Office Equipment	26,000
Current Liabilities :			Current Assets :	
Sundry Creditors		2,36,000	Stock in Trade	3,12,000
Bank Overdraft		80,000	Sundry Debtors	3,60,000
Provision for Bad & Doubtful Debts		38,000	Bank Balance	1,20,000
			Cash (B/S. 30,000 + (WN 6) 427500 + 121500)	5,79,000
Total		20,07,000	Total	20,07,000

(3 MARKS)

Note : Student can prepare Realization Account instead of Revaluation Account.