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SUGGESTED SOLUTION

CA INTERMEDIATE NOV'19

SUBJECT- ACCOUNTS

Test Code - CIM 8296

BRANCH - () (Date :)

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Answer 1:**1. Realisation Account**

Particulars	Rs.	Particulars	Rs.
To Building A/c(transfer)	1,20,000	By Trade Creditors A/c(transfer)	47,000
To Stock A/c(transfer)	85,500	By Bills Payable A/c(transfer)By C's Capital A/c	20,000
To Investment A/c(transfer)	29,000		
To Debtors A/c(transfer)	42,000	Misappropriation	4,300
To Cash (payments made)		— Proceeds on Sale of Investments	7,900
- Creditors [(47,000 - 8,400) - 2%]	37,828	By Cash (amounts realised)	
- Bills Payable (20,000 - 400)	19,600	Building at 105%	1,26,000
Expenses of Dissolution	4,900	Stock	78,000
To Profit tfrd to Capital A/c (5:5:4:2)		- Invts (29,000 - 5,400 - 5,400 + 4,800)	23,000
- A 171		- Debtors (42,000 - 4,300) = 37,700 - 12%	33,176
- B 171			
- C 137			
- D 69	548		
Total	3,39,376	Total	3,39,376

Note: No entry is required for Creditors taking over Investments of Book Value Rs. 5,400.

Alternatively, both Creditors A/c and Investments A/c can be transferred to Realisation A/c at the reduced values, i.e. less by Rs. 5,400 in each case.

(6 MARKS)

2. Cash Account

Receipts	Rs.	Payments	Rs.
To balance b/d	14,500	By Realisation A/c (37,828 + 19,600 + 4,900)	62,328
To Realisation A/c	2,60,176	By A's Capital A/c	90,531
(1,26,000 + 78,000 + 23,000 + 33,176)		By B's Capital A/c	90,531
To C's Capital A/c	4,000	By D's Capital A/c	35,286
Total	2,78,676	Total	2,78,676

(3 MARKS)

3. Partners' Capital Account

Particulars	A	B	C	D	Particulars	A	B	C	D
To bal. b/d	-	-	15,000	-	By balance b/d	90,000	90,000	-	35,000
To Realisn A/c	-	-	4,300	-	By Gen. Reserve A/c (5:5:4:2)	7,500	7,500	6,000	3,000
To Realisn A/c	-	-	7,900	-	By Cash A/c	-	-	4,000	-
To C's Capital A/c (Note)	7,140	7,140	-	2,783	By Realisation Profit	171	171	137	69
To Cash A/c	90,531	90,531	-	35,286	By A, B, D's Cap. A/c	-	-	17,063	-
Total	97,671	97,671	27,200	38,069	Total	97,671	97,671	27,200	38,069

(3 MARKS)

4. Computation of Adjusted Capital

Particulars	A	B	D
Opening Balance	90,000	90,000	35,000
Add: Share in Reserve	7,500	7,500	3,000
Add: Profit on Sale of Investments (Rs. 2,500 in Profit Sharing Ratio)	781	781	313
Adjusted Capital (Ratio for sharing C's Capital A/c Dr. Bal)	98,281	98,281	38,313

Note: Capital for sharing Dr. Balance of C's Capital A/c should be the balance in Capital A/c before adjusting the amount of Profit or Loss on the Realisation of Assets. Profit on Sale of Investments is included in the above computation, since it is an omission entry and not an item relating to dissolution / realisation.

(3 MARKS)

Answer 2:

Business Purchase Account

20X2	Rs.	20X2	Rs.
Dec. 31		By Bank Loan	18,000
To Balance b/d	80,000	By Gupta's Capital A/c	30,000
To Investments	5,000	By Singh's Capital A/c	20,000
To Insurance Policy	2,000	By Goodwill	6,000
		By Profit & Loss A/c	13,000
		(Balancing figure, profit upto 31st March, 20X2)	
	87,000		87,000

(2 marks)

Profit & Loss Account of Raman for the year ended 31st December, 20X2

	Rs.		Rs.
To Opening Stock	40,000	By Sales	4,00,000
To Purchases	3,20,000	By Closing Stock	50,000
To Expenses	12,000		
To Business Purchase (Profit upto 31st March)	13,000		
To Net Profit			
Raman's Capital A/c	65,000		
	4,50,000		4,50,000

(2 marks)

Balance Sheet of Raman as on 31st December, 20X2

Liabilities		Rs.	Assets	Rs.
Raman's Capital A/c	30,000		Goodwill	6,000
Add : Profit	65,000	95,000	Furniture	3,000
Sundry Creditors		15,000	Stock in trade	50,000
			Sundry Debtors	48,000
			Cash at Bank	3,000
		1,10,000		1,10,000

(2 marks)

Working Notes :

(1) Goodwill

	Rs.
Value of Assets taken over	
Stock	46,000
Debtors	35,000
Furniture	3,000
	84,000
Less : Creditors	(10,000)
Net assets	74,000
Goodwill (Balancing figure)	6,000
Purchase Consideration	80,000

(2 marks)

(2) Increase in net assets up to 31st March 20X2

	as on 1st January Rs.	as on 31st March Rs.
Debtors	30,000	35,000
Stock	40,000	46,000
Furniture	3,000	3,000
	73,000	84,000
Less : Creditors	(12,000)	(10,000)
	61,000	74,000
Profit, equal to net increase	13,000	—
	74,000	74,000

(2 marks)

Answer 3:**1. Computation of Higher Relative Excess Capital (inRs.)**

Particulars	X	Y	Z
9. Capital Account Balance Net	60,000	40,000	50,000
10. Profit Sharing Ratio	5	4	4
11. Capital per unit of Profit ($1 \div 2$)	12,000	10,000	12,500
12. Relative Capital taking Y's Cap. as Base (least of above)	$10,000 \times 5 = 50,000$	$10,000 \times 4 = 40,000$	$10,000 \times 4 = 40,000$
13. Excess Capital of X and Z ($1 - 4$)	10,000	-	10,000
14. Capital per unit of Profit ($5 \div 2$)	2,000	-	2,500
15. Relative Capital taking X's Cap.as Base (least of above)	$2,000 \times 5 = 10,000$	-	$2,000 \times 4 = 8,000$
16. Higher Relative Excess Capital ($5 - 7$)	-	-	2,000

Note: Surplus Cash available should first be distributed to Z to the extent of Rs. 2,000 representing the Higher Relative Excess Capital. Further realizations to the extent of Rs. 10,000 and Rs. 8,000 should be distributed to X and Z respectively towards Excess Capital invested by them. Any further realisation should be shared in 5:4:4 ratio among the Partners. **(4 marks)**

2. Piecemeal Distribution Statement under Higher Relative Capital Method (in Rs.)

Particulars	Amt. Avlble	S. Crs	Y's Loan	X's Capital	Y's Capital	Z's Capital
Balance due	1,100	63,600	18,000	60,000	40,000	50,000
1st Instalment	74,600					
Less: Commn on Realsn 1%	(746)					
	74,954					
Less: Liquidator's Exps	(12,000)					
Balance Avlble / O/s	62,954	63,600	18,000	60,000	40,000	50,000
Less: Paid to Creditors	(62,954)	(62,954)				
Balance Due	-	646	18,000	60,000	40,000	50,000
2nd Instalment	69,301	(646)				
Less: Commn on Realsn 1%	(693)					
Less: Paid to Creditors	(646)					

Balance Avlble / O/s	67,962	—	18,000	60,000	40,000	50,000
Less: Y's Loan repaid	(18,000)		(18,000)			
Balance Avlble / O/s	49,962		(2,000)			
Less: Liquidator Remn at 10%	WN(4,542)					
Less: Paid to Z towards Higher Relative Capital	(2,000)					
Balance Avlble / O/s	43,420	-	-	60,000	40,000	48,000
Less: Paid to X towards Higher Relative Capital	(10,000)			(10,000)		
Less: Paid to C towards Higher Relative Capital restricted to amt avlble	(8,000)					(8,000)
Balance Avlble / O/s	25,420	-	-	50,000	40,000	40,000
Less: Payment to all Partners(5:4:4)	(25,420)			9,778	7,821	7,821
Balance Avlble / O/s	-	-	-	40,222	32,179	32,179
3rd Instalment	40,000					
Less: Commn on Realsn 1%	(400)					
Less: Liquidator Remn at 10%	(3,600)					
Balance Avlble / O/s	36,000	-	-	40,222	32,179	32,179
Less: Payment to all Partners in 5:4:4	(36,000)			13,846	11,077	11,077
Balance Due	-			26,376	21,102	21,102
4th Instalment	28,000					
Less: Commn on Realsn 1%	(280)					
Less: Liquidator Remn at 10%	(2,520)					
Balance Avlble / O/s	25,200			26,376	21,102	21,102
Less: Payment to all Partners in 5:4:4	(25,200)			9,692	7,754	7,754
Bal.being Loss on Realisation	-	-	-	16,684	13,348	13,348

Note: Liquidator's Commission = $\frac{49,962}{110} \times 10 = 4,542$. Alternatively, it can also be computed directly

at 10%.

(8 marks)

3. Realisation Account (To verify Loss on Realisation)

Particulars	Rs.	Particulars	Rs.
To Factory Building (transfer)	96,640	By Sundry Creditors (transfer)	66,000
To Plant & Machinery (transfer)	65,100	By Cash / Bank (74,600+69,301+40,000+28,000)	2,11,901
To Sundry Debtors (transfer)	21,600	By Loss on Realisation Ltd to Partners (5:4:4)	43,380
To Stock-in-Trade (transfer)	49,560	Note: This tallies with (16,684+13,348+13,348) as per Statement above, i.e. Total 43,380	
To Cash / Bank (Creditors)	63,600		
To Cash / Bank (Realisation Exps)	12,000		
To Cash / Bank (Liquidator Commn)	12,781		
Total	3,21,281	Total	3,21,281

(3 marks)

Answer 4:

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	-

(1 mark)

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

(1 mark)

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

(1 mark)

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

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.

(2 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 Assets :	
Current Liabilities :			Stock in Trade	3,12,000
Sundry Creditors		2,36,000	Sundry Debtors	3,60,000
Bank Overdraft		80,000	Bank Balance	1,20,000
Provision for Bad & Doubtful Debts		38,000	Cash (B/S. 30,000 + WN 6 427500 + 121500)	5,79,000
Total		20,07,000	Total	20,07,000

(3 marks)