



J.K. SHAH[®]
TEST SERIES
Evaluate Learn Succeed

SUGGESTED SOLUTION

INTERMEDIATE M'19 EXAM

SUBJECT- ACCOUNTS

Test Code – CIM 8127

BRANCH - () (Date :)

Head Office : Shraddha, 3rd Floor, Near Chinai College, Andheri (E), Mumbai – 69.

Tel : (022) 26836666

ANSWER-1**(i) (a) In the books of Hari Brothers Realisation Account**

	Rs.	Rs.		Rs.
To Land and buildings		50,000	By Creditors	25,000
To Plant and machinery		30,000	By Lal's capital A/c	2,000
To Motor vehicles		20,000	By Dena Bank A/c	25,000
To Inventories		60,000	By Hari Ltd. (W.N.ii)	1,83,000
To Debtors		25,000		
To Partners' capital accounts				
Hari (2/5)	20,000			
Lal (2/5)	20,000			
Jay (1/5)	10,000	50,000		
		2,35,000		2,35,000

(3 MARKS)**(b) Partners' Capital Accounts**

Particulars	Hari Rs.	Lal Rs.	Jay Rs.		Hari Rs.	Lal Rs.	Jay Rs.
To Realisation A/c (motor vehicle takeover)		2,000		By Balance b/d	70,000	30,000	20,000
To 10% Debentures*	35,000	15,000	10,000	By Current A/c	7,000	5,000	3,000
To Equity shares	62,000	38,000	23,000	By Realisation A/c Profit	20,000	20,000	10,000
	97,000	55,000	33,000		97,000	55,000	33,000

* Debentures have been issued in proportion of capital account balances i.e. in ratio of 7:3:2.

(3 MARKS)**(c) Bank Account**

Particulars	Axis Bank Rs.	Dena Bank Rs.	Particulars	Axis Bank Rs.	Dena Bank Rs.
To Balance b/d	5,000	-	By Balance b/d	-	20,000
To Axis Bank	-	5,000	By Loan (Gopi Ltd.)	-	7,000
To Realisation A/c	-	25,000	By Loan-Hari	-	3,000
			By Dena Bank	5,000	-
	5,000	30,000		5,000	30,000

(3 MARKS)

(ii) In the books of Hari Ltd.

Business Purchase Account

Particular	Rs.	Particulars	Rs.
To Creditors	25,000	By Land and buildings	96,000
To Dena Bank (overdraft)	25,000	By Plant and Machinery	28,000
To Hari Brothers	1,83,000	By Motor Vehicles	15,000
		By Inventories	60,000
		By Debtors	24,000
		By Goodwill	10,000
	2,33,000		2,33,000

(2 MARKS)

Hari Brothers Account

Particular	Rs.	Particulars	Rs.
To 10% Debentures A/c	60,000	By Business purchase	1,83,000
To Equity share capital A/c	1,23,000		
	1,83,000		1,83,000

(1 MARK)

ANSWER-2

ANSWER-A

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 R & 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	-

(2 MARKS)

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

Particulars		Rs.	Particulars	Rs.
To Provision for Doubtful Debts (given)		15,000	By Building (1,50,000 - 50,000)	1,00,000
To Partners' Capital A/c (transfer in 3:1)			By Plant & Machinery (2,75,000 - 1,60,000)	1,15,000
P [2,24,000 x 3/4]	1,68,000		By Stock (1,20,000 x 20%)	24,000
Q [2,24,000 x 1/4]	56,000	2,24,000		

Total...	2,39,000	Total	2,39,000
----------	----------	-------	----------

(3 MARKS)

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

Particulars	P	Q	Particulars	P	Q
To balance c/d	4,63,000	2,51,000	By balance b/d	2,50,000	1,80,000
			By Reserves(3:1)	45,000	15,000
			By Revaluation A/c(3:1)	1,68,000	56,000
Total	4,63,000	2,51,000	Total	4,63,000	2,51,000

(2 MARKS)

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

Particulars	Rs.	Particulars	Rs.
To Provision for Doubtful Debts (given)	30,000	By Plant & Machinery (2,50,000 - 1,70,000)	80,000
To Partners' Capital A/c (transfer in 2:1)		By Stock (1,40,000 x 20%)	28,000
- Q[78,000 x 2/3] 52,000			
- R[78,000 x 1/3] 26,000	78,000		
Total	1,08,000	Total	1,08,000

(2 MARKS)

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

Particulars	Q	R	Particulars	Q	R
To balance c/d	3,72,000	1,96,000	By balance b/d	2,20,000	1,20,000
			By Reserves(2:1)	1,00,000	50,000
			By Revaluation A/c(2:1)	52,000	26,000
Total	3,72,000	1,96,000	Total	3,72,000	1,96,000

(2 MARKS)

6. Computation of Capital of the PQR & Co.

Particulars	P	Q	R
Transferred from P & Co.	4,63,000	2,51,000	-
Transferred from R & Co.	-	3,72,000	1,96,000
Total Capital Balance	4,63,000	6,23,000	1,96,000
(+)/(-):Adjustment for Goodwill (WN 1)	-	10,000	(10,000)
Sub Total [A]	4,63,000	6,33,000	1,86,000
Total Capital of the Firm [Total of above]	12,82,000		
Required Capital in new Profit Sharing Ratio i.e, 3:2:1 [B]	6,41,000	4,27,333	2,13,667
Capital to be brought in / withdrawn [B - A]	1,78,000	(2,05,667)	27,667
	(brought in)	(withdrawn)	(brought in)

(3 MARKS)

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

Capital and Liabilities		Rs.	Properties and Assets		Rs.
Capital Account :			Non-current assets :		
- P	6,41,000		Tangible Fixed Assets		
- Q	4,27,333		Building (1,50,000 + 60,000)		2,10,000
			Plant and Machinery		5,25,000
- R	2,13,667	12,82,000	(2,75,000 + 2,50,000)		
			Office Equipments (50,000 + 46,000)		96,000
Current Liabilities			Current Assets :		
Sundry Creditors		2,66,000	Stock in Trade (1,44,000 + 1,68,000)		3,12,000
(1,30,000+ 1,36,000)			Debtors (1,60,000 + 2,00,000)	3,60,000	
Bank Overdraft		80,000	Less : Provision for Bad Debts	(45,000)	3,15,000
			Bank Balance		1,40,000
			Cash in Hand		30,000
			(20,000 + 10,000 + 1,78,000 - 2,05,667 + 27,667)		
Total		16,28,000	Total		16,28,000

Note: Due to R & Co. and Due from R & Co. will be mutually cancelled on amalgamation.

(6 MARKS)

ANSWER-B

Investment in 12% Debentures of Ram Ltd A/c

Date	Particulars	FV	Int.	Cost	Date	Particulars	FV	Int.	Cost
01.12.17	To Bank A/c.	10,00,000	20,000	10,00,100	01.03.18	By Bank A/c	10,00,000	50,000	9,99,400
31.03.18	To P & L – Int.Tfr. (Bal.fig)	-	30,000	-	31.03.18	By P & L A/c. (Loss Tfr)	-	-	700 (Bal.fig.)
	Total	10,00,000	50,000	10,00,100		Total	10,00,000	50,000	10,00,100

(2 MARKS)

Working Notes: 1. Computation of Cost of Purchase on 01.12.2017

(2 MARKS)

Particulars	Rs.
Amount Paid (10,000 x Rs. 101)	10,10,000
Less: Interest (Cum-Interest Purchase only) (for Oct and Nov 2017) (10,00,000 x 12% x 2/12)	(20,000)
Add: Brokerage at 1% of amount paid	10,100
Net Cost of Purchase	10,00,100

2. Computation of Net Sale Value of Investments on 01.03.2018

(2 MARKS)

Particulars	Rs.
Sale Proceeds (10,000 x Rs.106)	10,60,000
Less: Brokerage @ 1%	(10,600)
Net Sale Proceeds	10,49,400
Less: Interest Component (from 1st Oct 2017 to 28 Feb 2018) (10,000 x 100 x 12% x 5/12)	(50,000)
Net Sale Value	9,99,400

ANSWER-3

1. Investments in 8% Convertible Debentures of C Ltd A/c

Date	Particulars	Cost	Int.	Date	Particulars	Cost	Int.
1st Apr	To Bank (WN la)	2,16,000	-	30th Sep	By Bank (3,00,000 x 8% x $\frac{1}{2}$)	-	12,000
1st July	To Bank (WN lb)	1,10,000	2,000	1st Oct	By Bank (WN 2a)	84,000	-
			10,000	1st Oct	By Loss on Sale (WN lc)	2,933	-
31st Dec	To P&L A/c - Int tfr			1st Dec		59,767	-
				1st Dec	By Equity Shares A/c (WN 3)		733
				31st Dec	By Accrued Interest (WN 4)	1,79,300	3,300
					By bal. c/d (WN 3)		
	Total	3,26,000	16,033		Total	3,26,000	16,033

(3 MARKS)

2. Investments in Equity Share of C Ltd A/c

Date	Particulars	FV	Cost	Date	Particulars	FV	Cost
1st Dec	To Debentures A/c (5,000 ES x Rs. 10)	50,000	59,767	31st Dec	By balance c/d	50,000	59,767
	Total	50,000	59,767		Total	50,000	59,767

(2 MARKS)

Working Notes:**(7 MARKS)****1. Cost of Debentures:**

(a) Purchased on 1st April = Rs. 2,00,000 x $\frac{108}{100}$ = Rs. 2,16,000

(b) Purchased on 1st July:

$$\text{Total Amount} = \text{Rs. } 1,00,000 \times \frac{112}{100} = \text{Rs. } 1,12,000$$

$$\text{Interest} = \text{Rs. } 1,00,000 \times 8\% \times \frac{3}{12} = \text{Rs. } 2,000 \text{ (for 1st April to 30th June)}$$

$$\text{So, Cost} = 1,12,000 - 2,000 = \text{Rs. } 1,10,000$$

2. Sale of Debenture on 1st October

(a) Sale Proceeds = Rs. 80,000 x $\frac{105}{100}$ = Rs. 84,000

(b) Average Cost of Rs. 80,000 Debentures = $\frac{2,16,000+1,10,000}{3,00,000} \times 80,000 = \text{Rs. } 86,933$

(c) Loss on Sale = Rs. 86,933 - Rs. 84,000 = Rs. 2,933

3. Conversion into Equity & Balance Sheet Valuation

Note: Cost of Debentures held before conversion = Rs. 3,26,000 - 86,933 = Rs. 2,39,067

Particulars	Cost	Market Value at Year End	B/S Value
25% Converted into Shares	2,39,067 x 25% = 59,767	5,000 Shares x Rs. 15 = 75,000	Rs. 59,767
75% held as Debentures	2,39,067 x 75% = Rs. 1,79,300	Rs. 2,20,000 Deb x 75% x $\frac{110}{100}$ =Rs.1,81,500	Rs.1,79,300

4. Accrued Interest on the date 25% Conversion for Oct & Nov = Rs. 2,20,000 Deb x 25% x 8% x $\frac{2}{12}$ = Rs. 733.

5. Accrued Interest on the B/s date for Oct, Nov & Dec = Rs. 2,20,000 Deb x 75% x 8% x $\frac{3}{12}$ = Rs. 3,300.