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**SUGGESTED SOLUTION**  
**INTERMEDIATE MAY 2019 EXAM**

**SUBJECT- ACCOUNTS**

**Test Code - CIM 8032**

**BRANCH - () (Date : 25/08/2018)**

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**Answer 1:****(A)**

## Statement showing distribution of cash amongst the partners

		Creditors	B's Loan	Capitals		
				A(Rs.)	B(Rs.) )	C(Rs.)
Balance Due		16,500	4,500	15,000	7,500	15,000
On 1st Instalment amount with the firm Rs. (275 + 18,650)	18,925					
Less: Dissolution expenses provided for	(3,000)					
	<u>15,925</u>					
Less: C's remuneration of 1% on assets realised (18,650 x 1%)	(187)					
	<u>15,738</u>					
Less: Payment made to creditors	(15,738)	(15,738)				
Balance due	Nil	762				
2nd instalment realized	17,320					
Less: C's remuneration of 1% on assets realised (17,320 x 1%)	(173)					
	<u>17,147</u>					
Less: Payment made to creditors	(162)	(162)				
Transferred to P& L A/c		600				
Balance available	16,985					
Less: Payment for B's loan A/c	(4,500)		(4,500)			
Amount available for distribution to partners	<u>12,485</u>		nil			
Less: C's remuneration of 10% of the amount distributed to partners (12,485 x 10/110)	(1,135)					

Balance distributed to partners on the basis of HRCM	11,350					
Less: Paid to C (W.N.1)	(3,750)					(3,750)
	7,600					11,250
Less: Paid to A and C in 4:3 (W.N.1)	(7,600)		(4,343)	-		(3,257)
Balance due	nil		10,657	7,500		7,993
Amount of 3rd installment	10,000					
Less: C's remuneration of 1% on Assets realised (10,000 x 1%)	(100)					
	9,900					
Less: C's remuneration of 10% of the amount distributed to partners (9,900 x 10/110)	(900)					
	9,000					
Less: Paid to A and C in 4:3 for (Rs. 8,750 – 7,600) (W.N.1)	(1,150)		(657)	-		(493)
	7,850		10,000	7,500		7,500
Less: Paid to A, B and C in 4:3:3	(7,850)		(3,140)	(2,355)		(2,355)
Balance due	nil		6,860	5,145		5,145
Amount of 4th and last instalment	7,000					
Less: C's remuneration of 1% on assetsrealised (7,000 x 1%)	(70)					
	6,930					
Less: C's remuneration of 10% of the amount distributed to partners (6,930 x 10/110)	(630)					
	6,300					
Less: Paid to A, B and C in 4:3:3	(6,300)		(2,520)	(1,890)		(1,890)
Loss suffered by partners			4,340	3,255		3,255

**Working Note:**

- i. Rs. 275 added to the first instalment received on sale of assets represents the Cashin Bank.
- ii. The amount due to Creditors at the end of the utilisation of First Instalment is Rs. 762/-. However, since the creditors were settled for Rs. 15,900/- only the balance 162/- were paid and the balance Rs. 600/- was transferred to the Profit & Loss Account.

**Highest Relative Capital Basis**

	<b>A</b>	<b>B</b>	<b>C</b>
	Rs.	Rs.	Rs.
Balance of Capital Accounts (A)	15,000	7,500	15,000
Profit sharing ratio	4	3	3
Capital Profit sharing ratio	3,750	2,500	5,000
Capital in profit sharing ratio taking B's Capital as base (B)	10,000	7,500	7,500
Excess of A's Capital and C's Capital (A-B) =(C)	5,000	nil	7,500
Again repeating the process			
Profit sharing ratio	4		3

Capital Profit sharing ratio	1,250		2,500
Capital in profit sharing ratio taking A's Capital as base (D)	5,000		3,750
Excess of C's Capital (C-D)=(E)	nil		3,750

Therefore, firstly Rs. 3,750 is to be paid to C then A and C to be paid in proportion of 4:3 upto Rs. 8,750 to bring the capital of all partners A, B and C in proportion to their profit sharing ratio. Thereafter, balance available will be paid in their profit sharing ratio 4:3:3 to all partners viz A, B and C.

**Answer 2:**

**(A)**

**Calculation of net profit u/s 198 of the Companies Act, 2013**

		Rs.
Balance from Trading A/c		40,25,365
Add : Subsidies received from Government		2,73,925
		42,99,290
Less : Administrative, selling and distribution expenses	8,22,542	
Director's fees	1,34,780	
Interest on debentures	31,240	
Depreciation on fixed assets as per Schedule II	5,75,345	(15,63,907)
Profit u/s 198		<u>27,35,383</u>

Maximum Managerial remuneration under Companies Act, 2013 is 11% of Rs. 27,35,383 = Rs.3,00,892.

**(B)**

Part I of Schedule III to the Companies Act, 2013 provides that debit balance of Statement of Profit and Loss (after all allocations and appropriations) should be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, should be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative. In this case, the debit balance of profit and loss i.e. Rs. 250 lakhs exceeds the total of all the reserves i.e. Rs. 230 lakhs. Therefore, balance of 'Reserves and Surplus' after adjusting debit balance of profit and loss is negative by Rs. 20 lakhs, which should be disclosed on the face of the balance sheet. Thus the treatment done by the company is incorrect.

**Answer 3:**

**(i)** Realisation Account

	Rs.		Rs.
To Fixed assets	5,00,000	By Creditors	3,20,000
To Stock in trade	3,00,000	By Cash (5,20,000+4,40,000)	9,60,000
To Debtors	5,00,000	By Y (Stock taken over)	2,50,000
To Cash - Expenses	6,000	By Loss transferred to partners' capital accounts	

To	Cash -Creditors (3,20,000 x 95%)		X	35,555
		3,04,000	Y	26,667
			Z	17,778
		<u>16,10,000</u>		<u>16,10,000</u>

(ii) **Partners' CapitalAccounts**

	X	Y	Z		X	Y	Z
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
To Realisation Account	35,555	26,667	17,778	By Balance b/d	4,00,000	3,00,000	2,00,000
To Realisation Account	-	2,50,000	-	By General reserve	40,000	30,000	20,000
To Cash	<u>4,04,445</u>	<u>53,333</u>	<u>2,02,222</u>				
	<u>4,40,000</u>	<u>3,30,000</u>	<u>2,20,000</u>		<u>4,40,000</u>	<u>3,30,000</u>	<u>2,20,000</u>

(iii)

C

**Cash Account**

	Rs.		Rs.
To Balance b/d	10,000	By Realisation A/c	6,000
To Realisation A/c (Fixed assets and book debts realised)	9,60,000	By Realisation A/c (Creditors)	3,04,000
		By X	4,04,445
		By Y	53,333
		By Z	<u>2,02,222</u>
	<u>9,70,000</u>		<u>9,70,000</u>

Answer 4:

**Capital Account of Shri Moti**

		1-4-2015		1-4-2017
	Rs.	Rs.	Rs.	Rs.
<b>Assets</b>				
Cash in hand		25,500		16,000
Inventory		56,000		91,500
Sundry debtors		41,500		52,500
Land & Building		1,90,000		1,90,000
Wife's Jewellery		75,000		1,25,000
Motor Car		—		1,25,000

Loan to Moti's Brother		—		20,000
		3,88,000		6,20,000
<b>Liabilities:</b>	40,000		—	
Owing to Moti's Brother	35,000		55,000	
Sundry creditors		75,000		55,000
Capital		3,13,000		5,65,000
Income during the two years :				
Capital as on 1-4-2017				5,65,000
Add: Drawings – Domestic Expenses for the two years (Rs. 4,000 × 24 months)				96,000
				6,61,000
Less: Capital as on 1-4-2015				(3,13,000)
Income earned in 2015-2016 and 2016-2017				3,48,000
Income declared (Rs. 1,05,000 + Rs. 1,23,000)				2,28,000
Suppressed Income				1,20,000

The Income-tax officer's contention that Shri Moti has not declared his true income is correct. Shri Moti's true income is in excess of the disclosed income by Rs. 1,20,000.

**Answer 5:**

**Trading and Profit and Loss Account of ABC enterprise for the  
year ended 31st March, 2017**

		Rs.		Rs.
To Opening Inventory		80,000	By Sales	6,08,750
To Purchases	4,56,000		By Closing inventory	70,000
<b>Less:</b> For advertising	<u>(9,000)</u>	4,47,000		
To Freight inwards		30,000		
To Gross profit c/d		<u>1,21,750</u>		
		<u>6,78,750</u>		<u>6,78,750</u>
To Sundry expenses		92,000	By Gross profit b/d Interest on	1,21,750
To Advertisement		9,000	By investment (20,000 x 6/100	600
To Discount allowed–			x ½)	
Debtors	15,000		By Discount received	8,000
Bills Receivable	<u>1,250</u>	16,250	By Miscellaneous income	5,000
To Depreciation on furniture		6,500		

To Provision for doubtful debts		1,455		
To Net profit		<u>10,145</u>		
		<u>1,35,350</u>		<u>135,350</u>

**Balance Sheet as on 31st March, 2017**

<i>Liabilities</i>	<i>Amount</i>		<i>Assets</i>		<i>Amount</i>
	<i>Rs.</i>	<i>Rs.</i>		<i>Rs.</i>	<i>Rs.</i>
Capital as on 1.4.2016	1,88,000		Furniture (w.d.v.)	60,000	
Less: Drawings	<u>(91,000)</u>		Additions during the year	10,000	
	97,000		Less: Depreciation	<u>(6,500)</u>	63,500
Add: Net Profit	<u>10,145</u>	1,07,145	Investment		19,000
Sundry creditors		1,50,000	Interest accrued		600
Outstanding expenses		18,000	Closing inventory		70,000
			Sundry debtors		
			Less: Provision for doubtful debts	72,750	
			Bills receivable	<u>1,455</u>	71,295
			Cash in hand and at bank		17,500
			Prepaid expenses		26,250
					<u>7,000</u>
		<u>2,75,145</u>			<u>2,75,145</u>

**Working Notes:**

**(1) Capital on 1st April, 2016  
Balance Sheet as on 1st April, 2016**

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital (Bal.fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at bank	12,000
		Prepaid expenses	<u>6,000</u>
	<u>3,18,000</u>		<u>3,18,000</u>

**(2) Purchases made during the year  
Sundry Creditors Account**

	<i>Rs.</i>		<i>Rs.</i>
To Cash and bank A/c	3,92,000	By Balance b/d	1,10,000
To Discount received A/c To Bills Receivable A/c To Balance c/d	8,000	By Sundry debtors A/c By Purchases A/c	4,000
	20,000	(Balancing figure)	4,56,000
	1,50,000		
	<u>5,70,000</u>		<u>5,70,000</u>

**(3) Sales made during the year**

		<i>Rs.</i>
Opening inventory		80,000
Purchases	4,56,000	
Less: For advertising	<u>(9,000)</u>	4,47,000
Freight inwards		<u>30,000</u>
		5,57,000
Less: Closing inventory		<u>(70,000)</u>
Cost of goods sold		4,87,000
Add: Gross profit (25% on cost)		<u>1,21,750</u>
		6,08,750

**(4) Debtors on 31st March, 2017****Sundry Debtors Account**

	<i>Rs.</i>		<i>Rs.</i>
To Balance b/d	1,60,000	By Cash and bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c (bill dishonoured)	4,000	By Bills receivable A/c	1,00,000
	<u>7,72,750</u>	By Balance c/d (Bal.fig.)	<u>72,750</u>
			<u>7,72,750</u>

**(5) Additional drawings by proprietors of ABC enterprises****Cash and Bank Account**

	<i>Rs.</i>		<i>Rs.</i>
To Balance b/d	12,000	By Freight inwards A/c	30,000
To Sundry debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings A/c	
		[Rs. 70,000 + Rs. 21,000)	91,000
		(Additional drawings)]	



		By Balance c/d	26,250
	6,63,250		6,63,250

(6) **Amount of expenses debited to Profit and Loss A/c**  
**Sundry Expenses Account**

	Rs.		Rs.
To Prepaid expenses A/c (on 1.4.2016)	6,000	By Outstanding expenses A/c (on 1.4.2016)	20,000
To Bank A/c	95,000	By Profit and Loss A/c (Balancing figure)	92,000
To Outstanding expenses A/c (on 31.3.2017)	<u>18,000</u>	By Prepaid expenses A/c (on 31.3.17)	<u>7,000</u>
	1,19,000		1,19,000

(7) **Bills Receivable on 31st March, 2017**  
**Bills Receivable Account**

	Rs.		Rs.
To Debtors A/c	1,00,000	By Creditors A/c	20,000
		By Bank A/c	61,250
		By Discount on bills receivable A/c	1,250
		By Balance c/d (Balancing figure)	<u>17,500</u>
	<u>1,00,000</u>		<u>1,00,000</u>

**Note:** All sales and purchases are assumed to be on credit basis.