



**J.K. SHAH<sup>®</sup>**  
**TEST SERIES**  
Evaluate Learn Succeed

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

**SUBJECT- ACCOUNTS**

**Test Code - CIM 8047**

**BRANCH - () (Date :)**

**Head Office : Shraddha, 3<sup>rd</sup> Floor, Near Chinai College, Andheri (E), Mumbai – 69.**

**Tel : (022) 26836666**

**Answer 1:**

**(A)**

Statement showing distribution of cash amongst the partners

|   |               | Creditors | B's<br>Loan | Capitals |             |        |
|---|---------------|-----------|-------------|----------|-------------|--------|
|   |               |           |             | A(Rs.)   | B(Rs.)<br>) | C(Rs.) |
| Balance Due   |               | 16,500    | 4,500       | 15,000   | 7,500       | 15,000 |
| On 1st Instalment amount with the<br>firm Rs. (275 + 18,650)                                | 18,925        |           |             |          |             |        |
| Less: Dissolution expenses<br>provided for  | (3,000)       |           |             |          |             |        |
|   | <u>15,925</u> |           |             |          |             |        |
| Less: C's remuneration of 1% on<br>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<br>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<br>to partners  | <u>12,485</u> |           | nil         |          |             |        |
| Less: C's remuneration of 10% of<br>the amount distributed to partners<br>(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<br>(3,20,000 x<br>95%) | 3,04,000         | X | 35,555           |
|   |                  | 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<br>(Fixed assets and<br>book debts realised) | 9,60,000        | By Realisation A/c<br>(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:

**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 | -        |

## 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        |                      |                 |
| <b>Total</b>                               |          | <b>1,74,000</b> | <b>Total</b>         | <b>1,74,000</b> |

## 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          |
| <b>Total</b>   | <b>3,99,000</b> | <b>2,13,000</b> | <b>Total</b>             | <b>3,99,000</b> | <b>2,13,000</b> |

## 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        |                      |               |
| <b>Total</b>                              | <b>68,000</b> | <b>Total</b>         | <b>68,000</b> |

## 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          |
| <b>Total</b>   | <b>3,28,000</b> | <b>1,64,000</b> | <b>Total</b>            | <b>3,28,000</b> | <b>1,64,000</b> |

## 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        |
|          | <b>Total Capital Balance</b>                                      | <b>3,99,000</b> | <b>5,41,000</b> | <b>1,64,000</b> |
| (+)/(-): | 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.

### 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         |
| <b>Total</b>                       |          | <b>20,07,000</b> | <b>Total</b>                              | <b>20,07,000</b> |

**Answer 5:**

### Journal Entries in the books of Pinakapani Ltd

| S.No. | Particulars  |     | Dr. (Rs.) | Cr. (Rs.) |
|-------|--|-----|-----------|-----------|
| 1.    | Bank A/c   | Dr. | 2,20,000  |           |
|       | To Building A/c  |     |           | 1,60,000  |
|       | To Profit and Loss A/c   |     |           | 60,000    |
|       | (Being sale proceeds of building received and profit on sale credited to P& L A/c)   |     |           |           |
| 2.    | 12% Debentures A/c   | Dr. | 70,000    |           |
|       | Premium on Redemption of Debentures A/c  | Dr. | 7,000     |           |
|       | To Debenture holders A/c   |     |           | 77,000    |
|       | (Being amount payable to debenture holders on redemption of 12% Debentures at a premium of 10% vide Board's Resolution No....dated...) |     |           |           |
| 3.    | Debenture holders A/c  | Dr. | 77,000    |           |
|       | To Bank A/c  |     |           | 77,000    |
|       | (Being amount paid to Debenture holders on redemption)   |     |           |           |
| 4.    | 12% Redeemable Preference Share Capital A/c  | Dr. | 50,000    |           |
|       | Premium on Redemption of Preference Shares A/c   | Dr. | 5,000     |           |
|       | To Preference Shareholders A/c   |     |           | 55,000    |

|    |  |     |        |        |
|----|--|-----|--------|--------|
|    | (Being amount payable to Preference Shareholders on redemption at a premium of 10% vide Board's Resolution no.....dated.....)  |     |        |        |
| 5. | Securities Premium A/c<br>To Premium on Redemption of Preference Shares A/c<br>(Being Premium on Redemption of Preference Shares provided out of Securities Premium)   | Dr. | 5,000  | 5,000  |
| 6. | Preference Shareholders A/c<br>To Bank A/c<br>(Being amount paid to Preference Shareholders on redemption)   | Dr. | 55,000 | 55,000 |
| 7. | Profit and Loss A/c<br>To Capital Redemption Reserve A/c<br>(Being amount transferred to Capital Redemption Reserve on redemption of Preference Shares out of Profit vide Board's Resolution No.....dated....) | Dr. | 50,000 | 50,000 |
| 8. | Profit and Loss A/c<br>To Capital Reserve A/c<br>(Being Profit on Sale of Building transferred to Capital Reserve)   | Dr. | 60,000 | 60,000 |
| 9. | Profit and Loss A/c<br>To Premium on Redemption of Debentures A/c<br>(Being Premium on Redemption of Debentures charged to Profit and Loss A/c)  | Dr. | 7,000  | 7,000  |

## 2. Calculation of Effect on Future Annual Profit (before Taxation)

| Particulars  | Rs.             |
|--|-----------------|
| <b>Increase in Profit:</b>   |                 |
| Depreciation no longer chargeable ( Rs. 2,00,000 x 2%)                           | 4,000           |
| Debenture Interest no longer payable ( Rs. 70,000 x 12%)                         | 8,400           |
| Preference Dividend no longer payable ( Rs. 50,000 x 12%)                        | 6,000           |
| Additional Profit due to change in Working Capital (Given)                       | 20,000          |
|  | 38,400          |
| Less: Decrease in Profit: Annual Lease Rent payable                              | 16,000          |
| <b>Net Additional Profit</b>   | <b>22,400</b>   |
| <b>Additional Pre Tax Increase in EPS [ Rs. 22,400 divided by 10,000 Shares]</b> | <b>Rs. 2.24</b> |