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

**SUBJECT- ACCOUNTS**

**Test Code - CIM 8046**

**BRANCH - () (Date : 09/09/2018)**

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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%)	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 (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:

**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
	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.

### 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:

### In the books of 3R Enterprises

#### Realization Account

Particular	Rs.	Particulars	Rs.
To Land and Buildings	14,00,000	By Creditors	6,00,000
To Machinery	11,00,000	By 3R Enterprises (Pvt.) Ltd. A/c	42,00,000
To Furniture	6,10,000		
To Stock	8,40,000		
To Debtors	6,00,000		
To Cash at Bank	1,90,000		
To Ramesh's capital	30,000		
To Roshan's capital	20,000		
To Rohan's capital	10,000		
	<b>48,00,000</b>		<b>48,00,000</b>

### Partners' Capital Accounts

	Ramesh Rs.	Roshan Rs.	Rohan Rs.		Ramesh Rs.	Roshan Rs.	Rohan Rs.
To Shares in 3R Enterprises (Pvt.) Ltd. A/c	21,00,000	14,00,000	7,00,000	By Balance b/d	16,80,000	11,60,000	6,70,000
To Bank A/c (Settlement)	-	-	85,000	By General Reserve	3,15,000	2,10,000	1,05,000
				By Realisation A/c (Profit)	30,000	20,000	10,000
				By Bank A/c (Settlement)	75,000	10,000	-
	<b>21,00,000</b>	<b>14,00,000</b>	<b>7,85,000</b>		<b>21,00,000</b>	<b>14,00,000</b>	<b>7,85,000</b>

**In the Books of 3R Enterprises (Private) Ltd**

**Journal Entries**

		Rs.	Rs.
1.	Business Purchase A/c To M/s 3R Enterprises (Consideration payable for business purchased)	Dr. 42,00,000	42,00,000
2.	Land and Buildings A/c Machinery A/c Furniture A/c Stock A/c Debtors A/c Bank A/c To Creditors A/c To Provision for doubtful debts A/c To Business Purchase A/c To Capital Reserve A/c (balancing figure) (Assets and liabilities taken over for Rs. 42,00,000; balance credited to capital reserve)	Dr. 16,40,000 Dr. 9,90,000 Dr. 6,10,000 Dr. 8,40,000 Dr. 6,00,000 Dr. 1,90,000	6,00,000 30,000 42,00,000 40,000
3.	Capital reserve A/c (Expenses of takeover) To Bank A/c (Expenses for take over debited to capital reserve)	Dr. 23,000	23,000
4.	M/s 3R Enterprises A/c To Equity share capital A/c (Allotment of fully paid equity shares to discharge consideration for business)	Dr. 42,00,000	42,00,000
5.	Preliminary expenses A/c To Bank A/c (Expenses incurred to get the company incorporated)	Dr. 57,000	57,000