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SUGGESTED SOLUTION

CA INTERMEDIATE

SUBJECT- ADVANCED ACCOUNTS

Test Code – CIM 8720

BRANCH - () (Date :)

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- NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.
 (2) INTERNAL WORKING NOTES SHOULD ALSO BE CONSIDERED.
 (3) NEW QUESTION SHOULD BE ON NEW PAGE

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	7,140	7,140	-	2,783	By Realisation Profit	171	171	137	69

(Note)									
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

(4 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.

(2 MARKS)

ANSWER – 2

1. Statement of Distribution of Cash under Maximum Loss Method (in Rs.)

	Particulars	Realisation	Creditors	Amar's Loan	Amar	Akbar	Antony	Total
	Balance available / Due	-	80,000	20,000	1,00,000	30,000	90,000	3,20,000
Add:	Cash Realised (15 th April)	60,000	-	-	-	-	-	-
Less:	Creditors Paid	(60,000)	(60,000)	-	-	-	-	(60,000)
	Balance available/Due	Nil	20,000	20,000	1,00,000	30,000	90,000	2,60,000
Add:	Cash realised (1 st May)	1,46,000	-	-	-	-	-	-
Less:	Creditors/Partner's Loan	(40,000)	(20,000)	(20,000)	-	-	-	(40,000)
	Balance Available/Due	1,06,000	-	-	1,00,000	30,000	90,000	2,20,000
Less:	Maximum Possible Loss (Capital Rs.2,20,000 – Cash Available Rs.1,06,000) allocated in PSR of 5:3:2	-	-	-	(57,000)	(34,200)	(22,800)	(1,14,000)
	Loss to be borne by partners	-	-	-	43,000	(4,200)	67,200	1,06,000
Adj:	Deficiency of Akbar distributed to Amar and Antony in the ratio 10:9	-	-	-	(2,210)	4,200	(1,990)	-
	Cash paid to partners	-	-	-	40,790	--	65,210	1,06,000

	Balance Due/Available (Bal. before adjusting Max. Loss less cash paid)	-	-	-	59,210	30,000	24,790	1,14,000
Add:	Cash realised (31 st May)	94,000	-	-	-	-	-	-
	Balance Available / Due	-	-	-	59,210	30,000	24,790	1,14,000
	Maximum possible loss (Capital Rs.1,14,000 – Cash available Rs.94,000) allocated in PSR of 5:3:2	-	-	-	(10,000)	(6,000)	(4,000)	(20,000)
	Balance Due	-	-	-	49,210	24,000	20,790	94,000
Less:	Cash Paid	-	-	-	(49,210)	(24,000)	(20,790)	(94,000)
	Balance due / loss to be borne	-	-	-	-	-	-	-

(10 MARKS)

2. Partners' Capital Account

Particulars	Amar	Akbar	Antony	Particulars	Amar	Akbar	Antony
To Realisation (Loss)	10,000	6,000	4,000	By balance b/d	1,00,000	30,000	90,000
To Bank	90,000	24,000	86,000				
Total	1,00,000	30,000	90,000	Total	1,00,000	30,000	90,000

(2 MARKS)

3. Cash / Bank Account

Receipts	Rs.	Payments	Rs.
To Realisation A/c		By Sundry Creditors	60,000
- Assets realised on April 15 th	60,000	By Sundry Creditors	20,000
- Assets realised on May 1 st	1,46,000	By Amar's Loan	20,000
- Assets realised on May 31 st	94,000	By Amar's Capital	40,790
		By Antony's Capital	65,210
		By Amar's Capital	49,210
		By Akbar's Capital	24,000
		By Antony's Capital	20,790
Total	3,00,000	Total	3,00,000

(3 MARKS)

ANSWER – 3**M/s Red, Black and White****Statement of Profit & Loss for the year ended on 31st March, 2019**

	Rs.		Rs.
To Depreciation on Building (1,20,000 x 5%)	6,000	By Trading Profit	80,000
To Interest on Red's loan (20,000 x 6%)	1,200	By Interest on	2,400
To Net Profit to :		Debentures	
Red's Capital A/c	45,120		
Black's Capital A/c	15,040		
White's Capital A/c	<u>15,040</u>		
	<u>82,400</u>		<u>82,400</u>

(2 MARKS)**Balance Sheet of the RBW Pvt. Ltd. as on 1-4-2019**

		Notes No.	Rs.
I	Equity and Liabilities		
	Share-holders funds		2,39,040
	Non-current liabilities		
	Long term borrowings	1	<u>21,200</u>
	Total		<u>2,60,240</u>
II	Assets		
	Non-current assets		
	Property, Plant & Equipment		
	Tangible assets	2	1,14,000
	Non-current investments		40,000
	Current assets		
	Inventories		80,000
	Cash and cash equivalents		<u>26,240</u>
	Total		<u>2,60,240</u>

(3 MARKS)**Notes to Account:**

		Rs.
1.	Borrowings	
	Loan from Red	21,200
2.	Tangible assets	
	Land and Building Rs.(1,20,000 – 6,000)	1,14,000

(1 MARK)

Working Notes:

1. Calculation of goodwill

Year ended March, 31

	2014 Rs.	2015 Rs.	2016 Rs.	2017 Rs.	2018 Rs.
Book Profits	40,000	(20,000)	40,000	50,000	60,000
Adjustment for extraneous profit of 2014 and abnormal loss for 2015	<u>(60,000)</u>	<u>40,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
	(20,000)	20,000	40,000	50,000	60,000
Add Back: Remuneration of Red	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>
	(8,000)	32,000	52,000	62,000	72,000
Less: Debenture Interest being non-operating income	<u>(2,400)</u>	<u>(2,400)</u>	<u>(2,400)</u>	<u>(2,400)</u>	<u>(2,400)</u>
	<u>(10,400)</u>	<u>29,600</u>	<u>49,600</u>	<u>59,600</u>	<u>69,600</u>
Total Profit from 2015 to 2018					2,08,400
Less: Loss for 2014					<u>(10,400)</u>
Accumulated Profit					<u>1,98,000</u>
Average Profit					39,600
Goodwill equal to 2 years' purchase					79,200
Contribution from White, equal to 1/5					15,840

(4 MARKS)

2. Partners' Capital Accounts

	Red Rs.	Black Rs.	White Rs.		Red Rs.	Black Rs.	White Rs.
To Drawings	24,000	24,000	24,000	By Balance b/d	80,000	1,00,000	—
To Black A/c			15,840	By General Reserve	12,000	8,000	—
To Balance c/d	1,13,120	1,14,880	11,040	By White A/c		15,840	—
				By Bank A/c	—	—	35,840
				By Profit & Loss A/c	45,120	15,040	15,040
	<u>1,37,120</u>	<u>1,38,880</u>	<u>50,880</u>		<u>1,37,120</u>	<u>1,38,880</u>	<u>50,880</u>

(3 MARKS)

3. Balance Sheet as on 31st March, 2019

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Red's Capital		1,13,120	Land & Building	1,20,000	
Black's Capital		1,14,880	Less: Depreciation	<u>(6,000)</u>	1,14,000
White's Capital		11,040	Investments		40,000
Red's Loan	20,000		Stock-in-trade		80,000
Add: Interest due	<u>1,200</u>	<u>21,200</u>	Cash (Balancing figure)		<u>26,240*</u>
		<u>2,60,240</u>			<u>2,60,240</u>

4. Conversion into Company

		Rs.
Capital:	Red	1,13,120
	Black	1,14,880
	White	<u>11,040</u>
Share Capital		2,39,040
Distribution of share:	Red (3/5)	1,43,424
	Black (1/5)	47,808
	White (1/5)	47,808

Red should subscribe shares of Rs. 30,304 (Rs. 1,43,424 – Rs. 1,13,120) and White should subscribe shares of Rs. 36,768 (Rs. 47,808 less 11,040). Black withdraws Rs. 67,072 (Rs. 47,808 – Rs.1,14,880).

(2 MARKS)

5. Adjustment for Goodwill

	To be raised in old Ratio	To be written off in new ratio	Difference
Red	47,520	47,520	Nil
Black	31,680	15,840	15,840 Cr.
White		15,840	15,840 Dr.

(1 MARK)

6. Closing cash balance* can also be derived as shown below:

	Rs.	Rs.
Trading profit (assume realised)		80,000
Add: Debenture Interest		2,400
Add: Decrease in Debtors Balance		<u>40,000</u>
		1,22,400
Less: Increase in stock	20,000	
Less: Decrease in creditors	<u>40,000</u>	<u>(60,000)</u>
Cash Profit		62,400
Add: Opening cash balance		20,000
Add: Cash brought in by White		<u>35,840</u>
		1,18,240
Less: Drawings	72,000	
Less: Additions to Building	<u>20,000</u>	<u>(92,000)</u>
		26,240

(2 MARKS)