

Solutions to RSPL/2

1. Better quality product will increase sales and profits of a firm and hence, will build up goodwill.

2. **Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	General Reserve A/c Dr.		60,000	
	To Provision for Bad and Doubtful Debts A/c			24,000
	To A's Capital A/c			21,600
	To B's Capital A/c			14,400
	(Being general reserve distributed)			

3. Issue of shares for consideration other than cash means issue of shares to :

- (a) Vendor for the purchase of any asset.
- (b) Underwriters for their commission.
- (c) Promoters for their services.

4. The two characteristics of debentures are:

- (a) These are documents or certificates which acknowledge debt.
- (b) Mode and period of repayment of principal and interest is fixed.

5. **Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Workmen Compensation Reserve A/c Dr.		25,000	
	To claim against workmen compensation			10,000
	To A's Capital A/c			7,500
	To B's Capital A/c			5,000
	To C's Capital A/c			2,500
	(Being workmen compensation fund written back)			

6. **Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	B's Capital A/c Dr.		7,000	
	Revaluation A/c Dr.		1,000	
	To Stock A/c			8,000
	(Being stock of ₹ 8,000 taken over by a partner, B at ₹ 7,000)			

7. C acquired 1/10 share equally from A and B.

Thus A and B sacrificed $\frac{1}{20^{\text{th}}}$ share from their profits.

$$\text{New Profit sharing ratio of A} = \frac{5}{9} - \frac{1}{20} = \frac{100 - 9}{180} = \frac{91}{180}$$

$$\text{New Profit sharing ratio of B} = \frac{4}{9} - \frac{1}{20} = \frac{80 - 9}{180} = \frac{71}{180}$$

$$\text{New Profit sharing ratio of C} = \frac{1}{10} \text{ or } \frac{18}{180}$$

Thus, new ratio is 91 : 71 : 18

The values highlighted are:

- empathy for differently-abled persons.
- recognition of skill.

8. Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Own Debentures A/c Dr. To Bank A/c (Being 800 Own debentures purchased for ₹ 480 each)		3,84,000	3,84,000
	9% Debentures A/c Dr. To Own Debentures A/c To Profit on Cancellation of Debentures A/c (Being 9% debentures redeemed by cancellation against own debentures)		4,00,000	3,84,000 16,000
	Profit on Cancellation of Debentures A/c Dr. To Capital Reserve A/c (Being profit transferred to capital reserve)		16,000	16,000

9. Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Sundry Assets A/c Dr. Goodwill A/c Dr. To Liabilities A/c To Hamid Ltd. (Being business of Hamid purchased)		8,00,000 40,000	20,000 8,20,000
	Hamid Ltd. Dr. To Bank A/c To 9% Debentures A/c To Securities Premium Reserve A/c (Being purchase consideration paid through a cheque and issue of 4,000, 9% debentures of ₹ 100 each at a premium of 10%)		8,20,000	3,80,000 4,00,000 40,000

10. Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr. To Equity Share Application and Allotment A/c (Being application and allotment received on 8,00,000 shares @ ₹ 12.50 each)		1,00,00,000	1,00,00,000
	Equity Share Application and Allotment A/c Dr. To Bank A/c To Securities Premium Reserve A/c To Share Capital A/c (Being application and allotment adjusted)		1,00,00,000	6,25,000 18,75,000 75,00,000

The values highlighted are: development of backward area and generation of employment opportunities.

11.

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(i)	A's Capital A/c Dr. C's Capital A/c Dr. To B's Capital A/c (Being B compensated for the sacrifice made in the share of profit)		24,000 8,000	32,000
(ii)	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Goodwill A/c (Being existing goodwill written off in old ratio)		35,000 28,000 21,000	84,000

Working Notes:

	A		B		C
Old ratio	5	:	4	:	3
New ratio	2	:	—	:	1

Calculation of gaining ratio:

$$A = \frac{2}{3} - \frac{5}{12} = \frac{8 - 5}{12} = \frac{3}{12}$$

$$C = \frac{1}{3} - \frac{3}{12} = \frac{4 - 3}{12} = \frac{1}{12}$$

gaining ratio of A and C is 3 : 1.

The present value of goodwill is ₹ 96,000.

12.

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(a)	X's Capital A/c Dr. Z's Capital A/c Dr. To Y's Capital A/c (Being Y's share of goodwill adjusted to remaining partners capital a/c)		60,000 40,000	1,00,000
(b)	Profit and Loss Suspense A/c Dr. To Y's Capital A/c (Being Y allowed his share of profit)		40,000	40,000
(c)	Interest on Capital A/c Dr. To Y's Capital A/c (Being interest on capital @ 6% p.a. for 3 months allowed to Y)		3,750	3,750
(d)	Y's Capital A/c Dr. To Y's Executors A/c (Being amount due to the deceased partner transferred to his executor's a/c)		3,93,750	3,93,750

Working Notes:

(i) Y's share of goodwill = $\frac{5}{15} \times 3,00,000 = ₹ 1,00,000$

It will be contributed by X and Z in the ratio 3 : 2.

(ii) Profit of the firm from 1 April 2017 to 30 June 2017 = $6,00,000 \times \frac{20}{100} = ₹ 1,20,000$

Y's Share of profit = $\frac{5}{15} \times 1,20,000 = ₹ 40,000$

(iii) Interest on capital of Y = $2,50,000 \times \frac{6}{100} \times \frac{3}{12} = ₹ 3,750$

13.

Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Q's Capital A/c Dr.		950	
	R's Capital A/c Dr.		5,050	
	To P's Capital A/c			6,000
	(Being error committed now rectified)			

Calculation of Opening Capital

Particulars	P	Q	R
Closing Capital	4,70,000	3,60,000	2,80,000
Less: Profits Credited	(80,000)	(80,000)	(80,000)
Add: Drawings	50,000	40,000	60,000
Opening Capital	4,40,000	3,20,000	2,60,000

Adjustment Table

Particulars	P	Q	R
Interest on Capital to be credited @ 6% p.a.	26,400 (Cr)	19,200 (Cr)	15,600 (Cr)
Interest on Drawings to be debited @ 5% for 6 months	1,250 (Dr)	1,000 (Dr)	1,500 (Dr)
Net effect	25,150 (Cr)	18,200 (Cr)	14,100 (Cr)
The amount to be debited	19,150 (Dr)	19,150 (Dr)	19,150 (Dr)
Adjustment to be made	6,000 (Cr)	950 (Dr)	5,050 (Dr)

14. Dr.

Realisation A/c

Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Sundry Assets A/c:		By Sundry Creditors A/c	35,000
Building	80,000	By Workmen Compensation Fund A/c	10,000
Machinery	40,000		
Debtors	25,000	By Bank A/c:	
To Bank A/c:		Building (at 150%)	1,20,000
Creditors	35,000	Machinery (at 80%)	32,000
Workmen Compensation Fund	10,000	Debtors	20,000
To B's Capital A/c			1,72,000
(Realisation Expense)	12,000		
To Profit transferred to:			
A	6,000		
B	9,000		
	2,17,000		2,17,000

Dr.		Partners' Capital A/c		Cr.	
Particulars	A (₹)	B (₹)	Particulars	A (₹)	B (₹)
To Bank A/c			By Balance b/d	64,000	79,000
			By Realisation A/c		12,000
	70,000	1,00,000	By Realisation A/c	6,000	9,000
	70,000	1,00,000		70,000	1,00,000

Dr.		Bank A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Balance b/d	43,000	By Realisation A/c	45,000		
To Realisation A/c	1,72,000	By A's Capital A/c	70,000		
		By B's Capital A/c	1,00,000		
	2,15,000		2,15,000		

15. **Journal of Kaypee Ltd.**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
1 April 2016	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment purchased to the extent of 15% of debentures to be redeemed)		1,50,000	1,50,000
	Surplus, i.e., Balance in Statement of Profit and Loss Dr. To Debenture Redemption Reserve A/c (Being DRR created to the extent of 25% of debentures to be redeemed)		75,000	75,000
31 March 2017	Bank A/c Dr. To Debenture Redemption Investment A/c To Interest Earned A/c (Being investments encashed)		1,65,000	1,50,000 15,000
	8% Debentures A/c Dr. To Debentureholders A/c (Being debentures due for redemption)		10,00,000	10,00,000
	Debentureholders A/c Dr. To Bank A/c (Being debentures redeemed)		10,00,000	10,00,000
	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR transferred to General Reserve)		2,50,000	2,50,000

16. Dr.

Revaluation A/c

Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bad Debts A/c	10,000	By Stock A/c	30,000
To Provision for Bad Debts A/c	34,000	By Loss transferred to:	
		X	9,800
		Y	4,200
	44,000		44,000

Dr.

Partners' Capital A/c

Cr.

Particulars	X (₹)	Y (₹)	Z (₹)	Particulars	X (₹)	Y (₹)	Z (₹)
To Revaluation A/c	9,800	4,200		By Balance b/d	6,00,000	2,50,000	
To Bank A/c	17,200	88,800		By Contingency Reserve A/c	1,26,000	54,000	
To Balance c/d	7,50,000	2,50,000	2,50,000	By Investment Fluctuation Fund A/c	21,000	9,000	
				By Premium for Goodwill A/c	15,000	15,000	
				By Z's Current A/c	15,000	15,000	
				By Bank A/c			2,50,000
	7,77,000	3,43,000	2,50,000		7,77,000	3,43,000	2,50,000

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Capital A/cs:		Building	5,00,000
X	7,50,000	Investments	2,30,000
Y	2,50,000	Stock	5,50,000
Z	2,50,000	Debtors	3,60,000
Creditors	4,10,000	Less: Provision	34,000
Employees Provident Fund	1,80,000	Bank (30,000 + 2,80,000 – 17,200 – 88,800)	2,04,000
		Z's Current A/c	30,000
	18,40,000		18,40,000

Working Notes:

$$(i) \text{ Sacrifice made by X} = \frac{1}{7} \times \frac{7}{10} = \frac{1}{10}$$

$$\text{Sacrifice made by Y} = \frac{1}{10}$$

Net Profit Sharing Ratio

$$X = \frac{7}{10} - \frac{1}{10} = \frac{6}{10}$$

$$Y = \frac{3}{10} - \frac{1}{10} = \frac{2}{10}$$

$$Z = \frac{1}{10} + \frac{1}{10} = \frac{2}{10}$$

New ratio = 3 : 1 : 1

$$Z's \text{ share of Goodwill} = \frac{1}{5} \times 3,00,000 = 60,000$$

(ii) Total capital of the firm on the basis of Z's Capital = 2,50,000 × 5 = ₹ 12,50,000

$$\text{Capital of X} = 12,50,000 \times \frac{3}{5} = ₹ 7,50,000$$

$$\text{Capital of Y} = 12,50,000 \times \frac{1}{5} = ₹ 2,50,000$$

Or

Dr.		Revaluation A/c		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Machinery A/c	32,000	By Land and Building A/c			50,000
To Bad Debts A/c	10,000	By Loss transferred to			
To Provision for Bad Debts A/c	18,000	A's Capital A/c	4,000		
		B's Capital A/c	4,000		
		C's Capital A/c	2,000		10,000
	60,000				60,000

Dr.		Partners' Capital A/c						Cr.	
Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)		
To Revaluation A/c	4,000	4,000	2,000	By Balance b/d	6,00,000	5,00,000	4,00,000		
To C's Capital A/c	36,000			By A's Capital A/c			36,000		
To Bank A/c			4,37,000	By Workmen Compensation Reserve A/c	6,000	6,000	3,000		
To Balance c/d	7,83,000	5,22,000		By Bank A/c	2,17,000	20,000			
	8,23,000	5,26,000	4,39,000		8,23,000	5,26,000	4,39,000		

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	1,10,000	Land and Building	5,50,000
Workmen Compensation Claim	30,000	Machinery	2,88,000
Capital A/cs:		Stock	2,50,000
A	7,83,000	Debtors	3,60,000
B	5,22,000	Less: Provision	18,000
		Cash at Bank	15,000
	14,45,000		14,45,000

Working Notes:

Calculation of gaining ratio:

$$A = \frac{3}{5} - \frac{2}{5} = \frac{1}{5} \text{ (gain)}$$

$$B = \frac{2}{5} - \frac{2}{5} = 0$$

∴ C's share of goodwill i.e. $\frac{1}{5} \times 1,80,000 = ₹ 36,000$ will be paid by A only.

Total capital of the new firm

Adjusted Capital of A 5,66,000

Adjusted Capital of B 5,02,000

10,68,000

Add: Cash required to pay C + 2,37,000

13,05,000

∴ New capital of A = $\frac{3}{5} \times 13,05,000 = 7,83,000$

B = $\frac{2}{5} \times 13,05,000 = 5,22,000$

17.

Journal of Sudha Ltd.

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr. To Share Application A/c (Being application money received on 2,80,000 shares @ ₹ 4 per share)		11,20,000	11,20,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c (Being application money adjusted)		11,20,000	8,00,000 3,20,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being share allotment due)		12,00,000	4,00,000 8,00,000
	Bank A/c Dr. To Share Allotment A/c (Being share allotment received)		8,68,000	8,68,000
	Share First and Final Call A/c Dr. To Share Capital A/c (Being share first and final call due on 2,00,000 shares @ ₹ 4 each)		8,00,000	8,00,000
	Bank A/c Dr. To Share First and Final Call A/c (Being share call money received)		7,90,400	7,90,400

Share Capital A/c	Dr.	24,000	
Securities Premium Reserve A/c	Dr.	9,600	
To Share Allotment A/c			12,000
To Share First and Final Call A/c			9,600
To Share Forfeiture A/c			12,000
(Being 2400 share forfeited)			
Bank A/c	Dr.	12,000	
Share Forfeiture A/c	Dr.	3,000	
To Share Capital Ac			15,000
(Being 1500 forfeited shares reissued for ₹ 8 per share fully paid)			
Share Forfeiture A/c	Dr.	4,500	
To Capital Reserve A/c			4,500
(Being proportionate amount of share forfeiture transferred to capital reserve a/c)			

Working Notes:

Total amount due on allotment $2,00,000 \times ₹ 6 = ₹ 12,00,000$

Less : Excess amount received on application 3,20,000
8,80,000

Less: Amount unpaid by Shiva, holder of 2400 shares.

Amount due on allotment 14400

Less: Excess money (2400) (12,000)
Amount received by allotment 8,68,000

Or

Dr. Journal of Surya Ltd. Cr.

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Share Application A/c	Dr.	72,00,000	
	To Share Capital A/c			16,00,000
	To Share Allotment A/c			24,00,000
	To Securities Premium Reserve A/c			32,00,000
	(Being application money adjusted)			
	Share Allotment A/c	Dr.	40,00,000	
	To Share Capital A/c			16,00,000
	To Securities Premium Reserve A/c			24,00,000
	(Being share allotment due)			
	Share First and Final Call A/c	Dr.	48,00,000	
	To Share Capital A/c			48,00,000
	(Being money due on share first and final call)			
	Share Capital A/c	Dr.	37,000	
	Securities Premium Reserve A/c	Dr.	7,500	
	To Share Allotment A/c			6,500
	To Share First & Final Call A/c			22,200
	To Share Forfeiture A/c			15,800
	(Being 3700 shares forfeited)			

Share Forfeiture A/c	Dr.	3,000	
To Share Capital A/c			3,000
(Being 3,000 forfeited shares reissued)			
Share Forfeiture A/c	Dr.	10,000	
To Capital Reserve A/c			10,000
(Being proportionate amount of share forfeited transferred to capital reserve)			

Dr.		Cash Book		Cr.	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Share Application A/c	72,00,000	By Balance c/d		1,35,98,300	
To Share Allotment A/c	15,93,500				
To Share First and Final Call A/c	47,77,800				
To Share Capital A/c	27,000				
	1,35,98,300			1,35,98,300	

Working Notes:

(i) Total amount due on allotment on 8,00,000 shares @ ₹ 5 each	₹ 40,00,000
Less : Excess amount received on application	24,00,000
	<u>16,00,000</u>
Less: Amount not received from A	6,500
	<u>15,93,500</u>
(ii) Total amount due on first and final call	48,00,000
Less : Amount not paid by A + B, i.e., 2500 + 1200 = 3700 × 6	22,200
	<u>47,77,800</u>

Calculation of gain on reissue of shares.

Amount forfeited on 2000 shares of A	11,000
Amount forfeited on 500 shares of B	2,000
	<u>13,000</u>
Less: Discount allowed on reissue of these shares	3,000
	<u>10,000</u>

18. This will be shown as inflow of cash in operating activities.

19. It will be shown as outflow of cash under investing activities.

20. (a)	Items	Major heads
	(i) Patents written off	Depreciation and Amortisation
	(ii) Carriage inwards	Other expenses
	(iii) Gratuity paid	Employees benefit expenses
	(iv) Interest received on fixed deposit	Other Income
	(v) Interest paid on public deposits	Finance Cost
	(vi) Profit on sale of building	Other Income

(b) Debt analysis is done to know the borrowing capacity of the concern.

21. Calculation of Credit Revenue from Operations :

Let total Revenue from operations be x .

Total Revenue from operations = Cost of Revenue from operations + Gross Profit.

$$\therefore x = 3,20,000 + \frac{x}{5} \Leftrightarrow \frac{4x}{5} = 3,20,000$$

$$\Rightarrow x = 3,20,000 \times \frac{5}{4} = ₹ 4,00,000$$

Total Revenue from operations = ₹ 4,00,000

Total Revenue from operations = Cash Revenue from Operations + Credit Revenue from Operations

$$= \frac{x}{3} + x$$

(Let credit revenue from operations be x)

$$4,00,000 = \frac{4x}{3}$$

$$x = \text{Credit Revenue from operations} = ₹ 3,00,000$$

$$\text{Trade Receivable Turnover Ratio} = \frac{3,00,000}{\text{Average Receivables}}$$

$$\text{Average Receivables} = \frac{3,00,000}{4} = ₹ 75,000$$

$$\frac{\text{Opening Trade Receivable} + \text{Closing Trade Receivable}}{2} = 75,000$$

$$\Rightarrow \frac{x + x + 10,000}{2} = 75,000$$

(Let opening trade receivable be x)

$$\Rightarrow 2x + 10,000 = 1,50,000$$

$$2x = 1,40,000$$

$$x = ₹ 70,000$$

Opening trade receivables = ₹ 70,000

Closing trade receivables = ₹ 80,000

22.

Comparative Income Statement
for the year ended 31st March 2016 and 2017

Particulars	31.3.2016 (₹)	31.3.2017 (₹)	Absolute Change	% Change
Revenue from operations	6,00,000	9,00,000	3,00,000	50%
Other Income	1,20,000	1,08,000	(12,000)	10%
Total Income	7,20,000	10,08,000	2,88,000	40%
Expenses:				
Cost of Material Consumed	3,00,000	5,40,000	2,40,000	80%
Other Expenses	60,000	90,000	30,000	50%
Total Expenses	3,60,000	6,30,000	2,70,000	75%
Profit Before Tax	3,60,000	3,78,000	18,000	5%
Tax	(1,44,000)	(1,51,200)	(7,200)	5%
Profit After Tax	2,16,000	2,26,800	10,800	5%

23.

Cash Flow Statement
for the year ended 31.3.17

Sr. No.	Particulars	Details ₹	Total ₹
A.	Cash flows from Operating Activities:		
	Net Profit before Tax	17,000	
	<i>Add</i> : Depreciation on machinery	12,000	
	Loss on sale of machinery	2,000	
	Interest on Debentures	8,100	
	Operating profit before working capital changes	39,100	
	<i>Add</i> : Increase in Trade Payables	5,000	
	<i>Less</i> : Increase in Trade Receivables	(5,000)	
		39,100	
	<i>Less</i> : Tax Paid	30,000	
	Net Cash from Operating activities	9,100	9,100
B.	Cash flows from Investing Activities:		
	Purchase of Fixed Assets	(60,000)	
	Sale of Fixed Assets	16,000	
	Sale of Non Current Investments	5,000	
	Cash used in investing activities	(39,000)	(39,000)
C.	Cash flows from Financing Activities:		
	Proceeds from Issue of Share Capital	1,00,000	
	Proceeds from Issue of Debentures	30,000	
	Proceeds from Bank Overdraft	10,000	
	Proposed dividend paid	(5,000)	
	Interim dividend paid	(12,000)	
	Interest on Debentures	(8,100)	
	Net cash from financing activities	1,14,900	1,14,900
D.	Net increase in Cash and Cash Equivalent (A + B + C)		85,000
E.	<i>Add</i> : Opening Cash and Cash Equivalents		40,000
F.	Closing Cash and Cash Equivalents		1,25,000

Working Notes:

(i) Deficit as per Statement of Profit and Loss	(50,000)
Add: Transfer to General Reserve	10,000
	(40,000)
<i>Add</i> : Provision for tax	35,000
Interim dividend paid	12,000
Proposed dividend	10,000
Net profit before tax	17,000

Dr. Fixed Assets A/c Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	2,70,000	By Depreciation (Bal. Fig.)	12,000
To Bank A/c	60,000	By Bank A/c	16,000
		By Statement of Profit and Loss	2,000
		By Balance c/d	3,00,000
	3,30,000		3,30,000

Dr. Provision for Tax Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Bank A/c	30,000	By Balance b/d	10,000
To Balance b/d	15,000	By Statement of Profit and Loss	35,000
	45,000		45,000