Pralay Kabi 3.8.19

ST. LAWRENCE HIGH SCHOOL

A JESUIT CHRISTIAN MINORITY INSTITUTION

FOR GOD AND COUNTRY

PRE TEST EXAMINATION 2019

Sub: ACCOUNTANCY MODEL ANSWER **Class:** 12 **F.M:** 80

Duration: 3HRS 15 Mins. **Date:** 01.08.2019

PART-A (44 Marks)

1. X and Y are partners sharing profit and losses in the ratio 7:5. They admit Z, a new partner, who acquires 1/12th from X and 1/6th from Y as his share. Premium of goodwill brought by Z is Rs.30,000. Calculate new ratio, sacrificing ratio and show necessary journal entries regarding premium of goodwill. (4)

Answer: Old PSR, X:Y = 7:5.

Total share acquire by Z $\frac{1}{12}+\frac{1}{6}=\frac{3}{12}$

X share after giving $\frac{1}{12}$ to Z= $\frac{7}{12}-\frac{1}{12}=\frac{6}{12}$

Y share after giving $\frac{1}{6}$ to Z= $\frac{5}{12}-\frac{1}{6}=\frac{3}{12}$

So, new PSR is X:Y:Z is 6:3:3.

Sacrificing ratio X:Y is 1:2.

Journal Entry

Cash/Bank A/C...............Dr. Rs.30,000
To, Premium for goodwill A/C Rs.30,000
Premium for goodwill A/C.......Dr. Rs.30,000
To, X's Capital A/C Rs.10,000
To, Y's Capital A/C Rs.20,000

2. A, B & C are partners sharing profit and losses in the ratio 5:3:2. C retired from the firm and on his retirement goodwill of the firm is valued at Rs. 1,20,000. Pass necessary journal entry regarding treatment of goodwill without opening goodwill account. (4)

Answer: A's Capital A/C..................Dr. Rs.15,000
B's Capital A/C...................Dr. Rs. 9,000
To, C's Capital A/C Rs.24,000

3. A firm earned Rs.60,000 as profit (average), the normal rate of return being 10%. Assets of the firm are Rs.7,20,000 (excluding goodwill) and Liabilities are Rs.2,40,000. Find the value of goodwill by capitalisation of average profit method. (4)

Answer: Step1: Capitalised value of the firm = $\frac{Average\ profit\ x\ 100}{Normal\ Rate\ of\ Return}=\frac{Rs.60,000\ X\ 100}{10}$ = Rs.6,00,000.

Step2: Net Asset of the firm = Total Assets – Liabilities = Rs.7,20,000- Rs. 2,40,000 = Rs.4,80,000

Step3: Goodwill = Capitalised value of the firm – Net Assets = Rs. 6,00,000 – Rs. 4,80,000
= Rs.1,20,000

4. P, Q and R are partners sharing profit and losses in the ratio 5:3:2. Capital account balances as at 1.4.2018 as P- Rs.3,00,000; Q- Rs.2,50,000 and R- Rs.2,00,000. Interest on capital is chargeable @ 10% p.a. Salary payable to P is Rs,5,000 p.m. and Q is entitled to receive commission @ 5% of divisible profit after charging such commission. R let out his property to the firm at a monthly rent of Rs.3,000. During the year 2018-19 the firm earned net profit for Rs.4,00,000. Prepare Profit & Loss Appropriation Account for the year ended 31st March 2019. (6)

Answer: Dr P/L Appropriation Account for the year ended 31st March 2019 Cr.

Particular	Rs.	Particular	Rs.
To, Interest on capital P Rs.30,000 Q Rs. 25,000 R Rs. 20,000	75,000	By, Net Profit b/d Rs.4,00,000 Less: R's Rent Rs. 36,000	3,64,000
To, P's Salary	60,000		
To, Q's Commission (2,29,000 x 5/105)	10,905		
To, Share of Profit P 1,09,048 Q 65,428 R 43,619	2,18,095		
	3,64,000		3,64,000

5. Anil and Bimal and Charu are partners sharing profit and losses in the ratio 3:2:1. The following is their Balance Sheet as at 31st March 2019.

Liabilities	Rs.	Assets	Rs.
Capital A/c's		Land & Building	1,60,000
Anil	2,00,000	Plant & machinery	1,40,000
Bimal	1,80,000	Stock	50,000
Charu	1,50,000	Debtors	80,000
General reserve	60,000	Bank Balance	1,58,000
Creditors	10,000	Profit & Loss A/C	12,000
	6,00,000		6,00,000

On 1.4.2019 Charu retired from the firm and on his retirement goodwill of the firm is valued at Rs.90,000. Capital adjustment is required regarding treatment of goodwill. Assets and liabilities are revalued as under.

(i) Land & building valued at Rs.2,00,000; Plant & machinery reduced to Rs.1,20,000; Stock taken over by Anil at Rs.40,000 and provision for doubtful debt is required to maintain at Rs. 3,000.
(ii) Out of the total due Rs. 30,000 is paid to Charu immediately and balance transferred to his loan account.

Prepare revaluation account and partners capital account. (6)

Answer: Dr. Revaluation Account Cr.

Particulars	Rs.	Particulars	Rs.
To, Plant & Machinery A/C	20,000	By, Land & Building A/C	40,000
To, Stock A/C	10,000		
To, Prov. For doubtful debt A/C	3,000		
To, Partners Capital A/C Anil 3,500 Bimal 2,333 Charu 1,167	7,000		
	40,000		40,000

Dr. Partners Capital Account Cr.

Particulars	Anil	Bimal	Charu	Particulars	Anil	Bimal	Charu
To, Profit & Loss A/C	6,000	4,000	2,000	By, Balance b/d	2,00,000	1,80,000	1,50,000
To, Stock A/C	40,000			By, General Reserve	30,000	20,000	10,000
To, C's Capital A/C	9,000	6,000		By, A's Capital A/C			9,000
To, Bank A/C			30,000	By, B's Capital A/C			6,000
To, C's Loan A/C			1,44,167	By, Revaluation A/C	3,500	2,333	1,167
To, Balance c/d	1,72,500	1,92,333					
	2,33,500	2,02,333	1,76,167		2,33,500	2,02,333	1,76,167

6. X and Y are partners sharing profit and losses in the ratio 3:2. The following is their Balance Sheet as at 31st March 2019.

Liabilities	Rs.	Assets	Rs.
Capital A/C balances		Building	1,80,000
X	2,50,000	Plant & Machinery	1,50,000
Y	2,00,000	Stock	50,000
General Reserve	50,000	Debtors	60,000
Creditors	30,000	Bank Balance	90,000
	5,30,000		5,30,000

On 1.4.2019 Z admitted as a new partner for 1/4th and brought Rs. 1,80,000 as capital and Rs.40,000 as premium of goodwill. Assets and Liabilities are revalued as under.

(i) Building increased by Rs. 50,000; Plant & Machinery depreciated by Rs.10,000; Stock revalued at Rs. 75,000 and provision for doubtful debt is required @15%.
(ii) There is a claim against the firm for damages for Rs.15,000. Provision is required to be maintained for that.
(iii) A computer is purchased on hire purchase system for Rs.50,000 of which Rs.10,000 is paid down. Both the value of computer and the unpaid amount not yet disclosed in balance sheet.

Prepare Revaluation A/C; Partners Capital A/C and Balance Sheet of the firm. (3+4+3=10)

Answer: Dr. Revaluation A/C Cr

Particulars	Rs.	Particulars	Rs.
To, Plant& Machinery A/C	10,000	By, Building A/C	50,000
To, Prov. For doubtful debt A/C	9,000	By, Stock A/C	25,000
To, Prov. For damages A/C	15,000	By, Office Equipment A/C	50,000
To, Creditors for Office Equipment A/C	40,000		
To, Partners Capital A/C			
X 30,600			
Y 20,400	51,000		
	1,25,000		1,25,000

Dr. Partners Capital Account Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
				By, Balance b/d	2,50,000	2,00,000	---
				By, General Reserve A/C	30,000	20,000	---
				By, Revaluation A/C	30,600	20,400	---
				By, Bank A/C	---	---	1,80,000
To, Balance b/d	3,34,600	2,56,400	1,80,000	By, Premium for Goodwill A/C	24,000	16,000	---
	3,34,600	2,56,400	1,80,000		3,34,600	2,56,400	1,80,000

Balance Sheet as at 31st March 2019

Liabilities	Rs.	Assets	Rs.
Capital A/C:		Building	2,30,000
X	3,34,600	Plant & Machinery	1,40,000
Y	2,56,400	Stock	75,000
Z	1,80,000	Office Equipment	50,000
Provision for damages	15,000	Debtors	51,000
Creditors	30,000	Bank balance	3,10,000
Creditors for Office Equipment	40,000		
	8,56,000		8,56,000

7. From the Balance Sheet of Z Ltd. given below prepare a comparative balance sheet.

Particulars	Note No.	31.03.2019 (Rs)	31.03.2018 (Rs)
I. EQUITY AND LIABILITIES:			
1. Shareholders Fund			
(a) Share Capital		3,00,000	2,00,000
(b) Reserve & Surplus		60,000	40,000
2. Non-Current Liabilities (12% Debentures)		2,50,000	2,00,000
3. Current Liabilities (trade payable)		1,00,000	60,000
Total:		7,10,000	5,00,000
II. ASSETS:			
1. Non –Current Assets (Tangible)		5,00,000	4,00,000
2. Current Assets		2,10,000	1,00,000
Total:		7,10,000	5,00,000

(6)

Answer: Comparative Balance Sheet as at 31st March 2019 & 2018

Particulars	Note No.	31.03.19 (Rs.)	31.03.18 (Rs.)	Absolute Change Rs.)	Percentage Change(%)
I. EQUITY AND LIABILITIES:					
1. Shareholders Fund					
(a) Share Capital		3,00,000	2,00,000	1,00,000	50.00
(b) Reserve & Surplus		60,000	40,000	20,000	50.00
2. Non-Current Liabilities (12% Debentures)		2,50,000	2,00,000	50,000	25.00
3. Current Liabilities (trade payable)		1,00,000	60,000	40,000	66.67
Total:		7,10,000	5,00,000	2,10,000	42.00
II. ASSETS:					
1. Non –Current Assets (Tangible)		5,00,000	4,00,000	1,00,000	25.00
2. Current Assets		2,10,000	1,00,000	1,10,000	110.00
Total:		7,10,000	5,00,000	2,10,000	42.00

8. (a) A business has current ratio 3:1. It has net working capital Rs.4,00,000 and its inventories are valued at Rs.2,50,000. Calculate Quick Ratio.

(b) From the following details calculate Trade Receivable/ Debtors Turnover Ratio.

Total sales or Revenue from operation	Rs.1,75,000
Cash sales or cash revenue from operation	20% of total sales
Sales Return	Rs.10,000
Sundry Debtors-	
Opening Balance	Rs.8,000
Closing Balance	Rs.12,000

(4)

Answer:

(a) Current Ratio= CA/CL

3 = CA/CL

3CL = CA

Again Working Capital= CA – CL

4,00,000 = 3CL –CL

CL = 2,00,000 so, CA = 2,00,000x 3 = 6,00,000

Quick Ratio = $\frac{Current\ Assets - Inventory - Prepaid\ Expenses}{Current\ Liabilities} = \frac{6{,}00{,}000 - 2{,}50{,}000}{2{,}00{,}000} = 1.75 : 1$

(b) Total Revenue from Operation	Rs. 1,75,000
Less: Cash Revenue from ,,	Rs. 35,000
Less: Sales Return	Rs. 10,000
Credit Revenue from Operation	Rs. 1,30,000

Trade Receivable Turnover Ratio = $\frac{Credit\ Revenue\ from\ Operation}{Average\ trade\ receivable} = \frac{Rs.1{,}30{,}000}{Rs.10{,}000}$ = 13 time

PART-B (36 Marks)

1. Choose the correct alternatives: (1x18 =18)

(i) The characteristics of a partnership firm are listed below except for

(a) mutual agency
(b) the business must be carried on by all or any of them acting for all
(c) co-ownership of property
(d) limited liability

(ii) In the absence of partnership deed interest on capital is payable

(a) @ 10% p.a.
(b) @6% p.a.
(c) @ 8% p.a.
(d) none of the above

(iii) Registration of partnership firm is

(a) compulsory
(b) not compulsory
(c) compulsory if number of partners does not exceed 10
(d) not compulsory if number of partners exceed 10.

(iv) Revaluation of assets and liabilities are required at the time of

(a) admission of partner
(b) retirement of partner
(c) death of partner
(d) all of the above

(v) When there is a change in the profit sharing ratio among the existing partners, it is treated as
(a) termination of the partnership firm
(b) termination of the partnership business
(c) reconstitution of the partnership business
(d) none of the above

(vi) An incoming partner is to bring Rs.15,000 as premium for goodwill for 1/6th share of profit. What is the Value of Goodwill of the firm?
(a) 60,000
(b) 90,000
(c) 30,000
(d) none of the above

(vii) A and B are partner sharing profit and losses in the ratio 3:2. C is admitted for 1/5th share in future profit Which he gets from A. What is the new profit sharing ratio?
(a) 12:8:5
(b) 5:4:3
(c) 6:5:4
(d) 2:2:1

(viii) When a new partner is admitted, unless otherwise agreed, the profit sharing ratio between the existing Partners will
(a) reduce
(b) increase
(c) remain same
(d) none of the above

(ix) Gaining ratio is generally calculated at the time of
(a) admission of partner
(b) retirement of partner
(c) death of partner
(d) retirement/death of partner

(x) On retirement of partner the combined share of the continuing partners
(a) will remain same
(b) will reduce
(c) will increase
(d) will decrease or increase

(xi) Super profit means
(a) excess of average profit over normal profit
(b) excess of normal profit over average profit
(c) capitalisation of average profit
(d) none of the above

(xii) The executor of deceased partners are entitled to share of goodwill as per
(a) agreement between the partners
(b) profit sharing ratio
(c) capital ratio

(d) equally

(xiii) Non purchased goodwill arises due to
(a) purchase of business
(b) internally generated over the years
(c) when net assets taken over more than liabilities
(d) all of the above

(xiv) which of the following item cannot be recorded in the appropriation account?
(a) Interest on capital
(b) interest on drawings
(c) partners salaries
(d) rent paid to partners.

(xv) The death of partner
(a) will not terminate the partnership
(b) will terminate the partnership
(c) will compulsory dissolve the partnership firm
(d) will not affect anything on the partnership

(xvi) If capital as on 1.4.2018 is Rs.1,00,000 and further capital introduced is Rs. 80,000 on 1.10.2018 interest On capital as on 31.3.2019 @10% p.a. is
(a) Rs. 10,000
(b) Rs. 15,000
(c) Rs. 14,000
(d) Rs. 18,000

(xvii) If drawings is made for Rs.6,000 p.m.at the beginning of each month and rate of interest on drawings Is 6% p.a. interest on drawings is
(a) Rs.2,350
(b) Rs.2.360
(c) Rs. 2,340
(d) none of the above

(xviii) If average profit of the firm is Rs. 4,00,000; capital employed is 10,00,000 and normal rate of return is 10% amount of super profit is
(a) 2,00,000
(b) 3,00,000
(c) 2,50,000
(d) none of the above

Answer:

(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)
(d)	(d)	(b)	(d)	(c)	(b)	(a)	(c)	(b)
(x)	(xi)	(xii)	(xiii)	(xiv)	(xv)	(xvi)	(xvii)	(xviii)
(c)	(a)	(a)	(b)	(d)	(b)	(c)	(c)	(b)

2. Choose the correct alternatives: (1x4= 4)

(i) Which of the following is not a tool of financial analysis?
(a) ratio analysis
(b) balance sheet of a particular year
(c) common size statement
(d) cash flow statement.

(ii) Comparative statement is a form of
(a) vertical analysis
(b) horizontal analysis
(c) both (a) & (b)
(d) ratio analysis

(iii) Debt-equity ratio is the relation between
(a) long term debt and share capital
(b) long term debt and short term debt
(c) long term debt and shareholder fund
(d) Long term debt and total assets

(iv) Ideal current ratio is
(a) 1:1
(b) 3:1
(c) 2:1
(d) none of the above

Answer:

(i)	(ii)	(iii)	(iv)
(b)	(b)	(c)	(c)

3. Answer the following questions: (1x8 =8)

(i) What is partnership deed?
Ans: It is an agreement among the partners to run their partnership business. It may be written or verbal. According to this partners are entitled to receive their dues from the firm.
(ii) What do you mean by revaluation account?
Ans: It is an account which is prepare at the time of change in constitution of partnership firm. Under this account assets are valued again and liabilities are reassessed again.
(iii) State any one difference between capital account and current account.
Ans: Capital account prepared under fixed as well as fluctuating method whereas current account is prepared under fixed method only.
(iv) Write the journal entry for premium of goodwill brought by incoming partner in cash.
Ans:
Cash/Bank A/C ....Dr.
To, Premium for goodwill A/C
Premium for goodwill A/C............Dr.
To, Old partners capital A/C

(v) What is hidden goodwill?
It is the excess of desired total capital of the firm over the actual combined capital of all partners.
(vi) What is sacrificing ratio?
Ans: At the time of admission of a new partner profit sharing of existing partner may reduce because of their sacrifice and the ratio determined on that time is called sacrificing ratio. It is Old Ratio – New Ratio.
(vii) State any one difference between charge against profit and appropriation of profit.
Ans: Interest on loan is an example of charge against profit and interest on capital is an example of appropriation of profit.
(viii) What is the accounting treatment for rent paid to a partner by the firm?
Ans: Amount of rent paid to partner must be deducted from net profit and to be recorded in the credit side of partners capital account.

4. Answer the following questions: (1x6 =6)
(i) What is comparative statement?

Ans: Comparative Statement means comparative study of items or components of financial statement for two or more years or with other enterprises. It is a tool of financial statement analysis.

(ii) What do you mean by analysis of financial statement?

Ans: It is a systematic process of critical examination of the financial information in the financial statement to understand and make decisions regarding the operation of the enterprise.

(iii) What is current ratio?

Ans: This ratio represents the relationship between current assets at current liabilities of a business. The ideal current ratio is 2:1.

(iv) What is the significance of quick ratio?

Ans: This ratio signifies the abilities of quick assets to pay its current liabilities. For determining short term solvency of a firm it is an ideal ratio to determine.

(v) State any one advantage of common size statement.

Ans: It able to determine the trend of different items of the statement.

(vi) Write inventory or stock turnover ratio.

Ans: Inventory Turnover Ratio = $\frac{Cost\ of\ Revenue\ from\ Operation}{Average\ Inventory}$