B. ANALYSIS OF PERFORMANCE

PART I (30 Marks)

*Answer **all** questions.*

Question 1 **[10 ò 2]**

Answer briefly each of the following questions:

(i) Give *two* differences between *Net Profit* and *Cash from Operations*.

(ii) When does Loss on Issue of Debentures arise?

(iii) Give *two* differences between *Authorized Capital* and *Issued Capital*.

(iv) Why is the word *Memorandum* affixed to the *Memorandum Joint Venture Account*?

(v) How is double entry completed in the General Ledger when ledgers are kept under the Self Balancing System?

(vi) What is the accounting treatment of Employees Provident Fund appearing in the Balance Sheet of a partnership firm at the time of its dissolution?

(vii) Give the formula for computing Price Earning Ratio.

(viii) Give *two* differences between *Reserve Capital* and *Capital Reserve*.

(ix) How will the firm show the amount payable to the retiring partner, if it is not in a position to immediately pay the amount due to him on his retirement?

(x) What accounting steps are taken by a partnership firm when a new partner is unable to bring the business guaranteed by him?

Comments of Examiners

(i) Several candidates distinguished 'Net Profit' from 'Cash Flow Statement'. Many candidates were not clear that Net Profit is the result of all activities of the business while CFO indicates the flow of cash only from its operating activities.

(ii) Most of the students wrote this answer satisfactorily.

(iii) Majority of the students wrote this answer satisfactorily. However, a few explained 'Authorized Capital' as unissued capital and 'Issued Capital' as one which has been paid up.

(iv) By and large most of the candidates wrote this answer satisfactorily. A few candidates wrote about Memorandum Balance Sheet instead of Memorandum Joint Venture Account.

Suggestions for teachers

– The chapter on Cash Flow Statement should be started by explaining to the students, with figures, how the cash generated from business activities need not be equal to its net profit.

– A clear distinction between the cash basis and the accrual basis of accounting must be explained in Class XI itself and then reiterated while doing this chapter.

– Annual report of any company should be shown to the students.

(v) Candidates were able to answer this question with ease. However, a few wrote 'Total Debtors Account' and 'Total Creditor Account'.

(vi) A few candidates wrote 'transferred to Revaluation A/c'. Another group of candidates did not mention the side of the Realization A/c to which Employees Provident Fund had to be transferred. Some candidates considered it as an appropriation of profit instead of an outside liability and mentioned that it be transferred to the 'Partners' Capital Account'.

(vii) Majority of the candidates could handle this question well. However, a few ended up writing the formula for Earning per Share instead of Price Earning Ratio.

(viii) By and large most of the candidates wrote this answer satisfactorily. A few candidates who could not attempt this question properly wrote Capital Reserve as capital kept as reserve and Reserve Capital as reserve kept for future use. Some candidates, due to language problem, could not express the differences in a proper manner.

(ix) Candidates were able to answer this question with ease.

(x) Most candidates wrote about 'Goodwill Compensation'.

- Teachers should explain the entries for issue of debentures based on the terms of their redemption.
- A Memorandum of Association and Prospectus of a Company could be shown to the students which would help them to understand Authorized and Issued Capital.
- Kinds of share capital should be explained clearly to students and if in every question done on issue of shares, the students are also asked to present the Share Capital in the Balance Sheet of the company, then kinds of share capital will be absolutely clear to them.
- Explain to students how the Memorandum Joint Venture Account is not a part of the double entry system and that it is basically a statement prepared to find out the P/L made on the venture when each co-venturer records only his own transactions.
- Explanation of appropriation of funds, charge against profits and outside liabilities is a must for the entire unit of Partnership.
- In 'Dissolution of Partnership', explain to the students that appropriation of profits for specific assets have to be transferred to the Realization A/c.
- Explain to the students that all outside liabilities have to be paid off.
- Explain to the students the components of the formulae instead of making them do rote learning.

- Insist that students do not write short forms like EPS and FA (which could stand for Fixed Assets / Fictitious Assets)
- Lay stress on the theoretical aspect of the chapter 'Issue of Shares' and frequently test the students on the theory questions.
- Explain the treatment of closing the retiring partner's capital a/c.
- The topic 'Guarantee of profits' includes all its three forms- firm guarantees a minimum profit to a partner, one partner guarantees a minimum profit to another partner, one partner guarantees a minimum profit to the firm.
- Explain to the students that it is profits which are guaranteed and not goodwill.

MARKING SCHEME

Question 1.

(i)

Basis	Net Profit	Cash from Operations
1.Meaning	It indicates the net result of activities carried out during an accounting year.	It indicates the cash flow as a result of operating activities.
2.Non-cash operating item(depreciation)	It is calculated after taking into account the effect of non-cash operating items.	It is calculated after excluding the effect of non-cash operating items since these items represent merely the book entries.
3.Non- operating items	It is calculated after taking into account the effect of non-operating items	It is calculated after excluding the effect of non-operating items since these items do not relate to operating activities.

(*any two*)

(ii) Loss on issue of Debentures arises at the time of Issue of Debentures when they are redeemable at a premium.

(iii)

Authorized Capital	Issued Capital
1. It refers to that amount of capital which is stated in the MOA of the company as its share capital with which the company is registered. 2. Its amount is determined after considering the present and future requirements. 3. It can exceed issued capital/ the maximum that a Co. can raise	It refers to that part of the nominal capital of the company which is given to the public for subscription. Its amount is determined after considering the present requirements. It cannot exceed authorized capital/ it can be equal / less than the authorized capital. (*any two*)

(iv) The word memorandum is affixed to the Memorandum Joint Venture Account because it does not comply with the principles of the Double entry system

OR

Each co-venturer maintains a record of only his transactions and not of the other co-venturers. So the expenses and revenues of all co-venturers are recorded in the Memorandum Joint Venture A/c in order to determine the P/L made by the venture.

OR

Incomplete records are maintained by each co-venturer.

OR

It is a statement and not an account.

(v) By preparing - Debtors Ledger Adjustment Account

Creditors Ledger Adjustment Account

(vi) Employees Provident Fund A/c Dr.

To Realization A/c / to cash a/c

OR

EPF is transferred to the credit side of the Realization a/c

OR

EPF is paid off

(vii) Price Earning Ratio = $\frac{Market\ Price\ Per\ Share}{Earning\ Per\ Share}$

(viii)

Basis	Reserve Capital	Capital Reserve
1. Creation	Created out of uncalled capital.	Created out of capital profits.
2. Special resolution	Special resolution is required to create reserve capital.	No resolution is required for creating capital reserve
3.Disclosure in Balance Sheet	It is not disclosed in the Company's Balance Sheet	It is disclosed in the Balance Sheet under the head Reserves and Surplus.
4. Time when it can be used.	It can be used/ called up only at the time of winding up.	It can be used only during the life of the company.
5.	To pay off the creditors	To write off capital losses

(*any two*)

(ix) By transferring the amount due to him, to his loan account which will then be shown on the liability side of the Balance Sheet of the reconstituted firm. OR

Retiring Partner's Capital A/c Dr.

To Retiring Partner's Loan A/c

(x) When the new partner fails to bring the business guaranteed by him, the shortfall in profit arising there-from will be debited to his Capital Account and credited to the Profit and Loss Appropriation Account.

OR

Partner's Capital Account Dr

To P/L Appropriation Account (with the shortfall in the guaranteed profit)

Question 2 **[10]**

Alex, John and Sam are partners in a firm. Their capital accounts on 1st April, 2011, stood at ₹1,00,000, ₹ 80,000 and ₹ 60,000 respectively.

Each partner withdrew ₹5,000 during the financial year 2011-12.

As per the provisions of their partnership deed:

(a) John was entitled to a salary of ₹1,000 per month.

(b) Interest on capital was to be allowed @ 10% per annum.

(c) Interest on drawings was to be charged @ 4% per annum.

(d) Profits and losses were to be shared in the ratio of their capitals.

The net profit of ₹75,000 for the year ended 31st March, 2012, was divided equally amongst the partners without providing for the terms of the deed.

You are required to pass a *Single Adjusting Journal Entry* to rectify the error. (Show the workings clearly)

Comments of Examiners

Several candidates were unable to calculate interest on drawings by taking the average time period.
Many candidates did not cancel the incorrect profits given to the partners.
A few candidates did not calculate the annual salary of the partner.
Many candidates were able to do the entire working notes correctly but were unable to pass the adjusting journal entry.

Suggestions for teachers

- Be fully conversant with the scope of the syllabus. Give equal importance to all topics.
- Give adequate practice to students to calculate interest on drawings.
- Explain to the students that a partner who had got more than his share of earnings because of the provisions of the deed not being followed has to compensate the partner who has got less.
- Emphasis should be laid on detailed working notes (in any form) for a question on past adjustments.

MARKING SCHEME

Question 2.

Sam's Capital a/c	Dr	9,275	
To Alex's Capital a/c			1,275
To John's Capital a/c			8,000

(Being error rectified / Being adjustments for salary, int.on capital and int.on drawings made)

Working Notes:

P/L Appropriation A/c

Particulars		₹	Particulars		₹
To Salary- John		12,000	By Net Profit		75,000
To IOC					
Alex	10,000		By IOD		
John	8,000		Alex	100	
Sam	6,000	24,000	John	100	
			Sam	100	300
To Profit					
Alex	16,375				
John	13.100				
Sam	9,825	39,300			
		75,300			75,300

Table Showing Adjustments				
Partner	Amount to be Debited/ Credited Cr Dr Net Dr/ Cr		Amount has been Credited	Dr/ Cr
Alex	10,000 (100) +16,375	26,275 (Cr)	25,000	1,275 (Cr)
John	12,000 (100) + 8,000 +13,100	33,000 (Cr)	25,000	8,000 (Cr)
Sam	6,000 (100) +9,825	15,725 (Cr)	25,000	9,275 (Dr)

PART II (70 Marks)

*Answer **any five** questions.*

Question 3 **[14]**

Reliable Ltd. was registered with an authorized capital of ₹ 20,00,000 in ₹10 per equity share. It invited applications for issuing 1,00,000 equity shares at a premium of ₹2 per share. The amount was payable as follows:

On application ₹4 per share (including premium)

On allotment ₹3 per share

Balance on 1st and Final Call.

Applications were received for 1,30,000 shares. Applications for 10,000 shares were rejected and the application money received on them was refunded. Pro-rata allotment was made to the remaining applications. Amount overpaid on these applications was adjusted towards the amount due on allotment. Sameer, who had applied for 1,200 shares, failed to pay the allotment and call money. The company forfeited his shares, out of which 800 shares were reissued to Sanjay at ₹9 per share fully paid up.

You are required to:

(i) **Pass the Journal Entries in the books of the company through Calls in Arrears Account.**

(ii) **Prepare the Share Allotment Account.**

Comments of Examiners

Majority of the candidates answered this question satisfactorily.
A few candidates who went wrong in this question solved it on the basis of shares applied. They did not take pro-rata allotment into account.
Some candidates cancelled Securities Premium A/c while passing the journal entry for forfeiture, although securities premium had been received.
Some candidates did not pass the journal entries through calls-in-arrear a/c despite it being mentioned in the question.

Suggestions for teachers

- Explain the concept of allotment ratio thoroughly including its application in case of pro rata allotment.
- Explain to the students how securities premium once received cannot be cancelled. This can best be done by preparing a B/S of a company.
- Treatment of calls-in arrear should be taught by opening call-in-arrear a/c.

MARKING SCHEME

Question 3.

Particulars		L.F	Debit (₹)	Credit (₹)
Bank a/c	Dr		5,20,000	
To Share Application a/c				5,20,000
(Being application money received)				
Share Application a/c	Dr		5,20,000	
To Share Capital a/c				2,00,000
To Securities Premium				2,00,000
To Bank				40,000
To Share Allotment				80,000
(Being application money transferred to share capital)				
Share Allotment a/c	Dr		3,00,000	
To Share Capital a/c				
(Being amount due on allotment)				3,00,000
Bank a/c	Dr		2,17,800	
Calls-in- arrear a/c	Dr		2,200	
To Share allotment				
(Being allotment money received)				2,20,000
Share First & Final Call a/c	Dr		5,00,000	
To Share Capital a/c				
(Being call money due)				5,00,000
Bank a/c	Dr		4,95,000	
Calls-in- arrear a/c	Dr		5,000	

To Share First & Final Call (Being call money received)			5,00,000
Share Capital a/c Dr To Share Forfeiture To Calls –in- arrear (Being 1,000 shares forfeited)		10,000	 2,800 7,200
Bank a/c Dr Share Forfeited a/c Dr To Share Capital (Being 800 shares re-issued)		7,200 800	 8,000
Share Forfeited a/c Dr To Capital Reserve (Being gain on reissued shares transferred to Capital Reserve)		1,440	 1,440

Share Allotment Account

To Share Capital	3,00,000	By Share Application	80,000
		By Bank	2,17,800
		By Calls in Arrears	2,200
	3,00,000		3,00,000

Question 4 **[14]**

Arthur Ltd. reported a profit of ₹90,000 for the year ended March 31, 2012, after considering the following:

		₹
(a)	Tax provided during the year	3,000
(b)	Amortization of goodwill	12,000
(c)	Profit on sale of land	5,000
(d)	Writing off preliminary expenses	2,000

(e) Machinery costing ₹40,000 (accumulated depreciation thereon being ₹18,000) was sold during the year at a loss of ₹17,000.

Extracts of its Balance Sheets at the beginning and at the end of the year are given below:

	01.04.2011	31.03.2012
Accounts Receivable	16,000	20,000
Stock	15,000	12,000
Cash at Bank	10,000	8,000
Accounts Payable	11,000	9,000
Expenses Payable	5,000	6,000
Provision for Taxation	6,000	4,000
Investments (short term)	2,000	5,000
Plant and Machinery (net value)	1,30,000	94,000
Proposed Dividend	10,000	12,000

You are required to calculate Cash from Operating Activities as per Accounting Standard-3. (Show your workings clearly)

Comments of Examiners

A few candidates prepared the entire 'Cash Flow Statement' instead of only its first part - Cash From Operating Activities.

Majority of the candidates were unable to prepare 'Provision for Tax A/c' They could not distinguish between 'Tax Provided' and 'Tax Paid'.

Several candidates were unable to calculate the amount of depreciation charged on Plant and Machinery during the year from the information given.

A few candidates considered short term investments to get 'Working Capital' changes while its treatment in the preparation of CFS is a cash equivalent.

Suggestions for teachers

- Enough practice should be given to students in preparing adjustment accounts pertaining to Provision for Tax, Asset A/c at its Gross Value / Net Value.
- Doing simple problems in CFS does not suffice. Enough practice should be given on comprehensive questions.
- Practice should also be given on sums requiring just the calculation of cash from operating activities, cash from financing activities and cash from investing activities.

MARKING SCHEME

Question 4.

Cash Flow Statement of Arthur Ltd. **for the year ended 31st March, 2012:**

Cash Flow from Operating Activities		
Net profit before tax		1,05,000
Add: Non Cash & Non Operating Expenses		
Depreciation		14,000
Loss on sale of P/M		17,000
Goodwill written off		12,000
Preliminary expenses written off		2,000
		1,50,000
Less: Non operating income		
Profit on sale of land		(5,000)
Net Operating Profit before Working Capital changes		1,45,000
Add: Decrease in Current Assets and Increase in Current Liabilities.		
õ **Stock**	3,000	
õ **Expenses Payable**	1,000	4,000
Less: increase in Current Assets and Decrease in the current Liabilities		
õ Accounts Receivable	(4,000)	
õ Accounts Payable	(2,000)	(6,000)
Cash from operating activities before tax paid.		1,43,000
Less : Tax paid		(5,000)
		1,38,000

Working Note 1:

Machinery Account

Particulars	Amount(₹)	Particulars	Amount(₹)
To Balance b/d	1,30,000	By Dep	14,000
		By Cash	5,000
		By Loss	17,000
		By balance c/d	94,000
	1,30,000		**1,30,000**

Working Note 2:

Provision for Tax A/c

Particulars	Amount (₹)	Particulars	Amount(₹)
To Cash	5,000	By Balance b/d	6,000
To Balance c/d	4,000	By P/L	3,000
	9,000		9,000

Working Note 3:

	₹
Net profit for the year	90,000
Add Proposed Dividend	12,000
Add Provision for tax	3,000
Net Profit before Tax	**1,05,000**

No marks will be given if net profit before the tax is determined by preparing an adjusted P/L Account as that will not be as per Accounting Standard -3.

Question 5 **[14]**

Following is the Balance Sheet of Ravi and Prakash as on 31st March, 2012:

Liabilities	Amount ₹	Assets		Amount ₹
Sundry Creditors	60,000	Cash		25,000
Ravi's Loan	15,000	Debtors	42,000	
General Reserve	15,000	Less provision for doubtful debts	(6,000)	36,000
Investment Fluctuation Fund	2,000	Stock		12,000

Ravi's Capital	30,000	Investments	18,000
Prakash's Capital	10,000	Plant and Machinery	41,000
	1,32,000		1,32,000

The firm was dissolved on 31st March, 2012, on the following terms:

(a) Ravi took over stock at ₹8,000.

(b) Creditors payable after two months were paid immediately at a discount of 6% per annum.

(c) Debtors realized ₹35,000.

(d) Plant and Machinery and Investments realized ₹60,000.

(e) An old computer completely written off was taken over by Prakash at ₹1,200.

(f) Realization expenses of ₹2,000 were paid by Ravi.

You are required to prepare:

(i) **Realization Account.**

(ii) **Partners' Capital Accounts.**

(iii) **Cash Account.**

Comments of Examiners

Majority of the candidates answered this question satisfactorily.
Several candidates did not take into account the time period of two months while calculating the amount to be paid to the creditors.
A few candidates posted 'By Sundry Assets Realized' and 'To Sundry Liabilities Paid' in the Realization A/c instead of 'By Bank' and 'To Bank' respectively.
Some candidates paid off the Investment Fluctuation Fund.
A few candidates solved this problem by applying the 'Garner Vs Murray Rule'. This question was not connected to this rule.

Suggestions for teachers

- Adequate practice should be given in calculating the amount at which the liabilities are to be settled or the amount realized.
- Explain to students that the effect of appropriation of profits for specific assets transferred to the Realization A/c increase the profits on realization or reduce the losses. They are not to be paid off.

MARKING SCHEME

Question 5.

Realization A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Sundry Assets Debtors Stock Investments P/M	 42,000 12,000 18,000 41,000	By Sundry Liabilities Prov. for D Creditors IFF	 6,000 60,000 2,000
To Ravi's Capital a/c realization exp	 2,000	By Ravi's Capital a/c Stock	 8,000
To Cash a/c Creditors	 59,400	By Cash a/c Debtors P/M & Inv	 35,000 60,000
		By Prakash's Capital a/c Unrecorded asset	 1,200
		By Loss transferred to Ravi's Cap a/c 1,100 Prakash's Cap a/c 1,100	 2,200
	1,74,400		1,74,400

Partner's Capital A/c

Particulars	Ravi	Prakash	Particulars	Ravi	Prakash
To Realization a/c	8,000	1,200	By Balance b/d	30,000	10,000
To Realization a/c (loss)	1,100	1,100	By General Reserve	7,500	7,500
To Cash a/c	30,400	15,200	By Realization a/c (expenses)	2,000	
	39,500	17,500		39,500	17,500

Cash A/c

Particulars	Amount (₹)	Particulars	Amount(₹)
To Balance b/d	25,000	By Realization a/c	59,400
To Realization a/c 35,000 60,000	 95,000	By Ravi's Loan a/c	15,000
		By Ravi's Capital a/c	30,400
		By Prakash's Capital a/c	15,200
	1,20,000		1,20,000

Question 6 **[14]**

Neha and Tara are partners in a firm sharing profits and losses in the ratio of 3:2. Their Balance Sheet on 31st March, 2012, stood as follows:

Liabilities		Amount ₹	Assets		Amount ₹
Capital Accounts			Plant & Machinery		12,000
Neha	8,000		Land and Building		14,000
Tara	10,000	18,000	Debtors	19,000	
General reserve		12,000	Less provision for doubtful debts	(4,000)	15,000
Workmen's Compensation Fund		5,000	Stock		6,000
Creditors		15,000	Cash		3,000
		50,000			50,000

They agreed to admit Prachi into partnership for 1/5th share of profits on 1st April, 2012, on the following terms:

(a) All debtors to be considered as good and therefore the provision for doubtful debts to be written back.

(b) Value of land and building to be increased to ₹ 18,000.

(c) Value of plant and machinery to be reduced by ₹ 2,000.

(d) The liability against Workmen's Compensation Fund is determined at ₹ 2,000 which is to be paid later in the year.

(e) Prachi to bring in her share of Goodwill of ₹ 10,000 in cash.

(f) She will further bring in cash so as to make her capital equal to 20% of the total capital of the new firm. **(Show your workings clearly)**

You are required to prepare:

(i) **Revaluation Account.**

(ii) **Partners' Capital Accounts.**

(iii) **Balance Sheet of the reconstituted firm.**

Comments of Examiners

A few candidates took the excess of 'Workmen Compensation Fund' after keeping aside the amount required to meet the liability, in the Revaluation A/c.
Many candidates calculated the new partner's capital equal to 20% of the combined capital of the old partner's capital instead of 20% of the total capital of the firm.
A few candidates did not treat the entire provision for doubtful debts as a gain.
Several candidates did not give the correct date of the preparation of the B/S.

Suggestions for teachers

– Explain to students the difference between the treatment of excess charge against profits and appropriation of profits and their treatment at the time of reconstitution of a partnership firm.
– Adequate practice on comprehensive questions should be given to students so that they understand the method of calculating the new partner's capital and how to adjust the capitals of the old partners on the basis of the new partner's capital.

MARKING SCHEME

Question 6.

Revaluation Account

Particulars	₹	**Particulars**	₹
To P/ M	- 2,000	By Prov. For D/D:	- 4,000
To Profit		By L/B	- 4,000
Neha 3,600			
Tara 2,400	6,000		
	8,000		8,000

Partners Capital Accounts

Part.	**Neha**	**Tara**	**Prachi**	**Part.**	**Neha**	**Tara**	**Prachi**
Bal. c/d	26.600	22,400	12,250	Bal. b/d	-8,000	-10,000	
				Cash			12,250
				Pr for GW	-6,000	-4,000	
				G Reserve	-7,200	- 4,800	
				WCF	-1,800	-1,200	
				Rev.	-3,600	-2,400	
	26,600	22,400	12.250		26,600	22,400	12,250

Balance Sheet of Neha, Tara and Prachi

As on 1st April, 2012

Liabilities	**₹**	**Assets**	**₹**
Capital a/c		Plant & Machinery	
Neha 26,600		12,000	
Tara 22,400		Less 2,000	10,000
Prachi 12,250	61,250		
		L/B 14,000	
Sundry Creditors	15,000	Add 4,000	18,000
Workmen Compensation			
Claim	2,000	Debtors	19,000
		Stock	6,000
		Cash 3,000	
		+ 12,250	
		+ 10,000	25,250
	78,250		78,250

Neha's adjusted Capital = ₹ 26,600
Tara's adjusted Capital = ₹ 22,400
Total adjusted Capital = ₹ 49,000

Total Capital 49,000 x 5/4 = 61,250
Prachi's Capital ₹ 61,250 – ₹ 49,000 = ₹ 12,250

Or

Prachi's Capital= 49,000 x 5/4 x 1/5 = ₹12,250

Question 7 **[14]**

(a) The following information is available from the books of Greg Foods Limited:

	₹
Equity Share Capital	1,00,000
8% Preference Share Capital	40,000
Reserves and Surplus	60,000
Investments	30,000
Current Assets	70,000

Proprietary Ratio is 0.8:1

Assuming that there are no fictitious assets, calculate the value of the fixed assets of the company.

(b) The following figures have been extracted from the records of Allen Cosmetics Limited:

	₹
Cost of goods sold	4,00,000
Current liabilities	90,000

Profit margin is equal to 20% on selling price.

Working Capital Turnover Ratio is equal to 10 times.

Determine the value of the Current Assets of the company.

(c) The following details are available from the books of Simon Gadgets Limited:

	₹
Sales	8,00,000
Opening stock	40,000
Closing stock	50,000

Gross Profit Ratio is 20%.

Calculate the Stock Turnover Ratio of the company (up to two decimal places).

(d) The following data is available from the records of Johnson and Company Limited:

Particulars	₹
Stock	50,000
Sundry debtors	40,000
Bills receivable	10,000
Advances paid	4,000
Cash in hand	30,000
Sundry creditors	60,000
Bills payable	40,000
Bank overdraft	4,000
Reserves	70,000
10 % Preference Share Capital	5,00,000
Equity Share Capital	7,00,000
Net profit after tax	1,40,000

Calculate the following (up to two decimal places):

(i) **Current Ratio.**

(ii) **Quick Ratio.**

(iii) **Return on Equity Share holders' Fund.**

Comments of Examiners

(a) Majority of the candidates answered this question satisfactorily. A few candidates lost marks in the formula of Proprietary Ratio.
(b) Many candidates could not calculate the profit margin as a certain margin of the selling price.
(c) Majority of the candidates were able to calculate the Stock Turnover Ratio but a few did not write its answer as in ‘times’.
(d) Many candidates could not calculate ‘Return on Equity Shareholders’ Fund, as they didn’t know the formula.

Suggestions for teachers

- Ask students not to write short forms in the formulae.
- Insist that students write the answer in correct units.
- Explain to the students the components of the formulae instead of making them do rote learning.

MARKING SCHEME

Question 7.

(a) Proprietary ratio = $\dfrac{\text{Shareholders' funds}}{\text{Total assets – Fictitious assets}}$

Or $\dfrac{0.8}{1} = \dfrac{1,00,000 + 40,000 + 60,000}{\text{Fixed assets} + 30,000 + 70,000}$

Or 0.8 (Fixed assets + 1,00,000) = 2,00,000

Fixed assets = ₹1,50,000

(b)

Selling Price	Cost Price	Profit
100	80	20
	100	$\dfrac{20 \times 100}{80} = 25$

Hence, 20% selling price = 25% cost price.
Hence, Net sales = Cost of goods sold + Profit

Or, Net sales = $4,00,000 + \dfrac{25 \times 4,00,000}{100}$

Hence, Net sales = ₹5,00,000

Working capital turnover ratio = $\dfrac{\text{Net sales}}{\text{Working capital}}$

Or, $10 = \dfrac{\text{Net sales}}{\text{Current assets – Current liabilities}}$

Or, $10 = \dfrac{5,00,000}{\text{Current assets} - 90,000}$

Hence, Current assets = ₹1,40,000

(c) GP / Sales $\times 100 = 20$

GP /8,00,000 $\times 100 = 20$

GP = ₹1,60,000

Cost of goods sold = Sales – gross profit

Cost of goods sold = 8,00,000 – 1,60,000

Hence, cost of goods sold = ₹6,40,000

$$\text{Stock turnover ratio} = \frac{\text{Cost of goods sold}}{\text{Average stock}}$$

$$= \frac{6,40,000}{\frac{40,000 + 50,000}{2}}$$

Hence, stock turnover ratio = 14.22 times.

(d) (i) $\text{Current ratio} = \dfrac{\text{Current assets}}{\text{Current liabilities}}$

$$= \frac{50,000 + 40,000 + 10,000 + 4,000 + 30,000}{60,000 + 40,000 + 4,000}$$

$$= \frac{1,34,000}{1,04,000}$$

$= 1.29 : 1$

(ii) Quick Ratio: $\dfrac{\text{Current Assets} - \text{stock} - \text{prepaid expenses}}{\text{Current liabilities} - \text{bank over draft}}$

$$= \frac{80000}{100000}$$

$= 0.8:1$

(iii) Return on Equity Shareholders Funds:

$$\frac{\text{Net Profit after tax} - \text{Preference Dividend}}{\text{Shareholders Funds} - \text{Preference share capital}} \times 100$$

$$= \frac{140000 - 50000}{770000} \times 100$$

$= 11.69\%$

Question 8 **[14]**

Andrew and Roger entered into a joint venture and agreed to share profits and losses in the ratio of 3:2 respectively.

Andrew purchased goods worth ₹ 1,00,000 in cash. He spent ₹ 10,000 on freight and insurance and dispatched the goods to Roger.

Roger got the goods released from the transport company and paid ₹ 5,000 on carriage up to the warehouse and ₹ 10,000 as rent of the warehouse.

Roger sold 80% of the goods for ₹ 3,00,000. He was entitled to receive commission @ 6% of the sales.

He later informed Andrew that the remaining goods were destroyed by fire. Since the goods in the warehouse were not insured, Roger agreed to bear the entire loss which was valued at original cost plus proportionate expenses.

The accounts were settled between the co-venturers by means of a bank draft.

You are required to prepare in the books of Andrew:

(i) **Joint Venture Account.**

(ii) **Roger's Account.**

Comments of Examiners

Most of the candidates were unable to calculate the loss to be borne by the co-venturer as they also took the proportionate recurring expenses into consideration.
A few candidates solved the problem by using a wrong method- either the Joint Bank Method or by preparing a Memorandum Joint Venture A/c.

Suggestion for teachers

– Explain the difference between non-recurring and recurring expenses. This will help the students in valuing the abnormal loss and unsold stock. All expenses incurred till the goods reach the warehouse are non-recurring expenses.

MARKING SCHEME

Question 8.

1. In the books of Andrew

Dr. **Joint Venture Account** Cr.

Date	Particulars		₹	Particulars	₹
	To cash		1,00,000	By Roger	3,00,000
	To cash		10,000	By Roger	23,000
	To Roger		5,000		
	To Roger		10,000		
	To Roger		18,000		
	To P/L	1,08,000			
	To Roger	72,000	1,80,000		
			-----------		-----------

	3,23,000		3,23,000

Roger's Account

Date	Particulars	₹	Particulars	₹
	To joint venture	3,00,000	By joint venture	5,000
	To joint venture	23,000	By joint venture	10,000
			By joint venture	18,000
			By joint venture	72,000
			By bank	2,18,000
		3,23,000		3,23,000

Dr. / Cr.

Working Notes:

	₹
Goods purchased	1,00,000
Add freight & insurance	10,000
Add carriage	5,000
Total cost of goods	1,15,000

Hence, abnormal loss = 20% of ₹ 1,15,000 = ₹23,000.

Question 9 **[14]**

Sim, Tim and Jim are partners sharing profits and losses equally. Their Balance Sheet as on 31st March, 2012, stood as follows:

Liabilities	Amount ₹	Assets	Amount ₹
Sim's Capital	2,50,000	Building	2,00,000
Tim's Capital	2,00,000	Plant and Machinery	1,00,000
Jim's Capital	1,50,000	Patent and Copyrights	1,50,000
Creditors	1,40,000	Stock	1,25,000
General Reserve	60,000	Debtors	1,50,000
		Bank	75,000
	8,00,000		8,00,000

From April 1st 2012, the partners decide to share profits and losses in the ratio 3:2:1 and for that purpose the following revised value of assets were agreed upon:

Building ₹ 2,75,000; Plant and Machinery ₹ 90,000; Patents and Copyrights ₹ 1,32,500; Stock ₹ 2,00,000; Prepaid Insurance ₹ 5,000 and Debtors ₹ 1,42,500.

Goodwill of the firm was valued at ₹ 60,000.

Partners decide not to disturb the reserves. Also, they decide not to record the revised values of assets in the books of Accounts.

You are required to prepare:

(i) **Partners' capital accounts.**

(ii) **Balance Sheet of the re-constituted firm.**

(Show your workings clearly)

Comments of Examiners

Majority of the candidates did not do the posting in the partners' capital accounts showing compensation to the sacrificing partner by the gaining partner in respect of Goodwill and General Reserve.
A few candidates distributed General Reserve in the old ratio and then wrote it off in the new ratio.
Many candidates did not follow the provisions of Accounting Standard 10/ 26 for the treatment of Goodwill.
Some candidates did not give the correct date of the preparation of the B/S.
Several candidates did not do the posting for compensation to the sacrificing partner by the gaining partner in respect of assets and liabilities being shown at the original value in the new B/S.

Suggestions for teachers

- Explain and insist on the treatment of Goodwill as per the provisions of AS 10 / 26- through one journal entry.
- Explain that the treatment of General Reserve when it has to be shown in the B/S of the reconstituted firm at the same amount can be done by passing only one adjustment entry- gaining partner compensating the sacrificing partner.
- Explain how the change in profit sharing ratio affects the capitals of the sacrificing and the gaining partner.

MARKING SCHEME

Question 9.

Partners' Capital Accounts

Part.	Sim	Tim	Jim	Part.	Sim	Tim	Jim
To Jim	20,000			By b/d	2,50,000	2,00,000	1,50,000
To Jim	10,000			By Sim			20,000
To Jim	10,000			By Sim			10,000
To c/d	2,10,000	2,00,000	1,90,000	By Sim			10,000
	2,50,000	**2,00,000**	**1,90,000**		**2,50,000**	**2,00,000**	**1,90,000**

Balance Sheet of Sim, Tim and Jim as on 1st April, 2012.

Liabilities	₹	Assets	₹
Sim's capital	2,10,000	Building	2,00,000
Tim's capital	2,00,000	Plant & mach	1,00,000
Jim's capital	1,90,000	Patents	1,50,000
Creditors	1,40,000	Stock	1,25,000
General reserve	60,000	Debtors	1,50,000
		Bank	75,000
	8,00,000		8,00,000

Working Note 1:

Dr. Memorandum Revaluation A/c Cr.

Particulars		₹	Particulars		₹
To plant & machinery		10,000	By building		75,000
To patents		17,500	By stock		75,000
To Debtors		7,500	By prepaid ins		5,000
To Sim	40,000				
To Tim	40,000				
To Jim	40,000	1,20,000			
		1,55,000			1,55,000
To building		75,000	By plant & mach		10,000
To stock		75,000	By patents		17,500
To prepaid insurance		5,000	By Debtors		7,500
			By Sim	60,000	
			By Tim	40,000	
			By Jim	20,000	1,20,000
		1,55,000			1,55,000

OR

Item	Old Value	New Value	Change
Building	2,00,000	2,75,000	75,000
Plant and Machinery	1,00,000	90,000	(10,000)

Patents	1,50,000	1,32,500	(17,500)
Stock	1,25,000	2,00,000	75,000
Pre-paid insurance	Nil	5,000	5,000
Debtors	1,50,000	1,42,500	(7,500)
Profit			1,20,000

Working Note 2:
Revaluation profit

Sim's Capital A/c   Dr. 20,000
    To Jim's Capital A/c 20,000

Goodwill
Sim's Capital A/c   Dr. 10,000
    To Jim's Capital A/c 10,000

General Reserve

Sim's Capital A/c   Dr. 10,000
    To Jim's Capital A/c 10,000

Working Note 3:
Sacrificing Ratio/Gaining Ratio:

Sim 1/3 – 3/6 = - 1/6   (Gains)

Tim 1/3 – 1/3 = 0

Jim 1/3 – 1/6 = 1/6 (Sacrifice)

Question 10 **[14]**

Peter's books show the following details for the month of April, 2012.

	Debit ₹	Credit ₹
Creditors Balance **(01.04.2012)**	4,000	16,000
Creditors Balance **(30.04.2012)**	10,000	?

Particulars	**Amount** (₹)	**Particulars**	**Amount** (₹)
Purchase (including cash ₹ 4000)	1,04,000	Bills payable renewed	1,000
Cash paid to creditors	30,000	Discount received	4,000

Bills Receivable endorsed	20,000	Return outwards	12,000
Bills Receivable endorsed dishonoured	4,000	Bills payable accepted (excluding bills renewed)	30,000
Transfer from debtors ledger to creditors ledger	5,000	Bills payable matured	5,000

You are required to prepare General Ledger Adjustment Account in the Creditors' Ledger.

Comments of Examiners

Majority of the candidates answered this question satisfactorily
A few candidates solved the question under the 'Sectional Balancing' system.
A number of candidates prepared the 'Creditors Ledger Adjustment A/c' in the 'General Ledger Adjustment A/c.
Many candidates did not do the posting for bills dishonoured for the bills which were renewed.

Suggestion for teachers
– Ask students to read the question carefully.

MARKING SCHEME

Question 10.

In Creditors Ledger

General Ledger Adjustment A/c

Dr. **Cr**

Particulars	Amount	Particulars	Amount
To bal b/d	16,000	By bal b/d	4,000
To Creditors Ledger Adjustment A/c		By Creditors Ledger Adjustment A/c	
Purchases	1,00,000	Cash A/c	30,000
Bills endorsed dishonoured	4,000	Bills endorsed	20,000
Bills renewed	1,000	Transfer	5,000
		Discount received	4,000
		Return outwards	12,000
		Bills payable	30,000
		Bills payable (renewed)	1,000
To bal c/d	10,000	By Bal c/d (bal fig)	25,000
	1,31,000		1,31,000

GENERAL COMMENTS:

(a) Topics found difficult by candidates in the Question Paper:

- Past Adjustments
- Prorata allotment of shares
- Calculation of abnormal loss in Joint Venture Accounts
- Ratio Analysis- Formulae and calculations
- Cash flow from operating activities- treatment of provision for tax and depreciation on fixed assets.
- Adjustment of accumulated profits, self generated goodwill and profit on revaluation of assets and liabilities in case of change in profit sharing ratio of the partners.

(b) Concepts between which candidates got confused:

- Business guaranteed by a partner
- Self-Balancing and Sectional Balancing
- Profit margin on selling price
- Difference between tax provided and tax paid while calculating cash from operations
- Calculation of new partner's capital

(c) Suggestions for students:

- Study the entire syllabus thoroughly.
- Practice various types of sums regularly.
- Always practice sums with proper formats drawn.
- Do not neglect the Class XI syllabus.
- Do not write short forms in the ratios formulae.
- Be clear in understanding the concepts. This will help in answering the theory questions.
- Solve past years question papers.