CBSE
Class XII Accountancy
All India Board Paper Set 2– 2017 Solutions

SECTION A

1. Answer :

The following persons other than Minor, cannot be admitted to a Partnership

a) Persons of Unsound Mind

b) Persons disqualified by any Law

2. Answer :

The maximum amount of discount at which the shares can be re-issued is ₹5,000 (i.e., the credit balance in Share Forfeiture Account

3. Answer :

Journal

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	Bank A/c	Dr.		57,000	
	To Debenture Application and Allotment A/c				57,000
	(Being application and Allotment Money received on 600 Debentures)				
	Debenture Application & Allotment A/c	Dr.		57,000	
	Discount on Issue of Debentures A/c	Dr.		2,500	
	To 12% Debentures A/c				50,000
	To Bank A/c				9,500
	(Being application and Allotment Money transferred to Debentures Account)				

4. Answer :

Journal

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	P's Current A/c	Dr.		6,000	
	To Q's Current A/c				6,000
	(Being interest on capital, now adjusted)				

Working Note:

Statement Showing Adjustment

	P	Q	Total
Interest on capital@12%	24,000	36,000	(60,000)
Less: Profit wrongly distributed to the extent of interest amount	(30,000)	(30,000)	60,000
Net Effect (Profit sharing)	**(6,000)**	**6,000**	**NIL**

5. Answer :

B's share of Sacrifice is calculated below.

B's Sacrifice = Old Share − New Share

B's Sacrifice $= \frac{3}{8} - \frac{2}{8}$

B's Sacrifice $= \frac{1}{8}$

6. Answer :

Basis	Fixed Capital Account	Fluctuating Capital Account
Credit Balance	Fixed Capital Account always shows a credit balance as all the adjustments related to interest on capital, interest on drawings, salary, etc. are made through Partners' Current Account.	Fluctuating capital account can have both debit and credit balances as all the adjustments of interest on capital, interest on drawings, salary, etc. are made through the same account.

7. Answer :

Balance Sheet

Particulars	Note No.	₹
I. Equity and Liabilities		
1. Shareholder's Funds		
a. Share Capital	1	6,09,96,000
b. Reserve and Surplus		
2. Non-Current Liabilities		
Long Term Borrowings	2	1,00,00,000
Total		

Notes to Accounts:

Note No	Particulars		₹
1.	**Share Capital**		
	Authorised Share Capital		
	1,00,00,000 Equity Shares of ₹10 each		10,00,00,000
	Issued, Subscribed, Called-up and Paid up Share Capital		
	61,00,000 Equity Shares of ₹10 each fully called up	6,10,00,000	
	Less: Calls in Arrears (2,000×₹2)	(4,000)	**6,09,96,000**
2.	**Non Current Liabilities**		
	Long Term Borrowings		1,00,00,000

Values Involved:

1. Balanced Regional Growth
2. Providing Employment Opportunities

8. Answer :

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Machinery A/c Dr. To Nisha Ltd. A/c (1,10,000 + 18,000 + 50,000) (Being Purchase machinery from Nisha Ltd.)		1,78,000	 1,78,000
	Nisha Ltd. A/c (1,10,000 + 18,000 + 50,000) Dr. Discount on Issue of Debentures A/c (200× 10) Dr. To Equity Share Capital A/c(10,000 × ₹10) To Securities Premium A/c (10,000× ₹1) To 9% Debentures A/c (200× ₹100) To Bills Payable A/c (Being issued 10,000 equity share of ₹10 each at a premium of 10%, issued 2,00 9% Debentures of ₹100 at a discount of 10% and balance by issuing a bills of exchange account)		1,78,000 2,000	 1,00,000 10,000 20,000 50,000

9. Answer :

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Kavi's Capital A/c Dr. To Ravi's Capital A/c To Kumar's Capital A/c To Guru's Capital A/c (Being new goodwill adjusted)		81,000	 18,000 18,000 45,000

Working Note:

Gaining Ratio = New Ratio - Old Ratio

Kavi = $\frac{3}{5}-\frac{3}{8}$

$=\frac{24-15}{40}$

$=\frac{9}{40}$

Ravi = $\frac{1}{5}-\frac{2}{8}$

$=\frac{8-10}{40}$

$=-\frac{2}{40}$(sacrificing)

Kumar = $\frac{1}{5}-\frac{2}{8}$

$=\frac{8-10}{40}$

$=-\frac{2}{40}$(sacrificing)

Goodwill Valued = 3,60,000

10.

11. Kavi =₹3,60,000 $\times\frac{9}{40}$ =₹81,000

Ravi =₹3,60,000 $\times\frac{2}{40}$ =₹18,000

Kumar =₹3,60,000 $\times\frac{2}{40}$ =₹18,000

Guru =₹3,60,000 $\times\frac{1}{8}$ =₹45,000.

10. Answer :

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	9% Debentures A/c Dr. To Debenture holder's A/c (500 × ₹100) (Being 500, 9%Debenture due for redemption.)		50,000	 50,000
	Debenture holder's A/c Dr. To Equity Share Capital A/c (400 × ₹100) To Securities Premium A/c (400× ₹25) (Being 500, 9% Debentures redeemed by converting into 400 equity shares of ₹100 each issued at a Premium of ₹25.)		50,000	 40,000 10,000
	Securities Premium A/c Dr. To Discount on Issued of Debentures A/c (50,000 × 6%) (Being Discount on issue of Debentures written off against balance in Securities Premium Account.)		3,000	 3,000

Working Note:

$$\text{No. of Equity Share} = \frac{\text{Amount Paybale}}{\text{Issued Price}}$$
$$= \frac{50{,}000}{125}$$
$$\text{No. of Equity Share} = 400 \text{ share.}$$

11. Answer :

Ashok Capital Account

Dr. **Cr.**

Date	Particulars	₹	Date	Particulars	₹
2016			2016		
Dec 31	To Drawing A/c	15,000	April 1	By balance b/d	90,000
Dec 31	To Interest on Drawing A/c	1,500	Dec 31	By Interest on Capital A/c	8,100
Dec 31	To Ashok Executor's A/c	3,01,600	Dec 31	By Profit and Loss Suspense A/c	40,000
			Dec 31	By Babu's Capital A/c	90,000
			Dec 31	By Chetan's Capital A/c	90,000
		3,18,100			3,18,100

12. Answer :

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Cash A/c Dr.		4,00,000	
	To Tina's Capital A/c			4,00,000
	(Being capital Brought by Tina in cash)			
	Tina's Current A/c Dr.		50,000	
	To Neha's Current A/c			50,000
	(Being hidden goodwill adjusted through current account)			

Working Note:

Calculation of Tina's Share of Goodwill (Hidden)

Total Capital of the firm= 16,00,000 $(4,00,000 \times \frac{4}{1})$

Net Worth= 4,00,000+6,00,000+4,00,000 =14,00,000

Hidden Goodwill= Total Capital of the firm – Net Worth

=16,00,000-14,00,000

=2,00,000

Tina's Share in Goodwill= $2,00,000 \times \frac{1}{4} = 50,000$

Calculation of New PSR:

Madhu's Share= $\frac{3}{8}$

Neha's Share= $\frac{5}{8} - \frac{1}{4} = \frac{3}{8}$

Tina's Share= $\frac{1}{4}$

New Share= 3:3:2

13. Answer :

Revaluation Account

Dr. Cr

Particulars	₹	Particulars		₹
To Provision for WCF A/c	25,000	By Revaluation Loss:		
To Depreciation on Fixed Assets	60,000	Suresh Capital A/c	17,000	
		Ramesh Capital A/c	17,000	
		Mahesh Capital A/c	25,500	
		Ganesh Capital A/c	25,500	85,000
	85,000			**85,000**

Partner's Capital Account

Dr. **Cr.**

Particulars	Suresh	Ramesh	Mahesh	Ganesh	Particulars	Suresh	Ramesh	Mahesh	Ganesh
To Revaluation A/c (Loss)	17,000	17,000	25,500	25,500	By Balance b/d	1,00,000	1,50,000	2,00,000	2,50,000
To Mahesh's Capital A/c	2,250	2,250			By Suresh's Capital A/c			2,250	2,250
To Ganesh's Capital A/c	2,250	2,250			By Ramesh's Capital A/c			2,250	2,250
					By Cash A/c	75,250	25,250		
To Cash A/c			25,250	75,250					
To Balance c/d	1,53,750	1,53,750	1,53,750	1,53,750					
	1,75,250	1,75,250	2,04,500	2,54,500		1,75,250	1,75,250	2,04,500	2,54,500

Balance Sheet

Liabilities		₹	Assets		₹
Capital			Fixed Assets	6,00,000	
Suresh	1,53,750		Less: Depreciation	(60,000)	5,40,000
Ramesh	1,53,750				
Mahesh	1,53,750		Current Assets		3,45,000
Ganesh	1,53,750	6,15,000			
Sundry Creditors		1,70,000			
Claim against WCF		1,00,000			
		8,85,000			**8,85,000**

Working Notes:

WN 1: Calculation of Gaining Ratio/ Sacrificing Ratio:

Old Rato New Ratio

2:2:3:3 1:1:1:1

Suresh = $\frac{2}{10} - \frac{1}{4} = -\frac{1}{20}$ Gaining

Ramesh = $\frac{2}{10} - \frac{1}{4} = -\frac{1}{20}$ Gaining

Mahesh = $\frac{3}{10} - \frac{1}{4} = \frac{1}{20}$ Sacrificing

Ganesh = $\frac{3}{10} - \frac{1}{4} = \frac{1}{20}$ Sacrificing

Suresh, Ramesh will compensate Mahesh, Ganesh

Journal Entry for Goodwill

Journal

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	Suresh's Capital A/c	Dr.		4,500	
	Ramesh's Capital A/c	Dr.		4,500	
	To Mahesh's Capital A/c				4,500
	To Ganesh's Capital A/c				4,500
	(Being gaining partners compensate sacrificing parners)				

WN 2: Calculation of Adjusted Capital

Suresh = 1,00,000 – 21,500= ₹78,500

Ramesh = 1,50,000 – 21,500= ₹1,28,500

Mahesh = 2,04,500 – 25,500= ₹1,79,000

Ganesh = 2,54,500 –25,500= ₹2,29,000

Total Combined Capital= 6,15,000

WN 3: Calculation of New Capital

$$\text{Suresh} = 6,15,000 \times \frac{1}{4} = 1,53,750$$

$$\text{Ramesh} = 6,15,000 \times \frac{1}{4} = 1,53,750$$

$$\text{Mahesh} = 6,15,000 \times \frac{1}{4} = 1,53,750$$

$$\text{Ganesh} = 6,15,000 \times \frac{1}{4} = 1,53,750$$

14. Answer :

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2015 Apr 1	Bank A/c (15,000 × ₹93) Dr. To Debenture Application and Allotment A/c (Being received application money on 15,000 Debenture.)		13,95,000	 13,95,000
Apr 1	Debenture Application and Allotment A/c Dr. Discount on Issued of Debentures A/c(15,000 × ₹7) Dr. Loss on Issued of Debentures A/c (15,000× ₹10) Dr. To 9% Debentures A/c (15,000 × ₹100) To Premium on Redemption of Debentures A/c (15,000× ₹10) (Being application money transferred to Debenture Account.)		13,95,000 1,05,000 1,50,000	 15,00,000 1,50,000
Sep 30	Debenture Interest A/c $\left(15,00,000 \times 9\% \times \frac{6}{12}\right)$ Dr. To Debentures holder's A/c To TDS Payable A/c (Being interest due.)		67,500	 60,750 6,750
Sep 30	Debentures holder's A/c Dr. TDS Payable A/c Dr. To Bank A/c $\left(15,00,000 \times 9\% \times \frac{6}{12}\right)$ (Being interest Paid.)		60,750 6,750	 67,500
2016 Mar 31	Debenture Interest A/c $\left(15,00,000 \times 9\% \times \frac{6}{12}\right)$ Dr. To Debentures holder's A/c To TDS Payable A/c (Being interest due.)		67,500	 60,750 6,750
Mar 31	Debentures holder's A/c Dr. TDS Payable A/c Dr. To Bank A/c $\left(15,00,000 \times 9\% \times \frac{6}{12}\right)$		60,750 6,750	 67,500

	(Being interest Paid.)			
Mar 31	Statement of Profit & Loss A/c Dr. To Bank A/c $(15,00,000 \times 9\%)$ (Being interest transferred to Profit & Loss Account.)		1,35,000	1,35,000

15. Answer :

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Realisation A/c Dr. To Bank A/c (Being expenses borne and paid by firm)		9,000	9,000
(ii)	Realisation A/c Dr. To Vishal's Capital A/c (Being expenses paid by partner on behalf of firm)		3,400	3,400
(iii)-A	Realisation A/c Dr. To Shiv's Capital A/c (Being Remuneration paid)		4,500	4,500
(iii)-B	Shiv's Capital A/c Dr. To Bank A/c (Being Expenses paid by firm)		3,900	3,900
(iv)	Realisation A/c Dr. To Neveen's Capital A/c (Being Remuneration paid)		3,000	3,000
(v)-A	Realisation A/c Dr. To Vivek 's Capital A/c (Being Remuneration paid)		7,000	7,000
(v)-B	Vivek 's Capital A/c Dr. To Rishi's Capital A/c (Being expenses paid by one partner, borne by other)		6,500	6,500
(vi)	**No Entry**			

16. Answer :

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bank A/c (50,000 × 4) Dr. To Equity Share Application A/c (Received application money on 50,000 shares)		2,00,000	2,00,000

	Equity Share Application A/c To Equity Share Capital A/c To Securities Premium Reserve A/c (Transfer of application money to Share Capital)	Dr.		2,00,000	 1,00,000 1,00,000
	Equity Share Allotment A/c (50,000 × 6) To Equity Share Capital A/c To Securities Premium Reserve A/c (Allotment due on 50,000 shares)	Dr.		3,00,000	 1,50,000 1,50,000
	Bank A/c (49,800 × 6) + (400 × 8) To Equity Share Allotment A/c (49,800 × 6) To Calls-in-Advance A/c (400 × 8) (Allotment money received)	Dr.		3,02,000	 2,98,800 3,200
	Equity Share Capital A/c (200 × 5) Securities Premium Reserve A/c (200 × 3) To Equity Share Allotment A/c (200 × 6) To Equity Share Forfeiture A/c (200 × 2) (Forfeiture of 200 shares for non-payment of allotment money including premium of ₹3)	Dr. Dr.		1,000 600	 1,200 400
	Equity Share First Call A/c (49,800 × 5) To Equity Share Capital A/c To Securities Premium Reserve A/c (Call money due on 49,800 shares)	Dr.		2,49,000	 1,99,200 49,800
	Bank A/c (49,700 × 5) – 2,000 + 900 Calls-in-Advance A/c (400 × 5)-Adjustment of Previous Receipts To Calls-in-Advance A/c (300 × 3) To Equity Share First Call A/c (Received call money)	Dr. Dr.		2,47,400 2,000	 900 2,48,500
	Equity Share Capital A/c (100 × 9) Securities Premium Reserve A/c (100 × 1) To Equity Share First Call A/c (100 × 5) To Equity Share Forfeiture A/c (100 × 5) (Forfeiture of 100 shares for non-payment of call money)	Dr.		900 100	 500 500
	Equity Share Second and Final Call A/c (49,700 × 3) To Equity Share Capital A/c To Securities Premium Reserve A/c (Call money due on 49,700 shares)	Dr.		1,49,100	 99,400 49,700
	Bank A/c Calls-in-Advance A/c (1,200 + 900)- Adjustment To Equity Share Second and Final Call A/c	Dr.		1,44,300 4,800	 1,49,100

	(Received call money on shares)			
	Bank A/c (300 × 9) Dr.		2,700	
	Equity Share Forfeiture A/c		300	
	To Equity Share Capital A/c			2,700
	(Re-issue of 300 shares at ₹9 per share)			
	Equity Share Forfeiture A/c (400 + 500 − 300) Dr.		600	
	To Capital Reserve A/c			600
	(Profit on re-issue transferred to Capital Reserve Account)			

OR

Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bank A/c (1,50,000 × 2) Dr.		3,00,000	
	To Share Application A/c			3,00,000
	(Received application money on 1,50,000 shares)			
	Share Application A/c Dr.		3,00,000	
	To Share Capital A/c			1,00,000
	To Share Allotment A/c (80,000 + 30,000)			1,10,000
	To Bank A/c (60,000 × 3) + 40,000)			90,000
	(Transfer of application money to Share Capital)			
	Share Allotment A/c (50,000 × 4)		2,00,000	
	To Share Capital A/c			2,00,000
	(Allotment due on 50,000 shares)			
	Bank A/c Dr.		88,900	
	Calls-in Arrears		1,100	
	To Share Allotment A/c (2,00,000 − 1,10,000)			90,000
	(Allotment money received)			
	Share Capital A/c (600 × 6) Dr.		3,600	
	To Share Allotment A/c			1,100
	To Share Forfeiture A/c			2,500
	(Forfeiture of 600 shares for non-payment of allotment money)			
	Share First and Final Call A/c (49,400 × 4) Dr.		1,97,600	
	To Share Capital A/c			1,97,600
	(Call money due on 1,00,000 shares)			
	Bank A/c Dr.		1,97,600	
	To Share First and Final Call A/c			1,97,600
	(Received call money)			

	Bank A/c (600 × 11) Dr. To Share Capital A/c To Security Premium Reserve A/c (Reissue of 600 shares at ₹11 per share)		6,600	 6,000 600
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Profit on re-issue transferred to Capital Reserve Account)		2,500	 2,500

Working Notes:

Category	Share Applied	Share Allotted	Application Money Received @ ₹ 2	T/f to Share Capital	Excess Money	Adjusted to Allotment	Adjusted to Call	Refund
I	80,000	40,000	1,60,000	80,000	80,000	80,000	-	-
II	25,000	10,000	50,000	20,000	30,000	30,000	-	-
III	45,000	-	90,000	-	-	-		90,000
	1,50,000	**50,000**	**3,00,000**	**1,00,000**	**1,10,000**	**1,10,000**	**-**	**90,000**

Deepak

Applied 1,000

Alloted $1{,}000 \times \dfrac{40{,}000}{80{,}000} = 500$

Amount paid at time of application= $1{,}000 \times 100 =$ 2,000

Less: Adjusted towards application= $5{,}00 \times 2$ = (1,000)

Excess 1,000

Amount due on Allotment $500 \times 4 = 2{,}000$

Less: Excess Adjusted =(1,000)

Calls in Arrears 1,000

Raju

Alloted 100 Shares

Applied= $\dfrac{25{,}000}{10{,}000} \times 100 = 250$

Amount paid at application $250 \times 2 =$ 500

Less : Adjusted with Application= $100 \times 2 =$ 200

Excess 300

Amount due on Allotment $100 \times 4 = 400$

Less: Excess Adjusted =(300)

Calls in Arrears 100

17. Answer :

Journal

Date	Particulars		L.F.	Dr. ₹	Cr. ₹
	Cash A/c	Dr.		1,20,000	
	To E's Capital				1,00,000
	To Premium for Goodwill A/c				20,000
	(Being capital and goodwill brought in by E)				
	Premium for Goodwill A/c	Dr.		20,000	
	To C's Capital A/c				16,000
	To D's Capital A/c				4,000
	(Being goodwill shared in their sacrificing ratio)				
	C's Capital A/c	Dr.		8,000	
	D's Capital A/c	Dr.		2,000	
	To Cash A/c				10,000
	(Goodwill Withdrawn)				
	General Reserve A/c	Dr.		10,000	
	To C's Capital A/c				8,000
	To D's Capital A/c				2,000
	(Being general reserve shared among the partners in their old ratio)				
	Provision for Doubtful Debts A/c	Dr.		300	
	To Revaluation A/c				300
	(Being excess provision credited to Revaluation A/c)				
	Revaluation A/c	Dr.		14,000	
	To Stock A/c				2,000
	To Furniture A/c				4,000
	To Plant & Machinery A/c				8,000
	(Being decrease in asset debited to Revaluation A/c)				
	Investment A/c	Dr.		7,000	
	To Revaluation A/c				7,000
	(Being asset taken into account)				
	Revaluation A/c	Dr.		2,300	
	To Outstanding Repair A/c				2,300
	(Being outstanding repair bill recorded)				
	C's Capital A/c	Dr.		7,200	
	D's Capital A/c	Dr.		1,800	
	To Revaluation A/c				9,000
	(Being revaluation loss debited to old partners in their old ratio)				

Working Notes:

WN 1: Calculation of Excess/ Deficit Provision for Doubtful Debts

Provision required =36,000-2,000 (w/off) ×4/100= 1,700

Existing Provision (after w/off bad debts)= 2,000

Excess Provision= 300 (i.e., 2,000 - 1,700)

OR

Journal

Sr. No.	Particulars		L.F.	Dr. ₹	Cr. ₹
	General A/c	Dr.		60,000	
	To Sameer's Capital A/c				24,000
	To Yasmin's Capital A/c				18,000
	To Saloni's Capital A/c				18,000
	(Being balance in reserve distributed among all partners in old ratio.)				
	Sameer's Capital A/c	Dr.		20,000	
	Yasmin's Capital A/c	Dr.		15,000	
	Saloni's Capital A/c	Dr.		15,000	
	To Profit & Loss A/c				50,000
	(Being debit balance Profit & Loss A/c written off among all partners in old ratio.)				
	Yasmin's Capital A/c	Dr.		64,800	
	Saloni's Capital A/c	Dr.		21,600	
	To Sameer's Capital A/c				2,16,000
	(Being goodwill adjusted in gaining ratio.)				
	Revaluation A/c	Dr.		1,10,000	
	To Patent A/c				60,000
	To Stock A/c				5,000
	To Machinery A/c				15,000
	To Building A/c				10,000
	To Creditors A/c				20,000
	(Being decrease in assets and increasing in liabilities debited to Revaluation A/c.)				
	Provision for Doubtful Debts A/c	Dr.		1,700	
	To Revaluation A/c				1,700
	(Being excess Provision written back.)				
	Sameer's Capital A/c	Dr.		43,320	
	Yasmin's Capital A/c	Dr.		32,490	
	Saloni's Capital A/c	Dr.		32,490	
	To Revaluation A/c				1,08,300
	(Being loss on revaluation debited to partners capital account in old ratio.)				
	Sameer's Capital A/c	Dr.		4,76,680	
	To Sameer's Loan A/c				4,76,680
	(Amount due to Sameer's transferred to his loan A/c)				

Working Note:

WN1: Calculation of Sameer's Share of Goodwill

Gaining Ratio = New Ratio — Old Ratio

$\text{Yasmin}: \frac{3}{5} - \frac{3}{10} = \frac{3}{10}$

$\text{Saloni}: \frac{2}{5} - \frac{3}{10} = \frac{1}{10}$

$\text{Gaining Ratio}(\text{Yasmin}:\text{Saloni}) = 3:1$

$\text{Sameer's Share of Goodwill } = ₹2,16,000 \left(5,40,000 \times \frac{4}{10}\right)$

$\text{Yasmin Share} = 2,16,000 \times \frac{3}{10} = 64,800$

$\text{Saloni Share} = 2,16,000 \times \frac{1}{10} = 21,600$

WN2: Calculation of Excess/Deficit Provision for Doubtful Debts

$\text{Required Provision (@5\%)} = (90,000 - 4,000) \times \frac{5}{100} = 4,300$

Existing Provision (after Writing bad-debts) = 6,000

Excess Provision (to be written back) = 1,700 (6,000 − 4,300)

WN3: Calculation of Sameer's Loan Balance

Amount due to Sameer's = Opening Capital + Credits – Debits

= 3,00,000 + (24,000 + 2,16,0000) – (20,000 – 43,320)

= 3,00,000 + 2,40,000 – 63,320

Amount due to Sameer's = ₹4,76,680

SECTION B

18. Answer :

(i) In case there is a decrease in current liability of employee benefit expenses being due, it would be treated as an item of working capital changes. Accordingly, decrease in current liability would be treated as an outflow of cash from operating activities.

(ii) Increase in Prepaid Insurance is treated as increase in current assets which is treated as decrease in cash flow (or outflow) from operating activities.

19. Answer :

No, acquisition of machinery by issue of equity shares is not considered while preparing cash flow statement. This is because, in the above case, no flow of cash is involved, leaving the Cash Flow Statement unaffected.

20. Answer :

Objectives of Analysis Financial Statements

The following are the various objectives for preparing financial statements.

It enables the conduct of meaningful comparisons of financial data. It provides better and easy understanding of the changes in the financial data overtime.

It helps in designing effective plans and better execution of plans by enabling control and checks over the use of the financial resources.

Analysis of Financial Statements helps to know the earning capacity and profitability of a business firm. It also measures the efficiency of the business operations.

21. Answer :

The values that must be observed by a company while preparing its financial statements are
(a)these statements must be drawn following the defined accounting concepts, principles and methods, and
(b) the financial statements should be drawn following the legal framework of the country of operations.

Items	Major Head	Sub – Head
Capital Reserve	Shareholder's Fund	Reserve & Surplus
Calls – in - Advance	Current Liabilities	Other Current Liabilities
Loose Tools	Current Assets	Inventories
Bank Overdraft	Current Liabilities	Short – term Borrowings

Proprietary Ratio of M Ltd. 0.80 : 1

$$\text{Proprietary Ratio} = \frac{\text{Proprietor's Funds}}{\text{Total Assets}}$$

Transactions	Effects
(a) Obtained a loan from bank Rs 2,00,000 payable after 5 years	Decrease, The total assets would increase with the amount of loan raised and proprietor's funds remains the same
(b) Purchased machinery for cash Rs 75,000	No Change, Total Assets will increase and decrease by same amount :
(c) Redeemed 5% Redeemable preference shares Rs 1,00,000	Decrease, Proprietor's Funds and Total Assets both will decrease by same amount but the percentage change would be more on Proprietor's Fund already in ratio 0.80 : 1
(d) Issued equity shares to vendors of machinery purchased for Rs 4,00,000	Increase, Even though both Proprietor's Funds and Total Assets both will increase by same amount but the percentage change would be more in Proprietor's Fund

22. Answer :

Proprietary Ratio of M Ltd. 0s.80 : 1

$$\text{Proprietary Ratio} = \frac{\text{Proprietor's Funds}}{\text{Total Assets}}$$

Transactions	Effects
(a) Obtained a loan from bank Rs 2,00,000 payable after 5 years	Decrease, The total assets would increase with the amount of loan raised and proprietor's funds remains the same
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(c) Redeemed 5% Redeemable preference shares Rs 1,00,000	Decrease, Proprietor's Funds and Total Assets both will decrease by same amount but the percentage change would be more on Proprietor's Fund already

	in ratio 0.80 : 1
(d) Issued equity shares to vendors of machinery purchased for Rs 4,00,000	Increase, Even though both Proprietor's Funds and Total Assets both will increase by same amount but the percentage change would be more in Proprietor's Fund

23. Answer :

	Particulars	₹	₹
I	**Cash Flow from Operating Activities**		
	Profit as per Profit and Loss	75,000	
	Proposed Dividend	1,00,000	
	Profit Before Taxation	1,75,000	
	Add : Items to be added		
	Depreciation	55,000	
	Goodwill Written off	25,000	
	Interest on Debentures	21,000	
	Loss on Sale of Machinery	5,000	
	Less : Items to be Deducted	-	
	Operating Profit before Working Capital Adjustments	2,81,000	
	Add : Decrease in Current Assets and Increase in Current Liabilities	-	
	Less : Increase in Current Assets and Decrease in Current Liabilities		
	Inventories	(25,000)	
	Cash Generated from Operations (D+E-F)	2,56,000	
	Less : Income Tax Paid (Net of Refund)	-	
	Net Cash Flows from (or used in) Operating Activities		**2,56,000**
II.	**Cash Flow from Investing Activities**		
	Purchase of Machinery	(3,55,000)	
	Sale of Machinery	15,000	
	Purchase of Non – Current Investments	(25,000)	
	Net Cash Flows (or used in) Investing Activities		**(3,65,000)**
III	**Cash Flow from Financing Activities**		
	Proceeds from Issue of Share Capital	1,00,000	
	Interest on Debentures	(21,000)	
	Issue of Debentures	50,000	
	Increase in Bank Overdraft	37,500	
	Payment of Dividend	(62,500)	**1,04,000**
	Net Cash Flow from Financing Activities		
IV	Net Increase or Decrease in Cash and Cash Equivalents (I+ II+III)		(5,000)
	Add : Cash and Cash Equivalents in the beginning of the period (includes Current Investments of ₹35,000)		61,500
	Cash and Cash Equivalents at the end of the period		**56,500**
	(Includes Current Investments of ₹20,000)		

Machinery Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Balance b/d	5,22,500	By Bank A/c (Sale)	15,000
		By Acc. Depreciation A/c	20,000
		By Profit and Loss A/c (Loss)	5,000
To Bank A/c –Purchase (Balancing Fig.)	3,55,000		
		By Balance c/d	8,37,500
	8,77,500		**8,77,500**

Accumulated Depreciation Account

Dr. Particulars	₹	Particulars	Cr. ₹
To Machinery A/c	20,000	By Balance b/d	70,000
To Balance c/d	1,05,000	By Depreciation A/c (Balancing Fig.)	55,000
	1,25,000		**1,25,000**