

FOUNDATION COURSE

PAPER – 1: ACCOUNTING

Attempt **all** the questions.

Wherever necessary, suitable assumptions should be made and disclosed by way of note forming part of the answer.

Working Notes should form part of the answer.

Time Allowed: 35 Minutes

Maximum Marks: 20

Question – 1:

On 31st March, 2023, the Balance Sheet of X, Y and Z sharing profits and losses in proportion to their Capital stood as below:

Liabilities	₹	Assets	₹
Capital Account:		Land and Building	90,000
Mr. X	60,000	Plant and Machinery	60,000
Mr. Y	90,000	Stock of goods	36,000
Mr. Z	60,000	Sundry debtors	33,000
Sundry Creditors	<u>30,000</u>	Cash and Bank Balances	<u>21,000</u>
	<u>2,40,000</u>		<u>2,40,000</u>

On 1st April, 2023, X desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

- (i) Land and Building be appreciated by 20%.
- (ii) Plant and Machinery be depreciated by 30%.
- (iii) Stock of goods to be valued at ₹ 30,000.
- (iv) Old credit balances of Sundry creditors, ₹ 6,000 to be written back.
- (v) Provisions for bad debts should be provided at 5%.
- (vi) Joint life policy of the partners surrendered and cash obtained ₹ 22,650.

- (vii) Goodwill of the entire firm is valued at ₹ 42,000 and X's share of the goodwill is adjusted in the A/cs of Y and Z, who would share the future profits equally. No goodwill account being raised.
- (viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.
- (ix) Amount due to Mr. X is to be settled on the following basis:
50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s Y & Z as on 1.04.2023.

(10 Marks)

Answer:

(a) Revaluation Account

Date	Particulars	₹	Date	Particulars	₹
2023 April	To Plant & Machinery	18,000	2023 April	By Land and building	18,000
	To Stock of goods	6,000		By Sundry creditors	6,000
	To Provision for bad and doubtful debts	1650		By Cash & Bank - Joint life Policy	22,650
	To Capital accounts (profit on revaluation transferred)			surrendered	
	Mr. X (2/7) 6,000				
	Mr. Y (3/7) 9,000				
	Mr. Z (2/7) <u>6,000</u>	<u>21,000</u>			-
		<u>46,650</u>			<u>46,650</u>

(b)**Partners' Capital Accounts**

Dr.				Cr.					
Particulars		X	Y	Z	Particulars		X	Y	Z
		(₹)	(₹)	(₹)			(₹)	(₹)	(₹)
To	X's Capital A/c - goodwill	-	3,000	9,000	By	Balance b/d	60,000	90,000	60,000
To	Cash & bank A/c - (50% dues paid)	39,000	-	-	By	Revaluation A/c	6,000	9,000	6,000
To	X's Loan A/c - (50% transfer)	39,000	-	-	By	Y & Z's Capital A/cs - goodwill	12,000	-	-
To	Balance c/d	-	1,05,000	1,05,000	By	Cash & bank A/c - amount brought in (Balancing figures)	-	9,000	48,000
		78,000	1,08,000	1,14,000			78,000	1,08,000	1,14,000

(c)**Cash and Bank Account**

Particulars		₹	Particulars		₹
To	Balance b/d	21,000	By	X's Capital A/c - 50% dues paid	39,000
To	Revaluation A/c - surrender value of joint life policy	22,650	By	Balance b/d	61,650
To	Y's Capital A/c	9,000			
To	Z's Capital A/c	<u>48,000</u>			
		<u>1,00,650</u>			<u>1,00,650</u>

(d)**Balance Sheet of M/s Y & Z as on 01.04.2023**

Liabilities		₹	Assets		₹
Partners' Capital account			Land and Building	90,000	
Mr. Y	1,05,000		Add: Appreciation 20%	<u>18,000</u>	1,08,000
Mr. Z	<u>1,05,000</u>	2,10,000	Plant & Machinery	60,000	

Mr. X's Loan account	39,000	Less: Depreciation 30%	<u>18,000</u>	42,000
Sundry Creditors	24,000	Stock of goods	36,000	
		Less: revalued	<u>6,000</u>	30,000
		Sundry Debtors	33,000	
		Less: Provision for bad debts 5%	<u>1650</u>	31,350
		Cash & Bank balances	<u>61,650</u>	
	<u>2,73,000</u>			<u>2,73,000</u>

Working Notes:

Adjustment for Goodwill:	
Goodwill of the firm	<u>42,000</u>
Mr. X's Share (2/7)	12,000
Gaining ratio of Y & Z;	
Y = $\frac{1}{2} - \frac{3}{7} = \frac{1}{14}$	
Z = $\frac{1}{2} - \frac{2}{7} = \frac{3}{14}$	
Y:Z = 1:3	

Therefore, Y will bear – $\frac{1}{4} \times 12000$ or ₹3,000

Z will bear = $\frac{3}{4} \times 12000$ or ₹9,000

Question 2:

A and B are partners in a firm. Their capitals are: A Rs. 6,00,000 and B Rs. 4,00,000. During the year ended 31st March, 2024 the firm earned a profit of Rs. 3,00,000. Assuming that the normal rate of return is 20%, calculate the value of goodwill on the firm:

- By Capitalization Method; and
- By Super Profit Method if the goodwill is valued at 2 years' purchase of Super Profit.

(5 Marks)

Answer:

- Capitalisation Method:

Total Capitalised Value of the firm

$$= \frac{\text{Average Profit} \times 100}{\text{Normal Rate of Return}} = \frac{\text{₹ } 3,00,000 \times 100}{20} = \text{₹ } 15,00,000$$

Goodwill = Total Capitalised Value of Business – Capital Employed

$$= \text{₹ } 15,00,000 - \text{₹ } 10,00,000 \text{ [i.e., ₹ } 6,00,000 \text{ (A)} \\ + \text{₹ } 4,00,000 \text{ (B)]}$$

Goodwill = ₹ 5,00,000

(ii) Super Profit Method:

Normal Profit = Capital Employed x 20/100 = ₹ 2,00,000

Average Profit = ₹ 3,00,000

Super Profit = Average profit – Normal Profit

= ₹ 3,00,000 – ₹ 2,00,000 = ₹ 1,00,000

Goodwill = Super Profit x Number of years' purchase

= ₹ 1,00,000 x 2 = ₹ 2,00,000

Question 3:

A and B are in partnership sharing profits and losses equally. The Balance Sheet M/s. A and B as on 31.12.2022, was as follows:

Liabilities	₹	Assets	₹
Capital A/cs		Sundry Fixed Assets	60,000
A	45,000	Inventories	30,000
B	45,000	Bank	20,000
Trade payables	20,000		
	1,10,000		1,10,000

On 1.1.2023 they agreed to take C as 1/3rd partner to increase the capital base to Rs. 1,35,000. C agrees to pay Rs. 60,000. Show the necessary journal entries and prepare partners' capital accounts. **(5 Marks)**

Answer:

In the Books of M/s. A, B and C

Journal Entries

		₹	₹
Bank A/c	Dr.	60,000	
To C's Capital A/c			60,000
(Cash brought in by C for 1/3rd share)			
C's Capital A/c	Dr.	15,000	
To A's Capital A/c			7,500
To B's Capital A/c			7,500
A's Capital A/c	Dr.	7,500	
B's Capital A/c	Dr.	7,500	
To Bank A/c			15,000
(Amount of goodwill due to A and B withdrawn)			

Workings:

- (1) Old Profit Sharing Ratio: 1: 1
 - (2) New Profit Sharing Ratio: 1:1:1
 - (3) C's share of capital ₹ 1,35,000 × 1/3 = ₹ 45,000
 - (4) Goodwill ₹ 60,000 – ₹ 45,000 = ₹ 15,000 for 1/3rd share.
- Total Goodwill: ₹ 15,000 × 3 = ₹ 45,000

Partners' Capital A/cs

Particulars	A	B	C	Particulars	A	B	C
	₹	₹	₹		₹	₹	₹
To A			7,500	By Balance b/d	45,000	45,000	–
To B			7,500	By Bank	–	–	60,000
To Bank	7,500	7,500	–	By C	7,500	7,500	–
To Balance c/d	45,000	45,000	45,000				
	52,500	52,500	60,000		52,500	52,500	60,000