

OAF

Date : 07-03-2024

STD 12 Commerce Elements of Account

Total Marks : 50

12th Account Practice Sheet Day 14 (Part 1 - Ch.1 to 4)

Section A

* Choose The Right Answer From The Given Options.

[10]

1. By calculating interest on credit balance of capital, partner's capital.....

- (A) Increases (B) Increase or decrease (C) Decrease (D) None of the given

Ans. : (A) Increases

2. Credit balance of profit and loss appropriation account means

- (A) Net profit (B) Net loss (C) Divisible profit (D) Divisible loss

Ans. : (C) Divisible profit

3. Where would you show interest on drawings in fluctuating capital account?

- (A) On credit side of capital account (B) On debit side of capital account
(C) On credit side of current account (D) On debit side of current account

Ans. : (B) On debit side of capital account

4. In which year partnership act was implemented in India?

- (A) 1923 (B) 1932 (C) 1947 (D) 1956

Ans. : 1932

5. Goodwill is a financial value of

- (A) Investment (B) prestige of business enterprise
(C) fixed assets (D) competition

Ans. : (B) prestige of business enterprise

6. At the time of reconstruction, partners gain means

- (A) Old ratio of profit is less than new profit ratio (B) Old ratio of profit is more than new profit ratio
(C) New ratio of profit is less than old profit ratio (D) New ratio of profit is equal to old ratio of profit

Ans. :

(A) Old ratio of profit is less than new profit ratio

7. Profit and loss adjustment account is also known as--

- (A) Balance sheet (B) Partners capital account (C) Revolution account (D) Capital reserve account

Ans. :

(C) Revolution account

8. In the reconstruction of a partnership firm, gain ratio =

- (A) New profit-loss share - Old profit-loss share
(B) Old profit-loss share - New profit-loss share

(C) New capital ratio - Old capital ratio

(D) Old capital ratio - New capital ratio

Ans. : (A) New profit-loss share - Old profit-loss share

9. Receivable income or prepared expense is shown on account at the time of revaluation of assets and liabilities.

(A) Credit side of revaluation

(B) Debit side of revaluation

(C) Debit side of partners' capital

(D) Credit side of partners' capital

Ans. :

(A) Credit side of revaluation

10. While calculating partner's sacrifice, if answer comes to negative(-), then we can say that

(A) Partner's gain

(B) No gain, no loss

(C) Partner's sacrifice

(D) None of the given

for partner

Ans. :

(A) Partner's gain

Section B

* **Answer The Following Questions In One Sentence.**

[5]

11. At what rate, interest on loan given by partner to the firm, be calculated, if no provision is there for the same in the partnership deed.

Ans. : At 6% interest on loan given by partner to the firm is calculated, if no provision is there for the same in the partnership deed.

12. Where would you record closing balance of profit and loss appropriation account?

Ans. : Closing balance of profit and loss appropriation account means divisible profit and loss will be transferred to partners capital or current account.

13. When fluctuating capital account method is adopted, where would you record permanent changes which takes place in the capital of partners?

Ans. : When fluctuating capital account method is adopted, permanent changes which takes place in the capital are recorded in the capital account only.

14. Where will you disclose the following items given in a trial balance during the preparation of a final account of a partnership firm : Goods return credit

Ans. : Credit side of the Trading Account.

15. What is reconstruction of partnership?

Ans. : Due to different reasons when changes takes place in partnership it is known as reconstruction of partnership.

Section C

* **Answer The Following Questions.**

[12]

16. On the partnership firm of Sheela, Surbhai and Sanket is Rs. 1,35,000. They have share profit in the ratio 2:1:3 instead of 3:2:3. What accounting treatment is to be given to the

capital account to rectify the error?

Ans. :

Particulars	Shelaa(Rs.)	Surbhi(Rs.)	Sanket(Rs.)
Correct distribution of profit (In 3:2:2 ratio)	50,625	37,750	50,625
Wrong distribution of profit (In 2:1:3 ratio) (Amt. Received)	45,000	22,500	67,500
Difference of Amount	+5,625	+11,250	-16,875

To rectify this error debits Sanket's A/c by Rs. 16,875 and credits Sheela and Surbhi's A/c's by Rs. 5,625 and Rs. 11,250 respectively.

Rectification entry:

Date	Particulars	L.F.	Debit(Rs.)	Credit(Rs.)
	Sanket's Capital/Current A/c Dr.		16,875	
	To Sheela's Capital/Current A/c			5,625
	To Subhi's Capital/Current A/c			11,250
	(Being rectification entry for the brown profit distribution)			

17. The closing capital of Raghuvir is Rs. 80,000. In which Rs. 12,500 drawings of current year and profit of Rs. 17,800 are recorded. What will be the interest at 6% p.a. on the opening capital?

Ans. :

Opening balance of capital amount can be found out as under:

Closing capital balance	Rs. 80,000
+ Drawings	Rs. + <u>12,500</u>
	Rs. 92,500
- Profit	Rs. - <u>17,800</u>
	Rs. 74,200

Interest on capital $74,200 \times \frac{6}{100}$
= Rs. 4,482

18. Raju, Hasu and Sanju are the partners of a partnership firm. Their profit-loss sharing ratio is 5 : 4 : 3. All the partners have decided to change their profit-loss sharing ratio to 2 : 2 : 1. From this information find out the gain ratio.

Ans. :

	Raju		Hasu		Sanju	Total
Old Ratio	5	:	4	:	3	12
Old Share	$\frac{5}{12}$:	$\frac{4}{12}$:	$\frac{3}{12}$	
New Ratio	2	:	2 ^[3]	:	1	5
New Share	$\frac{2}{5}$:	$\frac{2}{5}$:	$\frac{1}{5}$	

Sacrifice by partner = Old share - New share

$$\text{Raju's Sacrifice} = \frac{2}{5} - \frac{5}{12} = \frac{24 - 25}{60} = \frac{-1}{60}$$

$$\text{Hasu's Sacrifice} = \frac{2}{5} - \frac{4}{12} = \frac{24 - 20}{60} = \frac{4}{60}$$

$$\text{Sanju's Sacrifice} = \frac{1}{5} - \frac{3}{12} = \frac{12 - 15}{60} = \frac{-3}{60} \quad (\text{Sacrifice})$$

19. Sagar, Sarita and Palak are the partners in a firm sharing profits and losses in the ratio of 3:3:2. All partners have decided to change their profit and loss ratio to 1:1:1. Calculate gain and sacrifice by the partners.

Ans. :

	Sagar		Sarita		Palak	Total
Old ratio	3	:	3	:	2	8
Old share	$\frac{3}{8}$		$\frac{3}{8}$		$\frac{2}{8}$	
New ratio	1	:	1	:	1	3
New share	$\frac{1}{3}$		$\frac{1}{3}$		$\frac{1}{3}$	

(1) Explanation with gain formula :

$$\text{Gain} = \text{New share} - \text{Old share}$$

$$\begin{aligned} (1) \text{ Gain to Sagar} &= \frac{1}{3} - \frac{3}{8} \\ &= \frac{8-9}{24} \end{aligned}$$

$$\text{Gain to Sagar} = \frac{-1}{24} \text{ (Sacrifice)}$$

$$\begin{aligned} (2) \text{ Gain to Sarita} &= \frac{1}{3} - \frac{3}{8} \\ &= \frac{8-9}{24} \end{aligned}$$

$$\text{Gain to Sarita} = \frac{-1}{24} \text{ (Sacrifice)}$$

$$\begin{aligned} (3) \text{ Gain to Palak} &= \frac{1}{3} - \frac{2}{8} \\ &= \frac{8-6}{24} \end{aligned}$$

$$\text{Gain to Palak} = \frac{2}{24}$$

Section D

* Answer The Following Questions With Necessary Calculations.

[12]

20. X and Y are partners of a partnership firm. They have not prepared partnership deed. There is difference of opinion between the partners. Please give legal advice to the partners.

(1) X demands 6 % p.a. interest on drawings of partners.

(2) Y is an active partner of the firm. He claims for remuneration and commission.

(3) X demands interest on capital of partners.

(4) X has lent loan of ₹ 20,000\$ to the firm. He demands interest on loan.

(5) Firm has lent loan of ₹ 25,000\$ to Y. X demands to charge interest on the loan.

(6) X demands to share profit between the partners in the proportion of capital.

Ans. : (1) When there is no partnership deed, provisions of the Partnership Act, 1932 shall apply according to which the firm cannot charge the interest on drawings of partners in the absence of the Partnership deed. Therefore, the demand for X with respect to 6% p.a. interest on drawings of partners is not valid and will not be fulfilled.

(2) Remuneration and commission to partners are allowed only if the Partnership Deed allows it to be paid and in the absence of a deed, these cannot be claimed. So, remuneration and commission cannot be paid to partner Y even if he is an active partner of the firm.

(3) Since there is no written agreement or Partnership Deed between the partners, so interest in the capital will not be allowed to the partners of the firm. Hence, the interest in capitals will not be provided to X and Y as demanded by X because no partnership deed exists between them.

(4) The Indian Partnership Act, 1932 provides that the interest on the loan by a partner is to be allowed at an agreed rate of interest and if there is no partnership deed, interest is to be paid at 6% p.a. So, in the given case interest on the loan will be provided at the rate of 6% p.a. to X on amount of Rs. 20,000 lent by him to the firm.

(5) When there is no Partnership Deed between the partners, the interest on a loan advanced by the firm to a partner will not be charged as it does in case of loan by the partner to the firm according to the provisions of the Indian Partnership Act, 1932. So in this case, Y will not be charged any interest on a loan of Rs. 25,000 lent to him by the firm as demanded by X.

(6) In the absence of the Partnership Deed or when the Partnership Deed does not have a clause on the profit-sharing ratio, it is shared equally between the partners. So, the demand of X for sharing profits in the proportion of capital is not valid and cannot be granted and the profits will be shared equally between him and Y.

21. Milin, Hemant and Rasik have distributed profit of the firm of ₹ 1,89,000 in equal proportion, instead of distributing it in 1 : 2 : 4 proportion. To rectify this mistake what treatment will be given to the capital account ?

Ans. :

Particular	Milin (₹)	Hemant (₹)	Rasik (₹)
Correct distribution of profit in the proportion of 1:2:4	+ 27,000	+ 54,000	+ 1,08,000
Incorrect distribution of profit in the proportion of 1:1:1	– 63,000	– 63,000	– 63,000
Amount of difference	– 36,000 Debit	– 9000 Debit	+ 45,000 Credit

Rectification of Error : An excess credit to Milin's and Hemant's account is ₹ 36,000 and ₹ 9000 respectively, and ₹ 45,000 are less credited to Rasik's Account. So, Rasik's account will be credited and Milin's and Hemant's capital account will be debited.

Date	Particular	L.F.No.	Debit (₹)	Credit (₹)
	Milin's Capital/Current A/c Dr		36,000	
	Hemant's Capital/Current A/c Dr		9000	
	To Rasik's Capital/Current A/c			45,000
	[Being profit credited in wrong proportion is corrected.]			

22. Explain the weighted average method for the valuation of goodwill.

Ans. :

In the weighted average profit method is there is continuous increase in the profit, then we should give more weightage to the profit of recent years and give comparatively less weightage to the profits of previous years.

- Generally, weightage of different year's profit are numbered as 1,2,3...
- After finding out the product of weightage with profit, average is workout which is known as weighted average profit.
- If specific instruction is given or profit of the business have continuous increasing or decreasing trend then one must find out goodwill by weighted average profit.

$$\text{Weight average profit} = \frac{\text{Total Weighted Profit}}{\text{Total Weighted}}$$

$$\text{Goodwill} = \text{Weighted average profit} \times \text{No. of years of purchase}$$

Section F

* Answer The Following Essay Type Questions.

[11]

23. From the Trial Balance and adjustments of partnership firm of Salim and Shabana, prepare final accounts of partnership firm.

Trial Balance of Partnership Firm of Salim and Shabana as on 31-3-2017		
Particulars	Debit balance (Rs.)	Credit balance (Rs.)
Capital Account: Salim		1,60,000
Shabana		1,20,000

Current Account: Salim	10,000	
Shabana		40,000
Stock of goods (31-3-17)	54,600	
Cash balance	560	
Current account with bank.	14,000	
Fixed deposit of SBI	80,000	
Debtors- creditors	36,800	24,000
Salary	37,000	
Land-building	1,20,000	
Plant-machinery	40,000	
Furniture	10,000	
Insurance premium	2,000	
Leasehold machinery (from 1-4-16 for 5 years)	60,000	
Stationery and printing	1,200	
Bad debts- bad debts reserve	400	2,000
Advertisement expense	1,200	
Travelling expense	800	
Trading A/c		61,800
Loan of Shabana (from 1-10-16)		60,000
Discount reserve		760
	<u>4,68,560</u>	<u>4,68,560</u>

Adjustments :

1. Salim withdrew goods of Rs. 4,000 for personal use. It is not recorded in the books.
2. Goods of Rs. 8,000 purchased at the end of the accounting year, which is not recorded.
3. Prepaid insurance is Rs.400.
4. From debtors Rs. 800 is not recoverable. Provide 5% bad debts reserve on debtors.
5. Discount reserve on debtors is not required.
6. Provide depreciation on plant-machinery at 20% and on furniture at 5%.

Ans. :

Revised Trading Account of partnership firm of Salim and Shabana

Dr.		for the year ending on 31-3-2017		Cr.		
Particulars		Amt. (₹)		Particulars		Amt. (₹)
To Unrecorded purchase	8,000			By Balance b/d		61,800
– Goods withdrawn (Salim)	<u>4,000</u>	4,000				
To Profit and Loss A/c		57,800				
(Revised goods profit)						
		<u>61,800</u>	[8]			<u>61,800</u>

Profit and Loss Account of partnership firm of Salim and Shabana

Dr. **for the year ending on 31-3-2017** **Cr.**

Particulars	Amt. (₹)	Particulars	Amt. (₹)
Administrative expenses :		By Trading A/c	57,800
To Salary	37,000	(Gross profit)	
To Insurance premium	2,000	By Discount reserve on debtors	760
– Prepaid Insurance Prem.	<u>400</u>	By Current account (divisible loss)	
To Stationery and Printing	1,200	Salim	3,270
To Travelling expense	800	Shabana	<u>3,270</u>
Selling-Distribution expense :			6,540
To Advertisement expense	1,200		
Financial expense :			
To Interest on Shabana's loan	1,800		
Other expenses and losses :			
To Bad debts (T.B.)	400		
+ B.D. (A)	800		
+ B.D.R. (A)	<u>1,800</u>		
	3,000		
– B.D.R. (T.B.)	<u>2,000</u>		
	1,000		
To Depreciation :			
Plant-Machinery	8,000		
Furniture	<u>500</u>		
	8,500		
To Written off lease hold machinery	12,000		
	<u>65,100</u>		<u>65,100</u>

Dr. **Partners' Current Accounts** **Cr.**

Date	Particulars	Salim (₹)	Shabana (₹)	Date	Particulars	Salim (₹)	Shabana (₹)
1-4-16	To Balance b/d	–	10,000	1-4-16	By Balance b/d	40,000	–
–	To Drawing A/c (Goods)	4,000	–	31-3-17	By Balance c/d	–	13,270
31-3-17	To Profit and Loss A/c (Divisible Loss)	3,270	3,270				
31-3-17	To Balance c/d	32,730	–				
		<u>40,000</u>	<u>13,270</u>			<u>40,000</u>	<u>13,270</u>

Balance sheet of partnership firm of Salim and Shabana as on 31-3-2017

Capital - Liabilities		Amt. (₹)	Assets - Receivables		Amt. (₹)
Capital Accounts :			Non-current Assets :		
Salim	1,60,000		Fixed Assets :		
Shabana	<u>1,20,000</u>	2,80,000	Land-Building		1,20,000
Current Account :			Plant-Machinery	40,000	
Salim		32,730	– Depreciation	<u>8,000</u>	32,000
Non-current Liabilities :			Furniture	10,000	
Loan of Shabana		60,000	– Depreciation	<u>500</u>	9,500
Current Liabilities :			Leasehold machinery	60,000	
Creditors	24,000		– written off	<u>12,000</u>	48,000
+ Unrec. purchase	<u>8,000</u>	32,000	Investments :		
O/s interest on loan of Shabana		1,800	Fixed deposits of SBI		80,000
			Current Assets :		
			Closing Stock		54,600
			Debtors	36,800	
			– B.D. (A)	<u>800</u>	
				36,000	
			– B.D.R. (A)	<u>1,800</u>	34,200
			Cash balance		560
			Current account with bank		14,000
			Prepaid insurance premium		400
			Current A/c - Shabana		13,270
		4,06,530			4,06,530
