PART-A

Q.1 Write thename of the rules applicable in the absence of partnership deed. [2]

Ans. Different rules applicable in the absence o partnership eed:-

(1) Interest on Capital: No Interest on capital will be allowed to the partners. If there is a provision for the interest on capital in the partnership deed, it will be allowed only when there is a sufficient profit.

(2) Interest on Drawings: No interest is to be charged on drawings.

(3) Profit-Sharing Ratio: Profits and losses will be shared in equal ratio irrespective of their capital contributions.

(4) Salary to a Partner: No partner is entitled to any salary or commission for taking active part in business activities.

(5) Interest on Partners' Loan: Interest at the rate of 6% per year will be allowed on a partner's loan to the firm.Such interest shall be paid even if there are losses to the firm.

Q.2 Vibhor is a partner in a firm. He draws Rs.6,000 at the middle of every month. Interest on drawing is to be charged @ 10% p.a. Calculate Interest on drawing of the partner for the year 2017.

Ans. Interest on Vibhor's Drawing = Total Drawing × $\frac{Rate}{100} \times \frac{Time}{12}$

Total Drawing = 6,000 × 12

= Rs. 72,000

$= 72{,}000 \times \frac{10}{100} \times \frac{6}{12}$

= Rs. 3,600.

Q.3 Give any two differences between sacrificing ratio and gaining ratio. [2]

Ans.

Sr. No	Sacrificing Ratio	Gaining Ratio
1.	It is the ratio in which the old partners surrender a part of their share in favour of new partner.	It is the ratio in which the remaining partners acquire the retired or deceased partner's share
2.	It is calculated in case of admission of a new partner.	It is calculated in case of retirement or death of a partner.

Q.4 What do you mean by Share Capital? [2]

Ans. **Share Capital:** Every company must have capital in order to finance its activities. The company raises this capital by issue of shares. That is why, the capital of the company is called as 'Share Capital'.

Share Capital is devided into following parts:

(i) Authorised Capital

(ii) Issued Capital

(iii) Subscribed Capital

(iv) Reserve Capital

Q.5 What do you mean by under-subscription of shares? [2]

Ans. U**nder-subscription of shares:** Sometimes, number of shares applied for by the public is less than the number of shares offered by the Company. Such in issue is said to be under-subscribed. For example, in case a company has offered 5,000 shares to be public but the public applied for 4,500 shares only, it is called a case of under-subscription. In such a case, must be ensured that the company has received the minimum subscription.

Accounting Treatment: In case of undersubscription, accounting antires are made on the basis of shares applied for since allotment is made in full to all the applicants.

Q.6 What are redeemable debentures? [2]

Ans. **Redeemable debentures:** These debentures are repayable by the company on the expiry of fixed period of time by annual drawings or by purchase of own debentures from the open market. Most of the debentures are generally of this type.

Q.7 What is Entrance Fees? [3]

Ans. **Entrance Fees:** Entrance fees is paid by the new members at the time of joining the organisation. Since, the fees is paid only once by members, so it is clearity of non-recurring nature. As such, it should be treated as capital receipt and be shown on the liabilities side of the Balance Sheet. But some accountants are of the view that though each member pays the entrance fees only once, but when there is constant in the membership, entrance fees are received regularly. As such, it should treated as revenue receipt and be shown on the credit side of Income and Expenditure Account.

Q.8 Kapil and Pankaj are partners in a firm sharing profils and losses in the ratio of 3:4. They admit Atul in partnership for $1/5^{th}$ shares of profits. Calculate new profit sharing ratio. [3]

Ans. Old Rates of Kapil and Pankaj = 3:4

Atul share = $\frac{1}{5}$

Remaining Share = $1-\frac{1}{5}$

$= \frac{4}{5}$

Kapil's new shares = $\frac{4}{5}\times\frac{3}{7}=\frac{12}{35}$

Pankaj's new share = $\frac{4}{5}\times\frac{4}{7}=\frac{16}{35}$

Atul Share = $\frac{1}{5}\times\frac{7}{7}=\frac{7}{35}$

Hence, New Ratio of Kapil, Pankaj and Atul = $12:16:7$.

Q.9 What do you mean by share premium? For what purpose can the amount of share premium be utilised? [3]

Ans. **Share premium:** A company is authorized to issue its shares at a price which is more than its face value, it is said to be issue at premium. For example, if a share of Rs. 10 is issued at Rs. 12, Rs. 2 will be the premium on share. There is no legal restriction on issue of shares at a premium.

Accordind to Section 52 (i) of the Companies Act, 2013 the amount of securities premium reserve may be used only for the following purposes:

(i) For writing off the preliminary expenses of the company.

(ii) For writing off expenses, commission and discount allowed on issue of shares or debentures of the company.

(iii) For issuing fully paid bonus shares to the shareholders of the company.

(iv) For providing for the premium payable in redemption of preference shares or debentures of the company.

(v) For purchasing its own shares.

If the company wishes to use the amount of securities premium reserve for any other purpose, it must pass a special resolution and obtain the sanction of the court.

Q.10 What is meant by Debentures? Give three characteristics of debentures. [3]

Ans. **Advatages of Debentures:**

(1) Availability of necessary funds: If the company is not able to obtain the necessary unds by issue of shares, it obtains the required amount by issue of debentures.

(2) No interference in the management: Debentureholders do not have voting rights, in other words they do not participate in the management of the company, they are simply lenders of the company.

(3) Fixed rate of interest: Interest oaid at prescribed fixed rate to the debentureholder.

(4) Return of funds: Debentures ae redeemable, therefore, a company can reduce the burden of loan, if the company becomes financially sound.

(5) More dividend to Shareholders: A good company who pays higher rate of interest to debentureholders also pays dividend at a higher rate to its shareholder.

Q.11 On March, 31, 2017, Ltd., redeemed Rs. 40,000 12% debentures out of profits, Journalise the transctions. [4]

Ans. **Journal of Vim Ltd.**

Date	Particular	Dr. (Rs.)	Cr. (Rs.)
2017 Mar, 31	Surplus in Statement of Profit & Loss Dr. To Debenture RedemptionReserve A/c (Being transfer of profits to Debenture Redemption Reserve Account)	40,000	40,000
Mar, 31	12% Debentures A/c Dr. To Debentureholders A/c (Being redemption of debentures due)	40,000	40,000
Mar, 31	Debentureholder' A/c Dr. To Bank A/c (Being amount paid on redemption)	40,000	40,000
Mar, 31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being transfer of Debenture Redemption Reserve A/c to General Reserve A/c)	40,000	40,000

Q.12 What is Income and Expenditure Account? Give its features. [5]

Or

Following is the Recipts and Payment Account of Youth Club for the year ending 31st March, 2017:

Receipts	Amount	Payments	Amount
To subscriptions	11,000	By saleries	2,200
To Interest on Investment	100	By Postage	100
		By Rent	1,100
		By Telephone charges	200
		By Printing charges	300
		By Furniture	2,000
		By Investments	4,000
		By Balance c/d Cash in hand	1,200
	11,100		11,100

Additional Informations:

(i) Salaries outstanding Rs. 200.

(ii) Rent due Rs.100.

(iii) Subscription outstanding at the end of the year Rs. 400.

(iv) Depreciation on furniture to be charged @ 10% p.a.

Prepare Income and Expenditure Account for the year ended 31st December 2017.

Ans. **Income and Expenditure Account:**

Income and Expenditure Account is a revenue account of a Not-for-Profit Organisation. It serves the same purpose as the Profit and Loss Account in trading concerns.

Income and Expenditure Account is the summary of income and expenditure of the current year. It is a nominal account prepared by non-trading organisation, inorder to ascertain the surplus or deflicit by recording revenue items of a particular period.

Income and Expenditure Account is prepared in the same manner in which a profit and Loss Account is prepared in case of trading organisations. All expenses and losses of a revenue nature are recorded on its debit side while all incomes and gains of a revenue nature on its credit side. If credit side of this account exceeds the debit side, it is known as 'Surplus' or Excess of income over expenditure) and on the contrary if the debit side exceeds the credit side, it is known as 'Deficit' or Excess of expenditure over income). The surplus or deficit is transferred to the Capital Fund.

Features of Income and Expenditure Account:

Income and Expenditure Account has the following features:

(i) Nature: It is a nominal account and hence the rule of nominal account, i.e., “Debit all expenses and losses and Credit all incomes and gains” is followed while preparing it.

(ii) Format: It is generally prepared in ‘T’ form with revenue expenditures on the debit side and revenue incomes on the credit side. But, it can also be prepared in vertical form, where revenue incomes are shown at first, thereafter revenue expenditures are presented. From the totals of incomes, the totals of expenditures are deducted to ascertain surplus or deficit.

(iii) Balances: ‘Income and Expenditure A/c’ does not start with any opening balance, because it is prepared to ascertain only the current year surplus or deficit. Similarly, there is no closing balance in this account.

(iv) Period: It excludes all items of income and expenditure which do not relate to current period. In order words, all items relating to previous years and future years are excluded while preparing it. Hence, it shows items relating to current year only.

(v) Items: Only revenue nature items are recorded in it. All items of capital nature are ignored while preparing it. For example, amount received from the sale of old furniture will not be recorded in it but the profit earned or loss suffered on the sale of furniture will be recorded in it.

(vi) Adjustments: This account shows income and expenditure of current year on accrual basis, therefore, all adjustments relating to the current year such as depreciation, outstanding expenses, unearned income, etc. are taken into account while preparing this account.

(vii) Balance Sheet can be prepared on the basis of this account.

(viii) The balance of this account at the end shows either ‘Surplus’ or credit side exceeds debit side or ‘Deficit’ or debit side exceeds credit side. The surplus is added to Capital Fund and deficit is deducted from the Capital Fund of ‘Not-for-Profit Organisation’.

Or

Income and Expenditure A/c
for the year end of 31st March, 2017.

Dr. Cr.

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Salaries paid 2200 Add Outstanding 200	2,400	By Subscription received 11,000	

To Postage	100	Add: Outstanding 400	11,400
To Rent paid 1,100 Add outstanding 100	1,200	By Interest on Investment	100
To Telephone charge	200		
To Printing Charges	300		
To Depreciation on Furniture	200		
To Excess of Income Over Expenditure	7,100		
	11,500		11,500

Q.13 What is Goodwill? Explain the methods of valuation of goodwill.

Or [5]

The following is the Balance Sheet of Arjun and Ananya, who are sharing profit equally on 31st December 2017.

Liabilities	Amount (R.S)	Assets	Amount (R.S)
Creditors	20,000	Cash	3,000
Bills Payable	15,000	Sundry Debtors	20,000
O/s Expenses	5,000	Bills Receivable	5,000
Capital Accounts:		Closing Stock	12,000
Arjun- 30,000		Building	30,000
Ananya- 20,000	50,000	Machinery	20,000

They decided to admit Manik as a new partner for 1/3 share of profits on the following terms.

(i) Manik will bring Rs. 35,000 as capital and Rs. 10,000 as his share of goodwill. Both the sums to be retained in the business.

(ii) A provision of 5% to be created on sundry debtors for bad and doubtful debts and the value of stock will be reduced by Rs. 2,000.

(iii) Building to be appreciated by 10% where as machinery will be depreciated by 5%.

Prepare Revaluation Account and Capital Accounts of the partners in the new firm.

Ans. **Goodwill:** Goodwill means good name, good product, good place or the reputation earned by a firm through the hardwork and honest of its owner. Goodwill is the attracting force, which attracts the customers and makes sales easy. Thus, goodwill is the value of reputation of a firm which enables the first to earn more profits in comparison to the normal profits earned by the other firms in the same trade.

Methods of Valuation of Goodwill:-

(1) Average Profit Method: Methods of valuation o GgGoodwill. In this method, firstly we calculate the average profit, and then average profit is multipled by an agreed number known as' number of years purchased, to find out the value of goodwill. Following equations are used:

$$\text{Average Profit} = \frac{\text{Total Profts}}{\text{Number of Years}}$$

Goodwill = Average Profit × Number of Years' Purchased

(2) Super Profit Method: In this method, goodwill is calculated on the surplus (super)profits earned by a firm in comparison to average profits earned by other firms. Super profit is the excess of actual profit over normal profit. Following equations are used to calculate goodwill:

(i) Average Profit = $\frac{\text{Total Profts}}{\text{Number of Years}}$

(ii) Normal Profits = $\frac{\text{Capital Employed} \times \text{Normal Rate}}{100}$

(iii) Super Profit = Actual Proft/Averge Profit – Normal Profit

(iv) Goodwill = Super Profit × Number of years purchased.

(3) Capitalisation Method: According to this method, goodwill is equal to the difference of capital required and actual capital employed. If a firm earns more profit by investing lesser amount of capital as compared to other firms, it will have goowill. This method is used in two ways:

(i) By Capitalising the Average Profit.

(ii) By Capitalising the Super Profit.

(i) Capitalisation of Average Profit Method: According to this method, goowill will be excess of the capitalized value of average profit over the actual employed. Following equations are used:

(i) Average Profit= $\frac{\text{Total Profts}}{\text{Number of Years}}$

(ii) Capitalised value of average profit = $\text{Average Profit} \times \frac{100}{\text{Normal rate}}$

(iii) Goodwill = Capital required – Capital employed.

(4) Capitalisation of super profit method: In this methos, first of all we calculate the super profit, after this super profit is capitalized on the basic of normal rate of profit to get the amount of goodwill. Following equations are used:

(i) Average Profit $= \frac{\text{Total Profts}}{\text{Number of Years}}$

(ii) Normal Profit = Capital employed $\times \frac{\text{Normal Rate}}{100}$

(iii) Super Profit = Actual / Average Profit − Normal Profit

(iv) Goodwill = Super Profit $\times \frac{100}{\text{Normal Rate}}$

Or

Dr. **Revaluation Account** **Cr.**

Particular	**Amount (Rs.)**	**Particular**	**Amount (Rs.)**
To Prossion for Bad and doubtful Debts A/c	1,000	By Building	3,000
To Stock A/c		By Partner's Capital A/c	
To Machinery A/c	2,000	Arjun - 500	
	1,000	Ananaya - 500	1,000
	4,000		4,000

Partner's Capital A/c

Dr. Cr.

Particulars	Arjun (Rs.)	Ananya (Rs.)	Manik (Rs.)	Particulars	Arjun (Rs.)	Ananaya (Rs.)	Manik (Rs.)
To Revaluation A/c	500	500	-	By Balance b/d	30,000	20,000	-
To Balance c/d	34,500	24,500	35,000	By Cash A/c	-	-	35,000
				By Premium for Goodwill A/c	5,000	5,000	-
	35,000	25,000	35,000		35,000	25,000	35,000

Q14. Kartik Ltd. Invited application for the issue of 10,000 equity shares of Rs. 10 each at 10% premium. The amount was payable as follows:

On Application Rs. 4 (including premium)

On Allotment Rs. 4 and remaining on first and final calls. Applications were received for 25,000 shares. Incomplete applications of 5,000 shares were cancelled and amount refunded. Remaining applications were allotted on pro-rata basis. Excess application money is used for allotment. Mohan who applied for 2,000 shares could not pay allotment and first and final call money and his shares were forfeited. Give necessary Journal Entries in the books of the company. [5]

Ans.

Bank A/c Dr. To Share Application A/c (Being share application money received)	1,00,000	1,00,000
Share Application A/c Dr. To Share Capital To Security Premium Reserve A/c To Bank A/c To Share allotment A/c (Being share application money adjusted)	1,00,000	30,000 10,000 30,000 30,000
Share allotment A/c Dr. To share capital A/c (Being share alloment due)	40,000	40,000
Bank A/c Dr. To Share allotment (Being allotment money received)	8,000	8,000
Share 1st & final call A/c Dr. To Share capital A/c (Being 1st & final call due)	30,000	30,000
Bank A/c Dr. Calls in arrear A/c Dr. To Share 1st & final Call A/c (Being 1st & final call money received except 2,000 shares)	24,000 6,000	30,000
Share Capital A/c To Share 1st & final Call A/c To Share forfeiture A/c To Sahre Alloment A/c (Being 2,000 Shares forfeited)	20,000	6,000 12,000 2,000

Q.15 How a partner may retire from the firm? Explain the accouting problems that arise when a partner retires.

Or

The Balance Sheet of Ritika, Neeraj and Tarun who share profits in the proportion their capital, stood as given below:

Liabilities	Amouont (R.s)	Assets		Amount (R.s)
Creditors	6,900	Cash		5,500
Capitals:		Debtors	5,000	
Ritika	20,000	Less Provision -	100	4,900
Neeraj	10,000	Stock		8,000
Tarun	10,000	Plant and Machinery		8,500
General Reserve	5,000	Land and Building		25,000
	51,900			51,900

Neeraj retired and it was agreed that:

(i) Stock be appreciated by 6%.

(ii) Land and Building be appreciated by 20%.

(iii) Goodwill be valued at Rs. 20,000. No goodwill account is to be raised.

(iv) Provision of Rs. 330 be made in respect of legal charges.

(v) Capital of the new firm be fixed at Rs. 30,000, contribution on the basis of profit sharing ratio 3/5 Ritika and 2/5 Tarun.

Give necessary Ledgers and Balance Sheet.

Ans. **Retirement of a Partner:**

According to Indian Partnership Act, a partner may retire:

(i) With constant of all the partners.

(ii) In order with an express agreement by the partner.

(iii) Where the partnership is at will, by giving notice is writing to all other partners of his intention to retire.

Problem arises at the time of retirement of a Partner:

On the retirement of a partner, various assuming adjustment become necessary to calculate the amount payable to retiring partner. Following adjustment are to be made at the time of retirement of a partner.

(1) Calculation of new profit sharing ratio of the continuing partners.

(2) Calculation of gaining ratio.

(3) Treatment of goodwill.

(4) Revaluation of assets & liabilities.

(5) Distribution of Reserves & undistributed profit.

(6) Adjustment of Joint life policy

(7) Payment to retiring partner.

(1) Calcultion o New Profit Sharing Ratio: The retirement of a partner, his share will be taken over by the remaining partners. This necessaties the calculation of new profit sharing ratio of the remaining partners. The new ratio of a partner will be sum of total of his old share of profit and share of profit he acquires from the retiring partner i.e.,

New share = old share +Acquired share.

(2) Calculation of Gaining Ratio: Where a partner retires, his share of profit is takan over by the remaining partners. The ratio in which the ramining partners gain is called as gaining ratio. Calculation of gaining ratio is necessary because the remaining partners will pay the amount of goodwill to the retireing partners in gaining ratio. Gaining ratio is calculated by deducting partners old share from his new share i.e.,

Gaining Ratio = New Share – Old Share

(3) Accounting Treatment of Goodwill: At the time of retirement of a partner, the goodwills is valuated on the basis on the basis of agreement among the partners. It includes two cases:-

Case 1: Where Goodwill A/c doesnot appear in the books

Journal Entry

Particular	Amount	Amount
Remaining partner capital A/c To Retiring Partners capital A/c (Being retiring partners share of goodwill adjustment to remaining partners in gaining ratio)		

Case 2: Where Goodwill A/c appear in the books

Particular	Amount	Amount
All Partners capital A/c To Goodwill A/c (Being existing goodwill written off)		
Remaining partner capital A/c To Retiring Partner capital A/c (Being retiring partner share of goodwill adjusted in remaining partners in gaining ratio)		

(4) Revaluation of Assets & Liabilities: Retiring partner should not suffer because of reduction in the value of asset nor should be benefited by increase in the valule of assets. So, revaluation of assets & liabilities is done before the retirement of the partner. Adjustment entires related to revalutation on of assets & liabilities are done is the neawly opened amount.

Revaluation A/c

Particulars	Amount	Particulars	Amount
To decrases in assets To increase in liabilities To increase in reserve To unrecorded liabilities To profit transferred to partner capital A/c		By increase is Assets By decreasein liabilities By decrease in reserves By unrecorded assets By loss transferred to partners capital A/c	

(5) Distribution of Reserves & Undistributed Profit: If at the time of retirement there is any balance of General Reserve, find or any undistributed amount of Profit and Loss A/c appearing into the balance sheet it belong to all the partners and should be transferred to the capital A/c of all partner in their old profit sharing ratio following entries are passed.

Particulars	Amount	Amount
General Reserve A/c Dr. Reserve Fund A/c Dr. To All partners capital A/c (Being reserve fund and profit transfer to all partners capital A/c in old ratio).		

(6) Adjustment of Joint Life Policy: The adjustment of joint life policy on the retirement of a partner also depends on the fact whether the premium has been consider as revenue expenditure or capital expenditure. Following entry is made.

Particular	Amount	Amount
Joint Life Policy A/c Dr. To all partners capital A/c (Being J.h.p recorded at its surrender value)		
Particular	**Amount**	**Amount**
Remaining partner lap A/c Dr. To Retiring Partners cap A/c (Being retiring partners share of goodwill adjustment to remaining partners is gaining ratio)		

(7) Payment to Retiring Partner: Amount payable to retiring partner can be determined by preparing the partners capital A/c, incorporating all the adjustment. Following entires are passed:-

(a) Lump sum payment method:

Retiring Partners capital A/c Dr. To Cash A/c (Being amount due to retiring partner is paid off)		

(b) Transfer to partner Loan:

Retiring partners capital A/c Dr. To Retiring partners Loan A/c (Being balance of retiring partners capital A/c transferred to his loans A/c)		

Or

Revaluation A/c

Dr. **Cr.**

Particular	Amount	Particular	Amount
To provision for legal charges A/c	330	By Stock A/c	480
To Partner's Capital A/c Ritika - 2575.00 Neeraj - 1287.50 Tarun - 1287.50	5150	by Land and Building A/c	5,000
	5,480		5,480

Partner's Capital A/c

	Ritika	Neeraj	Tarun		Ritika	Neeraj	Tarun
To Neeraj's Capital A/c	2,000.00	-	3,000.00	By Balance b/d	20,000.00	10,000.00	10,000.00
To Neeraj's Loan A/c		17537.50		By General Reserve A/c	2500.00	1250.00	1,250.00
To Balance c/d	23075.00		9537.50	By Revaluation A/c	2575.00	1287.50	1287.50
				By Ritika's CapitalA/c	-	2,000.00	-
				By Tarun's Capital A/c	-	3,000.00	-
	25075.00	17537.50	12337.50		25075.00	17537.50	12537.50
To Cash A/c	5075.00	-		By Balance b/d	23075.00	-	9537.50
To Balance c/d	18,000.00		12,000.00	By Cash A/c			2462.50
	23075.00		12,000.00		23075.00	-	12,000.00

Balance Sheet

As on …………………..

Liabilities	Amount (Rs.)	Assests		Amount (Rs.)
Creditors	6,900.00	Cash (5500+2462.50-5075)		2887.50
Provision for legal Charges	330.00			
Neeraj's Loan A/c	17537.50	Debtors -	5,000	
		Less: Provision	100	4900.00
		Stock -	8,000	
Capitals:		Add:	480	8480.00
Ritika	18,000.00			
Tarun	12,000.00			
		Plant and Machinery		8500.00
		Land and Building	25,000	
		Add:	5,000	30,000.00
	54767.50			54767.50

PART-B

Q.16 What are the main heads on the liabilities side of Balance Sheet of a company? Write their names. [2]

Ans. Major headings of 'Equity and Liabilities' as per Schedule III of the Companies Act, 2013.

I. Sharehoders' Funds

II. Share Application money pending allotment

III. Non-current Liabilites

IV. Current Liabilities.

Q.17 What are the objectives of an Income Statement? [2]

Ans. **Objective of Income Statements:**

Income statement is prepared to achieve the following objectives:

(i) Determining the cost of production.

(ii) Determining the gross profit or loss.

(iii) Determining the net profit or loss.

(iv) Determining the operating cost and operational efficiency of the business.

(v) Determining the profitablilty of the business by establishing relationship between direct expenses, indirect expenses, gross profit and net profit with sales.

(vi) Comparing the actual performance with the desired performance and to determine the cause of variances.

Q.18 Write two limitations of analysis of Finanacial Statement. [2]

Ans. **(1) Incomplete and inexact information:** The financial statements are only interim reports prepared for an accouting period. Exact profit or loss and financial position of a business can be known only after its closure. Therefore, the data and informations supplied by these statements are not complete and exact, whereby the reliability of on such analysis is shaked.

(2) Qualitative informations are ignored: Only the information which can be represented in monetary terms are shown in the financial statement. Other important factors relating to quality which cannot be expressed in monetary terms., are ignored; such as goodwill, harmony, efficiency of management, competition etc. are the various factors, which have very important roles to play in the functioning and achievements of the business are ignored. Therefore, analysis based on such incomplete and unreliable statements, cannot be taken as exact and reliable.

Q.19 Explain the limitations cash flow statement. [2]

Ans. **Limitations of cash flow statement:**

Despite a number of uses, Cash Flow Statement suffers from the following limitations:

(1) Ignore accouting concept of accrual basis: As cash flow statement is based on cash basis of accounting, it ignores the basic accounting concept of accrual basis.

(2) Ignores non-transactions: cash flow statement ignores the non-cash transactions. In other words, it does not consider those transactions which do not affect the cash e.g., issue of shares against the purchase of fixed assets, conversion of debentures into equity shares, etc.

(3) Not a substitute for income statement: It is not substitute for Income Statement. Net cash flow disclosed by cash flow statement does not necessarily mean net income of the business, because net income is determined by taking into account both cash and non-cash items.

Q.20 Current Assets of a company are Rs.3,15,000. Its current ratio is 3:1 and quick ratio is 1.5:1. Calculate the values of current liabilities, liquid assets and stock. [3]

Ans. Current Assets = 3,15,000

Current Ratio = 3 : 1

Quick Ratio = 1.5:1

Current Ratio = $\frac{Current\ Assets}{Current\ Liabilites}$

$\frac{3}{1} = \frac{3,15,000}{Current\ Liabilites}$

3 current Liabilites = 3,15,000×1.

Current Liabilities = $\frac{3,15,000}{3}$

Current Liabilites = Rs. 105,000

Quick Ratio = $\frac{liquid\ \ Assets}{Current\ Liabilites}$

$\frac{1.5}{1} = \frac{liquid\ Assets}{1,05,000}$

Liquid Assets = 1,05,000 × 1.5

= $Rs.$ 1,57,500

Stock = $Current\ Assets - Quick\ Assets$

= 3,15,000 – 1,57,500

= $Rs.$ 1,57,500.

Q.21 From the following you are required to calculate cash flow from Operating Activities:

	2016 (Rs.)	2017 (Rs.)
Balance of Profit & Loss A/c	60,000	65,000
Debtors	87,000	40,000
Bills Receivable	62,000	1,03,000
General Reserve	2,02,000	2,37,000
Dividend Equalisation Fund	78,000	1,00,000
Salary Outstanding	30,000	12,000
Wages Prepaid	5,000	7,000
Goodwill	80,000	70,000

Ans. **Cash flow from operating Activities**

Particulars	Amount (Rs.)	Amount (Rs.)
Net profit for the year Add: Transfer to General Reserve	5,000 35,000	

Transfer to dividend equilation fund adjustment for:	22,000	62,000
Adjustment for:		
Add: Goodwill written off	10,000	10,000
Operating profit before working capital charges		72,000
Add: Decrease in current Assets		
Debtors	47,000	47,000
		1,19,000
Less: Increase in current Assets		
Bill Recievable	(41,000)	
wages prepaid	(2,000)	
Less: Decrease in Current Liabilities		
salary outstanding	(18,000)	61,000
Cash flow from operating Activities:		58,000