CBSE Class 12 Accountancy Question Paper 2023 with Solution PDF-Set 67-1-1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

Time Allowed: 3 hours **Maximum Marks: 80**

General Instructions

(i) This question paper contains **34** questions. **All** questions are **compulsory**.

(ii) This question paper is divided into **two** parts — **Part A** and **Part B**.

(iii) **Part A** is **compulsory** for all candidates.

(iv) **Part B** has two options i.e. (1) Analysis of Financial Statements, and (2) Computerised Accounting. Candidates must attempt only **one** of the given options as per the subject opted in **Part B**.

(v) Questions no. **1** to **16** and **27** to **30** carry **1** mark each.

(vi) Questions no. **17** to **20**, **31** and **32** carry **3** marks each.

(vii) Questions no. **21**, **22** and **33** carry **4** marks each.

(viii) Questions no. **23** to **26** and **34** carry **6** marks each.

(ix) There is no overall choice. However, an internal choice has been provided in **7** questions of **one** mark, **2** questions of **three** marks, **1** question of **four** marks and **2** questions of **six** marks.

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1(i). Hina and Neena are partners in a firm. Neena withdrew Rs. 10,000 per month at the beginning of each month during the year ended 31st March, 2022. Interest on drawings was to be charged @ 6% per annum.

Interest on Neena's drawings for the year ended 31st March, 2022 will be : [1 mark]

(A) Rs. 3,900

(B) Rs. 325

(C) Rs. 3,600

(D) Rs. 3,300

Correct Answer: (A) Rs. 3,900

Solution:

Concept:

- Interest on equal regular drawings is calculated on total drawings for their average outstanding period.
- For drawings at the beginning of every month, the first withdrawal remains outstanding for 12 months and the last for 1 month.

Step 1: Find total drawings and the average period Neena makes 12 withdrawals of Rs 10,000 each. Thus total drawings are $12 \times 10,000 = \text{Rs } 1,20,000$. The average period is

$$(12 + 1)/2 = 6.5 \text{ months.}$$

Step 2: Calculate interest and check the alternatives Using the annual rate for the average period,

$$I = 1,20,000 \times \frac{6}{100} \times \frac{6.5}{12} = \text{Rs } 3,900.$$

Rs 325 applies the average-period calculation to only one monthly withdrawal. Rs 3,600 uses a 6-month average, while Rs 3,300 uses 5.5 months, appropriate to month-end drawings rather than month-beginning drawings.

Step 3: Conclusion Interest on Neena's drawings is Rs 3,900. Hence, the correct option is (A).

Quick Tip to Solve: For equal beginning-of-month drawings over a full year, multiply total drawings by the annual rate and $6.5/12$.

OR

1(ii). Vibha and Asha are partners in a firm. Asha withdrew Rs. 1,000 at the end of each quarter during the year ended 31st March, 2022. Interest on drawings will be calculated for an average period of : [1 mark]

(A) 6 months

(B) 4 1/2 months

(C) 7 1/2 months

(D) 6 1/2 months

Correct Answer: (B) 4 1/2 months

Solution:

Concept:

- The average period is the mean time for which equal periodic drawings remain outstanding until the financial year-end.
- For equally spaced withdrawals, average period equals half the sum of the first and last outstanding periods.

Step 1: List the quarter-end withdrawal periods The four withdrawals occur on 30 June, 30 September, 31 December and 31 March. Measured to 31 March, their outstanding periods are respectively 9, 6, 3 and 0 months. The final withdrawal therefore bears no interest for that year.

Step 2: Take the average and compare the choices Because all four withdrawals are equal, no weighting adjustment is needed:

$$\text{Average period} = \frac{9+6+3+0}{4} = \frac{9+0}{2} = 4.5 \text{ months.}$$

Six months applies to middle-of-quarter drawings, and 7.5 months to beginning-of-quarter drawings. The 6.5-month period applies to beginning-of-month drawings, not quarter-end drawings.

Step 3: Conclusion Interest is calculated for an average period of $4\frac{1}{2}$ months. Hence, the correct option is (B).

Quick Tip to Solve: For quarter-end drawings, write the outstanding months as 9, 6, 3 and 0; their average immediately gives 4.5 months.

2. Aman and Chaman are partners in a firm. On 1st July, 2021 Aman advanced a loan of Rs. 6,00,000 to the firm. There is no partnership deed. On 31st March, 2022, Aman was entitled to get the following amount as interest on loan : [1 mark]

(A) Rs. 36,000

(B) Rs. 18,000

(C) Rs. 9,000

(D) Rs. 27,000

Correct Answer: (D) Rs. 27,000

Solution:

Concept:

- In the absence of a partnership agreement, a partner is entitled to interest at 6% per annum on a loan advanced to the firm.
- Loan interest is a charge against profit; calculate it for the actual time the loan remains with the firm.

Step 1: Identify the rate and loan period Aman advanced Rs 6,00,000 on 1 July 2021. The year ends on 31 March 2022, so the loan is outstanding for 9 months. Since there is no partnership deed, the applicable annual rate is 6%.

Step 2: Calculate interest for nine months

$$\text{Interest} = 6,00,000 \times \frac{6}{100} \times \frac{9}{12} = \text{Rs } 27,000.$$

Rs 36,000 is the interest for a full year and ignores the July commencement. Rs 18,000 and Rs 9,000 represent six-month and three-month interest respectively, so neither matches the actual nine-month period.

Step 3: Conclusion Aman is entitled to interest of Rs 27,000. Hence, the correct option is (D).

Quick Tip to Solve: First count July to March as nine months; apply the default 6 per cent rate to the loan, not to partner capital.

3(i). Akshita Ltd. issued fully paid shares of Rs. 5,00,000 in purchase consideration of net assets of Rs. 4,70,000. The balance of Rs. 30,000 will be _____ to _____ account. [1 mark]

(A) debited, Goodwill

(B) debited, Capital Reserve

(C) credited, Capital Reserve

(D) credited, General Reserve

Correct Answer: (A) debited, Goodwill

Solution:

Concept:

- Purchase consideration is compared with the net assets acquired to determine goodwill or capital reserve.
- When consideration exceeds net assets, the excess is goodwill, an asset recorded on the debit side.

Step 1: Compare consideration with net assets Akshita Ltd. pays purchase consideration through fully paid shares valued at Rs 5,00,000, while the net assets acquired amount to Rs 4,70,000. Therefore the company pays more than the value of the identifiable net assets:

$$5,00,000 - 4,70,000 = \text{Rs } 30,000.$$

Step 2: Determine the account and its side The excess represents goodwill and is debited to Goodwill Account. Capital reserve would arise only if net assets exceeded consideration, and would then be credited, so neither capital-reserve choice fits. General reserve is not used to record the balancing difference on purchase of a business.

Step 3: Conclusion The balance of Rs 30,000 will be debited to Goodwill Account. Hence, the correct option is (A).

Quick Tip to Solve: Compare the price paid with net assets: paying more creates goodwill; paying less creates capital reserve.

OR

3(ii). Maira Ltd. took over assets of Rs. 12,00,000 and liabilities of Rs. 4,00,000 of Subav Ltd. for an agreed purchase consideration of Rs. 9,00,000. The amount was payable by issue of 11% debentures of Rs. 100 each at 10% discount. The number of debentures issued will be : [1 mark]

(A) 9,000

(B) 10,000

(C) 8,000

(D) 11,000

Correct Answer: (B) 10,000

Solution:

Concept:

- The number of debentures issued to a vendor equals purchase consideration divided by the issue price of one debenture.
- For an issue at discount, issue price equals face value less discount. The coupon rate determines interest, not the issue price.

Step 1: Calculate the issue price per debenture Each debenture has face value Rs 100 and is issued at a discount of 10%. Thus

$$\text{Issue price} = 100 - 100 \times \frac{10}{100} = \text{Rs } 90.$$

The 11% rate is the annual interest rate on debentures and does not affect this calculation.

Step 2: Divide the agreed consideration by the issue price

$$\text{Number of debentures} = \frac{9,00,000}{90} = 10,000.$$

Using face value instead gives the incorrect 9,000. Net assets are Rs 8,00,000, but the agreed consideration is Rs 9,00,000, so net assets do not determine the number issued. Neither 8,000 nor 11,000 debentures at Rs 90 would settle the agreed Rs 9,00,000.

Step 3: Conclusion Maira Ltd. will issue 10,000 debentures. Hence, the correct option is (B).

Quick Tip to Solve: Divide purchase consideration by the discounted issue price of Rs 90; keep the 11 per cent coupon rate out of the calculation.

4 and 5. ***Read the following hypothetical situation and answer questions number 4 and 5 on the basis of the given information :***

Kavita, Savita and Madhu were partners in a firm with capitals of Rs. 6,00,000, Rs. 4,00,000 and Rs. 2,00,000 respectively. After providing interest on capital @ 10% p.a., the profits are divisible as follows :

Kavita $\frac{1}{3}$, Savita $\frac{1}{2}$ and Madhu $\frac{1}{6}$. Kavita personally guaranteed that Savita's share of profit after charging interest on capital would not be less than Rs. 1,00,000 in any year.

The profit for the year ending 31st March, 2022 amounted to Rs. 3,00,000 before providing interest on capital.

4. Savita's share of profit is short of the guaranteed amount by : [1 mark]

(A) Rs. 40,000

(B) Rs. 70,000

(C) Rs. 20,000

(D) Rs. 10,000

Correct Answer: (D) Rs. 10,000

Solution:

Concept:

- Interest on capital is provided before dividing the remaining profit in the agreed profit-sharing ratio.
- The deficiency under a profit guarantee equals the guaranteed share less the partner's normal share of divisible profit, when the latter is smaller.

Step 1: Calculate profit available after interest Interest on Kavita's, Savita's and Madhu's capitals at 10% is Rs 60,000, Rs 40,000 and Rs 20,000 respectively. Total interest is Rs 1,20,000. Therefore the divisible profit is

$$\text{Rs } 3,00,000 - \text{Rs } 1,20,000 = \text{Rs } 1,80,000.$$

Step 2: Compare Savita's normal share with her guarantee Savita's normal profit share is $\frac{1}{2} \times \text{Rs } 1,80,000 = \text{Rs } 90,000$. The guarantee specifically applies to profit after interest on capital, so her Rs 40,000 interest must not be included in this comparison. Her deficiency is Rs 1,00,000 less Rs 90,000. Thus Rs 40,000 in (A) is her interest, while Rs 70,000 in (B) and Rs 20,000 in (C) do not equal the shortfall.

Step 3: Conclusion Savita's share is short of the guaranteed amount by Rs 10,000. Hence, the correct option is (D).

Quick Tip to Solve: Deduct all partners' interest first; compare only Savita's half of the balance with her Rs 1,00,000 guarantee.

5. The total profits of the firm after adjustment of guaranteed amount will be distributed between the partners as : [1 mark]

(A) Kavita Rs. 60,000, Savita Rs. 40,000 and Madhu Rs. 20,000

(B) Kavita Rs. 50,000, Savita Rs. 1,00,000 and Madhu Rs. 30,000

(C) Kavita Rs. 60,000, Savita Rs. 90,000 and Madhu Rs. 30,000

(D) Kavita Rs. 60,000, Savita Rs. 1,00,000 and Madhu Rs. 20,000

Correct Answer: (B) Kavita Rs. 50,000, Savita Rs. 1,00,000 and Madhu Rs. 30,000

Solution:

Concept:

- Divisible profit is the profit remaining after providing interest on all partners' capitals.
- When a partner personally guarantees another partner's minimum profit share, that guarantor alone bears the deficiency out of their own share.

Step 1: Determine the normal profit shares Interest on capitals is Rs 60,000 for Kavita, Rs 40,000 for Savita and Rs 20,000 for Madhu. The balance available for distribution is Rs 3,00,000 less Rs 1,20,000, or Rs 1,80,000. Applying the fractions $\frac{1}{3}, \frac{1}{2}, \frac{1}{6}$ gives normal shares of Rs 60,000, Rs 90,000 and Rs 30,000 respectively.

Step 2: Transfer the deficiency from the guarantor Savita's deficiency is Rs $1,00,000$ − Rs $90,000$ = Rs $10,000$. Kavita personally guaranteed this minimum, so reduce only Kavita's share by Rs 10,000 and increase Savita's by the same amount. Madhu's share stays Rs 30,000. The adjusted shares still total Rs 1,80,000. Option (A) lists interest on capital, (C) gives shares before the guarantee, and (D) wrongly takes the deficiency from Madhu. The distribution asked here is of profit after the separately provided interest on capital.

Step 3: Conclusion Kavita receives Rs 50,000, Savita Rs 1,00,000 and Madhu Rs 30,000 as their adjusted profit shares. Hence, the correct option is (B).

Quick Tip to Solve: A personal guarantee changes only the guarantor's and beneficiary's profit shares; keep Madhu's Rs 30,000 unchanged.

6(i). A company forfeited 400 shares of Rs. 10 each, Rs. 8 per share called up for non-payment of first call of Rs. 2 per share. On forfeiture of these shares, 'Share Capital' account will be debited with : [1 mark]

(A) Rs. 4,000

(B) Rs. 800

(C) Rs. 3,200

(D) Rs. 2,000

Correct Answer: (C) Rs. 3,200

Solution:

Concept:

- On forfeiture, Share Capital Account is debited with the called-up capital on the forfeited shares.
- Uncalled capital is excluded, and unpaid calls are distinguished from the full called-up amount cancelled.

Step 1: Identify the amount of capital to cancel The company has called Rs 8 on each of the 400 forfeited shares. Although each share has a face value of Rs 10, the remaining Rs 2 per share has not been called and is not part of the capital cancelled by forfeiture.

Step 2: Calculate the debit and compare the options

$$\text{Share Capital debit} = 400 \times 8 = \text{Rs } 3,200.$$

Rs 4,000 incorrectly uses the full face value. Rs 800 is the unpaid first call, 400×2, which is a credit in the forfeiture entry rather than the Share Capital debit. Rs 2,000 does not equal either the called-up capital or the stated unpaid call.

Step 3: Conclusion Share Capital Account will be debited with Rs 3,200. Hence, the correct option is (C).

Quick Tip to Solve: For the Share Capital debit on forfeiture, multiply the number of shares by called-up capital, even when face value is higher.

OR

6(ii). Xyle Ltd. forfeited 700 shares of Rs. 10 each issued at a premium of 10% for non-payment of allotment money of Rs. 5 per share (including premium) and first and final call of Rs. 3 per share. On forfeiture of these shares, 'Share Forfeiture Account' will be credited with : [1 mark]

(A) Rs. 7,000

(B) Rs. 1,400

(C) Rs. 4,900

(D) Rs. 2,100

Correct Answer: (D) Rs. 2,100

Solution:

Concept:

- Share Forfeiture Account is credited with the capital money already received on the forfeited shares.
- Securities premium is excluded from the Share Forfeiture credit; separate it from any instalment that includes premium.

Step 1: Separate the premium from unpaid allotment The premium is 10% of Rs 10, or Rs 1 per share. The unpaid allotment of Rs 5 therefore includes Rs 4 of capital and Rs 1 premium. The unpaid first and final call is another Rs 3 of capital per share.

Step 2: Find the capital received and the forfeiture credit Capital already received per share is

$$10 - 4 - 3 = \text{Rs } 3.$$

Thus the Share Forfeiture credit is

$$700 \times 3 = \text{Rs } 2,100.$$

Rs 7,000 is the full nominal capital, while Rs 4,900 is unpaid capital 700×7. Rs 1,400 results from wrongly treating the full Rs 5 allotment, including premium, as capital. None represents capital actually received.

Step 3: Conclusion Share Forfeiture Account will be credited with Rs 2,100. Hence, the correct option is (D).

Quick Tip to Solve: Remove the Rs 1 premium from unpaid allotment first, then subtract unpaid capital from the Rs 10 face value.

7(i). Rohit Limited issued 2,000, 9% Debentures of Rs. 100 each at Rs. 95 per debenture. 9% Debentures account will be credited by : [1 mark]

(A) Rs. 1,90,000

(B) Rs. 1,10,000

(C) Rs. 2,00,000

(D) Rs. 10,000

Correct Answer: (C) Rs. 2,00,000

Solution:

Concept:

- The Debentures Account records the nominal or face value of the debt issued, irrespective of the issue price.
- For an issue at discount, cash received plus discount on issue equals the face value credited to Debentures Account.

Step 1: Calculate nominal value There are 2,000 debentures of face value Rs 100 each. Therefore, the nominal value issued is $2,000 \times 100 =$ Rs $2,00,000$. The rate of interest, 9%, does not change this liability.

Step 2: Distinguish cash proceeds and discount Cash received is $2,000 \times 95 =$ Rs $1,90,000$, while the discount is $2,000 \times (100 - 95) =$ Rs $10,000$. Thus (A) is the bank receipt and (D) is the discount, not the amount credited to Debentures Account. Option (B), Rs 1,10,000, has no basis in the given issue.

Step 3: Conclusion 9% Debentures Account will be credited with Rs 2,00,000. Hence, the correct option is (C).

Quick Tip to Solve: For the credit to Debentures Account, multiply the number issued by face value, not the discounted issue price.

OR

7(ii). Which of the following statements is *incorrect* ? [1 mark]

(A) Interest on debentures is a charge and not an appropriation.

(B) Debentures can be issued at discount.

(C) Debentureholders do not have voting rights.

(D) Debentures cannot be converted into shares.

Correct Answer: (D) Debentures cannot be converted into shares.

Solution:

Concept:

- Debentures represent borrowed funds: debentureholders are creditors and their interest is a charge against profit.
- Convertible debentures may be converted into shares under their terms of issue; non-convertible debentures cannot.

Step 1: Check the first three statements Interest on debentures is payable as a charge against profits, so (A) is correct. Debentures may be issued below face value, so (B) is correct. Holding debentures does not confer the voting rights attached to shares, so (C) is also correct.

Step 2: Check the claim about conversion Statement (D) makes a blanket claim that debentures cannot be converted into shares. This ignores convertible debentures, which permit conversion in accordance with their issue terms. Therefore, the claim is false; the question specifically asks for the incorrect statement.

Step 3: Conclusion The incorrect statement is: Debentures cannot be converted into shares. Hence, the correct option is (D).

Quick Tip to Solve: In a question asking for the incorrect feature, test an absolute claim against convertible debentures.

8. Aman, Aadhar and Avinash were partners and sharing profits in the ratio of 3 : 2 : 1. Avinash retired from the firm on 1st July, 2022. On the date of Avinash's retirement, the Balance Sheet showed a debit balance of Rs. 1,20,000 in the Profit and Loss Account. For calculating the amount payable to Avinash, this balance will be transferred : [1 mark]

(A) To the debit side of the capital accounts of Aman and Aadhar in old profit sharing ratio.

(B) To the debit side of the capital accounts of Aman, Aadhar and Avinash in old profit sharing ratio.

(C) To the credit side of the capital accounts of Aman and Aadhar in new profit sharing ratio.

(D) To the credit side of the capital accounts of Aman and Aadhar in their gaining ratio.

Correct Answer: (B) To the debit side of the capital accounts of Aman, Aadhar and Avinash in old profit sharing ratio.

Solution:

Concept:

- A debit balance in Profit and Loss Account represents an accumulated loss and reduces the partners' capital balances.
- Losses arising before retirement belong to all the old partners and are allocated in their old profit-sharing ratio.

Step 1: Identify partners and applicable ratio The debit balance of Rs 1,20,000 arose before Avinash retired. It must therefore be borne by Aman, Aadhar and Avinash in the old ratio $3 : 2 : 1$, including the retiring partner.

Step 2: Allocate the loss and check the options The capital accounts are debited by $1,20,000 \times 3/6 =$ Rs $60,000$ for Aman, $1,20,000 \times 2/6 =$ Rs $40,000$ for Aadhar and $1,20,000 \times 1/6 =$ Rs $20,000$ for Avinash. Option (A) wrongly excludes Avinash; (C) and (D) wrongly credit capital accounts and use ratios for the continuing partners.

Step 3: Conclusion Transfer the debit balance to the debit of all three partners' capital accounts in the old ratio $3 : 2 : 1$. Hence, the correct option is (B).

Quick Tip to Solve: A pre-retirement P&L debit balance is a loss: debit every old partner, including the retiring partner.

9. Nidhi, Kunal and Kabir are partners in a firm sharing profits in the ratio of 2 : 1 : 2. Kunal retired and the balance in his capital account after making necessary adjustments on account of reserves, revaluation of assets and reassessment of liabilities was Rs. 80,000. Nidhi and Kabir agreed to pay him Rs. 1,00,000 in full settlement of his claim. Kunal's share of goodwill of the firm, on his retirement was : [1 mark]

(A) Rs. 4,000

(B) Rs. 20,000

(C) Rs. 16,000

(D) Rs. 1,80,000

Correct Answer: (B) Rs. 20,000

Solution:

Concept:

- When a retiring partner receives more than the adjusted capital due, the excess represents that partner's share of goodwill.
- Compare the agreed settlement with capital after reserves, revaluation and liability adjustments; do not apply the profit share twice.

Step 1: Identify the adjusted capital and settlement Kunal's capital after all stated adjustments is Rs 80,000. The remaining partners agree to settle his claim for Rs 1,00,000. The additional payment is therefore attributable to his goodwill entitlement.

Step 2: Compute and compare the alternatives Kunal's share of goodwill is $1,00,000 - 80,000 =$ Rs $20,000$. The amount already represents his own share, so multiplying it by $1/5$ to obtain Rs 4,000 would be incorrect. Rs 16,000 is one-fifth of his capital, not goodwill; Rs 1,80,000 adds the two amounts instead of finding the excess.

Step 3: Conclusion Kunal's share of goodwill is Rs 20,000. Hence, the correct option is (B).

Quick Tip to Solve: For hidden goodwill on retirement, subtract adjusted capital from the settlement amount before using any ratio.

10. Assertion (A) : Goodwill is a intangible asset.

Reason (R) : Goodwill is the value of the reputation of a firm in respect of profits expected in future, over and above the normal profits.

Select the correct answer from the following : [1 mark]

(A) Assertion (A) is correct, but Reason (R) is wrong.

(B) Assertion (A) is wrong, but Reason (R) is correct.

(C) Both Assertion (A) and Reason (R) are correct.

(D) Both Assertion (A) and Reason (R) are wrong.

Correct Answer: (C) Both Assertion (A) and Reason (R) are correct.

Solution:

Concept:

- An intangible asset has economic value but no physical substance.
- Goodwill reflects a firm's reputation and its expected capacity to earn profits above normal profits.

Step 1: Judge the assertion Goodwill is not a physical object that can be touched, but its benefits can contribute to future earnings. It is therefore an intangible asset, and Assertion (A) is correct.

Step 2: Judge the reason Reason (R) describes goodwill as the value of reputation in respect of expected future profits over and above normal profits. This is the accepted meaning of goodwill, so Reason (R) is correct.

Step 3: Check their relationship and the printed choices The reason identifies the non-physical reputation and earning advantage underlying goodwill, consistent with its intangible nature. The printed choices classify only whether each statement is correct; they do not offer a separate explanatory-relationship choice. Options (A), (B) and (D) each incorrectly declare at least one true statement to be wrong.

Step 4: Conclusion Both the assertion and the reason are correct. Hence, the correct option is (C).

Quick Tip to Solve: Judge the truth of both statements first, then select from the actual choices printed for this assertion-reason item.

11. 'A' and 'B' were partners in a firm sharing profits and losses in the ratio of 7 : 1. 'A' withdrew a fixed amount of Rs. 12,000 at the beginning of each quarter. Interest on drawings is charged @ 6% p.a. The journal entry for charging interest on drawings at the end of the year will be : [1 mark]

(A) Interest on drawings A/c Dr. Rs. 1,800

To A's Capital A/c Rs. 1,800

(B) Interest on drawings A/c Dr. Rs. 1,800

To A's Current A/c Rs. 1,800

(C) A's Capital A/c Dr. Rs. 1,800

To Interest on drawings A/c Rs. 1,800

(D) Profit and Loss Appropriation A/c Dr. Rs. 1,800

To Interest on drawings A/c Rs. 1,800

Correct Answer: (C) A's Capital A/c Dr. Rs. 1,800

To Interest on drawings A/c Rs. 1,800

Solution:

Concept:

- For equal drawings at the beginning of each quarter, the average period is $(12+9+6+3)/4 = 7.5$ months.
- Interest on drawings is charged to the partner: debit the partner's capital account under the fluctuating-capital method and credit Interest on Drawings Account.

Step 1: Calculate interest for the year Total drawings are $4 \times 12,000 = \text{Rs } 48,000$. Hence, interest is

$$48,000 \times \frac{6}{100} \times \frac{7.5}{12} = \text{Rs } 1,800.$$

The profit-sharing ratio $7 : 1$ does not affect the interest charged on A's own drawings.

Step 2: Record the charge to the partner A fixed amount of drawings does not mean that the firm follows the fixed-capital method. The appropriate entry among the choices debits A's Capital Account and credits Interest on Drawings Account. Options (A) and (B) reverse the charge; option (D) fails to debit the partner.

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	A's Capital A/c Dr. To Interest on Drawings A/c (Being interest charged on A's quarterly drawings)		1,800	1,800

Step 3: Conclusion A's Capital Account is debited and Interest on Drawings Account is credited with Rs 1,800. Hence, the correct option is (C).

Quick Tip to Solve: Beginning-of-quarter drawings use 7.5 months; the entry must debit the partner, not the interest account.

12. That part of the authorised capital which is actually issued to the public for subscription is called : [1 mark]

(A) Subscribed capital

(B) Issued capital

(C) Authorised capital

(D) Reserve capital

Correct Answer: (B) Issued capital

Solution:

Concept:

- Authorised capital is the maximum share capital the company is authorised to issue.
- Issued capital is the part of authorised capital offered to the public for subscription; subscribed capital is the part actually taken up.

Step 1: Apply the wording of the definition The question asks for the part of authorised capital actually issued to the public for subscription. This refers to the company's offer of shares, which is issued capital. It does not require all those shares to have been subscribed for.

Step 2: Distinguish the other categories Option (A), subscribed capital, concerns shares accepted by applicants. Option (C), authorised capital, is the permitted ceiling rather than the part offered. Option (D), reserve capital, is the portion of uncalled capital that a company resolves to call only on winding up. None of these definitions matches the stated offer to the public.

Step 3: Conclusion The capital described is issued capital. Hence, the correct option is (B).

Quick Tip to Solve: Identify the verb: shares offered are issued capital; shares actually taken up are subscribed capital.

13. Zinki Limited forfeited a share of Rs. 100 issued at a premium of 20% for non-payment of first call of Rs. 30 per share and final call of Rs. 10 per share. The minimum price at which this share can be reissued is : [1 mark]

(A) Rs. 40

(B) Rs. 60

(C) Rs. 20

(D) Rs. 100

Correct Answer: (A) Rs. 40

Solution:

Concept:

- Discount allowed on reissue of a forfeited share cannot exceed the amount forfeited on that share.
- Forfeited capital includes amounts received towards share capital, excluding securities premium.

Step 1: Calculate the amount forfeited The face value is Rs 100 and unpaid calls total $30 + 10 = \text{Rs } 40$. Therefore, capital already received and forfeited is $100 - 40 = \text{Rs } 60$. The 20% premium is separate

from share capital and does not increase the amount available for reissue discount.

Step 2: Find the lowest permissible reissue price The maximum permissible discount on reissue as fully paid is Rs 60 per share. Thus the minimum reissue price is $100 - 60 = \text{Rs } 40$. Rs 60 and Rs 100 are permissible higher prices but are not the minimum; Rs 20 would give a discount of Rs 80, exceeding the forfeited amount.

Step 3: Conclusion The minimum reissue price is Rs 40 per share. Hence, the correct option is (A).

Quick Tip to Solve: Exclude premium from forfeited capital; minimum fully-paid reissue price equals face value less capital forfeited.

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14. Akshita and Anurag are partners in a firm sharing profits in the ratio of 2 : 1. Akshat is admitted in the firm with 1/3 share in profits. Akshat acquires 2/3 of his share from Akshita and 1/3 of his share from Anurag. The new profit sharing ratio of Akshita, Anurag and Akshat will be : [1 mark]

(A) 3 : 2 : 4

(B) 4 : 3 : 2

(C) 2 : 1 : 1

(D) 4 : 2 : 3

Correct Answer: (D) 4 : 2 : 3

Solution:

Concept:

- A continuing partner's new share equals the old share minus the share sacrificed to the incoming partner.
- When the incoming partner acquires fractions of his own share from old partners, multiply those fractions by his total share first.

Step 1: Compute each old partner's sacrifice Akshat receives $1/3$ of the total profit. His acquisition from Akshita is $(2/3)(1/3) = 2/9$, and from Anurag it is $(1/3)(1/3) = 1/9$. Their sacrifices total $3/9 = 1/3$, agreeing with Akshat's share.

Step 2: Calculate and verify the new shares Akshita's new share is $2/3 - 2/9 = 4/9$. Anurag's new share is $1/3 - 1/9 = 2/9$. Akshat's share is $1/3 = 3/9$. These add to one. Options (A) and (B) do not give Akshat one-third, and option (C) gives him only one-fourth; only option (D) matches all three shares.

Step 3: Conclusion The new ratio of Akshita, Anurag and Akshat is $4 : 2 : 3$. Hence, the correct option is (D).

Quick Tip to Solve: First multiply Akshat's one-third share by two-thirds and one-third; subtract those sacrifices from the old shares.

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15. Which of the following will be transferred to Realisation Account at the time of dissolution of firm ?

(i) Provision for Doubtful Debts

(ii) Partners' Loan

(iii) General Reserve

(iv) Goodwill [1 mark]

(A) (i) and (iv)

(B) (i), (ii) and (iv)

(C) (i), (iii) and (iv)

(D) (i), (ii) and (iii)

Correct Answer: (A) (i) and (iv)

Solution:

Concept:

- Realisation Account records the transfer and realisation of non-cash assets and settlement of outside liabilities on dissolution.
- Asset-related provisions are transferred to Realisation Account; partners' loans and accumulated reserves are settled separately.

Step 1: Identify the realisation items Provision for Doubtful Debts, item (i), has a credit balance and is transferred to the credit side of Realisation Account. Goodwill, item (iv), is a non-cash asset; its existing book value is transferred to the debit side of Realisation Account.

Step 2: Exclude the partners' claims Partners' Loan, item (ii), is settled through the relevant partner's loan account and is not transferred to Realisation Account. General Reserve, item (iii), is distributed among partners in their profit-sharing ratio through their capital accounts. Thus (B) wrongly includes partners' loans, (C) wrongly includes general reserve and (D) includes both excluded items while omitting goodwill.

Step 3: Conclusion Only (i) Provision for Doubtful Debts and (iv) Goodwill are transferred. Hence, the correct option is (A).

Quick Tip to Solve: Separate realisation items from partners' claims: reserves go to capital accounts and partners' loans remain separately payable.

16(i). P, Q and R were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 1. P died on 1st September, 2022. On the date of P's death, the profits of the firm were calculated as Rs. 80,000. P's share of profit will be adjusted by : [1 mark]

(A) Debiting Profit and Loss Account with Rs. 40,000.

(B) Debiting Profit and Loss Appropriation Account by Rs. 40,000.

(C) Debiting Profit and Loss Suspense Account with Rs. 80,000.

(D) Debiting Profit and Loss Suspense Account with Rs. 40,000.

Correct Answer: (D) Debiting Profit and Loss Suspense Account with Rs. 40,000.

Solution:

Concept:

- A deceased partner is entitled to the firm's profit up to the date of death in the old profit-sharing ratio.
- The interim profit share is credited to the deceased partner's capital account by debiting Profit and Loss Suspense Account.

Step 1: Calculate P's share The total ratio is $4+3+1=8$, so P's share is $4/8$. The given Rs 80,000 is the firm's profit up to death, not P's individual entitlement.

$$\text{P's profit share} = 80,000 \times \frac{4}{8} = \text{Rs } 40,000.$$

Step 2: Identify the debit account Profit and Loss Suspense Account is debited with Rs 40,000 and P's Capital Account is credited with the same amount. The suspense account recognises this interim entitlement before the year's final profit is determined. Options (A) and (B) use the wrong debit account for this adjustment. Option (C) names the correct account but debits the whole firm's profit of Rs 80,000 instead of P's share.

Step 3: Conclusion Debit Profit and Loss Suspense Account with Rs 40,000. Hence, the correct option is (D).

Quick Tip to Solve: First multiply the profit up to death by the deceased partner's old fraction; debit suspense with that share alone.

OR

16(ii). Pooja, Nita and Anita were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Pooja retired and her share is taken up by Nita and Anita equally. The new profit sharing ratio of Nita and Anita will be : [1 mark]

(A) 2 : 1

(B) 7 : 5

(C) 1 : 1

(D) 3 : 2

Correct Answer: (B) 7 : 5

Solution:

Concept:

- A continuing partner's new share equals the old share plus the share gained from the retiring partner.
- Equal acquisition of the retiring partner's share means equal gains, not necessarily equal final profit shares.

Step 1: Divide Pooja's share equally The old fractions of Pooja, Nita and Anita are $3/6, 2/6, 1/6$. Pooja retires with a share of $3/6 = 1/2$. Nita and Anita each gain half of this share:

$$\text{Gain of each} = \frac{1}{2} \times \frac{1}{2} = \frac{1}{4} = \frac{3}{12}.$$

Step 2: Add the gains to the old shares

$$\text{Nita's new share} = \frac{2}{6} + \frac{1}{4} = \frac{7}{12},$$
$$\text{Anita's new share} = \frac{1}{6} + \frac{1}{4} = \frac{5}{12}.$$

These add to one. Their ratio is $7 : 5$. Option (A), $2 : 1$, merely retains their old relative shares; option (C), $1 : 1$, confuses equal gain with equal new shares; option (D), $3 : 2$, does not equal the calculated fractions.

Step 3: Conclusion Nita and Anita's new profit-sharing ratio is $7 : 5$. Hence, the correct option is (B).

Quick Tip to Solve: Convert old shares and gains to denominator 12 here; add 3 to each continuing partner's old numerator.

17. Suman, Vivek and Vinod were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Suman retired on 1st April, 2022. After making all adjustments relating to revaluation, goodwill and accumulated profits, etc., the capital accounts of Vivek and Vinod showed credit balances of Rs. 3,60,000 and Rs. 1,40,000 respectively.

It was decided to adjust the capitals of Vivek and Vinod in their new profit sharing ratio. Pass necessary journal entries for bringing in or withdrawal of the necessary amounts. Show your working clearly. [3 marks]

Solution:

Concept:

- When no new ratio is specified, continuing partners retain their old relative profit shares.
- Required capital equals total adjusted capital multiplied by the partner's new profit fraction. Excess is withdrawn and deficiency is brought in through Bank Account.

Step 1: Working Notes: determine the new ratio and total capital After Suman's retirement, Vivek and Vinod continue in the ratio $3 : 2$. All revaluation, goodwill and reserve adjustments have already been made, so the given credit balances form the basis for adjustment. No further goodwill or reserve entry is required.

$$\text{Total capital} = 3,60,000 + 1,40,000 = \text{Rs } 5,00,000.$$

As no different total is specified, this combined capital is retained and redistributed in the new ratio.

Step 2: Calculate the excess and deficiency

$$\text{Vivek's required capital} = 5,00,000 \times \frac{3}{5} = \text{Rs } 3,00,000,$$
$$\text{Vinod's required capital} = 5,00,000 \times \frac{2}{5} = \text{Rs } 2,00,000.$$

Vivek's existing capital exceeds his required capital by Rs $3,60,000 - 3,00,000 = 60,000$, which he withdraws. Vinod's capital is deficient by Rs $2,00,000 - 1,40,000 = 60,000$, which he brings into the firm.

Step 3: Record the cash adjustments Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 April 2022	Bank A/c Dr. To Vinod's Capital A/c (Being capital deficiency brought in by Vinod)		60,000	 60,000
1 April 2022	Vivek's Capital A/c Dr. To Bank A/c (Being excess capital withdrawn by Vivek)		60,000	 60,000

After these entries, the capital balances are Rs 3,00,000 and Rs 2,00,000; their sum remains Rs 5,00,000 and their ratio agrees with $3 : 2$.

Step 4: Conclusion Vivek withdraws Rs 60,000 and Vinod brings in Rs 60,000. Their final capitals are Rs 3,00,000 and Rs 2,00,000 respectively.

Quick Tip to Solve: Add the adjusted capitals first, divide the total in 3:2, and compare each target with its existing balance.

18. Anu, Manu, Tanu and Kanu were partners in a firm sharing profits and losses in the ratio of 2 : 1 : 2 : 1. They decided to share profits and losses in the ratio of 4 : 2 : 3 : 1 with effect from 1st April, 2022. On this date, goodwill of the firm was valued at Rs. 1,20,000 and General Reserve appeared in the books at Rs. 36,000.

Pass necessary journal entries for the above transactions. Show your workings clearly. [3 marks]

Solution:

Concept:

- On a change in ratio, gaining partners compensate sacrificing partners for goodwill. Gain equals new share minus old share; sacrifice equals old share minus new share.
- An existing General Reserve belongs to all partners in the old ratio and is transferred to their capital accounts before future profits follow the new ratio.

Step 1: Working Notes: calculate goodwill compensation Express both ratios with denominator 30. The old shares of Anu, Manu, Tanu and Kanu are $10/30, 5/30, 10/30, 5/30$; their new shares are $12/30, 6/30, 9/30, 3/30$.

$$\begin{aligned} \text{Anu's gain} &= 2/30, & \text{Compensation payable} &= 1,20,000 \times 2/30 = 8,000, \\ \text{Manu's gain} &= 1/30, & \text{Compensation payable} &= 1,20,000 \times 1/30 = 4,000, \\ \text{Tanu's sacrifice} &= 1/30, & \text{Compensation due} &= 1,20,000 \times 1/30 = 4,000, \\ \text{Kanu's sacrifice} &= 2/30, & \text{Compensation due} &= 1,20,000 \times 2/30 = 8,000. \end{aligned}$$

All compensation amounts above are in Rs. Total gains and sacrifices are equal, so total goodwill debits and credits are both Rs 12,000. Goodwill is adjusted directly through capital accounts without raising a goodwill asset.

Step 2: Distribute the General Reserve The Rs 36,000 reserve is distributed in the old ratio $2 : 1 : 2 : 1$: Anu receives Rs $36,000 \times 2/6 = 12,000$, Manu Rs 6,000, Tanu Rs 12,000 and Kanu Rs 6,000. These credits total Rs 36,000.

Step 3: Pass the adjustment entries Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 April 2022	Anu's Capital A/c Dr.		8,000	
	Manu's Capital A/c Dr.		4,000	
	To Tanu's Capital A/c			4,000
	To Kanu's Capital A/c			8,000
	(Being goodwill adjusted between gaining and sacrificing partners)			
1 April 2022	General Reserve A/c Dr.		36,000	
	To Anu's Capital A/c			12,000
	To Manu's Capital A/c			6,000
	To Tanu's Capital A/c			12,000
	To Kanu's Capital A/c			6,000
	(Being General Reserve distributed in the old ratio of 2:1:2:1)			

Step 4: Conclusion For goodwill, debit Anu Rs 8,000 and Manu Rs 4,000, and credit Tanu Rs 4,000 and Kanu Rs 8,000. Distribute General Reserve as Rs 12,000, Rs 6,000, Rs 12,000 and Rs 6,000 respectively.

Quick Tip to Solve: Use denominator 30 to compare the two ratios; a larger new numerator means a goodwill debit, while reserves always follow the old ratio.

19(a). Annex Ltd. issued 1,00,000 shares of Rs. 10 each at a premium of 10% to the public for subscription. The whole amount was payable on application. Applications were received for 3,00,000 shares and the board decided to allot shares to all shareholders on pro-rata basis.

Pass necessary journal entries for the above transactions in the books of Annex Ltd. [3 marks]

Solution:

Concept:

- The issue price comprises face value credited to Share Capital and premium credited to Securities Premium.
- Pro-rata allotment distributes the available shares proportionately. When the entire issue price is payable on application, excess application money is refunded because no later instalment is due.

Step 1: Working Notes: determine the issue price and allotment ratio Premium per share is $10 \times 10/100 = \text{Rs } 1$; hence the application price is Rs $10 + 1 = 11$ per share. Applications cover 3,00,000 shares whereas only 1,00,000 shares are issued.

$$\text{Allotted} : \text{applied} = 1,00,000 : 3,00,000 = 1 : 3.$$

Thus each applicant receives one share for every three applied for; all applicants participate in the allotment.

Step 2: Calculate the receipt, transfer and refund

$$\begin{aligned} \text{Application money received} &= 3,00,000 \times 11 = \text{Rs } 33,00,000, \\ \text{Share capital} &= 1,00,000 \times 10 = \text{Rs } 10,00,000, \\ \text{Securities premium} &= 1,00,000 \times 1 = \text{Rs } 1,00,000, \\ \text{Refund} &= 33,00,000 - 11,00,000 = \text{Rs } 22,00,000. \end{aligned}$$

No amount is retained for allotment or calls: the full price of the allotted shares is already covered by Rs 11,00,000. Application Account is cleared by transferring this amount and refunding the balance.

Step 3: Record the journal entries Journal of Annex Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 3,00,000 shares at Rs 11 each)		33,00,000	 33,00,000

	Share Application A/c Dr.
	  To Share Capital A/c
	  To Securities Premium A/c
	(Being 1,00,000 shares allotted pro-rata at a premium of Rs 1 each)
			11,00,000	
				10,00,000
				1,00,000

	Share Application A/c Dr. To Bank A/c (Being excess application money refunded)		22,00,000	 22,00,000

Step 4: Conclusion Annex Ltd. credits Share Capital with Rs 10,00,000 and Securities Premium with Rs 1,00,000, and refunds Rs 22,00,000. Net bank receipts are Rs 11,00,000.

Quick Tip to Solve: When the full price is payable on application, calculate the refund as excess shares applied for multiplied by the full issue price.

OR

19(b). Shovan Limited took over the assets of Rs. 60,00,000 and liabilities of Rs. 10,00,000 from Swami Limited for an agreed purchase consideration of Rs. 45,00,000. The amount was payable by issuing 10% debentures of Rs. 100 each at 25% premium.

Pass necessary journal entries for the above transactions in the books of Shovan Limited. [3 marks]

Solution:

Concept:

- When a business is purchased, assets and liabilities taken over are recorded at their agreed values. Capital reserve is the excess of net assets acquired over purchase consideration.
- Debentures issued at a premium discharge the vendor at their issue price. Their face value is credited to Debentures Account and the excess to Securities Premium Account.

Step 1: Calculate capital reserve and the debentures issued Net assets acquired are Rs $60,00,000 - 10,00,000 = 50,00,000$. The purchase consideration is only Rs 45,00,000, so capital reserve is Rs $50,00,000 - 45,00,000 = 5,00,000$.

$$\text{Issue price per debenture} = 100 + 25 = \text{Rs } 125,$$
$$\text{Number of debentures} = \frac{45,00,000}{125} = 36,000,$$
$$\text{Face value issued} = 36,000 \times 100 = \text{Rs } 36,00,000,$$
$$\text{Securities premium} = 36,000 \times 25 = \text{Rs } 9,00,000.$$

The 10% rate is the annual interest rate; it does not enter the calculation of the issue price or the

number issued.

Step 2: Record the acquisition and settlement **Journal of Shovan Limited**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr.		60,00,000	
	To Sundry Liabilities A/c			10,00,000
	To Swami Limited			45,00,000
	To Capital Reserve A/c			5,00,000
	(Being assets and liabilities taken over and the excess of net assets over purchase consideration credited to capital reserve)			
	Swami Limited Dr.		45,00,000	
	To 10% Debentures A/c			36,00,000
	To Securities Premium A/c			9,00,000
	(Being purchase consideration discharged by issuing 36,000 debentures of Rs 100 each at 25% premium)			

The first entry balances at Rs 60,00,000 and the second at Rs 45,00,000. Swami Limited's account is fully settled because the issue value equals the agreed consideration.

Step 3: Conclusion Capital reserve is Rs 5,00,000. Shovan Limited issues 36,000 debentures, crediting 10% Debentures Account with Rs 36,00,000 and Securities Premium Account with Rs 9,00,000.

Quick Tip to Solve: Divide the purchase consideration by Rs 125, the issue price, rather than by the Rs 100 face value.

20(a). On 1st April, 2022, the capital of the firm of Ashu and Madhav is Rs. 1,50,000. The normal rate of return on capital employed is 10%. Average profits of the firm are Rs. 23,500. Calculate goodwill of the firm based on three years purchase of super profits. [3 marks]

Solution:

Concept:

- Normal profit is the return that a similar business would normally earn on the capital employed: normal profit equals capital employed multiplied by the normal rate of return.
- Super profit is the excess of average profit over normal profit. Under the super-profit method, goodwill equals super profit multiplied by the agreed number of years' purchase.

Step 1: Calculate the normal annual profit Capital employed in the firm is Rs 1,50,000 and the normal rate of return is 10% per annum. Therefore,

$$\text{Normal profit} = \text{Capital employed} \times \frac{\text{Normal rate}}{100}$$
$$= 1,50,000 \times \frac{10}{100} = \text{Rs } 15,000.$$

This is the profit expected from the capital at the normal rate. It is a benchmark return, not the firm's actual average earnings.

Step 2: Determine the excess earnings and their purchase value The firm's given average profit is Rs

23,500. Deduct the normal profit before applying the three years' purchase multiplier:

$$\begin{aligned}\text{Super profit} &= \text{Average profit} - \text{Normal profit}\\ &= 23,500 - 15,000 = \text{Rs } 8,500,\\ \text{Goodwill} &= \text{Super profit} \times \text{Years' purchase}\\ &= 8,500 \times 3 = \text{Rs } 25,500.\end{aligned}$$

Super profit is positive because the firm's average earnings exceed the normal return on its capital. The multiplier applies only to this excess; multiplying the entire average profit would incorrectly include the ordinary return already attributable to capital employed.

Step 3: Conclusion Goodwill of Ashu and Madhav's firm, valued at three years' purchase of super profits, is $\boxed{\text{Rs } 25,500}$.

Quick Tip to Solve: First subtract the Rs 15,000 normal profit from Rs 23,500; multiply only the resulting Rs 8,500 by three.

OR

20(b). Rakshit and Malik are partners in a firm sharing profits and losses in the ratio of 4 : 1. On 1st April, 2021, their capitals were Rs. 1,20,000 and Rs. 80,000 respectively. On 1st December, 2021, they decided that the total capital of the firm should be Rs. 3,00,000 to be contributed by them in the ratio of 2 : 1.

According to the partnership deed, interest on capital is allowed to the partners @ 6% p.a.

Calculate interest on capital to be allowed for the year ending 31st March, 2022. [3 marks]

Solution:

Concept:

- Interest on capital equals capital employed multiplied by the annual rate and time in years; calculate it separately for each partner.
- Use revised capitals from their effective date. The profit-sharing ratio does not determine interest on individual capitals.

Step 1: Determine the capitals and applicable periods The opening capitals of Rakshit and Malik are Rs 1,20,000 and Rs 80,000 respectively. These remain employed from 1st April to 30th November, 2021, a period of eight months. From 1st December, 2021, the total capital of Rs 3,00,000 is contributed in the ratio $2 : 1$:

$$\begin{aligned}\text{Rakshit's revised capital} &= 3,00,000 \times \frac{2}{3} = \text{Rs } 2,00,000,\\ \text{Malik's revised capital} &= 3,00,000 \times \frac{1}{3} = \text{Rs } 1,00,000.\end{aligned}$$

These revised balances apply for four months, from December, 2021, to March, 2022. Thus additional capitals of Rs 80,000 and Rs 20,000 respectively are introduced on 1st December.

Step 2: Calculate each partner's interest at 6% per annum Apply the annual rate separately to the two time periods:

$$\begin{aligned}\text{Rakshit's interest} &= 1,20,000 \times \frac{6}{100} \times \frac{8}{12} + 2,00,000 \times \frac{6}{100} \times \frac{4}{12} \\ &= 4,800 + 4,000 = \text{Rs } 8,800, \\ \text{Malik's interest} &= 80,000 \times \frac{6}{100} \times \frac{8}{12} + 1,00,000 \times \frac{6}{100} \times \frac{4}{12} \\ &= 3,200 + 2,000 = \text{Rs } 5,200.\end{aligned}$$

As a check, interest on the firm's total capital is $2,00,000 \times 6\% \times 8/12 + 3,00,000 \times 6\% \times 4/12 = \text{Rs } 14,000$, equal to the sum of the individual amounts. The $4:1$ profit-sharing ratio is not used in these interest calculations.

Step 3: Conclusion For the year ended 31st March, 2022, interest on capital allowed is $\boxed{\text{Rakshit: Rs } 8,800}$ and $\boxed{\text{Malik: Rs } 5,200}$, totalling Rs 14,000.

Quick Tip to Solve: Split the year at 1st December: use opening capitals for eight months and the new 2:1 capitals for four months.

21. Sandesh Ltd. has an authorised capital of Rs. 30,00,000 divided into equity shares of Rs. 10 each. The company invited applications for issuing 70,000 shares. Applications for 69,000 shares were received. All calls were made and duly received except the first and final call of Rs. 2 per share on 3,000 shares. These shares were forfeited.

(a) Present the 'Share Capital' in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013.

(b) Also prepare 'Notes to Accounts' for the same. [4 marks]

Solution:

Concept:

- Authorised capital is the maximum capital permitted by the memorandum; issued capital is the face value of shares offered for subscription.
- After forfeiture, the forfeited shares are excluded from subscribed capital. The amount already received on those shares is shown separately as shares forfeited under Share Capital until reissue.

Step 1: Calculate subscribed capital and the forfeited amount Of the 70,000 shares offered, 69,000 were subscribed. Since 3,000 shares were forfeited, the remaining fully paid shares are

$$69,000 - 3,000 = 66,000 \text{ shares.}$$

Their paid-up capital is $66,000 \times \text{Rs } 10 = \text{Rs } 6,60,000$. The company had received Rs 8 per share on each forfeited share because the unpaid call was Rs 2 out of the face value of Rs 10. Thus,

$$\text{Shares forfeited amount} = 3,000 \times (10 - 2) = \text{Rs } 24,000.$$

The unpaid Rs 6,000 relates entirely to shares already forfeited, so it is not deducted again from the capital of the 66,000 continuing shares.

Step 2: Present the Balance Sheet extract: part (a) **Balance Sheet of Sandesh Ltd. (extract)**

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	6,84,000

The extract reports the total from Note 1 below under Shareholders' Funds.

Step 3: Prepare Notes to Accounts: part (b) **Note 1: Share Capital**

Particulars	Amount (Rs)
Authorised capital	
3,00,000 equity shares of Rs 10 each	30,00,000
Issued capital	
70,000 equity shares of Rs 10 each	7,00,000
Subscribed and fully paid-up capital	
66,000 equity shares of Rs 10 each	6,60,000
Add: Shares forfeited (amount originally paid on 3,000 shares)	24,000
Total Share Capital	**6,84,000**

There is no subscribed but not fully paid-up capital remaining, because all the defaulting shares have been forfeited. Authorised and issued capital are disclosures and are not added to the subscribed capital total.

Step 4: Conclusion Sandesh Ltd. reports **Share Capital of Rs 6,84,000**, comprising fully paid-up capital of Rs 6,60,000 and the forfeited amount of Rs 24,000. Authorised and issued capital are Rs 30,00,000 and Rs 7,00,000 respectively.

Quick Tip to Solve: Remove the 3,000 forfeited shares from subscribed shares, then add only the Rs 8 per share actually received on them.

22. Sudhir, Deepak and Naveen were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. On 31st March, 2022 their Balance Sheet was as under :

Balance Sheet of Sudhir, Deepak and Naveen as at 31st March, 2022

Liabilities		Amount (Rs)	Assets	Amount (Rs)
Creditors		50,000	Land and Building	2,10,000
General Reserve		1,00,000	Machinery	1,90,000
Loan		1,20,000	Stock	30,000
Capitals:			Investments	1,70,000
Sudhir	1,60,000		Advertisement Suspense A/c	1,20,000
Deepak	1,50,000			
Naveen	1,40,000	4,50,000		
		7,20,000		7,20,000

Sudhir died on 30th June, 2022. The partnership deed provided for the following, on the death of a partner :

(i) Goodwill of the firm was to be valued at $2\frac{1}{2}$ years purchase of average profits of the previous four years which were Rs. 1,80,000.

(ii) Sudhir's share of profit or loss till the date of death was to be calculated on the basis of sales. Sales for the year ended 31st March, 2022 amounted to Rs. 4,00,000 and that from 1st April, 2022 to 30th June, 2022 amounted Rs. 1,50,000. The profit for the year ended 31st March, 2022 was Rs. 1,00,000.

(iii) Interest on capital was to be provided @ 7% p.a.

Prepare Sudhir's capital account to be rendered to his executors. [4 marks]

Solution:

Concept:

- A deceased partner's capital is credited with his share of accumulated reserves, goodwill, profit up to death and interest on capital. His share of accumulated losses is debited.
- Sudhir's old profit share is $2/5$. Profit up to death is estimated using the previous year's profit-to-sales ratio, whereas interest on capital is calculated for the elapsed time.

Step 1: Calculate reserves, accumulated loss and goodwill Sudhir's share of General Reserve is Rs $1,00,000 \times 2/5 =$ Rs $40,000$, credited to his capital. Advertisement Suspense Account is an accumulated loss, so his share, Rs $1,20,000 \times 2/5 =$ Rs $48,000$, is debited.

$$\text{Firm's goodwill} = \text{Rs } 1,80,000 \times 2\tfrac{1}{2} = \text{Rs } 4,50,000,$$

$$\text{Sudhir's share} = \text{Rs } 4,50,000 \times \frac{2}{5} = \text{Rs } 1,80,000.$$

In the absence of a stated change, Deepak and Naveen continue in their relative old ratio $2 : 1$; this is also their gaining ratio. They compensate Sudhir by debits of Rs 1,20,000 and Rs 60,000 respectively to their capital accounts.

Step 2: Calculate profit up to death and interest on capital The previous year's profit margin on sales is

$$\frac{\text{Rs } 1,00,000}{\text{Rs } 4,00,000} \times 100 = 25\%.$$

Therefore, estimated firm profit for 1st April to 30th June, 2022 is Rs $1,50,000 \times 25\% =$ Rs $37,500$. Sudhir's share is Rs $37,500 \times 2/5 =$ Rs $15,000$, credited through Profit and Loss Suspense Account. Interest on his opening capital is allowed for three months:

$$\text{Rs } 1,60,000 \times \frac{7}{100} \times \frac{3}{12} = \text{Rs } 2,800.$$

Sales already relate to the period up to death, so the estimated profit is not multiplied by $3/12$ again.

Step 3: Prepare Sudhir's Capital Account and transfer the amount due **Sudhir's Capital Account (up to 30th June, 2022)**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Advertisement Suspense A/c	48,000	By Balance b/d	1,60,000
To Balance c/d	3,49,800	By General Reserve A/c	40,000
		By Deepak's Capital A/c	1,20,000
		By Naveen's Capital A/c	60,000
		By Profit and Loss Suspense A/c	15,000
		By Interest on Capital A/c	2,800
Total	**3,97,800**	**Total**	**3,97,800**
To Sudhir's Executors' A/c	3,49,800	By Balance b/d	3,49,800
Total	**3,49,800**	**Total**	**3,49,800**

The balance is transferred to Sudhir's Executors' Account on 30th June, 2022, closing his capital account. No payment is recorded because the question gives no payment terms.

Step 4: Conclusion The amount due to Sudhir's executors is **Rs 3,49,800**, calculated as Rs 1,60,000 + Rs 40,000 + Rs 1,80,000 + Rs 15,000 + Rs 2,800 - Rs 48,000.

Quick Tip to Solve: Use sales to estimate Sudhir's profit share, but use three months for interest; deduct Advertisement Suspense as his share of accumulated loss.

23(a). Pass necessary journal entries for the forfeiture and reissue of shares in the following cases :

(i) BCG Limited forfeited 75 shares of Rs. 10 each issued at a premium of Rs. 4 per share for non-payment of allotment money of Rs. 8 per share (including premium). The first and final call of Rs. 4 per share was not made. The forfeited shares were reissued at Rs. 15 per share fully paid.

(ii) Geetika Limited forfeited 1,200 shares of Rs. 50 each issued at par for non-payment of final call of Rs. 10 per share. Out of these, 900 shares were reissued at Rs. 45 per share fully paid-up. [6 marks]

Solution:

Concept:

- On forfeiture, debit Share Capital with the called-up nominal amount, reverse any premium already due but unpaid, and credit Share Forfeiture with capital money actually received.
- On reissue, credit Share Capital with the paid-up nominal amount. A discount on reissue is debited to Share Forfeiture; a premium received on reissue is credited to Securities Premium Reserve.
- Transfer only the forfeiture surplus relating to reissued shares to Capital Reserve. Forfeiture on shares not yet reissued remains in Share Forfeiture.

Step 1: Calculate the amounts for BCG Limited **Working Notes:** The unmade call of Rs 4 is not included in called-up capital. Thus capital called up per share is $10 - 4 = \text{Rs } 6$. Allotment includes Rs 4 capital and Rs 4 premium, so the capital already received per share is $6 - 4 = \text{Rs } 2$.

$$\text{Called-up capital} = 75 \times 6 = \text{Rs } 450,$$
$$\text{Unpaid premium} = 75 \times 4 = \text{Rs } 300,$$
$$\text{Unpaid allotment} = 75 \times 8 = \text{Rs } 600,$$
$$\text{Forfeiture credit} = 75 \times 2 = \text{Rs } 150.$$

On reissue, all 75 shares become fully paid at Rs 10 each. The receipt is $75 \times 15 = \text{Rs } 1,125$; the excess over face value is $75 \times 5 = \text{Rs } 375$. Since reissue is above par, none of the forfeited capital is used to meet a discount.

Step 2: Record the entries in BCG Limited Journal of BCG Limited

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		450	
	Securities Premium Reserve A/c Dr.		300	
	To Share Allotment A/c			600
	To Share Forfeiture A/c			150
	(Being 75 shares forfeited for unpaid allotment, including premium; Rs 6 capital per share called up)			
	Bank A/c Dr.		1,125	
	To Share Capital A/c			750
	To Securities Premium Reserve A/c			375
	(Being 75 forfeited shares reissued at Rs 15 each, fully paid)			
	Share Forfeiture A/c Dr.		150	
	To Capital Reserve A/c			150
	(Being surplus on all reissued shares transferred to Capital Reserve)			

Step 3: Calculate the amounts for Geetika Limited **Working Notes:** All Rs 50 per share has been called up; Rs 40 per share has been received before forfeiture. Therefore, Share Capital is debited by $1,200 \times 50 = \text{Rs } 60,000$, Final Call is credited by $1,200 \times 10 = \text{Rs } 12,000$, and Share Forfeiture is credited by $1,200 \times 40 = \text{Rs } 48,000$.

The 900 shares are reissued at a discount of $50 - 45 = \text{Rs } 5$ per share. Bank receives $900 \times 45 = \text{Rs } 40,500$, and the reissue discount is $900 \times 5 = \text{Rs } 4,500$. The forfeiture amount attributable to these shares is $900 \times 40 = \text{Rs } 36,000$. Hence their surplus is $36,000 - 4,500 = \text{Rs } 31,500$. The remaining $300 \times 40 = \text{Rs } 12,000$ relates to shares not yet reissued.

Step 4: Record the entries in Geetika Limited Journal of Geetika Limited

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		60,000	
	To Share Final Call A/c			12,000
	To Share Forfeiture A/c			48,000
	(Being 1,200 shares forfeited for non-payment of final call)			
	Bank A/c Dr.		40,500	
	Share Forfeiture A/c Dr.		4,500	
	To Share Capital A/c			45,000
	(Being 900 forfeited shares reissued at Rs 45 each, fully paid)			
	Share Forfeiture A/c Dr.		31,500	
	To Capital Reserve A/c			31,500
	(Being surplus relating to 900 reissued shares transferred to Capital Reserve)			

Step 5: Conclusion BCG Limited transfers Rs 150 to Capital Reserve and receives a fresh reissue premium of Rs 375. Geetika Limited transfers Rs 31,500 to Capital Reserve; Rs 12,000 remains in Share Forfeiture for the 300 shares not reissued.

Quick Tip to Solve: For BCG, exclude the uncalled Rs 4 from capital debited on forfeiture. For Geetika, allocate forfeiture to only the 900 reissued shares before deducting their reissue discount.

OR

23(b). Pushkar Limited invited applications for 30,000 shares of Rs. 100 each at 20% premium. The amount per share was payable as under :

On application - Rs. 40 (including Rs. 10 premium)

On allotment - Rs. 30 (including Rs. 10 premium)

On first call - Rs. 30

On second and final call - Balance

Applications were received for 40,000 shares and pro-rata allotment was made to the applicants for 35,000 shares, the remaining applications being refused.

Excess application money was adjusted towards sums due on allotment.

Yogesh, who applied for 700 shares, failed to pay the allotment money and his shares were forfeited immediately after allotment.

First call was made thereafter and all the money due on first call was received. The second and final call was not made.

Pass necessary journal entries for the above transactions in the books of Pushkar Limited. [6 marks]

Solution:

Concept:

- Pro-rata allotment distributes the available shares in the ratio of shares offered to applications accepted. Excess application money is carried forward to allotment; rejected applications are refunded.
- Credit Share Capital only with the nominal component of each instalment. Premium collected or

due is credited separately to Securities Premium Reserve.

- Forfeiture cancels called-up capital and reverses unpaid premium. Capital already received, including excess application adjusted against allotment capital, goes to Share Forfeiture. Subsequent calls apply only to shares still outstanding.

Step 1: Work out the pro-rata allotment and application adjustment **Working Notes:** Applications for 5,000 shares are refused, so the refund is $5,000 \times 40 =$ Rs $2,00,000$. The pro-rata ratio is $30,000 : 35,000 = 6 : 7$. Total application receipts are $40,000 \times 40 =$ Rs $16,00,000$. On the 30,000 shares allotted, application capital is $30,000 \times 30 =$ Rs $9,00,000$ and application premium is $30,000 \times 10 =$ Rs $3,00,000$. Excess application carried to allotment is $(35,000 - 30,000) \times 40 =$ Rs $2,00,000$.

Yogesh receives $700 \times 6/7 = 600$ shares. He paid Rs 28,000, of which Rs 24,000 is required on his allotted shares; his excess is Rs 4,000. Gross allotment due is $600 \times 30 =$ Rs $18,000$, leaving Rs 14,000 unpaid after adjustment. The Rs 4,000 excess is adjusted against the Rs 12,000 allotment capital; hence Rs 8,000 capital and Rs 6,000 premium remain unpaid. Capital received is $600 \times 30 + 4,000 =$ Rs $22,000$. Called-up capital at forfeiture is $600 \times (30 + 20) =$ Rs $30,000$.

Step 2: Record application receipts, adjustment and allotment due Journal of Pushkar Limited

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		16,00,000	
	To Share Application A/c			16,00,000
	(Being application money received for 40,000 shares at Rs 40 each)			
	Share Application A/c Dr.		16,00,000	
	To Share Capital A/c			9,00,000
	To Securities Premium Reserve A/c			3,00,000
	To Share Allotment A/c			2,00,000
	To Bank A/c			2,00,000
	(Being application money transferred, excess adjusted to allotment and rejected applications refunded)			
	Share Allotment A/c Dr.		9,00,000	
	To Share Capital A/c			6,00,000
	To Securities Premium Reserve A/c			3,00,000
	(Being allotment due on 30,000 shares at Rs 30 each, including Rs 10 premium)			

Step 3: Record allotment receipts and the forfeiture Total allotment due is Rs 9,00,000. After adjusting Rs 2,00,000 excess application and deducting Yogesh's unpaid Rs 14,000, the cash received is

$$9,00,000 - 2,00,000 - 14,000 = \text{Rs } 6,86,000.$$

Only his unpaid allotment premium is reversed; the Rs 6,000 premium already received on application is retained. Journal of Pushkar Limited (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		6,86,000	
	To Share Allotment A/c			6,86,000
	(Being allotment money received except Rs 14,000 due from Yogesh, after application adjustment)			
	Share Capital A/c Dr.		30,000	
	Securities Premium Reserve A/c Dr.		6,000	
	To Share Allotment A/c			14,000
	To Share Forfeiture A/c			22,000
	(Being 600 shares of Yogesh forfeited immediately after allotment, with unpaid premium reversed)			

Step 4: Record the first call on the remaining shares After forfeiture, $30,000 - 600 = 29,400$ shares remain. The first call is entirely capital and amounts to $29,400 \times 30 =$ Rs $8,82,000$. All of it is received. The balance instalment would be Rs 20 per share, but it is not called; consequently no second and final call is recorded.

Journal of Pushkar Limited (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr.		8,82,000	
	To Share Capital A/c			8,82,000
	(Being first call of Rs 30 per share made on 29,400 shares)			
	Bank A/c Dr.		8,82,000	
	To Share First Call A/c			8,82,000
	(Being full first-call money received)			

Step 5: Conclusion Yogesh is allotted 600 shares, owes Rs 14,000 on allotment and forfeits Rs 22,000 of capital money. Allotment cash received is Rs 6,86,000; first-call cash received on 29,400 shares is Rs 8,82,000. No second and final call entry is passed.

Quick Tip to Solve: For Yogesh, first convert 700 applications to 600 allotted shares, then adjust Rs 4,000 excess application against allotment. Remove his 600 shares before calculating the first call.

24(a). **Yuv and Veer were partners in a firm sharing profits and losses in the ratio of 3 : 1. Their Balance Sheet as on 31st March, 2022 was as under :**

Balance Sheet of Yuv and Veer as at 31st March, 2022

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	41,000	Plant and Machinery	60,000
General Reserve	80,000	Building	40,000
Outstanding Expenses	12,000	Investments	60,000
Capitals:		Stock	50,000
Yuv 79,000		Debtors 38,000	
Veer 48,000	1,27,000	Less: Provision for Doubtful Debts 4,000	34,000
		Cash	16,000
	2,60,000		2,60,000

They decided to admit Yash in the firm on 1st April, 2022 for 1/4 share in profits on the following terms :

(i) Yash will bring in proportionate capital and Rs. 4,000 as his share of goodwill premium in cash.

(ii) Investments were valued at Rs. 68,000.

(iii) Plant and Machinery was to be depreciated by 10%.

Prepare Revaluation Accounts and Partners' Capital Accounts. [6 marks]

Solution:

Concept:

- Accumulated reserves and revaluation profit belong to the old partners and are credited in their old profit-sharing ratio, here $3 : 1$.
- Goodwill premium is credited to the sacrificing partners. As no different sacrifice is specified, Yuv and Veer sacrifice in their old ratio.
- Proportionate capital is based on the old partners' adjusted capitals, after reserve, revaluation and goodwill adjustments.

Step 1: Working Notes: calculate the adjustments Investments rise by $68,000 - 60,000 = \text{Rs } 8,000$. Depreciation on plant and machinery is $60,000 \times 10/100 = \text{Rs } 6,000$. Thus the net revaluation profit is Rs 2,000, credited to Yuv and Veer as Rs 1,500 and Rs 500 respectively.

The general reserve of Rs 80,000 is distributed as Rs 60,000 to Yuv and Rs 20,000 to Veer. Yash's share of goodwill premium, Rs 4,000, is credited as Rs 3,000 and Rs 1,000 respectively. The premium remains in the business because no withdrawal is specified.

Yash receives $1/4$ of the future profits, leaving $3/4$ for the old partners. Their future shares are $(3/4)(3/4) = 9/16$ and $(1/4)(3/4) = 3/16$, giving the new ratio $9 : 3 : 4$. Their sacrifices are $3/16$ and $1/16$, confirming the ratio $3 : 1$.

Step 2: Prepare the Revaluation Account Revaluation Account as on 1st April, 2022

Dr.			Cr.
Particulars	Rs	Particulars	Rs
To Plant and Machinery A/c	6,000	By Investments A/c	8,000
To Yuv's Capital A/c (profit)	1,500		
To Veer's Capital A/c (profit)	500		
Total	8,000	Total	8,000

The account is closed by transferring its entire profit to the old partners; no revaluation balance remains to carry forward.

Step 3: Working Notes: determine Yash's capital The adjusted capitals of the existing partners are:

$$\text{Yuv} = 79,000 + 60,000 + 1,500 + 3,000 = \text{Rs } 1,43,500,$$
$$\text{Veer} = 48,000 + 20,000 + 500 + 1,000 = \text{Rs } 69,500.$$

Their combined Rs 2,13,000 represents $3/4$ of the firm's capital. Therefore,

$$\text{Total capital} = 2,13,000 \times \frac{4}{3} = \text{Rs } 2,84,000,$$
$$\text{Yash's capital} = 2,84,000 \times \frac{1}{4} = \text{Rs } 71,000.$$

Yash brings Rs 75,000 in cash in all: Rs 71,000 towards capital and Rs 4,000 towards goodwill. Only Rs 71,000 is credited to his own Capital Account.

Step 4: Prepare the Partners' Capital Accounts Partners' Capital Accounts as on 1st April, 2022

Dr.							Cr.
Particulars	Yuv Rs	Veer Rs	Yash Rs	Particulars	Yuv Rs	Veer Rs	Yash Rs
To Balance c/d	1,43,500	69,500	71,000	By Balance b/d	79,000	48,000	—
				By General Reserve	60,000	20,000	—
				By Revaluation A/c	1,500	500	—
				By Premium for Goodwill A/c	3,000	1,000	—
				By Cash A/c	—	—	71,000
Total	1,43,500	69,500	71,000	Total	1,43,500	69,500	71,000
				By Balance b/d	1,43,500	69,500	71,000

Step 5: Conclusion Revaluation profit is Rs 2,000. Closing capitals are Yuv Rs 1,43,500, Veer Rs 69,500 and Yash Rs 71,000. Yash brings total cash of Rs 75,000, including goodwill premium.

Quick Tip to Solve: Adjust the old partners' capitals for reserve, revaluation and retained goodwill first; multiply their combined capital by $\frac{1/4}{3/4} = 1/3$ to find Yash's capital.

OR

24(b). Reyansh, Aayushman and Sabhya were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Their Balance Sheet as at 31st March, 2022 was as under :

Balance Sheet of Reyansh, Aayushman and Sabhya as at 31st March, 2022

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Sundry Creditors	2,20,000	Cash	1,60,000
General Reserve	1,20,000	Debtors 1,80,000	
Capitals:		Less: Provision for Doubtful Debts 20,000	1,60,000
Reyansh 6,00,000		Stock	2,00,000
Aayushman 5,00,000		Machinery	6,00,000
Sabhya 3,00,000	14,00,000	Building	4,00,000
		Patents	1,20,000
		Profit and Loss A/c	1,00,000
	17,40,000		17,40,000

Reyansh retired on the above date and it was agreed that :

(i) Goodwill of the firm on Reyansh's retirement was valued at Rs. 12,00,000.

(ii) Aayushman and Sabhya will share future profits in the ratio of 2 : 3.

(iii) An unrecorded creditor of Rs. 40,000 will be taken into account.

(iv) Debtors of Rs. 30,000 will be written off as bad debts.

(v) Amount payable to Reyansh was to be transferred to his loan amount.

Pass necessary journal entries for the above transactions in the books of the firm. [6 marks]

Solution:

Concept:

- General reserve and accumulated losses are allocated among all existing partners in their old ratio, $5:3:2$.
- The retiring partner is compensated for goodwill by the continuing partners in their gaining ratio: new share minus old share.
- Existing provision for doubtful debts absorbs bad debts first. Only the excess bad debts and the new unrecorded liability reduce revaluation profit.

Step 1: Working Notes: compute gains and goodwill Aayushman's gain is $2/5 - 3/10 = 1/10$, and Sabhya's gain is $3/5 - 2/10 = 4/10$. Hence their gaining ratio is $1:4$. Reyansh's share of goodwill is

$$12,00,000 \times \frac{5}{10} = \text{Rs } 6,00,000.$$

Aayushman compensates Rs 1,20,000 and Sabhya compensates Rs 4,80,000. Goodwill is adjusted directly through Capital Accounts; no Goodwill Account is raised.

The general reserve is distributed as Rs 60,000, Rs 36,000 and Rs 24,000. The debit balance of Profit and Loss Account is an accumulated loss, charged as Rs 50,000, Rs 30,000 and Rs 20,000 to Reyansh, Aayushman and Sabhya respectively.

Step 2: Journalise reserves, accumulated loss and goodwill Journal of the Firm (31st March, 2022)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-22	General Reserve A/c Dr. To Reyansh's Capital A/c To Aayushman's Capital A/c To Sabhya's Capital A/c (Being reserve distributed in the old ratio)		1,20,000	 60,000 36,000 24,000
	Reyansh's Capital A/c Dr. Aayushman's Capital A/c Dr. Sabhya's Capital A/c Dr. To Profit and Loss A/c (Being accumulated loss written off in the old ratio)		50,000 30,000 20,000	 1,00,000
	Aayushman's Capital A/c Dr. Sabhya's Capital A/c Dr. To Reyansh's Capital A/c (Being Reyansh's goodwill adjusted in the gaining ratio of 1:4)		1,20,000 4,80,000	 6,00,000

Step 3: Record revaluation adjustments and transfer the loss The Rs 30,000 bad debts exceed the existing provision of Rs 20,000 by Rs 10,000. Thus the additional loss charged to Revaluation Account is only Rs 10,000. The unrecorded creditor adds another Rs 40,000, so the revaluation loss is Rs 50,000. It is debited to the old partners in the ratio $5:3:2$, as Rs 25,000, Rs 15,000 and Rs 10,000 respectively.

Journal of the Firm (continued; 31st March, 2022)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-22	Revaluation A/c Dr. To Creditors A/c (Being unrecorded creditor recognised)		40,000	 40,000
	Provision for Doubtful Debts A/c Dr. Revaluation A/c Dr. To Debtors A/c (Being bad debts written off against provision and the excess charged to revaluation)		20,000 10,000	 30,000
	Reyansh's Capital A/c Dr. Aayushman's Capital A/c Dr. Sabhya's Capital A/c Dr. To Revaluation A/c (Being revaluation loss transferred in the old ratio)		25,000 15,000 10,000	 50,000

Step 4: Transfer the retiring partner's balance to loan Reyansh's amount due is obtained after all adjustments:

$$\begin{aligned}\text{Amount due} &= 6,00,000 + 60,000 - 50,000 \\ &\quad + 6,00,000 - 25,000 \\ &= \text{Rs } 11,85,000.\end{aligned}$$

The agreement requires transfer to his Loan Account, so there is no cash payment entry.

Journal of the Firm (continued; 31st March, 2022)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-22	Reyansh's Capital A/c Dr. To Reyansh's Loan A/c (Being amount due on retirement transferred to loan)		11,85,000	 11,85,000

Step 5: Conclusion Aayushman and Sabhya gain in the ratio 1:4 and compensate Reyansh for goodwill of Rs 6,00,000. Revaluation loss is Rs 50,000. Reyansh's final amount due, Rs 11,85,000, is transferred to his Loan Account.

Quick Tip to Solve: Use the existing Rs 20,000 provision before charging the Rs 30,000 bad debts to revaluation; charging all Rs 30,000 again would understate Reyansh's loan by Rs 10,000.

25. Aadish and Shreyansh were partners in a firm sharing profits and losses in the ratio of 3 : 2. On 31st March, 2022 their Balance Sheet was as follows :

Balance Sheet of Aadish and Shreyansh as at 31st March, 2022

Liabilities		Amount (Rs)	Assets		Amount (Rs)
Creditors		90,000	Cash at Bank		20,000
Mrs. Aadish's Loan		30,000	Stock		24,000
Shreyansh's Loan		30,000	Investments		30,000
General Reserve		45,000	Debtors	20,000	
			Less : Provision for Doubtful Debts	2,000	18,000
Capitals :					
Aadish	1,00,000		Plant		1,00,000
Shreyansh	97,000	1,97,000	Advertisement Suspense account		2,00,000
		3,92,000			3,92,000

The firm was dissolved on 31st March, 2022 on the following terms :

(i) Debtors realised Rs. 17,000 and plant realised 10% more than the book value.

(ii) Aadish promised to pay Mrs. Aadish's loan and took away stock at Rs. 20,000.

(iii) Shreyansh took away half of the investments at a discount of 10%. Remaining investments realised Rs. 4,500.

(iv) Creditors were paid off at a discount of 10%.

(v) Expenses of realisation amounted to Rs. 7,000.

Prepare Realisation Account. [6 marks]

Solution:

Concept:

- Realisation Account records the transfer and disposal of real assets and the settlement of outside liabilities. Transfer debtors at their gross value and credit the provision separately.
- An asset taken over by a partner credits Realisation and debits that partner's capital. An outside liability assumed by a partner debits Realisation and credits the partner's capital.
- Cash at Bank, partners' loans, reserves and fictitious assets do not pass through Realisation Account. Transfer the resulting realisation profit or loss to the partners in their profit-sharing ratio.

Step 1: Identify the amounts transferred Stock Rs 24,000, investments Rs 30,000, gross debtors Rs 20,000 and plant Rs 1,00,000 are transferred to the debit of Realisation Account, totalling Rs 1,74,000. Creditors Rs 90,000, Mrs. Aadish's loan Rs 30,000 and provision for doubtful debts Rs 2,000 are transferred to its credit, totalling Rs 1,22,000. Mrs. Aadish's loan is an outside liability; Shreyansh's loan is a partner's loan and is settled separately. The bank balance is retained in Bank Account. General reserve and Advertisement Suspense Account are transferred directly to partners' capital accounts, so neither enters this account.

Step 2: Calculate realisations and settlements **Working Notes**

$$\text{Plant realised} = 1,00,000 \times 110\% = \text{Rs } 1,10,000,$$
$$\text{Investments taken by Shreyansh} = 30,000 \times \tfrac{1}{2} \times 90\% = \text{Rs } 13,500,$$
$$\text{Creditors paid} = 90,000 \times 90\% = \text{Rs } 81,000.$$

Cash received for assets is Rs 17,000 from debtors, Rs 1,10,000 from plant and Rs 4,500 from the remaining investments, totalling Rs 1,31,500. Credit Realisation for these receipts, for stock taken by Aadish at Rs 20,000 and for investments taken by Shreyansh at Rs 13,500. Debit Realisation for creditors paid, realisation expenses Rs 7,000 and Mrs. Aadish's loan Rs 30,000 assumed by Aadish.

Step 3: Prepare the Realisation Account **Realisation Account**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Stock	24,000	By Creditors	90,000
To Investments	30,000	By Mrs. Aadish's Loan	30,000
To Debtors	20,000	By Provision for Doubtful Debts	2,000
To Plant	1,00,000	By Bank: Debtors	17,000
To Aadish's Capital (loan assumed)	30,000	By Bank: Plant	1,10,000
To Bank: Creditors	81,000	By Bank: Investments	4,500
To Bank: Expenses	7,000	By Aadish's Capital (stock)	20,000
		By Shreyansh's Capital (investments)	13,500
		By Aadish's Capital (loss)	3,000
		By Shreyansh's Capital (loss)	2,000
Total	2,92,000	Total	2,92,000

Before transferring the loss, the debit total is Rs 2,92,000 and the credit total is Rs 2,87,000. The shortfall of Rs 5,000 is credited to Realisation Account by debiting Aadish's capital with Rs 3,000 and Shreyansh's capital with Rs 2,000, in the ratio $3:2$. The account is thereby closed; no balance is carried forward on dissolution.

Step 4: Conclusion The realisation loss is Rs $5,000$, borne by Aadish and Shreyansh as Rs 3,000 and Rs 2,000 respectively. Both sides of Realisation Account total Rs 2,92,000.

Quick Tip to Solve: Exclude the Rs 2,00,000 Advertisement Suspense balance and the partner's loan from Realisation; include Mrs. Aadish's loan because it is owed to an outsider.

26. Pass necessary journal entries for the following transactions relating to the issue of debentures :

(a) Gagan Limited issued Rs. 10,00,000, 9% Debentures of Rs. 100 each at a premium of 5%, redeemable at par after four years.

(b) KS Limited issued Rs. 10,00,000, 10% Debentures of Rs. 100 each at par, redeemable at 10% premium after four years.

(c) QR Limited issued Rs. 10,00,000, 9% Debentures of Rs. 100 each at a discount of 10%, redeemable at a premium of 5% after five years. [6 marks]

Solution:

Concept:

- Credit Debentures Account with the nominal value issued. Debit Bank Account with actual issue proceeds. An issue premium is credited to Securities Premium Account.
- Recognise premium payable on redemption when debentures are issued. Debit Loss on Issue of Debentures with the issue discount plus the redemption premium, and credit Premium on Redemption of Debentures for the future premium liability.

Step 1: Record Gagan Limited's issue at premium **Working Notes:** Nominal value is Rs 10,00,000, comprising $10,00,000/100 = 10,000$ debentures. Issue premium is $10,00,000 \times 5\% =$ Rs $50,000$, so bank receives Rs 10,50,000. Redemption at par creates no redemption premium and no loss on issue.

Journal of Gagan Limited

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		10,50,000	
	To 9% Debentures A/c			10,00,000
	To Securities Premium A/c			50,000
	(Being 10,000 debentures of Rs 100 each issued at 5% premium, redeemable at par after four years)			

Step 2: Record KS Limited's issue at par Issue proceeds equal the nominal value, Rs 10,00,000. Redemption premium is $10,00,000 \times 10\% =$ Rs $1,00,000$. This future payment is recognised as a liability at issue, with the corresponding debit to Loss on Issue of Debentures. Total debits and total credits are each Rs 11,00,000.

Journal of KS Limited

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		10,00,000	
	Loss on Issue of Debentures A/c Dr.		1,00,000	
	To 10% Debentures A/c			10,00,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(Being 10,000 debentures of Rs 100 each issued at par, redeemable at 10% premium after four years)			

Step 3: Record QR Limited's issue at discount The issue discount is $10,00,000 \times 10\% =$ Rs $1,00,000$, so actual cash proceeds are Rs 9,00,000. Redemption premium is $10,00,000 \times 5\% =$ Rs $50,000$. The total loss recognised on issue is therefore $1,00,000 + 50,000 =$ Rs $1,50,000$. Total debits and total credits are each Rs 10,50,000.

Journal of QR Limited

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		9,00,000	
	Loss on Issue of Debentures A/c Dr.		1,50,000	
	To 9% Debentures A/c			10,00,000
	To Premium on Redemption of Debentures A/c			50,000
	(Being 10,000 debentures of Rs 100 each issued at 10% discount, redeemable at 5% premium after five years)			

The stated 9% and 10% rates are annual interest rates; they do not determine the issue price or redemption premium. These entries record issue only, so no payment on future redemption or annual interest entry is required here.

Step 4: Conclusion Gagan Limited receives Rs 10,50,000 and records securities premium of Rs 50,000. KS Limited receives Rs 10,00,000 and records loss on issue of Rs 1,00,000. QR Limited receives Rs 9,00,000 and records loss on issue of Rs 1,50,000.

Quick Tip to Solve: Keep three figures separate: Bank uses the issue price, Debentures uses face value, and loss on issue includes both discount and redemption premium.

Part B (20 marks)

OPTION I (Analysis of Financial Statements)

27(i). Which of the following equations is correct : [1 mark]

(a) Cost of Revenue from Operations = Revenue from Operations + Gross Profit

(b) Cost of Revenue from Operations = Opening Inventory – Net Purchases + Direct Expenses – Closing Inventory

(c) Cost of Revenue from Operations = Opening Inventory + Closing Inventory

(d) Cost of Revenue from Operations = Revenue from Operations – Gross Profit

Correct Answer: (d) Cost of Revenue from Operations = Revenue from Operations – Gross Profit

Solution:

Concept:

- Gross profit is the excess of revenue from operations over the cost of revenue from operations.
- Cost of revenue from operations includes opening inventory, net purchases and direct expenses, less closing inventory.

Step 1: Rearrange the gross-profit relation Start with Gross Profit = Revenue from Operations − Cost of Revenue from Operations. Moving cost to the left and gross profit to the right gives cost as revenue from operations less gross profit. This is exactly the relation stated in option (d).

Step 2: Check the other equations Option (a) adds gross profit to revenue, whereas profit must be deducted to obtain cost. Option (b) incorrectly subtracts net purchases: purchases increase the cost of goods available for sale. Option (c) adds closing inventory and leaves out purchases and direct expenses; closing inventory must instead be deducted because those goods remain unsold.

Step 3: Conclusion Cost of Revenue from Operations = Revenue from Operations – Gross Profit. Hence, the correct option is (d).

Quick Tip to Solve: Start from sales minus cost equals gross profit; rearranging this single identity avoids confusing the signs.

OR

27(ii). Which of the following is a tool of Analysis of Financial Statements :

(i) Cash Flow Statement

(ii) Statement of Profit and Loss

(iii) Notes to Accounts

(iv) Balance Sheet

Choose the correct option : [1 mark]

(A) (i)

(B) (i) and (ii)

(C) (ii)

(D) (i), (ii) and (iv)

Correct Answer: (A) (i)

Solution:

Concept:

- Financial analysis uses techniques to interpret financial information and assess performance or financial position.
- Cash flow analysis is a tool of analysis; the Balance Sheet, Statement of Profit and Loss and Notes to Accounts provide information for such analysis.

Step 1: Identify the analytical tool A Cash Flow Statement classifies changes in cash and cash equivalents into operating, investing and financing activities. It helps explain the sources and uses of cash, so statement (i) is a tool of financial analysis.

Step 2: Eliminate the other combinations Statement (ii), the Statement of Profit and Loss, and statement (iv), the Balance Sheet, are basic financial statements. Statement (iii), Notes to Accounts, supplements those statements. Therefore option (B) incorrectly includes (ii), option (C) selects only a basic statement, and option (D) incorrectly includes both (ii) and (iv).

Step 3: Conclusion Only (i), Cash Flow Statement, is the listed tool of analysis. Hence, the correct option is (A).

Quick Tip to Solve: Distinguish an analytical tool such as cash flow analysis from the financial statements whose information is being analysed.

28. From the following information, the 'Proprietor's funds' are :

Current Assets Rs. 20,00,000

Non-Current Assets Rs. 40,00,000

Long Term Borrowings Rs. 25,00,000

Proprietary Ratio 25% [1 mark]

(A) Rs. 10,00,000

(B) Rs. 14,00,000

(C) Rs. 24,00,000

(D) Rs. 15,00,000

Correct Answer: (D) Rs. 15,00,000

Solution:

Concept:

- Proprietary ratio expresses proprietors' funds as a proportion of total assets: Proprietary Ratio = Proprietors' Funds/Total Assets.
- Total assets include both current and non-current assets. Borrowings are outside liabilities and are not deducted from the denominator of this ratio.

Step 1: Find total assets Add the two classes of assets given in the question:

$$\text{Total Assets} = \text{Rs } 20,00,000 + \text{Rs } 40,00,000 = \text{Rs } 60,00,000.$$

Step 2: Apply the proprietary ratio The proprietors finance 25% of total assets. Thus,

$$\text{Proprietors' Funds} = \frac{25}{100} \times \text{Rs } 60,00,000 = \text{Rs } 15,00,000.$$

The long-term borrowing figure is not needed because the ratio directly determines equity. The amounts in (A), (B) and (C), when divided by Rs 60,00,000, do not give the stated 25%.

Step 3: Conclusion Proprietors' funds are Rs 15,00,000. Hence, the correct option is (D).

Quick Tip to Solve: First add both asset categories, then multiply by the proprietary ratio; do not subtract borrowings from total assets.

29(i). 'Dividend paid' by a financial enterprise will come under which kind of activity from the following while preparing cash flow statement : [1 mark]

(A) Operating Activity

(B) Investing Activity

(C) Financing Activity

(D) Both (b) and (c)

Correct Answer: (C) Financing Activity

Solution:

Concept:

- Financing cash flows relate to the provision of capital and the return paid to the providers of that capital.
- Dividend paid is classified as a financing cash outflow for both financial and non-financial enterprises under the CBSE treatment of cash flow statements.

Step 1: Identify the nature of the payment A dividend is a distribution of profit to shareholders, who supply equity finance to the enterprise. Paying it is therefore a cash return on owners' capital and belongs to financing activities.

Step 2: Distinguish dividend paid from investment income The fact that the payer is a financial enterprise does not change this classification. Dividend paid is not cash spent on acquiring an investment, so investing activity is inappropriate. It is also not an operating expense paid to earn revenue. Thus (A) and (B) are incorrect, and (D) is incorrect because it includes investing activity as well.

Step 3: Conclusion Dividend paid by a financial enterprise is a financing activity. Hence, the correct option is (C).

Quick Tip to Solve: For dividend paid, focus on the shareholder receiving a return on capital: classify the payment as financing for either enterprise type.

OR

29(ii). 'Interest received on investments' will come under which type of activity from the following, while preparing cash flow statement of a non-financial enterprise : [1 mark]

(A) Investing Activity

(B) Financing Activity

(C) Operating Activity

(D) Both (b) and (c)

Correct Answer: (A) Investing Activity

Solution:

Concept:

- Investing activities include the acquisition and disposal of investments and the cash returns earned from them by a non-financial enterprise.
- For a non-financial enterprise, interest received on investments is classified as an investing cash inflow; financing activities concern capital raised or repaid.

Step 1: Relate the receipt to its source The enterprise receives interest because it has invested funds. Since it is a non-financial enterprise, earning interest on such investments is treated separately from its principal revenue-producing operations and is shown under investing activities.

Step 2: Check the remaining alternatives Option (B) is incorrect because the receipt neither raises owners' capital nor represents borrowing. Option (C) does not apply to this investment income of a non-financial enterprise. Option (D), which combines financing and operating activities, consequently also fails to give the required classification.

Step 3: Conclusion Interest received on investments is an investing activity. Hence, the correct option is (A).

Quick Tip to Solve: Underline 'non-financial enterprise': its interest received on investments goes to investing activities as a cash inflow.

30. Which of the following transactions are shown under financing activities while preparing cash flow statement :

(i) Issue of Equity Shares

(ii) Cash Received from Debtors

(iii) Redemption of Debentures

(iv) Cash Paid Against Trade Payables

Choose the correct option : [1 mark]

(A) (i)

(B) (i) and (ii)

(C) (i) and (iii)

(D) (i), (ii) and (iv)

Correct Answer: (C) (i) and (iii)

Solution:

Concept:

- Financing activities change the size or composition of owners' capital and borrowings of an enterprise.
- Cash collections from customers and payments to suppliers ordinarily arise from the principal revenue-producing operations and are operating activities.

Step 1: Classify the capital transactions Transaction (i), issue of equity shares for cash, brings in owners' capital and is a financing inflow. Transaction (iii), redemption of debentures, repays borrowed capital and is a financing outflow. Both therefore belong under financing activities.

Step 2: Classify the trading transactions Transaction (ii), cash received from debtors, is collection of trade receivables and is an operating inflow. Transaction (iv), cash paid against trade payables, settles operating purchases and is an operating outflow. Option (A) omits redemption of debentures, while (B) and (D) incorrectly include operating transactions.

Step 3: Conclusion Financing activities comprise (i) and (iii). Hence, the correct option is (C).

Quick Tip to Solve: Separate capital providers from trading parties: shareholders and debentureholders indicate financing; debtors and trade creditors indicate operating cash flows.

31. Classify the following items under major heads and sub-heads (if any) in the Balance Sheet of a company as per Schedule III, Part I of the Companies Act, 2013 :

(a) Licenses and Franchise

(b) Loans Repayable on Demand

(c) Accrued Income [3 marks]

Solution:

Concept:

- Schedule III classifies assets and liabilities into current and non-current categories. The appropriate sub-head is determined by the nature of each item.
- Intangible assets are identifiable assets without physical substance. Borrowings repayable on demand are current liabilities, and accrued income represents income earned but not yet received.

Step 1: Classify licenses and franchise Licenses and franchise confer rights that are used in the business over time but have no physical substance. They are therefore intangible fixed assets under the major head Non-current Assets; they are not inventories or tangible assets.

Step 2: Classify the demand loan and accrued income A loan repayable on demand can be called for repayment by the lender without a long-term waiting period. It belongs under Current Liabilities, with the sub-head Short-term Borrowings. Accrued income is already earned, although the cash is still receivable. It is shown under Current Assets as Other Current Assets; it is neither income received in advance nor a loan granted to another party.

Step 3: Present the major heads and sub-heads Classification under Schedule III, Part I

Item	Major head	Sub-head
(a) Licenses and Franchise	Non-current Assets	Fixed Assets: Intangible Assets
(b) Loans Repayable on Demand	Current Liabilities	Short-term Borrowings
(c) Accrued Income	Current Assets	Other Current Assets

Step 4: Conclusion Licenses and franchise are intangible non-current assets; demand loans are short-term borrowings under current liabilities; accrued income is an other current asset.

Quick Tip to Solve: Use the key words: a license is a non-physical right, 'on demand' means current borrowing, and 'accrued' means earned but still receivable.

32. 'It is a technique which involves regrouping of data by application of arithmetical relationships.' Identify the technique and state its two advantages. [3 marks]

Solution:

Concept:

- Ratio analysis expresses meaningful arithmetical relationships between related accounting figures. A ratio may be stated as a proportion, percentage or number of times.
- Relating figures makes financial information easier to interpret; useful ratios examine liquidity, solvency, operating efficiency and profitability.

Step 1: Identify the technique The technique is **Ratio Analysis**. It regroups related financial-statement data and expresses their relationship mathematically. For example, relating current assets to current liabilities gives the current ratio. This relationship conveys information about short-term liquidity that either absolute figure alone cannot adequately convey.

Step 2: Explain the advantage of understanding financial position **Simplifies and helps understand financial statements:** Ratios condense large accounting figures into meaningful relationships. They help management and other users assess the firm's liquidity, long-term solvency and profitability. For instance, a liquidity ratio assists in judging the ability to meet current obligations, while a profit ratio relates earnings to the relevant sales or investment base.

Step 3: Explain the advantage of comparison **Facilitates comparisons:** Ratios can be compared with the same firm's ratios for earlier years, with planned targets, or with comparable firms using consistent accounting bases. Because they express relative relationships, they reduce the difficulty caused by differences in business size. Such comparisons reveal trends, strengths and weaknesses and help management decide where corrective action is needed.

Step 4: Conclusion The technique is Ratio Analysis. Its two advantages are easier interpretation of financial statements and meaningful comparisons across periods or comparable firms.

Quick Tip to Solve: The clue is 'arithmetical relationships': name Ratio Analysis, then explain one interpretation benefit and one comparison benefit.

33(i). Calculate Gross Profit Ratio from the following information :

Inventory Turnover Ratio : 6 times

Average Inventory : Rs. 4,00,000

Goods are sold at a profit of 25% on cost [4 marks]

Solution:

Concept:

- Inventory Turnover Ratio measures how often average inventory is converted into sales at cost: $\text{Inventory Turnover Ratio} = \dfrac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$.
- Gross Profit is Revenue from Operations less Cost of Revenue from Operations. Gross Profit Ratio uses sales as its base: $\text{Gross Profit Ratio} = \dfrac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$.
- A profit of 25% on cost is a mark-up. It must be converted into a percentage of sales before stating the Gross Profit Ratio.

Step 1: Calculate Cost of Revenue from Operations Multiply the Inventory Turnover Ratio by Average Inventory. The turnover ratio is based on cost, so the product gives the cost of goods sold, rather than sales revenue.

$$\begin{aligned}\text{Cost of Revenue from Operations} &= 6 \times \text{Rs } 4,00,000 \\ &= \text{Rs } 24,00,000.\end{aligned}$$

Step 2: Calculate Gross Profit and sales Goods are sold at a profit of 25% on cost. Therefore, apply the

percentage to Rs 24,00,000, then add the resulting profit to cost to obtain Revenue from Operations.

$$\begin{aligned}\text{Gross Profit} &= \text{Rs } 24,00,000 \times \frac{25}{100}\\ &= \text{Rs } 6,00,000,\\ \text{Revenue from Operations} &= \text{Rs } 24,00,000 + \text{Rs } 6,00,000\\ &= \text{Rs } 30,00,000.\end{aligned}$$

Step 3: Express Gross Profit as a percentage of sales Divide Gross Profit by Revenue from Operations. Using cost again in the denominator would merely repeat the given mark-up and would not calculate the required ratio.

$$\text{Gross Profit Ratio} = \frac{6,00,000}{30,00,000} \times 100 = 20\%.$$

The figures reconcile because sales of Rs 30,00,000 less cost of Rs 24,00,000 give Gross Profit of Rs 6,00,000.

Step 4: Conclusion The **Gross Profit Ratio is** 20%. Gross Profit is Rs 6,00,000 and Revenue from Operations is Rs 30,00,000.

Quick Tip to Solve: For a profit of 25% on cost, take cost as 100 and sales as 125; the sales-based profit percentage is $25/125 \times 100 = 20\%$.

OR

33(ii). The Current Ratio of a company is 2 : 1. State giving reasons, which of the following transactions would improve, reduce or not change the ratio :

(a) Purchased goods on credit Rs. 40,000

(b) Sale of furniture of Rs. 8,000 at a loss of Rs. 2,000

(c) Cash received from trade receivables Rs. 15,000

(d) Issued equity shares Rs. 6,00,000 [4 marks]

Solution:

Concept:

- Current Ratio is Current Assets/Current Liabilities. Given a ratio of $2 : 1$, let original Current Liabilities be Rs L and Current Assets be Rs $2L$, where $L > 0$.
- Assess each transaction independently against the original ratio. When the ratio exceeds $1 : 1$, adding an equal amount to Current Assets and Current Liabilities reduces the ratio towards $1 : 1$.
- Cash, inventory and trade receivables are Current Assets. Furniture is a non-current asset, while equity share capital is shareholders' funds, not a Current Liability.

Step 1: Assess the credit purchase of goods (a) Inventory increases by Rs 40,000 and trade payables

increase by Rs 40,000. Thus both Current Assets and Current Liabilities rise equally.

$$\text{New Current Ratio} = \frac{2L + 40,000}{L + 40,000} = 2 - \frac{40,000}{L + 40,000} < 2.$$

The Current Ratio therefore **reduces**. Equal additions do not preserve a ratio that initially exceeds $1 : 1$.

Step 2: Assess the sale of furniture at a loss (b) Cash proceeds are Rs $8,000$ − Rs $2,000$ = Rs $6,000$. Current Assets increase by Rs 6,000, while Current Liabilities remain unchanged. The removal of furniture does not reduce Current Assets because furniture is a non-current asset; the loss reduces profit, not Current Liabilities.

$$\text{New Current Ratio} = \frac{2L + 6,000}{L} = 2 + \frac{6,000}{L} > 2.$$

The Current Ratio therefore **improves**.

Step 3: Assess cash collected from trade receivables (c) Cash increases by Rs 15,000 and trade receivables decrease by Rs 15,000. This is an exchange between two Current Assets, so total Current Assets remain unchanged. Current Liabilities also remain unchanged.

$$\text{New Current Ratio} = \frac{2L + 15,000 - 15,000}{L} = 2.$$

The Current Ratio therefore **does not change** and remains $2 : 1$.

Step 4: Assess the issue of equity shares (d) The issue brings in cash of Rs 6,00,000, increasing Current Assets by that amount. Equity share capital increases, but it is not a Current Liability; Current Liabilities remain unchanged.

$$\text{New Current Ratio} = \frac{2L + 6,00,000}{L} = 2 + \frac{6,00,000}{L} > 2.$$

The Current Ratio therefore **improves**.

Step 5: Conclusion The effects on the Current Ratio are: **(a) Reduces; (b) Improves; (c) No change; (d) Improves.**

Quick Tip to Solve: First classify each affected account as a Current Asset, Current Liability or neither. For the furniture sale, use the Rs 6,000 proceeds, not its Rs 8,000 book value.

34. Read the following hypothetical text and answer the given questions on the basis of the same.

In 2011, two young Indian entrepreneurs, Vaishali Bhatia and Vivek Bhatia decided to start an online auto portal. At that time, there were no major players in the market and they saw an opportunity to fill the gap. They used a user-friendly website and mobile app which made it easy for users to research and buy cars. It was converted into a company 'Car Easy Ltd.' in 2018.

From the following Balance Sheet of the company as on 31st March, 2022, calculate 'Cash Flows From Operating Activities'.

Balance Sheet of 'Car Easy Ltd' as at 31st March, 2022

Particulars	Note No.	31.3.2022 (Rs.)	31.3.2021 (Rs.)
I - Equity and Liabilities :			
1. Shareholders' Funds			
(a) Share Capital		9,00,000	3,00,000
(b) Reserves and Surplus	1	75,000	3,60,000
2. Non-Current Liabilities			
Long-term Borrowings	2	2,40,000	1,80,000
3. Current Liabilities			
(a) Trade Payables		18,000	60,000
(b) Short-term Provisions	3	2,04,000	2,10,000
Total		14,37,000	11,10,000
II - Assets :			
1. Non-Current Assets			
Fixed Assets	4	10,08,000	5,76,000
2. Current Assets			
(a) Inventories		3,54,000	3,87,000
(b) Cash and Cash Equivalents		75,000	1,47,000
Total		14,37,000	11,10,000

Notes to Accounts :

Note No.	Particulars	31.3.2022 (Rs.)	31.3.2021 (Rs.)
1	Reserve and Surplus Surplus i.e. Balance in Statement of Profit and Loss	75,000	3,60,000
		75,000	3,60,000
2	Long-term Borrowings 10% Debentures	2,40,000	1,80,000
		2,40,000	1,80,000
3	Short-term Provisions Provision for Tax	2,04,000	2,10,000
		2,04,000	2,10,000
4	Fixed Assets Machinery Accumulated Depreciation	 11,52,000 (1,44,000)	 6,45,000 (69,000)
	Total	10,08,000	5,76,000

Additional Information :

(i) 10% Debentures were issued on 31st March, 2021.

(ii) Tax of Rs. 80,000 was paid during the year. [6 marks]

Solution:

Concept:

- The indirect method starts with net profit before tax and adjusts non-cash expenses, financing expenses and changes in operating working capital.

- Tax paid is deducted after cash generated from operations. A tax provision is not treated as an ordinary operating current liability when tax is shown separately.
- Depreciation is added back because it is non-cash; debenture interest is added back because its payment is a financing cash flow.

Step 1: Calculate the tax expense and loss before tax **Working Notes**

With no dividend or other appropriation specified, the change in the Statement of Profit and Loss is the loss after tax:

$$\text{Loss after tax} = 3,60,000 - 75,000 = \text{Rs } 2,85,000.$$

The tax provision changes because of the tax expense recognised and the payment made during the year. Therefore,

$$\begin{aligned} \text{Tax expense} &= \text{Closing provision} + \text{Tax paid} - \text{Opening provision} \\ &= 2,04,000 + 80,000 - 2,10,000 = \text{Rs } 74,000. \\ \text{Loss before tax} &= 2,85,000 - 74,000 = \text{Rs } 2,11,000. \end{aligned}$$

Adding back the tax expense reduces the after-tax loss; it does not increase it.

Step 2: Calculate depreciation and debenture interest No disposal of machinery or accumulated depreciation is given. Hence the increase in accumulated depreciation is the year's depreciation:

$$\text{Depreciation} = 1,44,000 - 69,000 = \text{Rs } 75,000.$$

The additional information expressly dates the issue of 10% debentures to 31st March, 2021, before the financial year ended 31st March, 2022. Using this stated date, the closing debentures of Rs 2,40,000 carry a full year's interest:

$$\text{Debenture interest} = 2,40,000 \times \frac{10}{100} = \text{Rs } 24,000.$$

Both depreciation and interest are added back in computing operating profit before working-capital changes.

Step 3: Calculate the operating working-capital changes Inventory decreased from Rs 3,87,000 to Rs 3,54,000, releasing Rs 33,000 of operating funds; this decrease is added. Trade payables decreased from Rs 60,000 to Rs 18,000, using Rs 42,000 of funds; this decrease is deducted. Cash and cash equivalents are excluded from working capital for this calculation. Share capital and debentures belong to financing activities, while purchases of machinery belong to investing activities.

Step 4: Prepare the operating-activities section **Car Easy Ltd.**
Cash Flow Statement (Extract)
For the year ended 31st March, 2022

Particulars	Amount (Rs)
A. Cash flows from operating activities	
Net loss before tax	(2,11,000)
Adjustments for:	
Depreciation on machinery	75,000
Interest on debentures	24,000
Operating loss before working-capital changes	(1,12,000)
Add: Decrease in inventories	33,000
Less: Decrease in trade payables	(42,000)
Cash used in operations	(1,21,000)
Less: Income tax paid	(80,000)
Net cash used in operating activities	**(2,01,000)**

Parentheses indicate an outflow. The tax provision movement is used only to find tax expense; including it again in working capital would double-count the tax adjustment.

Step 5: Conclusion Cash flows from operating activities are $\boxed{-\text{Rs } 2,01,000}$, that is, net cash used in operating activities of Rs 2,01,000.

Quick Tip to Solve: Find tax expense from closing provision plus tax paid minus opening provision; then deduct actual tax paid only once in the cash flow statement.

OPTION II (Computerised Accounting)

27(i). The need of codification is for : [1 mark]

(a) The generation of mnemonic codes.

(b) To secure accounts, reports, etc.

(c) The encryption of data.

(d) Easy to process data, keeping proper records.

Correct Answer: (d) Easy to process data, keeping proper records.

Solution:

Concept:

- Codification assigns a systematic code to each account or item so that it can be identified and classified consistently.
- Codes facilitate data entry, sorting, retrieval and processing of accounting records.

Step 1: Identify the purpose of codes An account code acts as a short, consistent identifier. Transactions can be grouped under the correct account and processed efficiently, reducing confusion between similar account names and helping maintain proper records.

Step 2: Distinguish coding from security Generating mnemonic codes is only one method of coding, not its overall purpose. Securing reports and encrypting data are security measures; ordinary account

codes do not perform those functions. The option describing easy processing and proper records states the general need for codification.

Step 3: Conclusion Codification makes data easy to process and helps in keeping proper records. Hence, the correct option is (d).

Quick Tip to Solve: Ask whether the option describes efficient identification and processing; encryption describes security instead.

OR

27(ii). Which of the following software packages is suitable for an organisation where the volume of accounting transactions is very small and adaptability is very high : [1 mark]

(a) Specific

(b) Tailored

(c) Specific and tailored both

(d) Generic

Correct Answer: (d) Generic

Solution:

Concept:

- Generic accounting software is a ready-to-use package designed for common accounting requirements.
- A small volume of transactions and high adaptability to standard procedures favour a generic package.

Step 1: Apply the two requirements The organisation handles very few transactions and can adapt readily to the procedures of a standard package. It therefore does not need a specially developed accounting system to accommodate unusual requirements.

Step 2: Compare the alternatives Specific and tailored packages are intended for particular requirements or an organisation needing customised features. Those choices, including the combined option, introduce specialisation that is unnecessary here. A generic package provides the standard facilities suitable for this small, highly adaptable organisation.

Step 3: Conclusion The suitable package is generic accounting software. Hence, the correct option is (d).

Quick Tip to Solve: Small transaction volume with high adaptability points to generic software; special requirements point to tailoring.

28. The outcome of an arithmetic expression or function is called : [1 mark]

(a) Derived Value

(b) Basic Value

(c) Vertical Value

(d) Horizontal Value

Correct Answer: (a) Derived Value

Solution:

Concept:

- A basic value is an input entered directly into a spreadsheet or accounting record.
- A derived value is calculated from other values by an arithmetic expression or a function.

Step 1: Identify how the result is obtained An expression such as $12 + 8$ calculates a result from its operands. Similarly, a spreadsheet function processes its arguments and returns a result. In each case the result has been derived by computation.

Step 2: Eliminate the other descriptions A basic value is original input rather than the outcome of a calculation. Vertical and horizontal describe directions or arrangements in a sheet; they do not name the result of an expression or function.

Step 3: Conclusion The outcome is a derived value. Hence, the correct option is (a).

Quick Tip to Solve: Trace the cell: directly entered data are basic values; a formula or function produces a derived value.

29. When the accumulated data from various sources is processed in one shot, it is called : [1 mark]

(a) Real-time processing

(b) Batch processing

(c) Data validation

(d) Processing and Revalidation

Correct Answer: (b) Batch processing

Solution:

Concept:

- Batch processing collects transactions over a period and processes the accumulated group together.
- Real-time processing updates records as individual transactions occur.

Step 1: Identify the processing pattern The question says that data from various sources are accumulated and then processed in one shot. Collection first and processing the group afterwards are the defining features of a batch.

Step 2: Compare the other options Real-time processing does not wait for a collected group. Data validation checks whether input meets specified conditions. Revalidation checks data again; neither validation nor processing and revalidation names the stated grouping method.

Step 3: Conclusion Processing accumulated data in one shot is batch processing. Hence, the correct option is (b).

Quick Tip to Solve: The words accumulated and one shot identify batch processing; immediate individual updates identify real-time processing.

30(i). The name of accounting information sub-system which is linked with other sub-systems for obtaining information about cost and expenses is : [1 mark]

(a) Cash and Bank sub-system

(b) Expense Accounting sub-system

(c) Costing sub-system

(d) Final Accounts sub-system

Correct Answer: (c) Costing sub-system

Solution:

Concept:

- An accounting information system contains linked subsystems, each responsible for a particular accounting function.
- The costing subsystem draws information from other subsystems to determine the cost of products, jobs or services.

Step 1: Connect costs with source information Cost determination needs information such as materials consumed, wages and other expenses. These data arise in different parts of the accounting system, so the costing subsystem is linked with the other subsystems to collect and use them.

Step 2: Distinguish the remaining functions The cash and bank subsystem mainly records receipts and payments. Expense accounting records expenses, while the final accounts subsystem prepares financial statements. The subsystem specifically integrating information for cost determination is the costing subsystem.

Step 3: Conclusion The required subsystem is the Costing sub-system. Hence, the correct option is (c).

Quick Tip to Solve: When several subsystems supply cost and expense data for cost determination, identify the costing subsystem.

OR

30(ii). The process of comparing input data with some unknown data is called : [1 mark]

(a) Data validation

(b) Data entry

(c) Information data

(d) Storage data

Correct Answer: (a) Data validation

Solution:

Concept:

- Data validation checks input data against prescribed rules, acceptable limits or reference information before accepting it for processing.
- Data entry records data, whereas storage retains it; neither activity by itself checks its acceptability.

Step 1: Identify the checking operation The question describes comparing input data as a check. Among the given choices, the operation associated with checking input is data validation. For example, a rule may restrict the permitted range of a numerical entry.

Step 2: Eliminate the other choices Data entry means entering the input into the system, not validating it. Information data refers to data or information rather than the checking process. Storage data relates to retaining data for later use. None of these three names identifies the validation operation.

Step 3: Conclusion The process is **data validation**. Hence, the correct option is **(a)**.

Quick Tip to Solve: Associate checking the acceptability of input with validation; entry and storage describe different stages of handling data.

31. Which error occurs when Excel does not recognise 'text' in the formula ? State the steps to correct it. [3 marks]

Solution:

Concept:

- Excel displays `#NAME?` when it cannot recognise a name or text used in a formula.
- Function names must be spelt correctly, named ranges must exist, and literal text in formulas must be enclosed in double quotation marks.

Step 1: Identify and inspect the error The error is `#NAME?`. Select the cell showing the error and inspect its formula in the Formula Bar. The error-checking button, when displayed, can also be used to identify the problem and choose Edit in Formula Bar. Look for a misspelt function or an undefined name rather than changing the numerical data at random.

Step 2: Correct names and references Correct the spelling of the function; for example, change `=SMU(A1:A5)` to `=SUM(A1:A5)`. If the formula uses a named range, check that the name is defined and spelt correctly, or replace it with the correct cell reference. Check that a range uses the colon separator, such as `A1:A5`.

Step 3: Correct literal text and recalculate Put literal text inside double quotation marks so that Excel treats it as text instead of a name. For example, use `=IF(A1>0,"Yes","No")` when the required outputs are the words Yes and No. Press Enter after correcting the formula and verify that the error disappears and the result is sensible.

Step 4: Conclusion The error is `#NAME?`. Correct the unrecognised function or name, repair references or missing text quotation marks, and re-enter the formula.

Quick Tip to Solve: For `#NAME?`, inspect spelling, defined names and quotation marks before examining the amounts in the cells.

32. Explain the terms 'Memo Voucher', 'Post-dated Voucher' and 'User-defined Voucher'. [3 marks]

Solution:

Concept:

- A voucher records the particulars of a transaction in an accounting system; its type determines its purpose and treatment.
- Memo vouchers hold provisional information, post-dated vouchers relate to a future date, and user-defined vouchers suit the organisation's requirements.

Step 1: Memo Voucher A memo or memorandum voucher is a non-accounting voucher used to record a provisional transaction or information for which the final details are not yet available. It does not immediately post amounts to ledger accounts or affect the final accounts. For example, an advance for expenses may be noted provisionally until the actual expense details are received. When the details are confirmed, the memo can be converted into the appropriate accounting voucher.

Step 2: Post-dated Voucher A post-dated voucher is entered with a future transaction date. It records information in advance, such as a payment associated with a post-dated cheque, while keeping its accounting effect related to the applicable future date. It must not be treated as an ordinary transaction affecting the accounts before that date merely because it has already been entered.

Step 3: User-defined Voucher A user-defined voucher is a voucher type created by the user to meet a particular business requirement, usually based on an existing standard voucher type. Its name, numbering and other permitted features can be customised. For example, separate Cash Sales and Credit Sales voucher types may be created under Sales to organise entries and reports more conveniently.

Step 4: Conclusion A memo voucher keeps provisional, non-accounting information; a post-dated voucher records a transaction for a future date; and a user-defined voucher is a customised voucher type for a specific business purpose.

Quick Tip to Solve: Distinguish the three by purpose: provisional record, future transaction date, and customised business classification.

33(a). What is 'data formatting' ? What tools are used to format a given data ? Explain. [4 marks]

Solution:

Concept:

- Data formatting means changing the appearance and presentation of worksheet data to make it clear, readable and meaningful.
- Formatting normally changes how a stored value is displayed, without changing the underlying value used in calculations.

Step 1: Define formatting and select the data Data formatting arranges the presentation of text, numbers and cells in a worksheet. For example, headings can be made bold and monetary amounts can be displayed consistently with two decimal places. Select the cell or range to be formatted and use the formatting tools on the Home tab or the Format Cells dialog box.

Step 2: Apply font and alignment tools **Font tools** change the typeface, size, bold, italic, underline and font colour. They help distinguish headings, totals and explanatory text. **Alignment tools** position content horizontally and vertically within cells. Left, centre and right alignment, indentation, orientation and Wrap Text improve the layout; Wrap Text displays a long heading on more than one line within the cell.

Step 3: Use number formats **Number-formatting tools** display values as numbers, currency, accounting amounts, dates or percentages. They also control decimal places and the use of digit separators. For example, a stored value of 0.25 can be displayed as 25%, while a monetary amount can be displayed with two decimal places. Changing the display format alone does not change the underlying number.

Step 4: Add borders, fills and consistent styles **Borders and fill colour** outline cells, separate parts of a statement and shade headings or totals. **Cell Styles** apply a consistent combination of formatting features, while **Format Painter** copies an existing format to another range. **Conditional Formatting** applies a format when a stated condition is met, such as highlighting an amount above a limit. Row height and column width can also be adjusted so that the formatted data remains visible.

Step 5: Conclusion Data formatting improves the display of worksheet data. The main tools include font, alignment, number formats, borders, fills, styles, Format Painter and Conditional Formatting, used according to the purpose of the data.

Quick Tip to Solve: Explain formatting by linking each tool to an effect: font for headings, alignment for layout, number formats for amounts, and borders or fills for emphasis.

OR

33(b). List eight uses of accounting software. [4 marks]

Solution:

Concept:

- Accounting software records, classifies, processes and summarises business transactions to produce useful accounting information.
- Its uses cover both routine transaction processing and the preparation of reports needed for control and decision-making.

Step 1: List uses in recording and maintaining accounts **1. Recording transactions:** It records purchases, sales, receipts, payments and journal adjustments through suitable vouchers, maintaining a systematic electronic record.

2. Maintaining ledger accounts: It posts the recorded transactions to the relevant accounts and updates their balances, reducing repetitive manual posting.

3. Managing receivables and payables: It maintains customer and supplier accounts, tracks invoices and outstanding balances, and helps identify amounts due for collection or payment.

4. Managing inventory: It records stock receipts and issues, updates item-wise stock quantities and values, and provides information for stock control.

Step 2: List uses in payroll, reconciliation and reporting **5. Processing payroll:** It calculates employees' salaries, allowances and deductions and prepares payroll records and salary statements.

6. Preparing bank reconciliation: It helps compare transactions in the cash book with the bank statement, identify unmatched entries and prepare the bank reconciliation statement.

7. Preparing financial statements: It generates the trial balance and uses the account balances and adjustments to prepare the Statement of Profit and Loss and Balance Sheet.

8. Generating management reports: It prepares reports such as budget comparisons, expense analyses and profitability summaries, helping management monitor performance and make decisions.

Step 3: Conclusion The eight uses are transaction recording, ledger maintenance, receivables and payables management, inventory management, payroll processing, bank reconciliation, financial-statement preparation and management reporting.

Quick Tip to Solve: Recall the flow from vouchers to ledgers to statements, then add debtors and creditors, stock, payroll, bank reconciliation and management reports to obtain eight distinct uses.

34. What is meant by 'Present Value' of an investment ? Explain the financial function which helps in its calculation. [6 marks]

Solution:

Concept:

- Present value is the current worth of future cash flows, found by discounting them at an appropriate rate of interest. Money receivable in the future has a lower present worth at a positive discount rate.
- For a single future amount FV due after n periods at a rate r per period, $PV = FV/(1+r)^n$.
- The spreadsheet financial function `PV` calculates present value using a constant interest rate and equal periodic payments, a specified future value, or both.

Step 1: Explain the meaning of present value The present value of an investment is the amount that would have to be invested today, at a specified rate of return, to obtain its future receipts. It brings amounts payable or receivable at different future dates to their equivalent value today.

For example, Rs 1,100 receivable after one year has a present value of Rs 1,000 when the discount rate is 10% per annum, because Rs 1,000 invested today would grow to Rs 1,100 in one year.

Step 2: State the PV function and explain its arguments The syntax is:

```
=PV(rate, nper, pmt, [fv], [type])
```

Square brackets indicate optional arguments; they are not typed in the formula.

rate: The interest or discount rate for each payment period. For monthly payments at an annual rate of 12%, enter $12\%/12$.

nper: The total number of payment periods. A five-year investment with monthly payments has $5 \times 12 = 60$ periods.

pmt: The constant payment or receipt in each period. Enter zero when there are no periodic payments and only a future lump sum is involved.

fv: The future value or balance required after the last payment. If omitted, it is taken as zero. A future lump sum can be supplied here.

type: The timing of the periodic payments: zero, or omission, means payments at the end of each period; one means payments at the beginning of each period.

Step 3: Apply consistent units and the cash-flow sign convention The rate and number of periods must use the same time unit. Thus an annual rate is used with years, while a monthly rate is used with months. Payments and the rate remain constant over the periods covered by this function.

Money paid out and money received must carry opposite signs. For a future receipt of Rs 1,21,000 after two years, with no interim payments and a discount rate of 10% per annum, enter:

```
=PV(10%, 2, 0, 121000, 0)
```

The function returns $-1,00,000$, representing the present investment outflow corresponding to the positive future receipt. Its magnitude agrees with:

$$PV = \frac{1,21,000}{(1.10)^2} = \text{Rs } 1,00,000.$$

Step 4: Conclusion Present value expresses future investment receipts in today's money. The `PV` function calculates it from the periodic rate, number of periods, periodic payment, future value and payment timing, with opposite signs for cash inflows and outflows.

Quick Tip to Solve: Before entering PV, match the rate to the payment period, distinguish pmt from fv, and use opposite signs for amounts invested and amounts received.