# CBSE Class 12 Accountancy Question Paper 2023 with Solution PDF-Set 67-1-2

## 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. 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 1/3, Savita 1/2 and Madhu 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.**

**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:**

- Interest on capital is appropriated before the remaining profit is divided in the agreed ratio.
- A personal guarantee is borne by the guaranteeing partner; it changes the distribution, not the total divisible profit.

**Step 1:** Find profit available for division Interest on the capitals of Kavita, Savita and Madhu is Rs 60,000, Rs 40,000 and Rs 20,000 respectively. Thus the profit remaining after interest is $3,00,000 - 1,20,000 =$ Rs $1,80,000$. Its normal division in the ratio $1/3 : 1/2 : 1/6$ gives Rs 60,000, Rs 90,000 and Rs 30,000.

**Step 2:** Adjust the personal guarantee Savita must receive Rs 1,00,000 as her share after interest, so her deficiency is $1,00,000 - 90,000 =$ Rs $10,000$. Kavita alone bears it. Therefore the divisible profit is allocated as $60,000 - 10,000 =$ Rs $50,000$, Rs 1,00,000 and Rs 30,000. These add to Rs 1,80,000. Option (A) lists interest amounts; (C) ignores the guarantee; (D) changes the wrong partner's share. The options refer to distribution after interest, rather than total credits including interest.

**Step 3:** Conclusion The distribution after interest and guarantee adjustment is Kavita Rs 50,000, Savita Rs 1,00,000 and Madhu Rs 30,000. Hence, the correct option is (B).

**Quick Tip to Solve:** Deduct the deficiency only from Kavita, because she personally gave the guarantee.

**2. 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 1/3, Savita 1/2 and Madhu 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.**

**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:**

- Calculate the guaranteed partner's ordinary share only after the prior appropriation of interest on capital.
- Deficiency equals guaranteed profit less ordinary share when the ordinary share is smaller.

**Step 1:** Calculate divisible profit Total interest on capital is $6,00,000(10\%) + 4,00,000(10\%) + 2,00,000(10\%) =$ Rs $1,20,000$. The balance for profit sharing is therefore $3,00,000 - 1,20,000 =$ Rs $1,80,000$.

**Step 2:** Compare Savita's share with her guarantee Savita's ordinary profit share is $1,80,000 \times \frac{1}{2} =$ Rs $90,000$. Her guaranteed amount is Rs 1,00,000, so the shortage is $1,00,000 - 90,000 =$ Rs $10,000$. Her Rs 40,000 interest on capital is separate and must not be added when checking a guarantee explicitly stated to apply after charging interest. Thus Rs 40,000, Rs 70,000 and Rs 20,000 in the other options are not the difference between the stated guarantee and the computed share.

**Step 3:** Conclusion Savita's deficiency is Rs 10,000. Hence, the correct option is (D).

**Quick Tip to Solve:** Check the guarantee against Rs 90,000 profit share, excluding interest on capital.

**3. 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 new partner's acquired share is split between old partners in the stated sacrificing proportions.
- For each old partner, new share equals old share minus sacrificed share.

**Step 1:** Determine sacrifices Akshat's total share is $1/3$. Akshita sacrifices $\frac{2}{3} \times \frac{1}{3} = \frac{2}{9}$, while Anurag sacrifices $\frac{1}{3} \times \frac{1}{3} = \frac{1}{9}$. The fractions two-thirds and one-third apply to Akshat's share, not to the whole firm.

**Step 2:** Find the three new shares Akshita retains $\frac{2}{3} - \frac{2}{9} = \frac{4}{9}$, Anurag retains $\frac{1}{3} - \frac{1}{9} = \frac{2}{9}$, and Akshat receives $\frac{1}{3} = \frac{3}{9}$. The shares total one, and their ratio in the named order is $4 : 2 : 3$. Option (A) reverses the allocation; option (B) gives Akshat only two-ninths; option (C) gives him one-fourth. Neither of these matches the prescribed one-third share and sacrifices.

**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:** Multiply the incoming share by each sacrificing fraction before subtracting from old shares.

**4. 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 on reissue cannot exceed the amount forfeited on share capital for the shares reissued.
- Securities premium received is excluded from the amount available to cover reissue discount.

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

not part of share capital and cannot increase the permissible reissue discount.

**Step 2:** Apply the reissue discount limit Maximum discount is Rs 60 on the face value of Rs 100. Minimum reissue price is therefore $100 - 60 = \text{Rs } 40$. Reissue at Rs 20, option (C), would give an Rs 80 discount and exceed the forfeited capital. Prices Rs 60 and Rs 100 in options (B) and (D) are permissible, but neither is the minimum. The question asks for the lowest permitted price, not for the forfeited amount itself.

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

**Quick Tip to Solve:** Subtract capital received from face value; ignore premium when finding the discount ceiling.

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**5. '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 by debiting the partner and crediting Interest on Drawings Account.

**Step 1:** Compute annual interest Total drawings are $12,000 \times 4 = \text{Rs } 48,000$. Interest is $48,000 \times \frac{6}{100} \times \frac{7.5}{12} = \text{Rs } 1,800$. The profit-sharing ratio does not affect interest charged on an individual partner's drawings.

**Step 2:** Record the charge A's account must be debited because interest is recoverable from A. No fixed-capital method is stated in the question, so the capital account is used in the available correct entry. Options (A) and (B) reverse the charge, and (D) debits appropriation instead of the partner.

Journal of the firm

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

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

**Quick Tip to Solve:** Beginning-of-quarter drawings use 7.5 months; debit the partner for the interest charged.

**6(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 agreed share of profit up to the date of death.
- An interim profit share credited before final accounts is adjusted through Profit and Loss Suspense Account.

**Step 1:** Calculate P's entitlement The total ratio is $4 + 3 + 1 = 8$. P's share of the profit calculated up to death is $80,000 \times \frac{4}{8} =$ Rs $40,000$. Since the Rs 80,000 profit is already calculated for the relevant period, no further time apportionment is needed.

**Step 2:** Identify the debit account The adjustment debits Profit and Loss Suspense Account and credits P's Capital Account with Rs 40,000. This temporarily recognises the amount due to P before completion of the final accounts. Option (A) uses Profit and Loss Account and (B) uses appropriation rather than suspense for this interim adjustment. Option (C) selects suspense but incorrectly debits the entire firm's Rs 80,000 instead of P's half share.

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

**Quick Tip to Solve:** Apply the deceased partner's ratio to the given interim profit, without time-apportioning twice.

OR

**6(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 old share plus the share gained from the retiring partner.
- Equal gains do not imply equal final shares when the continuing partners originally held unequal shares.

**Step 1:** Allocate Pooja's share Pooja holds $3/6 = 1/2$ of the profits. Nita and Anita acquire it equally, so each gains $\frac{1}{2} \div 2 = \frac{1}{4}$. Their old shares remain the starting point for calculating the new shares.

**Step 2:** Calculate the new ratio Nita's new share is $\frac{2}{6} + \frac{1}{4} = \frac{7}{12}$, while Anita's is $\frac{1}{6} + \frac{1}{4} = \frac{5}{12}$. Together they total one. Hence their new ratio is $7 : 5$. Option (A), $2 : 1$, merely repeats their old relative shares; option (C) confuses equal gains with equal final shares. Option (D), $3 : 2$, also fails to include the equal one-fourth gains in the two different original holdings.

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

**Quick Tip to Solve:** Add one-fourth to each continuing partner's old share, then simplify their new fractions.

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**7. 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 lacks physical substance but provides economic benefits.
- Goodwill represents the value of business reputation and the capacity to earn more than normal

profits.

**Step 1:** Judge the assertion The assertion is correct. Goodwill has no physical form that can be touched or seen as a separate tangible object. Nevertheless, favourable reputation and customer loyalty can create financial benefits for a firm.

**Step 2:** Judge the reason The reason is also correct. Goodwill is associated with the firm's reputation and its expected ability to earn profits above the normal return. It is not an ordinary physical asset such as machinery or inventory.

**Step 3:** Relate the statements to the printed choices The reason describes the non-physical earning advantage represented by goodwill and supports its intangible nature. The printed choices ask whether the two statements are correct, so both being correct selects (C). Option (A) wrongly rejects the definition; (B) wrongly calls goodwill tangible; and (D) rejects two true statements. No additional condition about explanatory linkage is printed in option (C).

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

**Quick Tip to Solve:** Classify goodwill by its lack of physical substance and its future earning benefit.

**8. 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:**

- Recorded non-cash assets and related provisions are transferred to Realisation Account on dissolution.
- Partners' loans are settled separately, while accumulated reserves are distributed directly to partners' capital accounts.

**Step 1:** Test the asset and its provision Goodwill appearing in the books is a recorded intangible asset, so its book value is transferred to the debit of Realisation Account. Provision for Doubtful Debts is transferred to the credit of Realisation Account along with the corresponding transfer of debtors at gross book value. Thus items (i) and (iv) qualify.

**Step 2:** Exclude separately settled balances Partners' Loan Accounts are not transferred to Realisation Account: they are settled through Bank Account after outside liabilities and before capitals. General Reserve is an accumulated profit credited directly to the partners' capital accounts in their profit-

sharing ratio. Thus (ii) and (iii) do not qualify. Option (B) wrongly includes partners' loans, (C) wrongly includes General Reserve, and (D) includes both excluded balances while omitting goodwill.

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

**Quick Tip to Solve:** Distinguish realisation of recorded assets from settlement of partners' own balances.

**9. Gurpreet, Vishal and Ananya are partners in a firm sharing profits in the ratio of 2 : 3 : 1. Vishal retires and the balance in his capital account after making necessary adjustments on account of reserves, revaluation of assets and re-assessment of liabilities is Rs. 1,20,000. Gurpreet and Ananya agreed to pay him Rs. 1,80,000 in full settlement of his claim. Vishal's share of goodwill of the firm, on his retirement is :** [1 mark]

(A) Rs. 1,20,000

(B) Rs. 60,000

(C) Rs. 30,000

(D) Rs. 15,000

**Correct Answer:** (B) Rs. 60,000

**Solution:**

**Concept:**

- A retiring partner receives the adjusted capital balance plus compensation for the partner's share of goodwill.
- Hidden goodwill attributable to the retiring partner equals the settlement amount less the adjusted capital balance.

**Step 1:** Identify the adjusted claim Vishal's capital after reserves, revaluation and reassessment of liabilities is Rs 1,20,000. These adjustments are already included, so they must not be added again.

**Step 2:** Find the goodwill component The additional payment is $1,80,000 - 1,20,000 = \text{Rs } 60,000$. This is Vishal's own goodwill share; multiplying it by $3/6$ again would incorrectly give Rs 30,000. Rs 1,20,000 is capital, and Rs 15,000 is not the settlement excess.

**Step 3:** Conclusion Vishal's share of goodwill is Rs 60,000. Hence, the correct option is (B).

**Quick Tip to Solve:** Subtract the already adjusted capital from the agreed settlement; do not apply the profit share again.

**10(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 the amount paid to acquire the business; net assets equal assets taken over less liabilities assumed.
- When consideration exceeds net assets, the difference is goodwill, an asset debited in the acquisition entry.

**Step 1:** Compare consideration with net assets Fully paid shares worth Rs 5,00,000 settle the purchase consideration. Net assets acquired are Rs 4,70,000, so the excess is $5,00,000 - 4,70,000 = \text{Rs } 30,000$.

**Step 2:** Determine the account and side The excess represents goodwill and is debited. Capital Reserve is credited only when net assets exceed consideration; it is not debited for this difference. General Reserve does not arise from this acquisition difference.

**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 purchase consideration with net assets first: an excess of consideration creates a debit to Goodwill.

OR

**10(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 equals the agreed purchase consideration divided by the issue price per debenture.
- A discount reduces the issue price below face value; the coupon rate determines interest, not issue

proceeds.

**Step 1:** Calculate the issue price For a face value of Rs 100 and a discount of $10\%$, issue price is $100 - 10 =$ Rs $90$ per debenture. The $11\%$ rate is the annual interest rate.

**Step 2:** Divide consideration by issue price Number issued $= 9,00,000/90 = 10,000$. The net assets of Rs 8,00,000 do not replace the agreed consideration. 9,000 ignores the discount, 8,000 confuses net assets with consideration, and 11,000 does not settle Rs 9,00,000 at Rs 90 each.

**Step 3:** Conclusion The company will issue 10,000 debentures. Hence, the correct option is (B).

**Quick Tip to Solve:** Use Rs 90 as the value discharged by each debenture; the 11 percent coupon is irrelevant to their number.

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**11(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:**

- Debentures Account records the nominal liability and is credited with the face value of the debentures issued.
- Issue proceeds and discount are recorded separately; the interest rate does not reduce the nominal liability.

**Step 1:** Calculate the nominal liability There are 2,000 debentures of face value Rs 100 each. Thus the credit to $9\%$ Debentures Account is $2,000 \times 100 =$ Rs $2,00,000$.

**Step 2:** Distinguish proceeds from liability Cash proceeds are $2,000 \times 95 =$ Rs $1,90,000$, while discount is $2,000 \times 5 =$ Rs $10,000$. Neither is the Debentures Account credit. Rs 1,10,000 has no basis in the nominal value calculation.

**Step 3:** Conclusion The 9 percent Debentures Account is credited by Rs 2,00,000. Hence, the correct option is (C).

**Quick Tip to Solve:** For the Debentures Account credit, multiply the number issued by face value, even when issue price differs.

OR

**11(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:**

- Debentureholders are creditors of the company; interest is a charge against profit and ordinary debentures confer no shareholder voting rights.
- Debentures may be issued at a discount, and convertible debentures may convert into shares according to their terms.

**Step 1:** Check the first three statements Statement (A) is correct because interest is payable as a financing charge rather than a distribution of profit. Statement (B) is correct because debentures can be issued at discount. Statement (C) is correct because holding a debenture does not itself confer shareholder voting rights.

**Step 2:** Test the conversion statement Statement (D) makes an absolute prohibition on conversion. Convertible debentures can be converted into shares under their issue terms, so the prohibition is false. The question asks for the incorrect statement, not a correct feature.

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

**Quick Tip to Solve:** Notice the word incorrect, then test the absolute word cannot against the existence of convertible debentures.

**12. That portion of the called-up capital which has been actually received from the shareholders is called :** [1 mark]

(A) Paid-up capital

(B) Called-up capital

(C) Reserve capital

(D) Subscribed capital

**Correct Answer:** (A) Paid-up capital

**Solution:**

**Concept:**

- Called-up capital is the amount the company has demanded on subscribed shares.
- Paid-up capital is the called-up amount actually received; calls in arrears are excluded from it.

**Step 1:** Identify the received amount The question specifically refers to capital actually received from

shareholders. In the usual capital reconciliation, Paid-up capital = Called-up capital − Calls in arrears.

**Step 2:** Eliminate the other terms Called-up capital can include amounts demanded but unpaid. Subscribed capital is the nominal amount of shares taken up by shareholders, including any uncalled part. Reserve capital is an uncalled portion reserved to be called only on winding up. Therefore none describes receipts from calls as precisely as paid-up capital.

**Step 3:** Conclusion The amount is paid-up capital. Hence, the correct option is (A).

**Quick Tip to Solve:** Use actually received as the cue for paid-up capital; demanded refers to called-up capital.

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**13(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:**

- For equal drawings at the beginning of every month, the average outstanding period is 6.5 months.
- Interest on drawings equals total drawings multiplied by the annual rate and the average period divided by 12.

**Step 1:** Find total drawings and average time Total drawings are $10,000 \times 12 = \text{Rs } 1,20,000$. The first withdrawal remains outstanding for 12 months and the last for 1 month, giving average time $(12+1)/2 = 6.5$ months.

**Step 2:** Calculate annual interest Interest $= 1,20,000 \times 6/100 \times 6.5/12 = \text{Rs } 3,900$. Rs 3,600 uses a 6-month average; Rs 3,300 uses 5.5 months, appropriate to month-end drawings. Rs 325 is only one-twelfth of the annual interest.

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

**Quick Tip to Solve:** For equal monthly drawings at the beginning, use 6.5 months on the total annual withdrawals.

OR

**13(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:**

- Interest runs from the withdrawal date to the end of the accounting year.
- For equal withdrawals, the average period is the arithmetic mean of their outstanding periods.

**Step 1:** List quarter-end outstanding periods Withdrawals at the ends of June, September, December and March remain outstanding for 9, 6, 3 and 0 months respectively until 31st March. The March-end withdrawal earns no charge for time within that year.

**Step 2:** Calculate the average The average period is $(9+6+3+0)/4 = 18/4 = 4.5$ months. Six months is not the mean of these quarter-end periods. A 7.5-month average applies to quarter-beginning withdrawals, while 6.5 months is the monthly-beginning convention.

**Step 3:** Conclusion The average period is $4\frac{1}{2}$ months. Hence, the correct option is (B).

**Quick Tip to Solve:** For quarter-end drawings, list 9, 6, 3 and 0 months before averaging; do not use the monthly convention.

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**14(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.
- Face value, unpaid calls and the amount already received are distinct from called-up capital.

**Step 1:** Identify the called-up value The company has called Rs 8 per share on 400 shares. Therefore

capital to be cancelled is $400 \times 8 = \text{Rs } 3,200$. The remaining Rs 2 of face value has not been called.

**Step 2:** Distinguish the distractors Rs 4,000 uses the full face value of Rs 10, which overstates called-up capital. Rs 800 is the unpaid first call, $400 \times 2$, rather than total called capital. Rs 2,000 is neither the called-up amount nor the unpaid call. The capital debit reverses the entire called-up liability on these shares.

**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 capital debit on forfeiture, use shares multiplied by called-up value, not face value or the unpaid call.

OR

**14(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 capital money actually received on forfeited shares; premium is excluded.
- Unpaid securities premium is reversed on forfeiture when it was due but not received.

**Step 1:** Separate capital from premium The issue price per share is $10 + 10\% \times 10 = \text{Rs } 11$. Allotment of Rs 5 includes Rs 1 premium, so unpaid allotment capital is Rs 4 per share. The unpaid call is Rs 3 per share.

**Step 2:** Calculate the capital received Capital received per share is $10 - 4 - 3 = \text{Rs } 3$. Hence Share Forfeiture Account receives $700 \times 3 = \text{Rs } 2,100$. Rs 7,000 is the face value, Rs 4,900 is unpaid capital, and Rs 1,400 would incorrectly take receipts as Rs 2 per share.

**Step 3:** Conclusion Share Forfeiture Account is credited with $\boxed{\text{Rs } 2,100}$. The correct option is (D).

**Quick Tip to Solve:** Remove the premium from unpaid allotment before subtracting unpaid capital from face value.

**15. 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 an agreement, interest on a partner's loan to the firm is allowed at $6\%$ per annum.
- Interest on a loan is a charge against profit and is computed for the actual period outstanding.

**Step 1:** Find the loan period The loan was advanced on 1st July, 2021 and remains outstanding up to 31st March, 2022: July to March is nine months. The absence of a partnership deed does not make this loan interest-free.

**Step 2:** Calculate interest

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

Rs 36,000 is interest for a full year; Rs 18,000 and Rs 9,000 correspond to six and three months, so none matches the nine-month period.

**Step 3:** Conclusion Aman is entitled to $\boxed{\text{Rs } 27,000}$ as interest on loan. The correct option is (D).

**Quick Tip to Solve:** For a loan advanced on 1st July, count nine months to the following 31st March.

**16. 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 of Profit and Loss Account represents accumulated losses, which belong to all old partners.
- Accumulated losses are debited to the old partners' capital accounts in their old profit-sharing ratio.

**Step 1:** Identify the partners bearing the loss The Rs 1,20,000 loss arose before retirement. Aman, Aadhar and Avinash therefore bear it in the old ratio $3 : 2 : 1$, including the retiring partner.

**Step 2:** Allocate the debit balance The capital debits are Aman: $1,20,000 \times 3/6 = \text{Rs } 60,000$; Aadhar: $1,20,000 \times 2/6 = \text{Rs } 40,000$; and Avinash: $1,20,000 \times 1/6 = \text{Rs } 20,000$. Option (A) wrongly excludes Avinash. Options (C) and (D) credit capitals and use ratios that do not allocate an accumulated loss.

**Step 3:** Conclusion Transfer the balance to the debit side of the capital accounts of Aman, Aadhar and Avinash in the old profit-sharing ratio. The correct option is (B).

**Quick Tip to Solve:** A debit Profit and Loss balance reduces every old partner's capital, including the retiring partner.

**17. Mansi, Mona and Amar were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. Mona retired on 1st April, 2022. After making all adjustments relating to revaluation, goodwill and accumulated profits etc., the capital accounts of Mansi and Amar showed credit balance of Rs. 2,50,000 and Rs. 2,00,000 respectively. It was decided to adjust the capitals of Mansi and Amar in their new profit sharing ratio.**

**Pass necessary journal entries for bringing in or withdrawal of the necessary amounts involved. Show your working clearly.** [3 marks]

**Solution:**

**Concept:**

- When no fresh ratio is specified, continuing partners retain their relative old shares.
- Required capital equals the combined adjusted capital multiplied by the partner's share in the new ratio.
- A deficit is brought in through Bank; an excess is withdrawn through Bank.

**Step 1:** Determine the new ratio and total capital Mansi and Amar retain their relative old shares of 2 and 1. Thus their new profit-sharing ratio is $2:1$. Mona has retired and her capital is not part of this adjustment. The combined adjusted capital is

$$\text{Rs } 2,50,000 + \text{Rs } 2,00,000 = \text{Rs } 4,50,000.$$

This total remains the base for adjusting the continuing partners' capitals.

**Step 2:** Calculate required capitals and adjustment Mansi requires $4,50,000 \times 2/3 = \text{Rs } 3,00,000$, against Rs 2,50,000 available, so she brings in Rs 50,000. Amar requires $4,50,000 \times 1/3 = \text{Rs } 1,50,000$, against Rs 2,00,000 available, so he withdraws Rs 50,000. The equal contribution and withdrawal leave the total capital at Rs 4,50,000.

**Step 3:** Record the journal entries Journal of the Firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 1 Apr 2022 | Bank A/c Dr. | | 50,000 | |
| | To Mansi's Capital A/c | | | 50,000 |
| | (Being deficit capital brought in by Mansi) | | | |
| 1 Apr 2022 | Amar's Capital A/c Dr. | | 50,000 | |
| | To Bank A/c | | | 50,000 |
| | (Being excess capital withdrawn by Amar) | | | |

**Step 4:** Conclusion Mansi brings in $\boxed{\text{Rs } 50,000}$ and Amar withdraws $\boxed{\text{Rs } 50,000}$; final capitals are Rs 3,00,000 and Rs 1,50,000 in the ratio $2:1$.

**Quick Tip to Solve:** First retain the combined adjusted capital, then divide it in the continuing partners' new ratio.

**18. Isha, Surbhi, Naman and Manya were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2 : 1. They decided to share profits and losses in the ratio of 5 : 2 : 2 : 1 with effect from 1st April, 2022. On this date, the goodwill of the firm was valued at Rs. 6,00,000 and General Reserve appeared in the books at Rs. 2,00,000.**

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

**Solution:**

**Concept:**

- General Reserve existing before a change in ratio belongs to all partners in their old ratio.
- A gaining partner compensates a sacrificing partner for goodwill: goodwill adjustment equals firm goodwill multiplied by the share gained or sacrificed.

**Step 1:** Calculate sacrifice and gain Old shares of Isha, Surbhi, Naman and Manya are $4/10, 3/10, 2/10, 1/10$; new shares are $5/10, 2/10, 2/10, 1/10$. Isha gains $1/10$, Surbhi sacrifices $1/10$, and Naman and Manya have no change. Therefore Isha compensates Surbhi by $\text{Rs } 6,00,000 \times 1/10 = \text{Rs } 60,000$, through their capital accounts without raising goodwill in the books.

**Step 2:** Distribute the accumulated reserve The General Reserve of Rs 2,00,000 is distributed in the old ratio $4:3:2:1$. The respective capital credits are Rs 80,000, Rs 60,000, Rs 40,000 and Rs 20,000.

Their sum is Rs 2,00,000; the new ratio must not be applied to profits accumulated before the change.

**Step 3:** Pass the journal entries Journal of the Firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 1 Apr 2022 | Isha's Capital A/c Dr. | | 60,000 | |
| | To Surbhi's Capital A/c | | | 60,000 |
| | (Being goodwill adjusted for gain and sacrifice) | | | |
| 1 Apr 2022 | General Reserve A/c Dr. | | 2,00,000 | |
| | To Isha's Capital A/c | | | 80,000 |
| | To Surbhi's Capital A/c | | | 60,000 |
| | To Naman's Capital A/c | | | 40,000 |
| | To Manya's Capital A/c | | | 20,000 |
| | (Being reserve distributed in the old ratio) | | | |

**Step 4:** Conclusion Isha is debited and Surbhi credited with Rs 60,000 for goodwill. General Reserve is credited to the four capital accounts as Rs 80,000, Rs 60,000, Rs 40,000 and Rs 20,000 respectively.

**Quick Tip to Solve:** Use the old ratio for accumulated reserve, and only the changed shares for the goodwill adjustment.

**19(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 expected on capital employed: Normal profit $=$ Capital employed $\times$ Normal rate$/100$.
- Super profit is the excess of maintainable average profit over normal profit.
- Goodwill under this method equals super profit multiplied by the stated number of years' purchase.

**Step 1:** Find normal profit The capital employed on 1st April, 2022 is Rs 1,50,000 and the normal rate of return is 10 percent per annum. Hence the return normally expected from this capital is

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

This is a benchmark return, not the firm's actual average earning.

**Step 2:** Calculate super profit The given average profit of Rs 23,500 is used directly because no further adjustment is specified. Deduct the normal return to isolate the excess earning capacity:

$$\text{Super profit} = \text{Rs } 23,500 - \text{Rs } 15,000 = \text{Rs } 8,500.$$

Only this excess is capitalised by years' purchase in the super-profit method.

**Step 3:** Apply three years purchase The question specifies three years' purchase of super profits. Thus

$$\text{Goodwill} = \text{Rs } 8,500 \times 3 = \text{Rs } 25,500.$$

Multiplying average profit by three would instead use the average-profit method and would overstate this valuation. As a check, $25,500/3 + 15,000 = 23,500$, reproducing the given average profit.

**Step 4:** Conclusion The goodwill of Ashu and Madhav's firm is $\boxed{\text{Rs } 25,500}$.

**Quick Tip to Solve:** Deduct the normal return from average profit before multiplying by the years of purchase.

OR

**19(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 is calculated on the amount actually employed for the relevant time: $I = C \times r \times t/12$, where $C$ is capital, $r$ the annual rate and $t$ the number of months.
- A change in capital during the year requires separate time periods. The profit-sharing ratio does not determine interest on capital.

**Step 1:** Determine the capitals from 1st December, 2021 The revised total capital is Rs 3,00,000, contributed in the ratio $2:1$. Hence Rakshit must have $3,00,000 \times 2/3 = \text{Rs } 2,00,000$, and Malik must have $3,00,000 \times 1/3 = \text{Rs } 1,00,000$. Their additional contributions on that date are therefore Rs 80,000 and Rs 20,000 respectively. The opening capitals remain employed for the full year.

**Step 2:** Apply the correct time weights From 1st April to 30th November there are eight months; from 1st December to 31st March there are four months. At the stipulated annual rate of $6\%$,

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

**Step 3:** Verify using additional capital only Alternatively, Rakshit earns Rs 7,200 on his opening capital for twelve months and Rs 1,600 on the additional Rs 80,000 for four months. Malik earns Rs 4,800 on opening capital and Rs 400 on additional capital. Thus both calculations agree; the total interest allowed is Rs 14,000.

**Step 4:** Conclusion Interest on capital: Rakshit, $\boxed{\text{Rs } 8,800}$; Malik, $\boxed{\text{Rs } 5,200}$.

**Quick Tip to Solve:** Weight the additional capital for four months only; do not apply the profit-sharing ratio to interest.

**20(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 is face value plus premium. Share Capital is credited only with nominal value; Securities Premium Reserve receives the excess over nominal value.
- When the entire issue price is payable on application, excess application money cannot be adjusted against later calls; it is refunded.

**Step 1:** Calculate application money and the pro-rata ratio Premium per share is $10 \times 10/100 = \text{Rs } 1$; the issue price is therefore Rs 11. Applications for 3,00,000 shares bring $3,00,000 \times 11 = \text{Rs } 33,00,000$. Allotment is in the ratio $1,00,000 : 3,00,000 = 1 : 3$, so each applicant receives one share for every three applied for. The amount retained is $1,00,000 \times 11 = \text{Rs } 11,00,000$; excess money of Rs 22,00,000 must be returned.

**Step 2:** Record receipt, allotment and refund Journal of Annex Ltd.

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>To Share Application A/c<br>(Being application money received on 3,00,000 shares at Rs 11 each) | | 33,00,000 | <br>33,00,000 |
| | Share Application A/c Dr.<br>To Share Capital A/c<br>To Securities Premium Reserve A/c<br>(Being 1,00,000 shares allotted pro-rata at a premium of Rs 1 each) | | 11,00,000 | <br>10,00,000<br>1,00,000 |
| | Share Application A/c Dr.<br>To Bank A/c<br>(Being excess application money refunded) | | 22,00,000 | <br>22,00,000 |

The Share Application Account is cleared: its credit of Rs 33,00,000 equals the transfer of Rs 11,00,000 plus refund of Rs 22,00,000. There is no further amount due on allotment or calls.

**Step 3:** Conclusion Share Capital is credited with Rs 10,00,000, Securities Premium Reserve with Rs 1,00,000, and excess application money of Rs 22,00,000 is refunded.

**Quick Tip to Solve:** Calculate the refund using the full Rs 11 issue price because the whole amount was paid on application.

OR

**20(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:**

- Net assets equal assets taken over less liabilities assumed. If net assets exceed purchase consideration, the difference is Capital Reserve.
- Debentures issued at premium discharge the vendor at their issue price. Debentures are credited at nominal value and the premium is credited to Securities Premium Reserve.

**Step 1:** Determine capital reserve and number of debentures Net assets acquired are $60,00,000 - 10,00,000 =$ Rs $50,00,000$. The agreed consideration is Rs 45,00,000, so Capital Reserve is $50,00,000 - 45,00,000 =$ Rs $5,00,000$. Each debenture is issued for $100 + 25 =$ Rs $125$. Thus the number issued is $45,00,000/125 = 36,000$, with nominal value Rs 36,00,000 and premium Rs 9,00,000. The stated 10% is the coupon rate; it does not determine the issue price.

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

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Business Purchase A/c Dr.<br>To Swami Limited A/c<br>(Being business purchased for agreed consideration) | | 45,00,000 | <br>45,00,000 |
| | Sundry Assets A/c Dr.<br>To Sundry Liabilities A/c<br>To Business Purchase A/c<br>To Capital Reserve A/c<br>(Being assets and liabilities taken over and capital reserve recognised) | | 60,00,000 | <br>10,00,000<br>45,00,000<br>5,00,000 |
| | Swami Limited A/c Dr.<br>To 10% Debentures A/c<br>To Securities Premium Reserve A/c<br>(Being 36,000 debentures of Rs 100 issued at 25% premium to discharge consideration) | | 45,00,000 | <br>36,00,000<br>9,00,000 |

The vendor account is settled in full since the debentures' issue value is Rs 45,00,000. No Bank Account is involved in this settlement.

**Step 3:** Conclusion Issue 36,000 debentures; credit 10% Debentures with Rs 36,00,000, Securities Premium Reserve with Rs 9,00,000, and recognise Capital Reserve of Rs 5,00,000.

**Quick Tip to Solve:** Divide purchase consideration by Rs 125, then split the result into nominal value and premium.

**21. Madhur Ltd. has an authorised capital of Rs. 20,00,000 divided into equity shares of Rs. 10 each. The company invited applications for issuing 90,000 shares. Applications for 88,000 shares were received. All calls were made and duly received except the first and final call of Rs. 3 per share on 4,000 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 nominal value offered for subscription.
- After forfeiture, subscribed and fully paid-up capital excludes the forfeited shares. The amount already received on those shares is separately added as shares forfeited under Share Capital.

**Step 1:** Compute the capital categories The authorised number of shares is $20,00,000/10 = 2,00,000$. The company issued $90,000$ shares, so issued capital is $90,000 \times 10 = \text{Rs } 9,00,000$. Applications were received for only $88,000$ shares; the unaccepted portion of the issue is not subscribed capital. After forfeiting $4,000$ shares, fully paid-up shares outstanding are

$$88,000 - 4,000 = 84,000, \qquad 84,000 \times 10 = \text{Rs } 8,40,000.$$

Each forfeited share had received $10 - 3 = \text{Rs } 7$; hence the forfeited balance is $4,000 \times 7 = \text{Rs } 28,000$. The unpaid call of Rs 12,000 is cancelled on forfeiture, so it is not deducted again from the surviving fully paid-up capital.

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

| Particulars | Note No. | Amount (Rs) |
|---|---|---|
| I. Equity and Liabilities | | |
| 1. Shareholders' Funds | | |
| (a) Share Capital | 1 | 8,68,000 |

**Step 3:** (b) Prepare the note to accounts Notes to Accounts: Note 1 – Share Capital

| Particulars | Amount (Rs) |
|---|---|
| Authorised capital:<br>2,00,000 equity shares of Rs 10 each | 20,00,000 |
| Issued capital:<br>90,000 equity shares of Rs 10 each | 9,00,000 |
| Subscribed and fully paid-up capital:<br>84,000 equity shares of Rs 10 each<br>Add: Shares forfeited (amount originally paid-up) | 8,40,000<br>28,000 |
| Total Share Capital | 8,68,000 |

The forfeited amount remains within Share Capital because the shares have not been reissued. There are no subscribed but not fully paid-up shares remaining after the forfeiture.

**Step 4:** Conclusion The Balance Sheet shows Share Capital of $\boxed{\text{Rs } 8,68,000}$, comprising fully paid-up capital of Rs 8,40,000 and shares forfeited of Rs 28,000.

**Quick Tip to Solve:** First remove forfeited shares from the subscribed share count, then add back only the amount already 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 | | |
| Total | 7,20,000 | Total | 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 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:**

- On death, the deceased partner receives his share of accumulated reserve, goodwill, accrued profit and interest on capital; his share of deferred expenditure is debited.
- Profit to the date of death on a sales basis equals current-period sales multiplied by the previous year's profit-to-sales ratio. Sudhir's old profit share is $2/5$.

**Step 1:** Adjust accumulated balances and goodwill Sudhir's share of General Reserve is $1,00,000 \times 2/5 = \text{Rs } 40,000$, credited to his capital. Advertisement Suspense is deferred expenditure and is written off in the old ratio; his debit is $1,20,000 \times 2/5 = \text{Rs } 48,000$. The average annual profit is given as Rs 1,80,000. Thus,

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

In the absence of a changed ratio, Deepak and Naveen gain in their continuing ratio $2 : 1$; their capitals are debited Rs 1,20,000 and Rs 60,000 respectively, and Sudhir's capital is credited Rs 1,80,000.

**Step 2:** Calculate profit and interest up to 30 June 2022 The previous year's profit-to-sales ratio is

$$\frac{1,00,000}{4,00,000} = 25\%.$$

Profit estimated on sales from 1 April to 30 June is $1,50,000 \times 25\% =$ Rs $37,500$. Sudhir's share, credited through Profit and Loss Suspense Account, is $37,500 \times 2/5 =$ Rs $15,000$. Interest is calculated for the three months to his death on opening capital:

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

The sales method already uses sales for the actual intervening period, so the estimated profit is not further multiplied by three-twelfths.

**Step 3:** Prepare Sudhir's Capital Account Sudhir's Capital Account as at 30 June 2022

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

The balancing entitlement is transferred directly to the executors' account, closing Sudhir's capital account. Its calculation is $1,60,000 + 40,000 + 1,80,000 + 15,000 + 2,800 - 48,000 =$ Rs $3,49,800$.

**Step 4:** Conclusion The amount transferred to Sudhir's Executors' Account is $\boxed{\text{Rs } 3,49,800}$.

**Quick Tip to Solve:** Write off Advertisement Suspense in the old ratio, and use the sales ratio only once when estimating the deceased partner's profit.

**23. 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 | |
| Capitals: | | Less: Provision for Doubtful Debts 2,000 | 18,000 |
| 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 settlement of outside liabilities and real assets. Cash at bank, partner loans and fictitious assets are excluded.
- Transfer debtors at their gross amount and credit the existing provision separately. Distribute realisation profit or loss between partners in their old profit-sharing ratio, here $3 : 2$.

**Step 1:** Identify the amounts transferred Transfer stock Rs 24,000, investments Rs 30,000, gross debtors Rs 20,000 and plant Rs 1,00,000 to the debit side. Transfer creditors Rs 90,000, Mrs. Aadish's loan Rs 30,000 and provision for doubtful debts Rs 2,000 to the credit side. Mrs. Aadish is an outside lender; Shreyansh is a partner, so his loan is settled separately. General reserve and advertisement suspense are adjusted through partners' capital accounts and do not enter Realisation Account. The plant book value is Rs 1,00,000; the separate Rs 2,00,000 advertisement suspense balance is not a realisable asset.

**Step 2:** Calculate receipts and settlement amounts Plant realises $1,00,000 \times 110/100 =$ Rs $1,10,000$. Debtors realise Rs 17,000. Aadish takes stock for Rs 20,000 and assumes the outside loan of Rs 30,000; these are separate entries on opposite sides. Shreyansh takes investments for $(30,000/2) \times 90/100 =$ Rs $13,500$, and the remaining investments realise Rs 4,500. Creditors are paid $90,000 \times 90/100 =$ Rs $81,000$. Realisation expenses paid are Rs 7,000.

**Step 3:** Prepare the Realisation Account Realisation Account as at 31st March, 2022

| Dr. | Particulars | Amount (Rs) | Particulars | Amount (Rs) | Cr. |
|---|---|---|---|---|---|
| | 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 Aadish's Capital (stock) | 20,000 | |
| | To Bank (expenses) | 7,000 | By Shreyansh's Capital (investments) | 13,500 | |
| | | | By Bank (investments) | 4,500 | |
| | | | 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, debits total Rs 2,92,000 and credits total Rs 2,87,000. The debit excess is a loss of Rs 5,000, shared as $5,000 \times 3/5 = 3,000$ and $5,000 \times 2/5 = 2,000$. The account is closed by the loss transfers; no balance is carried forward.

**Step 4:** Conclusion Realisation loss is Rs 5,000: Aadish bears Rs 3,000 and Shreyansh Rs 2,000. Both sides of Realisation Account total Rs 2,92,000.

**Quick Tip to Solve:** Keep a partner loan and advertisement suspense outside Realisation Account; show a liability assumed and an asset taken separately.

24(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 called-up capital only. Reverse securities premium if it was due but unpaid; credit Share Forfeiture only with capital actually received.
- On reissue, any discount is debited to Share Forfeiture. Transfer only the surplus relating to shares actually reissued to Capital Reserve.

**Step 1:** (i) Calculate BCG Limited amounts Face value is Rs 10, but the final Rs 4 capital call was never made. Thus called-up capital is Rs 6 per share. Unpaid allotment Rs 8 contains Rs 4 capital and Rs 4 premium, so capital received is Rs 2 per share. For 75 shares, debit capital Rs 450 and reverse unpaid premium Rs 300; credit allotment Rs 600 and forfeiture Rs 150. Reissue at Rs 15 fully paid creates fresh securities premium of Rs 5 per share. The entire forfeiture balance relates to shares

reissued and becomes capital reserve.

**Step 2:** (i) Journal of BCG Limited

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Capital A/c Dr. | | 450 | |
| | Securities Premium 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) | | | |
| | Bank A/c Dr. | | 1,125 | |
| | To Share Capital A/c | | | 750 |
| | To Securities Premium A/c | | | 375 |
| | (Being 75 shares reissued at Rs 15 each fully paid) | | | |
| | Share Forfeiture A/c Dr. | | 150 | |
| | To Capital Reserve A/c | | | 150 |
| | (Being forfeiture surplus on all reissued shares transferred) | | | |

**Step 3:** (ii) Calculate Geetika Limited amounts All Rs 50 per share was called, but the final Rs 10 was unpaid. Capital received was therefore Rs 40 per share. For 1,200 shares, capital debited is Rs 60,000, unpaid final call credited is Rs 12,000 and forfeiture credited is Rs 48,000. Reissue of 900 shares yields $900 \times 45 = \text{Rs } 40,500$, against nominal capital Rs 45,000, giving a discount of Rs 4,500. Forfeiture attributable to these 900 shares is $900 \times 40 = \text{Rs } 36,000$. Transfer $36,000 - 4,500 = \text{Rs } 31,500$ to capital reserve. The Rs 12,000 forfeiture on 300 unreissued shares remains in Share Forfeiture Account.

**Step 4:** (ii) 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 unpaid final call) | | | |
| | Bank A/c Dr. | | 40,500 | |
| | Share Forfeiture A/c Dr. | | 4,500 | |
| | To Share Capital A/c | | | 45,000 |
| | (Being 900 shares reissued at Rs 45 each fully paid) | | | |
| | Share Forfeiture A/c Dr. | | 31,500 | |
| | To Capital Reserve A/c | | | 31,500 |
| | (Being net surplus on 900 reissued shares transferred) | | | |

**Step 5:** Conclusion Capital Reserve is credited with Rs 150 for BCG Limited and Rs 31,500 for Geetika Limited. Geetika retains Rs 12,000 in Share Forfeiture for its 300 unreissued shares.

**Quick Tip to Solve:** For BCG, exclude the uncalled Rs 4 from forfeiture capital; for Geetika, transfer the surplus for only 900 reissued shares.

OR

**24(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:**

- Application money is split between share capital and securities premium. Excess application money is adjusted against allotment due; rejected applications are refunded.
- On forfeiture, debit only called-up share capital. Reverse unpaid premium and credit Share Forfeiture with the capital actually received on forfeited shares.

**Step 1:** Calculate pro-rata allotment and cash due The allotment ratio is $30,000 : 35,000 = 6 : 7$. Yogesh therefore receives $700 \times 6/7 = 600$ shares. Application receipts are $40,000 \times 40 =$ Rs $16,00,000$. Refund on 5,000 rejected shares is Rs 2,00,000 and excess application money on accepted applications is $5,000 \times 40 =$ Rs $2,00,000$.

Yogesh paid Rs 28,000 on application; Rs 24,000 belongs to his 600 allotted shares, leaving Rs 4,000 for allotment. His allotment due is $600 \times 30 =$ Rs $18,000$, so his unpaid allotment is Rs 14,000. The excess adjusts against the capital component of allotment first. Hence the entire allotment premium of Rs 6,000 remains unpaid. Total cash received on allotment is $9,00,000 - 2,00,000 - 14,000 =$ Rs $6,86,000$.

**Step 2:** Record application and allotment Journal of Pushkar Limited

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>  To Share Application A/c<br>(Being application money received) | | 16,00,000 | <br>16,00,000 |
| | Share Application A/c Dr.<br>  To Share Capital A/c<br>  To Securities Premium A/c<br>  To Share Allotment A/c<br>  To Bank A/c<br>(Being application money transferred, excess adjusted and rejected applications refunded) | | 16,00,000 | <br>9,00,000<br>3,00,000<br>2,00,000<br>2,00,000 |
| | Share Allotment A/c Dr.<br>  To Share Capital A/c<br>  To Securities Premium A/c<br>(Being allotment money due on 30,000 shares) | | 9,00,000 | <br>6,00,000<br>3,00,000 |
| | Bank A/c Dr.<br>  To Share Allotment A/c<br>(Being allotment money received except Yogesh's unpaid balance) | | 6,86,000 | <br>6,86,000 |

**Step 3:** Record forfeiture and the first call Called-up capital on Yogesh's shares is $600 \times (30 + 20) =$ Rs $30,000$. Capital received is application capital Rs 18,000 plus excess adjusted Rs 4,000, giving Rs 22,000. After forfeiture only 29,400 shares remain; first call due is $29,400 \times 30 =$ Rs $8,82,000$.

Journal of Pushkar Limited (continued)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Capital A/c Dr.<br>Securities Premium A/c Dr.<br>  To Share Allotment A/c<br>  To Share Forfeiture A/c<br>(Being Yogesh's 600 shares forfeited for unpaid allotment) | | 30,000<br>6,000 | <br><br>14,000<br>22,000 |
| | Share First Call A/c Dr.<br>  To Share Capital A/c<br>(Being first call due on 29,400 shares) | | 8,82,000 | <br>8,82,000 |
| | Bank A/c Dr.<br>  To Share First Call A/c<br>(Being first call received in full) | | 8,82,000 | <br>8,82,000 |

The second and final call of Rs 20 per share was not made, so no entry is passed for it.

**Step 4:** Conclusion Yogesh is allotted 600 shares; Rs 22,000 is credited to Share Forfeiture. Allotment cash received is Rs 6,86,000 and first-call cash received is Rs 8,82,000.

**Quick Tip to Solve:** Exclude forfeited shares before calculating a call made after forfeiture; reverse only the premium that remains unpaid.

**25(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 Rs 38,000 | |
| Veer | 48,000 | Less: Provision Rs 4,000 | 34,000 |
| | | Cash | 16,000 |
| Total | 2,60,000 | Total | 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:**

- Revaluation profit and existing reserves belong to the old partners in their old profit-sharing ratio, here $3:1$.
- Goodwill premium is credited to sacrificing partners. In the absence of a different sacrifice arrangement, the old partners sacrifice in their old ratio.
- Proportionate capital is based on adjusted old partners' capitals and their combined share in the new firm.

**Step 1:** Calculate revaluation profit Investments appreciate by $68,000 - 60,000 =$ Rs $8,000$. Depreciation on plant and machinery is $60,000 \times 10\% =$ Rs $6,000$. Thus revaluation profit is Rs 2,000, credited to Yuv and Veer in the ratio $3:1$, namely Rs 1,500 and Rs 500.

Revaluation Account

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

**Step 2:** Adjust reserves and goodwill, then calculate Yash's capital The general reserve of Rs 80,000 is credited to Yuv with Rs 60,000 and Veer with Rs 20,000. Yash's goodwill premium of Rs 4,000 is credited to Yuv with Rs 3,000 and Veer with Rs 1,000, since their sacrificing ratio is $3:1$. The

premium is a separate cash contribution and is not included in Yash's capital.

$$\begin{aligned}\text{Yuv's adjusted capital} &= 79,000 + 60,000 + 1,500 + 3,000\\ &= \text{Rs } 1,43,500,\\ \text{Veer's adjusted capital} &= 48,000 + 20,000 + 500 + 1,000\\ &= \text{Rs } 69,500.\end{aligned}$$

Their combined capital Rs 2,13,000 represents the remaining $3/4$ share of profits. Hence total proportionate capital is $2,13,000 \times 4/3 = \text{Rs } 2,84,000$, and Yash brings $2,84,000 \times 1/4 = \text{Rs } 71,000$ as capital. His total cash contribution, including goodwill, is Rs 75,000.

**Step 3:** Prepare the partners' capital accounts Partners' Capital Accounts

| Dr. Particulars | Yuv Rs | Veer Rs | Yash Rs | Particulars Cr. | 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 Bank A/c | – | – | 71,000 |
| Total | 1,43,500 | 69,500 | 71,000 | Total | 1,43,500 | 69,500 | 71,000 |

The closing balances are credit capital balances. No change is made to building, stock, debtors, the existing doubtful-debt provision or liabilities because the admission terms prescribe no adjustment for them. The revaluation account closes after transferring its profit to the old partners; it does not carry a continuing balance.

**Step 4:** Conclusion Revaluation profit is Rs 2,000. Closing capitals are Yuv Rs 1,43,500, Veer Rs 69,500 and Yash Rs 71,000.

**Quick Tip to Solve:** Include reserve, revaluation profit and goodwill credits in old capitals before using the new partner's proportion to compute capital.

OR

**25(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 | |
| | | Less: Provision 20,000 | 1,60,000 |
| Capitals: | | Stock | 2,00,000 |
| Reyansh | 6,00,000 | Machinery | 6,00,000 |
| Aayushman | 5,00,000 | Building | 4,00,000 |
| Sabhya | 3,00,000 | Patents | 1,20,000 |
| | | Profit and Loss A/c | 1,00,000 |
| Total | 17,40,000 | Total | 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:**

- Accumulated reserves and the debit balance of Profit and Loss Account belong to all old partners in their old profit-sharing ratio, here $5 : 3 : 2$.
- The retiring partner's goodwill entitlement is charged to gaining partners in their gaining ratio. The existing provision absorbs bad debts before any excess is charged to Revaluation Account.
- Transfer the retiring partner's final adjusted capital balance to his loan account when immediate payment is not required.

**Step 1:** Calculate the gaining ratio and goodwill adjustment Aayushman gains $2/5 - 3/10 = 1/10$; Sabhya gains $3/5 - 2/10 = 4/10$. Thus their gaining ratio is $1 : 4$. Reyansh's share of goodwill is Rs $12,00,000 \times 5/10 =$ Rs $6,00,000$. Aayushman bears Rs 1,20,000 and Sabhya bears Rs 4,80,000. Goodwill is adjusted through capitals without opening a goodwill asset.

Journal of the firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Aayushman's Capital A/c Dr. | | 1,20,000 | |
| | Sabhya's Capital A/c Dr. | | 4,80,000 | |
| | To Reyansh's Capital A/c | | | 6,00,000 |
| | (Being retiring partner's goodwill adjusted in gaining ratio) | | | |

**Step 2:** Distribute accumulated reserve and write off past loss The reserve is credited as Rs 60,000, Rs 36,000 and Rs 24,000. The existing debit Profit and Loss balance is written off as Rs 50,000, Rs

30,000 and Rs 20,000 respectively. Both use the old ratio because they arose before retirement.

Journal of the firm (continued)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | General Reserve A/c Dr. | | 1,20,000 | |
| | To Reyansh's Capital A/c | | | 60,000 |
| | To Aayushman's Capital A/c | | | 36,000 |
| | To Sabhya's Capital A/c | | | 24,000 |
| | (Being reserve distributed in old ratio) | | | |
| | Reyansh's Capital A/c Dr. | | 50,000 | |
| | Aayushman's Capital A/c Dr. | | 30,000 | |
| | Sabhya's Capital A/c Dr. | | 20,000 | |
| | To Profit and Loss A/c | | | 1,00,000 |
| | (Being accumulated loss written off in old ratio) | | | |

**Step 3:** Record revaluation adjustments The unrecorded creditor creates a loss of Rs 40,000. Bad debts of Rs 30,000 first exhaust the existing Rs 20,000 provision; only Rs 10,000 is an additional loss. Thus total revaluation loss is $40,000 + 10,000 =$ Rs $50,000$, borne in $5 : 3 : 2$.

Journal of the firm (continued)

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

**Step 4:** Transfer the amount due to Reyansh Reyansh's adjusted capital is $6,00,000 + 6,00,000 + 60,000 - 50,000 - 25,000 =$ Rs $11,85,000$. His capital account is closed by transferring the entire amount to his loan account; no cash payment is recorded.

Journal of the firm (continued)

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

**Step 5:** Conclusion Reyansh's loan is credited with $\boxed{\text{Rs } 11,85,000}$. Revaluation loss is Rs 50,000 and the goodwill compensation is Rs 6,00,000.

**Quick Tip to Solve:** Use the existing doubtful-debt provision before computing retirement revaluation loss; it prevents charging the same loss twice.

**26. Pass necessary journal entries relating to the issue of debentures in the books of Akash Ltd. for the following transactions :**

**(a) 1,000, 9% Debentures of Rs. 100 each are issued at 5% discount, redeemable at a premium of 10%.**

**(b) 500, 7% Debentures of Rs. 100 each are issued at 5% premium, redeemable at a premium of 10%.**

**(c) 2,000, 10% Debentures of Rs. 100 each are issued at 5% discount, redeemable at par.** [6 marks]

**Solution:**

**Concept:**

- Debentures are credited with their face value. Cash received equals face value less issue discount or plus issue premium.
- Loss on issue includes both the discount on issue and the premium payable on redemption. Securities Premium Reserve records an issue premium; Premium on Redemption of Debentures records the future liability.
- The coupon rate identifies the debenture account; it does not determine the issue proceeds or redemption premium.

**Step 1:** Case (a): issue at discount, redeemable at premium Face value $= 1,000 \times 100 =$ Rs $1,00,000$. Discount is $5\% \times 1,00,000 =$ Rs $5,000$, so bank receives Rs 95,000. Redemption premium is Rs 10,000. Total loss on issue is $5,000 + 10,000 =$ Rs $15,000$.

Journal of Akash Ltd.

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 95,000 | |
| | Loss on Issue of Debentures A/c Dr. | | 15,000 | |
| | To 9% Debentures A/c | | | 1,00,000 |
| | To Premium on Redemption of Debentures A/c | | | 10,000 |
| | (Being 1,000 debentures issued at discount and redeemable at premium) | | | |

**Step 2:** Case (b): issue at premium, redeemable at premium Face value $= 500 \times 100 =$ Rs $50,000$. Issue premium is $5\% \times 50,000 =$ Rs $2,500$, giving bank proceeds of Rs 52,500. Redemption premium is $10\% \times 50,000 =$ Rs $5,000$. Recognise that premium as a loss on issue separately from the issue premium; the latter is credited to Securities Premium Reserve.

Journal of Akash Ltd. (continued)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 52,500 | |
| | Loss on Issue of Debentures A/c Dr. | | 5,000 | |
| | To 7% Debentures A/c | | | 50,000 |
| | To Securities Premium Reserve A/c | | | 2,500 |
| | To Premium on Redemption of Debentures A/c | | | 5,000 |
| | (Being 500 debentures issued at premium and redeemable at premium) | | | |

**Step 3:** Case (c): issue at discount, redeemable at par Face value $= 2,000 \times 100 =$ Rs $2,00,000$. The discount is $5\% \times 2,00,000 =$ Rs $10,000$, and bank receives Rs 1,90,000. As redemption is at par, there is no redemption premium liability. The whole issue loss consists of the discount.

Journal of Akash Ltd. (continued)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>Discount on Issue of Debentures A/c Dr.<br>To 10% Debentures A/c<br>(Being 2,000 debentures issued at discount, redeemable at par) | | 1,90,000<br>10,000 | <br><br>2,00,000 |

**Step 4:** Conclusion The bank receipts in (a), (b) and (c) are respectively Rs 95,000, Rs 52,500 and Rs 1,90,000. The entries above record each issue and any redemption premium liability.

**Quick Tip to Solve:** Calculate all issue and redemption percentages on face value; never apply the coupon rate to determine issue proceeds.

## Part B (20 marks)

*OPTION – I (Analysis of Financial Statements)*

**27. 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. Operating activities arise from normal revenue-generating business operations.
- An equity issue brings financing cash into the business; redemption of debentures repays borrowing and is a financing cash outflow.

**Step 1:** Classify the capital transactions Item (i), issue of equity shares for cash, increases share capital and is a financing inflow. Item (iii), redemption of debentures, reduces long-term borrowings and is a financing outflow. Both therefore belong under financing activities, even though their cash-flow directions differ.

**Step 2:** Exclude the routine trading collections and payments Cash received from debtors, item (ii), is collection from customers and belongs to operating activities. Cash paid against trade payables, item (iv), is a normal trading payment and is also operating. Option (A) omits redemption; (B) includes

debtors and omits redemption; (D) includes operating items. Only option (C) contains exactly the two financing transactions.

**Step 3:** Conclusion (i) and (iii): the correct option is (C).

**Quick Tip to Solve:** Classify by the source of cash: share capital and borrowings are financing; customer and supplier settlements are operating.

**28(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 activities change the size or composition of owners' capital and borrowings.
- Dividend paid is a distribution of profit to owners and is classified as a financing cash outflow.

**Step 1:** Identify the nature of the payment Dividend paid represents a return to shareholders who have supplied finance to the enterprise. It is therefore linked to the cost of obtaining equity finance rather than acquiring an investment.

**Step 2:** Check the alternatives The classification remains financing even for a financial enterprise. Operating classification applies to its normal revenue activities; investing classification concerns investment transactions. Thus (a), (b) and the combined choice (d) do not classify this payment correctly.

**Step 3:** Conclusion Dividend paid is a financing activity. Hence, the correct option is (c).

**Quick Tip to Solve:** For dividend paid, classify the payment as financing irrespective of whether the enterprise is financial.

OR

**28(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:**

- For a non-financial enterprise, interest received is a return on investments.
- Such interest receipts are classified as investing cash inflows in a cash flow statement.

**Step 1:** Identify the source of the receipt The enterprise earns this interest by holding investments. For a non-financial enterprise, earning interest on such investments is distinct from its principal revenue-producing operations.

**Step 2:** Check the alternatives It is an investing receipt, so choice (a) applies. Financing activities concern owners' funds and borrowings, not interest earned on investments. Operating classification would apply to interest received by a financial enterprise; hence (b), (c) and (d) are incorrect here.

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

**Quick Tip to Solve:** First identify the enterprise: investment interest received by a non-financial enterprise is investing.

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**29(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 equals revenue from operations less cost of revenue from operations.
- Cost of revenue from operations includes opening inventory plus net purchases and direct expenses, less closing inventory.

**Step 1:** Rearrange the gross profit relationship Writing revenue as $R$, cost as $C$, and gross profit as $G$,

we have $G = R - C$. Therefore

$$C = R - G.$$

**Step 2:** Check all the equations Option (a) adds gross profit instead of deducting it. Option (b) wrongly deducts net purchases, which should be added. Option (c) omits purchases and direct expenses and adds closing inventory instead of deducting it. Only option (d) matches the gross profit relationship.

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

**Quick Tip to Solve:** Start with gross profit = revenue - cost, then transpose to avoid confusing the sign of gross profit.

OR

**29(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:**

- Tools of financial statement analysis process accounting information to reveal performance, financial position or cash movements.
- Cash flow analysis is an analytical tool; the financial statements themselves provide the information to be analysed.

**Step 1:** Identify the analytical tool A Cash Flow Statement analyses changes in cash and cash equivalents by classifying flows into operating, investing and financing activities. Thus statement (i) is a tool of financial statement analysis.

**Step 2:** Check the remaining statements and choices The Statement of Profit and Loss, Notes to Accounts and Balance Sheet form the financial statements or their supporting disclosures. They are sources of data for analysis rather than the analytical tools listed in this question. Consequently only (i) is correct; the combinations in (b), (c) and (d) include an incorrect statement.

**Step 3:** Conclusion Only (i), Cash Flow Statement, is correct. Hence, the correct option is (a).

**Quick Tip to Solve:** Distinguish the statements supplying data from the tools used to analyse that data.

**30. 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 $= \dfrac{\text{Proprietors' funds}}{\text{Total assets}} \times 100.$
- Total assets comprise current assets and non-current assets.

**Step 1:** Find total assets

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

The long-term borrowing is a liability, so it is not deducted when finding total assets for this ratio.

**Step 2:** Apply the proprietary ratio

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

The other amounts do not equal 25% of total assets. In particular, deducting borrowings first would use an incorrect denominator.

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

**Quick Tip to Solve:** Apply the proprietary ratio to total assets; do not first subtract long-term borrowings.

**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) Unclaimed Dividend**

**(b) Mining Rights**

**(c) Loose Tools** [3 marks]

**Solution:**

**Concept:**

- Schedule III separates liabilities into current and non-current and assets into current and non-current categories.
- Classification depends on the nature of the item: an unpaid obligation is a liability, a non-physical long-term right is intangible, and loose tools form inventory.

**Step 1:** Classify unclaimed dividend Unclaimed dividend is dividend payable to shareholders that has not yet been collected. It remains an outstanding obligation of the company and is shown under the major head Current Liabilities, sub-head Other Current Liabilities. It is not added to reserves, because the amount is payable to shareholders.

**Step 2:** Classify mining rights Mining rights give the company the right to extract minerals. The right has no physical substance and provides benefits over more than one accounting period. It is therefore shown under Non-Current Assets, within Fixed Assets, under Intangible Assets. The asset is the legal right, rather than the physical minerals or mining equipment.

**Step 3:** Classify loose tools Loose tools are classified as inventory for this Schedule III presentation. They are shown under Current Assets, sub-head Inventories. Their physical nature does not require their inclusion in the fixed-assets category in this question.

**Step 4:** Conclusion The required classification is:

| Item | Major head | Sub-head |
|---|---|---|
| Unclaimed dividend | Current Liabilities | Other Current Liabilities |
| Mining rights | Non-Current Assets | Fixed Assets: Intangible Assets |
| Loose tools | Current Assets | Inventories |

**Quick Tip to Solve:** Identify whether the item is an obligation, a long-term non-physical right, or inventory before choosing its head.

**32. 'These ratios are calculated to measure the short-term solvency of the business.' Identify the ratios and state the significance of two ratios included in the above category.** [3 marks]

**Solution:**

**Concept:**

- Liquidity ratios measure the ability of a business to meet its short-term obligations as they fall due.
- The two principal liquidity ratios are the current ratio and the liquid ratio, also called the quick or acid-test ratio.

**Step 1:** Identify the category The ratios described are liquidity ratios. They assess short-term solvency

by comparing resources available in the short term with liabilities payable in the short term. A solvent business needs sufficient liquid resources to settle these obligations without disrupting its operations.

**Step 2:** State the significance of the current ratio

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}.$$

It indicates how many rupees of current assets are available for every rupee of current liabilities and therefore measures the overall short-term payment capacity. A conventional benchmark is $2:1$, though interpretation depends on the nature of the business and the quality of current assets. A very high ratio may also indicate idle funds or excess inventory.

**Step 3:** State the significance of the liquid ratio

$$\text{Liquid ratio} = \frac{\text{Liquid assets}}{\text{Current liabilities}}.$$

Liquid assets are current assets excluding inventories and prepaid expenses. This ratio tests immediate payment capacity more strictly, because inventory may take time to sell and prepaid expenses cannot settle liabilities. A conventional benchmark is $1:1$, subject to the business circumstances.

**Step 4:** Conclusion These are liquidity ratios. The current ratio measures overall short-term solvency, while the liquid ratio measures the ability to meet current liabilities using readily liquid assets.

**Quick Tip to Solve:** Use current ratio for total short-term cover, and quick ratio for cover after excluding inventory and prepaid expenses.

**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 equals cost of revenue from operations divided by average inventory. It measures how many times the average inventory is turned over during the period.
- Gross profit is revenue from operations less cost of revenue from operations. Gross profit ratio is gross profit expressed as a percentage of revenue from operations; its denominator is sales, not cost.

**Step 1:** Find cost of revenue from operations Rearrange the inventory turnover formula:

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

The given turnover ratio relates cost of goods sold to average inventory. Therefore, this multiplication gives cost rather than sales. Since average inventory is directly supplied, opening and closing inventories need not be determined separately.

**Step 2:** Calculate gross profit and sales The profit is 25% on cost. Hence:

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

This percentage is a markup on cost. Thus goods costing Rs 100 sell for Rs 125, earning gross profit of Rs 25. The same relationship applies to the total cost calculated above.

**Step 3:** Calculate gross profit ratio Use revenue from operations as the denominator:

$$\begin{aligned}\text{Gross Profit Ratio} &= \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100 \\ &= \frac{6,00,000}{30,00,000} \times 100 = 20\%.\end{aligned}$$

As a check, Rs 25 of profit on Rs 125 of sales gives the same result, namely $25/125 \times 100 = 20\%$. Taking the given 25% directly would confuse profit on cost with profit on sales.

**Step 4:** Conclusion The Gross Profit Ratio is $\boxed{20\%}$.

**Quick Tip to Solve:** For a markup of 25% on cost, divide 25 by 125 and multiply by 100 to obtain the gross profit ratio.

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 divided by current liabilities. A ratio of $2:1$ means current assets are twice current liabilities before each transaction.
- Consider each transaction independently. Only changes in current assets and current liabilities affect this ratio; fixed assets and share capital do not themselves enter its calculation.

**Step 1:** Establish the starting relationship Let initial current liabilities be Rs $L$, where $L > 0$. Then current assets are Rs $2L$, so the initial ratio is $2L/L = 2$. Compare each transaction separately with this starting position. An equal addition to both sides of a ratio greater than one brings it closer to one; an addition to current assets alone increases it.

**Step 2:** (a) Purchase of goods on credit Inventory, a current asset, increases by Rs 40,000 and trade payables, a current liability, also increase by Rs 40,000. The new ratio is

$$\frac{2L + 40,000}{L + 40,000} = 2 - \frac{40,000}{L + 40,000} < 2.$$

Thus the current ratio reduces. Although current assets rise, the equal increase in current liabilities is proportionately larger relative to their smaller original balance.

**Step 3:** (b) Sale of furniture at a loss Furniture with book value Rs 8,000 is sold at a loss of Rs 2,000, so cash received is $8,000 - 2,000 =$ Rs $6,000$. Furniture is a non-current asset, so removing its book value does not reduce current assets. Cash, a current asset, increases by Rs 6,000, while current liabilities remain unchanged:

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

The current ratio improves. The loss reduces profit/equity, but neither profit nor equity is the denominator of the current ratio.

**Step 4:** (c) Cash received from trade receivables Cash increases by Rs 15,000 and trade receivables decrease by Rs 15,000. Both are current assets. The transaction only changes the composition of current assets; their total remains the same. Current liabilities also remain unchanged. Therefore the current ratio does not change and stays at $2:1$.

**Step 5:** (d) Issue of equity shares Issuing equity shares brings cash of Rs 6,00,000 into the company. Current assets therefore increase by Rs 6,00,000. Share capital is shareholders' funds, not a current

liability, so current liabilities remain unchanged:

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

Consequently the current ratio improves. The increase in share capital should not be added to current liabilities.

**Step 6:** Conclusion The effects are: (a) reduces; (b) improves; (c) no change; (d) improves.

**Quick Tip to Solve:** First classify each affected account as current or non-current; cash received from a debtor changes only the composition of current assets.

**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<br>Surplus i.e. Balance in Statement of Profit and Loss | 75,000 | 3,60,000 |
| | | 75,000 | 3,60,000 |
| 2 | Long-term Borrowings<br>10% Debentures | 2,40,000 | 1,80,000 |
| | | 2,40,000 | 1,80,000 |
| 3 | Short-term Provisions<br>Provision for Tax | 2,04,000 | 2,10,000 |
| | | 2,04,000 | 2,10,000 |
| 4 | Fixed Assets<br>Machinery<br>Accumulated Depreciation | <br>11,52,000<br>(1,44,000) | <br>6,45,000<br>(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 profit before tax, adds non-cash and non-operating expenses, and adjusts changes in operating working capital.
- Tax expense equals closing tax provision plus tax paid less opening tax provision; income tax actually paid is deducted from operating cash flow.
- Depreciation is a non-cash expense. Debenture interest is added back while calculating operating profit because it is a financing cost for this company.

**Step 1:** Determine loss before tax The surplus has fallen from Rs 3,60,000 to Rs 75,000. No dividend or transfer is given, so the loss after tax is:

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

The tax provision charged during the year is:

$$2,04,000 + 80,000 - 2,10,000 = \text{Rs } 74,000.$$

Thus the loss before tax is Rs $2,85,000 - 74,000 = 2,11,000$. Tax is added to a signed profit; equivalently it is subtracted from the positive magnitude of a loss.

**Step 2:** Calculate depreciation and interest No machinery disposal is stated. Depreciation for the year is the increase in accumulated depreciation:

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

Interest on the opening 10% debentures is $1,80,000 \times 10\% =$ Rs $18,000$. The additional information dates the debenture issue 31st March, 2021, although the balance increases by Rs 60,000 during 2021–22. These figures do not establish the issue date of that increase. The statement below uses the opening balance for the annual interest charge; the alternative full-year treatment is quantified separately.

**Step 3:** Prepare the operating activities section Car Easy Ltd.: Cash Flow Statement (Operating Activities)

For the year ended 31st March, 2022

| Particulars | Amount (Rs) |
|---|---|
| Net loss before tax | (2,11,000) |
| Add: Depreciation | 75,000 |
| Add: Interest on debentures | 18,000 |
| Operating loss before working capital changes | (1,18,000) |
| Add: Decrease in inventories (3,87,000 - 3,54,000) | 33,000 |
| Less: Decrease in trade payables (60,000 - 18,000) | (42,000) |
| Cash used in operations | (1,27,000) |
| Less: Income tax paid | (80,000) |
| Net cash used in operating activities | (2,07,000) |

A fall in inventories releases operating funds, whereas a fall in trade payables absorbs them. Cash and cash equivalents are excluded from working capital adjustments. Share capital and debenture principal belong to financing activities, while acquisition of machinery belongs to investing activities.

**Step 4:** Account for the printed date inconsistency If the printed issue date is intended to mean that the entire closing debenture balance of Rs 2,40,000 carried interest for the full year, interest would instead be Rs 24,000. The add-back would increase by Rs 6,000 and net cash used in operating activities would be Rs 2,01,000. The opening-balance calculation gives Rs 2,07,000; specifying this basis is necessary because the issue-date statement and the movement in the debenture balances do not fully reconcile.

**Step 5:** Conclusion On the opening-debenture interest basis, net cash used in operating activities is $\boxed{\text{Rs } 2,07,000}$. If all closing debentures carry full-year interest, it is Rs 2,01,000.

**Quick Tip to Solve:** Convert the decrease in surplus to a signed loss first, reverse tax and non-cash charges, and deduct only the tax actually paid.

*OPTION II (Computerised Accounting)*

**27(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:**

- A costing sub-system determines and analyses the cost of products, services and activities.
- It draws relevant cost and expense information from other accounting sub-systems.

**Step 1:** Identify the information required The question asks for the sub-system which links with other sub-systems to obtain information about costs and expenses. Such information is collected and classified for cost determination by the costing sub-system.

**Step 2:** Compare the alternatives The cash and bank sub-system primarily records cash receipts, payments and bank transactions. Expense accounting records expenses, while final accounts summarises results and financial position. The wider function of obtaining cost information from these sources belongs to the costing sub-system.

**Step 3:** Conclusion The correct option is (C): Costing sub-system.

**Quick Tip to Solve:** Match the cross-linking of cost information with costing, rather than only recording individual expenses.

OR

**27(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 for accuracy, completeness and conformity with acceptable rules.
- Data entry captures data; validation checks it before further processing.

**Step 1:** Identify the checking process The decisive words are comparing input data. In a computerised accounting system, checking input against prescribed criteria or reference data is called data validation.

The printed expression "unknown data" does not describe the usual reference standards, but the checking process named among the alternatives remains validation.

**Step 2:** Eliminate the remaining choices Data entry is the act of feeding transactions into the system, not checking their acceptability. Information data is not the name of a checking process, and storage data concerns retained data rather than comparing inputs. Thus only data validation names the relevant operation.

**Step 3:** Conclusion The correct option is (A): Data validation.

**Quick Tip to Solve:** When the question describes checking or comparing inputs, select validation; entry only captures the inputs.

**28. 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 groups accumulated transactions and processes the group together.
- Real-time processing updates records as individual transactions occur.

**Step 1:** Recognise processing in a group Data collected from several sources is accumulated first and then processed in one shot. This is the defining feature of batch processing: the system handles a batch instead of immediately processing every transaction separately.

**Step 2:** Distinguish the other options Real-time processing occurs as transactions arise, so it conflicts with accumulation. Data validation checks whether data meets required conditions and does not specify when a group is processed. Processing and revalidation is not the standard name for the method described.

**Step 3:** Conclusion The correct option is (B): Batch processing.

**Quick Tip to Solve:** Use the phrase accumulated and processed in one shot as the identifying feature of batch processing.

**29. 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 derived value is calculated from basic input values by an arithmetic expression or a function.
- Basic values are entered source values; calculated results are derived from them.

**Step 1:** Identify a calculated result An arithmetic expression combines operands using operations, and a function evaluates specified arguments. In either case, its outcome is computed from existing values. The appropriate accounting spreadsheet term for this calculated outcome is a derived value.

**Step 2:** Check the alternatives A basic value is an original input rather than the result of a calculation. Vertical and horizontal describe directions or arrangements of spreadsheet cells; neither term identifies the outcome of evaluating an expression. Therefore those alternatives do not fit the definition.

**Step 3:** Conclusion The correct option is (A): Derived Value.

**Quick Tip to Solve:** Separate values entered directly from values calculated by formulas: calculated outcomes are derived values.

**30(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 systematic codes to accounts or data items for identification and classification.
- Consistent codes support efficient recording, retrieval and processing of accounting data.

**Step 1:** Identify the purpose of coding Accounts and transactions can be represented by short, systematic codes. Using these codes helps organise records, identify the correct account quickly and process data consistently. Hence easy processing and proper record keeping express the need for codification.

**Step 2:** Distinguish codes from security Mnemonic codes are one possible type of code, so generating them is not the general purpose of codification. Securing accounts and encrypting data concern protection and confidentiality. Ordinary account codes classify and identify records; they do not

themselves encrypt or secure those records.

**Step 3:** Conclusion The correct option is (D): Easy to process data, keeping proper records.

**Quick Tip to Solve:** For codification, look for systematic identification and processing; encryption is a separate security operation.

OR

**30(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 intended for common accounting requirements of many organisations.
- The selection of a package depends on transaction volume, the organisation's ability to adapt its procedures, and the need for special features.

**Step 1:** Match the stated requirements The organisation has a very small volume of accounting transactions and very high adaptability. It can readily adjust its accounting procedures to a standard package, so the cost and effort of special development are unnecessary.

**Step 2:** Compare the alternatives Specific software serves particular requirements, while tailored software is customised to an organisation. Thus options (A), (B) and (C) introduce specialisation that is not required here. Generic software supplies standard accounting facilities economically and suits a small transaction volume when the organisation can adapt easily.

**Step 3:** Conclusion Generic accounting software is suitable. Hence, the correct option is (D).

**Quick Tip to Solve:** Small volume plus high adaptability points to a ready-to-use generic package.

**31. Explain 'COUNTIF' function.** [3 marks]

**Solution:**

**Concept:**

- COUNTIF is a spreadsheet statistical function that counts cells satisfying one specified condition.
- Its syntax is COUNTIF(range, criteria): range is the group of cells examined and criteria is the condition tested.

**Step 1:** Explain the arguments The range identifies the cells in which matching entries are to be counted. The criteria may be a number, text, a cell reference or a comparison such as greater than a specified value. Text criteria and comparisons written directly in a formula are enclosed in double quotation marks. COUNTIF tests each cell and increases the count only when that cell meets the condition.

**Step 2:** Illustrate its use Suppose cells A2:A6 contain 1200, 800, 1500, 1200 and 600. The formula =COUNTIF(A2:A6,">1000") returns 3 because 1200, 1500 and 1200 exceed 1000. The formula =COUNTIF(A2:A6,1200) returns 2 because two cells equal 1200. In an accounting worksheet, the same method can count invoices above a specified amount or entries belonging to a particular account.

**Step 3:** Distinguish counting from addition The result is the number of matching cells, not the sum of their amounts. For the first example the result is 3, rather than 3900. A single COUNTIF applies one condition; the condition therefore has to match precisely what is being counted.

**Step 4:** Conclusion COUNTIF(range, criteria) returns the number of cells in a specified range that satisfy the given criterion.

**Quick Tip to Solve:** Identify the range first, then put a comparison such as ">1000" inside double quotes.

**32. Explain the terms 'Password Security' and 'Data Audit'.** [3 marks]

**Solution:**

**Concept:**

- Computerised accounting controls protect financial records against unauthorised access and unauthorised alterations.
- Password security controls access; a data audit examines recorded data and its changes for correctness and accountability.

**Step 1:** Explain password security Password security means restricting entry to the accounting system or its data through a secret password associated with an authorised user. The system checks the user credentials before allowing access. Access rights can restrict a user to the tasks appropriate to that user, such as viewing reports or entering vouchers. Passwords should be kept confidential and changed periodically so that unauthorised persons cannot view or modify sensitive financial information.

**Step 2:** Explain data audit Data audit is the examination and verification of accounting data, including additions, alterations and deletions, to establish its correctness, completeness and reliability. Audit features or an audit trail help identify which user entered or changed a transaction and when the change was made. The auditor checks such records against supporting vouchers and authorised transactions to identify errors, irregular changes or misuse.

**Step 3:** State their roles in control For example, a password can prevent an unauthorised person from opening the accounts. If an authorised user later changes a voucher, a data audit can reveal and examine that change. Together these controls support the protection and reliability of computerised accounting records.

**Step 4:** Conclusion Password security restricts access to authorised users; data audit checks the

integrity of accounting data and traces entries or changes.

**Quick Tip to Solve:** Remember the distinction: a password controls access, while data audit examines entries and changes.

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

**Solution:**

**Concept:**

- Data formatting changes the presentation of worksheet data so that it is readable, consistent and easy to interpret.
- Formatting generally changes how a value is displayed, rather than changing the underlying value used in calculations.

**Step 1:** Define data formatting Data formatting is the process of specifying how data in spreadsheet cells is displayed. It includes the appearance of text and numbers, their alignment, borders and background. For example, an amount may be displayed as currency with two decimal places, and a date may be shown in a chosen date format. Suitable formatting makes an accounting worksheet easier to understand and compare.

**Step 2:** Use number-formatting tools Select the relevant cells and use the Number group or the Number tab of the Format Cells dialog box. Available formats include number, currency, accounting, percentage, date and time. Decimal-place and thousands-separator controls improve the presentation of amounts. For example, 0.25 can be displayed as 25 percent without changing its underlying numerical value.

**Step 3:** Use font and alignment tools Font tools set the typeface, size, bold, italic, underline and font colour. Bold headings distinguish column titles from entries. Alignment tools place contents to the left, centre or right, control vertical alignment and wrap long text within a cell. Merge and Centre can be used appropriately for a worksheet title, while column width and row height can be adjusted so entries remain visible.

**Step 4:** Use borders, fill and reusable formatting tools Borders separate headings, amounts and totals; fill colour highlights selected cells or categories. These tools are available on the formatting toolbar or ribbon and in Format Cells. Format Painter copies the existing format of one cell or range to another. Cell styles apply a consistent set of formats, and conditional formatting highlights cells that meet a specified rule, such as overdue balances. These tools organise the display without requiring the data to be re-entered.

**Step 5:** Conclusion Data formatting controls the appearance of worksheet data through number formats, fonts, alignment, borders, fill, styles, Format Painter and conditional formatting.

**Quick Tip to Solve:** Select the cells before formatting; use number formats for amounts and font or border tools for headings.

OR

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

**Solution:**

**Concept:**

- Accounting software processes accounting data electronically, from recording transactions to preparing financial reports.
- Its uses include maintaining subsidiary records, controlling assets and liabilities, and providing information for management decisions.

**Step 1:** Uses in recording and maintaining accounts 1. Recording transactions: It records purchases, sales, receipts, payments and journal adjustments through accounting vouchers.

2. Maintaining ledgers: It posts voucher entries to the appropriate personal, real and nominal accounts and calculates account balances automatically.

3. Managing receivables and payables: It maintains customer and supplier balances, tracks outstanding invoices and helps monitor collections and payments.

4. Inventory accounting: It maintains item-wise stock records, records quantities received and issued, and helps determine the value of closing inventory.

**Step 2:** Uses in control, reporting and decision-making 5. Payroll processing: It calculates employees' salaries, allowances, deductions and net pay and maintains payroll records.

6. Bank reconciliation: It assists in comparing the bank account in the books with the bank statement and identifying differences such as outstanding cheques.

7. Preparing financial reports: It generates the trial balance, statement of profit and loss and balance sheet from the recorded accounting data.

8. Budgeting and management reporting: It prepares budgets and comparative reports so that actual performance can be compared with plans and financial decisions can be supported by timely information.

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

**Quick Tip to Solve:** List eight distinct applications; avoid counting speed, accuracy and convenience as separate accounting 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 equivalent of money to be received or paid in the future, after discounting it at a specified rate of return or interest.

- A spreadsheet's PV financial function calculates present value using a constant periodic interest rate and, where applicable, equal periodic payments.

**Step 1:** Meaning and basis of present value The present value of an investment is the amount that would have to be invested today at a specified rate to obtain its future receipts. It recognises the time value of money: money available today can earn interest, so a future receipt has a smaller equivalent value today when the discount rate is positive.

For a single receipt, the relationship is

$$PV = \frac{FV}{(1+r)^n},$$

where $PV$ is present value, $FV$ is the future receipt, $r$ is the interest rate per period and $n$ is the number of periods. For an investment with several receipts, their individual discounted values are added.

**Step 2:** Financial function and its syntax The spreadsheet function used is PV. Its syntax is

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

The arguments have the following meanings:

1. `rate`: the interest or discount rate for each period.
2. `nper`: the total number of payment or investment periods.
3. `pmt`: the fixed payment made in each period. For a single future receipt with no intermediate payments, enter zero.
4. `fv`: the future value or cash balance at the end of the last period. This optional argument defaults to zero; it must be supplied when `pmt` is zero.
5. `type`: the timing of periodic payments. Enter 0 for payments at the end of each period and 1 for payments at the beginning. If omitted, it is taken as 0.

**Step 3:** Apply consistent periods and cash-flow signs The rate and number of periods must use the same time unit. For monthly payments over three years at an annual rate of 12%, use $12\%/12$ as `rate` and $3 \times 12 = 36$ as `nper`.

The function follows a cash-flow sign convention: receipts and payments have opposite signs. For example, a receipt of Rs 12,100 after two years, discounted at 10% annually, has present value

$$PV = \frac{12,100}{(1.10)^2} = \text{Rs } 10,000.$$

The formula `=PV(10%,2,0,12100)` returns $-10,000$, representing the present cash outflow needed to obtain the positive future receipt. Entering the future value as $-12100$ instead returns a positive present value of 10,000.

**Step 4:** Conclusion Present value measures the worth today of future investment receipts. The PV function calculates this value from the periodic rate, number of periods, periodic payment, future value and payment timing, with consistent periods and opposite signs for inflows and outflows.

**Quick Tip to Solve:** For one future lump sum, set pmt to zero; keep rate and nper in the same time unit and check cash-flow signs.