CBSE Class 12 Accountancy Question Paper 2023 with Solution PDF-Set 67-1-3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

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

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

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

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

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1(i). 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 is debited with the called-up capital on the forfeited shares, not their full face value.
- The unpaid call is credited to the relevant call account; capital already received is credited to Share Forfeiture.

Step 1: Identify the called-up amount Each share has a face value of Rs 10, but only Rs 8 has been called. Therefore the capital recorded against each forfeited share is Rs 8. The uncalled Rs 2 is not part of the Share Capital debit.

Step 2: Calculate and compare the options For 400 shares, the debit is

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

Rs 4,000 uses the face value incorrectly. Rs 800 is the unpaid first call, 400×2, while Rs 2,000 has no basis in the called-up amount. Capital received is $400 \times (8 - 2) = \text{Rs } 2,400$, which belongs to Share Forfeiture, not the capital debit.

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

Quick Tip to Solve: For a forfeiture debit, multiply shares by the called-up value; ignore any amount not yet called.

OR

1(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 is credited only with the amount of share capital actually received on the forfeited shares.
- Securities premium is separate from share capital; unpaid premium is not credited to Share Forfeiture.

Step 1: Separate capital from premium Premium per share is $10\% \times \text{Rs } 10 = \text{Rs } 1$. The issue price is therefore Rs 11. Unpaid allotment is Rs 5, including Rs 1 premium, and the unpaid final call is Rs 3. Thus the amount received per share is

$$11 - 5 - 3 = \text{Rs } 3.$$

This is entirely capital received on application.

Step 2: Calculate the forfeiture credit The capital received on 700 shares is

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

Rs 7,000 is total nominal capital, not capital received. Rs 4,900 is unpaid capital, $700 \times (4 + 3)$. Rs 1,400 incorrectly treats only Rs 2 per share as received. None of these represents the actual amount retained on forfeiture.

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

Quick Tip to Solve: Remove the Rs 1 premium from unpaid allotment before subtracting unpaid capital from face value.

2. '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:

- Interest on drawings is charged to the withdrawing partner and credited to Interest on Drawings Account.
- For equal drawings at the beginning of each quarter, the average period is $(12+9+6+3)/4 = 7.5$ months.

Step 1: Compute interest on drawings Total annual drawings are $4 \times$ Rs $12,000 =$ Rs $48,000$. The four drawings remain outstanding for 12, 9, 6 and 3 months respectively. Therefore,

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

The profit-sharing ratio does not affect the charge on A's own drawings.

Step 2: Record the charge to A The question specifies a fixed drawing amount, not a fixed-capital system. Debit A's Capital Account and credit Interest on Drawings Account. The journal is:

Journal of the firm

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

Options (A) and (B) reverse the debit and credit. Option (D) charges the firm's appropriation account instead of the withdrawing partner.

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

Quick Tip to Solve: Beginning-of-quarter drawings use 7.5 months; a fixed drawing amount does not imply fixed capitals.

3(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 is credited with the face value of debentures issued, irrespective of their issue price.
- On issue at discount, the difference between nominal value and cash received is debited as discount on issue.

Step 1: Determine nominal capital raised The company issued 2,000 debentures, each with face value Rs 100. Therefore the nominal liability credited to 9% Debentures Account is

$$2,000 \times 100 = \text{Rs } 2,00,000.$$

The 9% rate determines interest, not the amount initially credited.

Step 2: Distinguish proceeds and discount The cash received is $2,000 \times 95 = \text{Rs } 1,90,000$, which explains option (A), but it is the Bank debit. The discount is $2,000 \times 5 = \text{Rs } 10,000$, which explains option (D), but it is a separate debit. Rs 1,10,000 is neither the proceeds nor the nominal liability. The two debits together equal the nominal debenture credit.

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

Quick Tip to Solve: Credit debentures at face value: the Rs 95 issue price affects cash and discount, not the liability.

OR

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

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

(B) Debentures can be issued at discount.

(C) Debentureholders do not have voting rights.

(D) Debentures cannot be converted into shares.

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

Solution:

Concept:

- Debentures represent borrowed funds, and their holders are creditors rather than shareholders.
- A debenture may be convertible into shares when conversion is provided in its terms of issue.

Step 1: Check the first three statements Statement (A) is correct: debenture interest is a charge against profit and is payable even when the company incurs a loss. Statement (B) is also correct: debentures may be issued at a discount to face value. Statement (C) is correct: debentureholders do not possess voting rights merely because they hold debentures.

Step 2: Test the absolute prohibition Statement (D) says debentures cannot be converted into shares. This is false because convertible debentures can be converted into equity shares according to the terms of issue. The question asks for the incorrect statement, so the three true statements must be rejected. Conversion rights do not mean that all debentures are convertible; non-convertible debentures also exist.

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

Quick Tip to Solve: For an incorrect-statement question, test absolute words such as "cannot" against convertible debentures.

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

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

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

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

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

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

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

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

Solution:

Concept:

- An intangible asset has economic value but no physical substance.
- Goodwill represents the value of business reputation and the ability to earn profits above normal expectations.

Step 1: Evaluate the assertion Goodwill is an intangible asset because it cannot be physically seen or touched, although it provides an economic advantage to the business. Therefore Assertion (A) is correct.

Step 2: Evaluate the reason The reason describes goodwill as the value of a firm's reputation in relation to expected future profits above normal profits. This correctly expresses the earning advantage associated with goodwill. Therefore Reason (R) is also correct.

Step 3: Connect the two statements The earning advantage explained in the reason is valuable despite having no physical form, so it is consistent with the assertion. The printed choices ask only whether the statements are correct. Options (A), (B) and (D) each label at least one true statement as wrong and are therefore rejected.

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

Quick Tip to Solve: Judge both statements separately; here the printed choices test truth, not a separate explanation code.

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

(i) Provision for Doubtful Debts

(ii) Partners' Loan

(iii) General Reserve

(iv) Goodwill [1 mark]

(A) (i) and (iv)

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

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

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

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

Solution:

Concept:

- Realisation Account records transfer and disposal of recorded non-cash assets and settlement of external liabilities on dissolution.
- Asset-related provisions are transferred to Realisation; reserves and partners' loans receive separate treatment.

Step 1: Identify items transferred to Realisation Provision for Doubtful Debts, item (i), is transferred to the credit of Realisation Account because the related debtors are transferred at their gross book value. Goodwill appearing in the books, item (iv), is a non-cash asset and is transferred to the debit of Realisation Account.

Step 2: Exclude partner loans and reserves Partners' Loan, item (ii), is settled separately through the partner's loan account and is not transferred to Realisation. General Reserve, item (iii), is distributed directly to partners' Capital Accounts in the profit-sharing ratio. Thus options (B), (C) and (D) incorrectly include a partner loan, a reserve, or both.

Step 3: Conclusion Items (i) and (iv) are transferred to Realisation Account. Hence, the correct option is (A).

Quick Tip to Solve: On dissolution, keep partner loans and accumulated reserves outside Realisation; include recorded goodwill.

6. 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:

- Each old partner's new share equals the old share minus the share sacrificed to the incoming partner.
- A stated fraction of the incoming partner's share must be multiplied by that incoming share.

Step 1: Compute the sacrifices Akshat receives $1/3$ of the total profits. Akshita sacrifices $(2/3)(1/3) = 2/9$, and Anurag sacrifices $(1/3)(1/3) = 1/9$. These add to $3/9 = 1/3$, exactly Akshat's acquired share.

Step 2: Calculate and verify the new shares The old shares of Akshita and Anurag are $2/3$ and $1/3$. Their new shares are

$$\frac{2}{3} - \frac{2}{9} = \frac{4}{9}, \qquad \frac{1}{3} - \frac{1}{9} = \frac{2}{9}.$$

Akshat's share is $1/3 = 3/9$. The three shares total one. Options (A) and (B) misallocate the old partners' shares, while option (C) gives Akshat only $1/4$, contrary to the specified $1/3$.

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 2/3 and 1/3 by Akshat's 1/3 first; they are fractions of his share, not total profits.

7 and 8. ***Read the following hypothetical situation and answer questions number 7 and 8 on the basis of the given information:***

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

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

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

7. 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:

- When profits are divisible after interest on capitals, first deduct the total interest and then apply the profit-sharing fractions.
- The deficiency equals the guaranteed share minus the partner's actual share of the residual profit.

Step 1: Find profit available for division Interest at 10% on the capitals of Kavita, Savita and Madhu is Rs 60,000, Rs 40,000 and Rs 20,000 respectively. Total interest is Rs 1,20,000. Therefore profit remaining for division is

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

Step 2: Compare Savita's share with the guarantee Savita receives half of the residual profit: $1,80,000 \times 1/2 = \text{Rs } 90,000$. The guarantee relates to this share after charging interest, not to her interest plus profit. Her deficiency is

$$1,00,000 - 90,000 = \text{Rs } 10,000.$$

Kavita bears this amount personally. Rs 40,000 is Savita's interest, not the deficiency; Rs 70,000 and Rs 20,000 also do not equal the difference between the guarantee and the computed share.

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

Quick Tip to Solve: Deduct all partners' interest before taking Savita's half; compare only that share with Rs 1,00,000.

8. 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 provided before dividing the remaining profit in the agreed ratio.
- A personally guaranteed deficiency is borne entirely by the guaranteeing partner; the third partner's share remains unchanged.

Step 1: Calculate the distributable profit Interest on the three capitals at 10% is Rs 60,000, Rs 40,000 and Rs 20,000 respectively. Thus,

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

The ordinary shares of Kavita, Savita and Madhu are respectively Rs 60,000, Rs 90,000 and Rs 30,000.

Step 2: Adjust the guarantee Savita's deficiency is $1,00,000 - 90,000 = \text{Rs } 10,000$. Kavita alone bears it, so her residual share becomes $60,000 - 10,000 = \text{Rs } 50,000$. Savita receives Rs 1,00,000 and Madhu retains Rs 30,000. Option (A) lists interest only; (C) omits the guarantee; (D) wrongly reduces Madhu's share. These options concern residual profit after interest, whose total is Rs 1,80,000.

Step 3: Conclusion The distribution after the guarantee 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: First deduct interest on all capitals; transfer Savita's Rs 10,000 shortfall only from Kavita's residual share.

9. Gaurav, Sonu and Anita are partners in a firm sharing profits in the ratio of 4 : 3 : 2. Sonu 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. 4,00,000. Gaurav and Anita agreed to pay him Rs. 4,60,000 in full settlement of his claim. Sonu's share of goodwill of the firm, on his retirement is : [1 mark]

(A) Rs. 20,000

(B) Rs. 60,000

(C) Rs. 1,80,000

(D) Rs. 1,20,000

Correct Answer: (B) Rs. 60,000

Solution:

Concept:

- The excess of the agreed settlement over a retiring partner's fully adjusted capital represents that partner's share of goodwill.
- The firm's total goodwill is obtained only if this individual share is divided by the retiring partner's old profit share.

Step 1: Compare the settlement and adjusted capital Sonu's capital of Rs 4,00,000 already incorporates reserves, revaluation and reassessment adjustments. Therefore the additional payment of Rs 4,60,000 cannot be attributed to those adjustments again.

$$\text{Sonu's goodwill share} = 4,60,000 - 4,00,000 = \text{Rs } 60,000.$$

Step 2: Distinguish the individual share from total goodwill Sonu's old share is $3/9 = 1/3$. The implied goodwill of the whole firm would be $60,000 \div (1/3) = \text{Rs } 1,80,000$, which is option (C), but the question asks for Sonu's share. Options (A) and (D) also do not equal the excess settlement.

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

Quick Tip to Solve: When the adjusted capital is given, subtract it from the settlement before using the old profit-sharing ratio.

10. 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 is an accumulated loss belonging to all partners before retirement.
- An accumulated loss is debited to the old partners' capital accounts in their old profit-sharing ratio.

Step 1: Allocate the loss in the old ratio Aman, Aadhar and Avinash shared the earlier profits and losses in $3 : 2 : 1$. Their portions of Rs 1,20,000 are:

$$\begin{aligned} \text{Aman} &= 1,20,000 \times 3/6 = \text{Rs } 60,000, \\ \text{Aadhar} &= 1,20,000 \times 2/6 = \text{Rs } 40,000, \\ \text{Avinash} &= 1,20,000 \times 1/6 = \text{Rs } 20,000. \end{aligned}$$

Step 2: Determine the side and partners affected Debit all three capital accounts by these amounts to reduce their claims and clear the accumulated loss. Avinash must bear his Rs 20,000 share before his payable amount is determined. Option (A) excludes him incorrectly. Options (C) and (D) credit capital accounts and use ratios that do not apply to past losses.

Step 3: Conclusion Transfer the debit balance to the debit side of Aman's, Aadhar's and Avinash's capital accounts in the old ratio. Hence, the correct option is (B).

Quick Tip to Solve: For a pre-retirement accumulated loss, include the retiring partner and debit capitals using the old ratio.

11(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 receives the share of profit earned up to the date of death in the old profit-sharing ratio.
- An interim profit share is adjusted through Profit and Loss Suspense Account, with the deceased partner's capital credited.

Step 1: Calculate P's share The ratio $4:3:1$ has eight parts, of which P holds four. The Rs 80,000 is the firm's profit up to death, not P's individual entitlement.

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

Step 2: Identify the adjustment account The adjustment requires a debit of Rs 40,000 to Profit and Loss Suspense Account and a credit of the same amount to P's Capital Account. Options (A) and (B) use the wrong debit account for this interim adjustment. Option (C) incorrectly debits the whole firm's profit of Rs 80,000 rather than P's 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: First apply the deceased partner's old share, then use that amount in the Profit and Loss Suspense adjustment.

OR

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

(A) 2 : 1

(B) 7 : 5

(C) 1 : 1

(D) 3 : 2

Correct Answer: (B) 7 : 5

Solution:

Concept:

- A continuing partner's new share equals the old share plus the share acquired from the retiring partner.
- Equal acquisition means equal gains; it does not make unequal old shares equal.

Step 1: Split Pooja's share equally Pooja's old share is $3/6 = 1/2$. Nita and Anita each acquire half of this share, namely $(1/2) \times (1/2) = 1/4$. Their old shares are $2/6$ and $1/6$, respectively.

Step 2: Add each gain to the old share

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

These shares add to one. Option (A) retains the continuing partners' old relative ratio; option (C) confuses equal gains with equal total shares; option (D) also does not reflect the calculated new shares.

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

Quick Tip to Solve: Write old share plus gain separately for each survivor; equal gains need not produce an equal new ratio.

12. That portion of the uncalled capital which is called only in the event of winding up of the company, is called : [1 mark]

(A) Called-up capital

(B) Uncalled capital

(C) Issued capital

(D) Reserve capital

Correct Answer: (D) Reserve capital

Solution:

Concept:

- Uncalled capital is the part of subscribed share capital that the company has not yet demanded from shareholders.
- Reserve capital is the portion of uncalled capital reserved for being called only in the event of winding up.

Step 1: Use the restriction stated in the question The decisive words are "only in the event of winding up". They describe a particular restricted portion of uncalled capital. This portion is termed reserve capital, rather than the whole amount that has not yet been called.

Step 2: Eliminate the other descriptions Called-up capital in option (A) has already been demanded. Uncalled capital in option (B) is the broader category and can include amounts callable during ordinary operations. Issued capital in option (C) is capital offered for subscription, so it does not identify the winding-up restriction. Reserve capital also differs from capital reserve, which is an accounting reserve arising from capital profits.

Step 3: Conclusion The specified portion is reserve capital. Hence, the correct option is (D).

Quick Tip to Solve: Associate the phrase "callable only on winding up with reserve capital, and do not confuse it with capital reserve.

13. 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 is calculated for the actual period outstanding: $I = P \times r \times t/12$, where t is the number of

months.

Step 1: Find the period outstanding Aman's loan was advanced on 1st July, 2021 and remained outstanding up to 31st March, 2022. July to March is nine months. The absence of a partnership deed does not remove the right to interest on a partner's loan.

Step 2: Calculate and compare

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

Option (A), Rs 36,000, is the interest for a complete year. Rs 18,000 in option (B) covers only six months, and Rs 9,000 in option (C) covers only three months. None uses the actual nine-month period.

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

Quick Tip to Solve: For a partner's loan without an agreement, use 6 percent and count the months from the advance date to year-end.

14(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:

- Equal drawings at the beginning of each month of a full year remain outstanding for 12, 11, ..., 1 months.
- Their average period is $(12 + 1)/2 = 6.5$ months; interest equals total drawings multiplied by the annual rate and average time.

Step 1: Find total drawings and average time Neena makes twelve drawings of Rs 10,000, giving total drawings of $10,000 \times 12 = \text{Rs } 1,20,000$. The first drawing on 1st April is used for twelve months and the last on 1st March for one month. The average period is therefore 6.5 months.

Step 2: Calculate the interest

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

Option (B), Rs 325, applies the average time to just one Rs 10,000 drawing. Options (C) and (D) use six months and 5.5 months respectively, which correspond to middle-of-month and end-of-month drawings, not the stated beginning.

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

Quick Tip to Solve: For twelve equal monthly drawings, use 6.5 months at the beginning, 6 months in the middle, and 5.5 at the end.

OR

14(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:

- Equal quarterly drawings carry interest for the time from each withdrawal to the end of the accounting year.
- For equal amounts, average time is the arithmetic mean of the individual outstanding periods.

Step 1: List the quarter-end withdrawal dates For the year ending 31st March, 2022, the four withdrawals occur on 30th June, 30th September, 31st December and 31st March. They remain outstanding for nine, six, three and zero months respectively. A withdrawal on the final day has no elapsed period within the year.

Step 2: Average the four periods

$$\text{Average period} = \frac{9+6+3+0}{4} = \frac{18}{4} = 4\frac{1}{2} \text{ months.}$$

The equal Rs 1,000 amounts allow a simple average. Six months in option (A) corresponds to the middle of each quarter, while 7.5 months in option (C) corresponds to its beginning. The 6.5 months in option (D) is associated with beginning-of-month drawings.

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

Quick Tip to Solve: For equal quarter-end drawings, list the outstanding months as 9, 6, 3 and 0; the average is 4.5 months.

15. 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:

- The discount allowed on reissue cannot exceed the amount forfeited on that share, excluding securities premium.
- Minimum reissue price equals face value less the capital amount already received and forfeited.

Step 1: Find the capital amount forfeited The unpaid calls total Rs $30 + 10 = 40$. Therefore the amount received towards share capital is Rs $100 - 40 = 60$. The premium of Rs 20 is separate from share capital and cannot be included in the amount available to cover a reissue discount.

Step 2: Apply the maximum permissible discount The largest reissue discount is Rs 60. Hence the minimum cash price is

$$\text{Minimum price} = 100 - 60 = \text{Rs } 40.$$

Rs 60 and Rs 100 are permissible reissue prices, but neither is the minimum. Rs 20 would mean a discount of Rs 80, exceeding the forfeited capital amount.

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

Quick Tip to Solve: Exclude premium from the forfeited amount; here the minimum reissue price equals the unpaid capital calls of Rs 40.

16(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:

- Goodwill arises when purchase consideration exceeds the value of net assets acquired.
- Capital reserve arises in the reverse situation, when net assets exceed purchase consideration.

Step 1: Compare the consideration with net assets Fully paid shares worth Rs 5,00,000 are issued to settle the purchase consideration. Net assets acquired are worth Rs 4,70,000. Thus the business pays more than the net asset value:

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

Step 2: Identify the account and its side The excess paid is goodwill, an asset, and is therefore debited. A credit to capital reserve would require net assets to exceed the price paid; a debit to capital reserve does not describe this purchase difference. General reserve represents accumulated revenue profits and is not created by this acquisition.

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: Write purchase price minus net assets first: a positive difference is goodwill debited; a negative difference creates capital reserve.

OR

16(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 of one debenture.
- Issue price is face value less issue discount. The interest rate determines interest, not the issue price.

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

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

The 11% coupon does not change the amount used to settle the vendor.

Step 2: Divide the agreed consideration by issue price The contract fixes the purchase consideration

at Rs 9,00,000, independently of net assets of Rs 8,00,000. Therefore

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

The alternatives 9,000, 8,000 and 11,000 debentures would settle Rs 8,10,000, Rs 7,20,000 and Rs 9,90,000 respectively, so none equals the agreed consideration.

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

Quick Tip to Solve: Use the agreed purchase consideration as numerator and Rs 90 issue price as denominator; neither net assets nor the coupon rate determines the number.

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17. Shweta, Meenu and Asha were partners in a firm sharing profits and losses in the ratio of 3 : 5 : 2. Meenu retired on 1st April, 2022. After making all adjustments relating to revaluation, goodwill and accumulated profits, etc., the capital accounts of Shweta and Asha showed credit balance of Rs. 3,00,000 and Rs. 1,00,000 respectively. It was decided to adjust the capitals of Shweta and Asha 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 different future ratio is specified, the continuing partners share in their old relative ratio.
- In the absence of a separately stated total capital, use the combined adjusted capitals of the continuing partners as the total capital to be redistributed.
- A partner withdraws the excess of existing capital over required capital; a partner brings in a deficiency.

Step 1: Working Notes: calculate the new capitals Shweta and Asha retain their relative shares, giving the new ratio $3 : 2$. Their combined adjusted capital is Rs $3,00,000 + 1,00,000 = 4,00,000$. Hence

$$\text{Shweta's required capital} = 4,00,000 \times \frac{3}{5} = \text{Rs } 2,40,000,$$

$$\text{Asha's required capital} = 4,00,000 \times \frac{2}{5} = \text{Rs } 1,60,000.$$

Shweta has surplus capital of Rs $3,00,000 - 2,40,000 = 60,000$, while Asha has a deficiency of Rs $1,60,000 - 1,00,000 = 60,000$.

Step 2: Record the cash adjustment entries Journal of the firm (1 April 2022)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2022	Shweta's Capital A/c Dr. To Bank A/c (Being surplus capital withdrawn by Shweta)		60,000	 60,000
1-4-2022	Bank A/c Dr. To Asha's Capital A/c (Being deficiency in capital brought in by Asha)		60,000	 60,000

The withdrawal reduces Shweta's credit capital balance; the fresh contribution increases Asha's credit balance. No further goodwill or revaluation entry is needed because those adjustments are already included in the given balances.

Step 3: Conclusion Shweta withdraws Rs 60,000 and Asha brings in Rs 60,000. Their final capitals are Rs 2,40,000 and Rs 1,60,000 respectively, in the ratio $3:2$.

Quick Tip to Solve: Add only the continuing partners' adjusted capitals, apportion that total in 3:2, and compare each required capital with its existing balance.

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18. Sangeeta, Deepa, Ajay and Lalit were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 4 : 1. They decided to share profits and losses in the ratio of 5 : 1 : 2 : 2 with effect from 1st April, 2022. On this date, the goodwill of the firm was valued at Rs. 5,20,000, General Reserve appeared in the books at Rs. 1,00,000.

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

Solution:

Concept:

- Accumulated general reserve belongs to the partners in their old profit-sharing ratio.
- On a change of ratio, gaining partners compensate sacrificing partners for goodwill; gain equals new share minus old share.
- Where goodwill is adjusted without being retained as an asset, debit gaining partners' capitals and credit sacrificing partners' capitals.

Step 1: Working Notes: compute gains, sacrifices and reserve shares All ratios have denominator 10. Sangeeta gains $(5-3)/10 = 2/10$; Deepa sacrifices $(2-1)/10 = 1/10$; Ajay sacrifices $(4-2)/10 = 2/10$; Lalit gains $(2-1)/10 = 1/10$.

$$\text{Sangeeta's goodwill debit} = 5,20,000 \times 2/10 = \text{Rs } 1,04,000,$$
$$\text{Lalit's goodwill debit} = 5,20,000 \times 1/10 = \text{Rs } 52,000,$$
$$\text{Deepa's goodwill credit} = 5,20,000 \times 1/10 = \text{Rs } 52,000,$$
$$\text{Ajay's goodwill credit} = 5,20,000 \times 2/10 = \text{Rs } 1,04,000.$$

Distribute the Rs 1,00,000 General Reserve in the old ratio $3:2:4:1$: Rs 30,000, Rs 20,000, Rs 40,000 and Rs 10,000 respectively.

Step 2: Record the goodwill adjustment Journal of the firm (1 April 2022)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2022	Sangeeta's Capital A/c Dr.		1,04,000	
	Lalit's Capital A/c Dr.		52,000	
	To Deepa's Capital A/c			52,000
	To Ajay's Capital A/c			1,04,000
	(Being goodwill adjusted through the gaining and sacrificing partners' capital accounts)			

Total debits and credits are each Rs 1,56,000; no Goodwill Account is opened.

Step 3: Distribute the accumulated reserve Journal of the firm (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2022	General Reserve A/c Dr.		1,00,000	
	To Sangeeta's Capital A/c			30,000
	To Deepa's Capital A/c			20,000
	To Ajay's Capital A/c			40,000
	To Lalit's Capital A/c			10,000
	(Being General Reserve distributed among all partners in their old ratio of 3:2:4:1)			

Step 4: Conclusion Goodwill is adjusted by debiting Sangeeta Rs 1,04,000 and Lalit Rs 52,000, and crediting Deepa Rs 52,000 and Ajay Rs 1,04,000. General Reserve is distributed in the old ratio $3:2:4:1$.

Quick Tip to Solve: Keep the two ratios separate: reserve follows the old ratio; goodwill follows each partner's individual gain or sacrifice.

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

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

Solution:

Concept:

- Application money received equals the shares applied for multiplied by the total amount payable per share.
- On allotment, credit Share Capital only with nominal value and Securities Premium with the premium on shares actually issued.
- When the whole issue price is payable on application, surplus application money is refunded because no future instalment is due.

Step 1: Working Notes: compute the amounts Premium per share is $10\% \times \text{Rs } 10 = \text{Rs } 1$; total application money is therefore Rs 11 per share. Pro-rata allotment is $1,00,000 : 3,00,000 = 1 : 3$, so each applicant gets one share for every three applied for.

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

The excess cannot be held against an allotment or call instalment, since the complete price was payable on application.

Step 2: Record receipt of application money Journal of Annex Ltd.

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

Step 3: Transfer the amount due and refund the excess Journal of Annex Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Application A/c Dr.		33,00,000	
	To Share Capital A/c			10,00,000
	To Securities Premium A/c			1,00,000
	To Bank A/c			22,00,000
	(Being application money transferred on pro-rata allotment of 1,00,000 shares and surplus refunded)			

The Share Application Account is fully cleared. The second entry balances because total credits are Rs 33,00,000.

Step 4: Conclusion Annex Ltd. records share capital of Rs 10,00,000 and securities premium of Rs 1,00,000, and refunds Rs 22,00,000 of surplus application money.

Quick Tip to Solve: When the entire issue price is collected on application, calculate the refund immediately: applications less allotted shares, multiplied by Rs 11.

OR

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

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

Solution:

Concept:

- Record assets and liabilities taken over at their agreed values. If net assets exceed purchase consideration, credit the difference to Capital Reserve Account.
- Debentures issued at a premium settle the vendor's claim at the issue price. Credit Debentures Account with nominal value and Securities Premium Account with the excess.

Step 1: Calculate capital reserve and debentures issued **Working Notes** Net assets equal assets less liabilities:

$$\text{Net assets} = 60,00,000 - 10,00,000 = \text{Rs } 50,00,000,$$

$$\text{Capital reserve} = 50,00,000 - 45,00,000 = \text{Rs } 5,00,000.$$

A debenture of Rs 100 issued at 25% premium has an issue price of Rs 125. Thus:

$$\text{Number issued} = 45,00,000/125 = 36,000,$$
$$\text{Nominal value} = 36,000 \times 100 = \text{Rs } 36,00,000,$$
$$\text{Premium} = 36,000 \times 25 = \text{Rs } 9,00,000.$$

Step 2: Record the assets and liabilities taken over **Journal of Shovan Limited**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr.		60,00,000	
	To Sundry Liabilities A/c			10,00,000
	To Swami Limited A/c			45,00,000
	To Capital Reserve A/c			5,00,000
	(Being assets and liabilities taken over for the agreed consideration and surplus credited to capital reserve)			

Step 3: Settle the purchase consideration **Journal of Shovan Limited (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Swami Limited A/c Dr.		45,00,000	
	To 10% Debentures A/c			36,00,000
	To Securities Premium A/c			9,00,000
	(Being 36,000 debentures of Rs 100 each issued at 25% premium to discharge purchase consideration)			

Step 4: Conclusion Capital reserve is Rs 5,00,000; 36,000 debentures of nominal value Rs 36,00,000 are issued with a premium of Rs 9,00,000.

Quick Tip to Solve: Divide consideration by Rs 125 to find debentures issued; multiply that number by Rs 100 to find the credit to Debentures Account.

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

Solution:

Concept:

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

Step 1: Calculate the normal annual profit **Working Notes** The given capital of Rs 1,50,000 is the capital employed for this calculation. At a normal rate of return of 10%, a comparable firm would

earn:

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

This is the ordinary return attributable to the firm's capital; it must be deducted before valuing the additional earning capacity represented by goodwill.

Step 2: Find the annual super profit The firm's average annual profit is Rs 23,500. Compare it with the normal annual profit, rather than with the capital itself:

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

Thus Rs 8,500 of annual profit is earned above the normal return on capital. It is positive, so the super-profit method produces positive goodwill.

Step 3: Apply three years' purchase Three years' purchase means capitalising three times the annual super profit under the specified method:

$$\text{Goodwill} = \text{Super profit} \times \text{Years' purchase}$$
$$= 8,500 \times 3 = \text{Rs } 25,500.$$

Multiplying the entire average profit by three would apply the average-profit method instead and would include the normal return already earned on capital.

Step 4: Conclusion Goodwill of Ashu and Madhav's firm, valued at three years' purchase of super profits, is Rs 25,500.

Quick Tip to Solve: First subtract 10% of Rs 1,50,000 from Rs 23,500; multiply only the excess by three, not the entire average profit.

OR

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

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

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

Solution:

Concept:

- Interest on capital is calculated on the capital actually employed for each period: interest equals capital multiplied by annual rate multiplied by the fraction of the year.
- A change in capital during the year requires separate calculations before and after the change. The

profit-sharing ratio does not determine interest on capital.

Step 1: Determine revised capitals and the time periods **Working Notes** Opening capitals apply for eight months, April to November. From 1st December, divide the revised total capital in the ratio $2:1$:

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

Revised balances apply for four months, December to March. The additions are Rs 80,000 and Rs 20,000 respectively; the $4:1$ profit-sharing ratio does not determine capital balances.

Step 2: Calculate Rakshit's interest on capital Apply 6% per annum separately to each capital balance for the time it is employed:

$$\text{First 8 months} = 1,20,000 \times \frac{6}{100} \times \frac{8}{12} = \text{Rs } 4,800,$$
$$\text{Last 4 months} = 2,00,000 \times \frac{6}{100} \times \frac{4}{12} = \text{Rs } 4,000,$$
$$\text{Total interest} = 4,800 + 4,000 = \text{Rs } 8,800.$$

Step 3: Calculate Malik's interest on capital Use Malik's opening and revised balances for the same two periods:

$$\text{First 8 months} = 80,000 \times \frac{6}{100} \times \frac{8}{12} = \text{Rs } 3,200,$$
$$\text{Last 4 months} = 1,00,000 \times \frac{6}{100} \times \frac{4}{12} = \text{Rs } 2,000,$$
$$\text{Total interest} = 3,200 + 2,000 = \text{Rs } 5,200.$$

As a check, opening capitals earn Rs 12,000 for the whole year, while additions totalling Rs 1,00,000 earn Rs 2,000 for four months. Total interest is therefore Rs 14,000.

Step 4: Conclusion For the year ending 31st March, 2022, interest on capital is Rs 8,800 for Rakshit and Rs 5,200 for Malik, totalling Rs 14,000.

Quick Tip to Solve: Alternatively, charge 6% on opening capitals for twelve months and on only the additions of Rs 80,000 and Rs 20,000 for four months.

21. Tanay Ltd. has an authorised capital of Rs. 40,00,000 divided into equity shares of Rs. 10 each. The company invited applications for issuing 80,000 shares. Applications for 78,000 shares were received. All calls were made and duly received except the first and final call of Rs. 2 per share on 1,500 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 company's constitution; issued capital is the nominal value of shares offered for subscription. These figures are disclosed separately from subscribed capital in the note.
- Forfeited shares cease to be part of subscribed share capital. The amount already received on those shares remains in the Share Forfeiture Account and is added separately in the share capital note until reissue.

Step 1: Calculate the share capital amounts Authorised capital consists of $40,00,000 \div 10 = 4,00,000$ equity shares. Issued capital is $80,000 \times 10 =$ Rs $8,00,000$. The company received applications for only 78,000 shares, so issued capital must not be mistaken for subscribed capital.

After forfeiture, the number of fully paid shares is

$$78,000 - 1,500 = 76,500.$$

Therefore, subscribed and fully paid-up capital is $76,500 \times 10 =$ Rs $7,65,000$. The amount received per forfeited share is $10 - 2 =$ Rs 8, giving a forfeited-shares balance of $1,500 \times 8 =$ Rs $12,000$. The unpaid call of Rs 3,000 is cancelled on forfeiture; it is not shown again as calls in arrears against the remaining fully paid shares.

Step 2: (a) Show the Balance Sheet extract **Tanay Ltd.**

Balance Sheet (Extract)

Particulars	Note No.	Amount (Rs)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	7,77,000

Step 3: (b) Prepare the Notes to Accounts **Notes to Accounts**

Note 1: Share Capital

Particulars	Amount (Rs)
Authorised capital	
4,00,000 equity shares of Rs 10 each	40,00,000
Issued capital	
80,000 equity shares of Rs 10 each	8,00,000
Subscribed and fully paid-up capital	
76,500 equity shares of Rs 10 each, fully paid	7,65,000
Add: Forfeited shares (amount originally paid up on 1,500 shares)	12,000
Total Share Capital	**7,77,000**

The authorised and issued capital disclosures remain unchanged by forfeiture. The note separates the outstanding fully paid equity shares from money retained on forfeited shares, and its total agrees with the Balance Sheet extract.

Step 4: Conclusion Tanay Ltd. will disclose **Share Capital of Rs 7,77,000**: Rs 7,65,000 subscribed and fully paid-up capital plus Rs 12,000 on forfeited shares.

Quick Tip to Solve: First remove the 1,500 forfeited shares from subscribed shares, then add back only the Rs 8 per share already received, not their Rs 10 face value.

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

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

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

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

(i) Goodwill of the firm was to be valued at 2 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:

- The deceased partner receives his capital balance, share of accumulated profits and goodwill, profit up to death, and interest on capital. His share of accumulated losses or deferred expenditure is deducted.
- Sudhir's profit-sharing fraction is $2/5$. Profit up to death is estimated from the previous year's profit-to-sales ratio, while interest on capital is calculated for the actual period from 1st April to 30th June.

Step 1: Calculate reserve, advertisement suspense and goodwill adjustments General Reserve belongs to the old partners in their old ratio; Sudhir is credited with $1,00,000 \times 2/5 =$ Rs $40,000$. Advertisement Suspense is accumulated expenditure, so his share is debited: $1,20,000 \times 2/5 =$ Rs $48,000$.

Average annual profits are given as Rs 1,80,000. Thus,

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

Deepak and Naveen continue in their relative old ratio $2:1$, which is also their gaining ratio. They compensate Sudhir by debiting their capital accounts with Rs 1,20,000 and Rs 60,000 respectively, and crediting Sudhir's Capital Account with the total Rs 1,80,000.

Step 2: Determine profit up to death and interest on capital The previous year's profit-to-sales ratio is

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

Estimated firm profit on sales of Rs 1,50,000 up to 30th June is $1,50,000 \times 25\% =$ Rs $37,500$. Sudhir's share is therefore $37,500 \times 2/5 =$ Rs $15,000$, credited through Profit and Loss Suspense Account. Do not also multiply by $3/12$: the sales figure already relates to the period up to his death.

Interest for three months on his opening capital is

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

This is a separate credit to his capital account under the partnership deed.

Step 3: Prepare the account to be rendered to the executors **Sudhir's Capital Account**
For the period 1st April to 30th 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 A/c	40,000	
			By Deepak's Capital A/c (Goodwill)	1,20,000	
			By Naveen's Capital A/c (Goodwill)	60,000	
			By Profit and Loss Suspense A/c	15,000	
			By Interest on Capital A/c	2,800	
	Total	**3,97,800**	**Total**	**3,97,800**	

The amount due is transferred to Sudhir's Executors' Account, closing his Capital Account. The transfer is the balancing amount: total credits Rs 3,97,800 less advertisement suspense Rs 48,000. Since the account is closed by transfer, no balance is carried forward in Sudhir's Capital Account.

Step 4: Conclusion The amount due to Sudhir's executors is **Rs 3,49,800**. Sudhir's Capital Account closes with equal debit and credit totals of Rs 3,97,800.

Quick Tip to Solve: Apply the 25% profit-to-sales ratio to the actual three-month sales; use the three-month fraction only for interest on capital.

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

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

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

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

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

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

Solution:

Concept:

- On admission, accumulated reserves and revaluation profit belong to the old partners in their old ratio, here Yuv : Veer $= 3 : 1$.
- Goodwill premium compensates the sacrificing partners. When no separate sacrifice is specified, old partners sacrifice in their old ratio.
- Proportionate capital uses the adjusted capitals of the old partners and their combined new profit share. Goodwill premium is separate from the incoming partner's capital.

Step 1: Prepare the working notes **Working Notes** Investments appreciate by Rs $68,000 - 60,000 = 8,000$. Depreciation on Plant and Machinery is Rs $60,000 \times 10\% = 6,000$. Revaluation profit is therefore Rs $8,000 - 6,000 = 2,000$, divided between Yuv and Veer as Rs 1,500 and Rs 500. General Reserve of Rs 80,000 is credited to their capitals as Rs 60,000 and Rs 20,000. Yash's goodwill premium of Rs 4,000 is credited to them as Rs 3,000 and Rs 1,000. This premium remains in the business since no withdrawal is specified. Old partners retain $1 - \frac{1}{4} = \frac{3}{4}$ of profits. Their new shares are $\frac{3}{4} \times \frac{3}{4} = \frac{9}{16}$ and $\frac{1}{4} \times \frac{3}{4} = \frac{3}{16}$. Yash receives $\frac{4}{16}$; the new ratio is $9 : 3 : 4$, while sacrifice is $3 : 1$.

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

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

All profit is transferred to the old partners, leaving no balance in this account. Other assets and

liabilities remain unchanged because the terms specify no adjustment to them.

Step 3: Calculate Yash's proportionate capital After reserve, revaluation and goodwill adjustments:

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

Their combined Rs 2,13,000 represents a $\frac{3}{4}$ share in profits. Hence:

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

Yash brings total cash of Rs $71,000 + 4,000 = 75,000$. Only the capital component is credited to his Capital Account.

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

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

The closing balances total Rs 2,84,000. Yash's capital equals one-fourth of this total, verifying the proportionate-capital requirement. The individual old capitals are not readjusted because the question does not require this.

Step 5: Conclusion Revaluation profit is Rs 2,000. Yash brings capital of Rs 71,000 and premium of Rs 4,000. Closing capitals are Yuv Rs 1,43,500, Veer Rs 69,500 and Yash Rs 71,000.

Quick Tip to Solve: Add reserve, revaluation profit and retained goodwill premium to the old capitals first; multiply their combined adjusted capital by $\frac{1}{3}$ for Yash's one-fourth share.

OR

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

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

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

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

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

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

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

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

Solution:

Concept:

- Accumulated reserves, losses and revaluation profit or loss are shared by all partners in the old ratio $5:3:2$, because they relate to the period before retirement.
- Continuing partners compensate the retiring partner for his share of goodwill in their gaining ratio: new share minus old share.
- Existing provision for doubtful debts absorbs bad debts first. Only the excess over that provision reduces net assets and creates a revaluation loss.

Step 1: Compute the gains and goodwill adjustment **Working Notes** Aayushman's gain is $\frac{2}{5} - \frac{3}{10} = \frac{1}{10}$; Sabhya's gain is $\frac{3}{5} - \frac{2}{10} = \frac{4}{10}$. Thus their gaining ratio is $1:4$. Reyansh's goodwill share is Rs $12,00,000 \times \frac{5}{10} = 6,00,000$. Aayushman bears Rs 1,20,000 and Sabhya Rs 4,80,000. No Goodwill Account is raised, since the adjustment is made directly through capitals. General Reserve of Rs 1,20,000 is distributed as Rs 60,000, Rs 36,000 and Rs 24,000. The debit balance of Profit and Loss Account, Rs 1,00,000, is written off as Rs 50,000, Rs 30,000 and Rs 20,000, respectively.

Step 2: Record accumulated balances and goodwill **Journal of the Firm (31st March, 2022)**

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 $5:3:2$)			
	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)			
	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 share adjusted in gaining ratio $1:4$)			

Step 3: Record revaluation adjustments The unrecorded creditor increases liabilities by Rs 40,000. Bad debts of Rs 30,000 use the existing provision of Rs 20,000, so only Rs 10,000 is charged to Revaluation Account. Total revaluation loss is Rs $40,000 + 10,000 = 50,000$, shared as Rs 25,000, Rs 15,000 and Rs 10,000.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Revaluation A/c Dr.		40,000	
	To Sundry Creditors A/c			40,000
	(Being unrecorded creditor brought into the books)			
	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 against existing provision and the excess charged to revaluation)			
	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 $5:3:2$)			

Debtors after write-off are Rs 1,50,000. The provision has been exhausted; no fresh provision is prescribed. This confirms a decrease of Rs 10,000 from the previous net debtor balance of Rs 1,60,000.

Step 4: Transfer the amount due to Reyansh's Loan Account Reyansh's amount due includes opening capital, reserve and goodwill, less accumulated loss and revaluation loss:

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

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Reyansh's Capital A/c Dr. To Reyansh's Loan A/c (Being the entire amount payable on retirement transferred to his loan account)		11,85,000	 11,85,000

This closes Reyansh's Capital Account. No cash payment is recorded because the terms require a loan transfer. Sabhya's adjusted capital becomes a debit balance of Rs 1,86,000; there is no instruction to bring in cash to remove this balance.

Step 5: Conclusion The gaining ratio is $1 : 4$, the goodwill adjustment is Rs 6,00,000, and revaluation loss is Rs 50,000. The amount transferred to Reyansh's Loan Account is Rs 11,85,000, as recorded above.

Quick Tip to Solve: For the Rs 30,000 bad debts, use the Rs 20,000 existing provision first; charging the full bad debts to revaluation would understate Reyansh's amount due by Rs 10,000.

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

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

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	90,000	Cash at Bank	20,000
Mrs. Aadish's Loan	30,000	Stock	24,000
Shreyansh's Loan	30,000	Investments	30,000
General Reserve	45,000	Debtors 20,000	
		Less : Provision for	
Capitals :		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 disposal of real assets and settlement of outside liabilities. Assets other than cash and bank are transferred at gross book values; provisions and outside liabilities are credited separately.
- An asset taken by a partner credits Realisation Account and debits that partner's Capital Account. An outside liability assumed by a partner debits Realisation Account and credits the partner's Capital Account.
- The realisation profit or loss is transferred to the partners' Capital Accounts in their profit-sharing ratio, here $3:2$.

Step 1: Identify the balances transferred Transfer stock Rs 24,000, investments Rs 30,000, debtors at their gross value of Rs 20,000 and plant Rs 1,00,000 to the debit of Realisation Account. Their total is Rs 1,74,000. Credit provision for doubtful debts Rs 2,000, creditors Rs 90,000 and Mrs. Aadish's loan Rs 30,000, giving Rs 1,22,000.

Cash at Bank is retained in Bank Account. Shreyansh's loan is a partner's loan and is settled separately, so it is not transferred to Realisation Account. General Reserve and Advertisement Suspense Account are transferred directly to the partners' Capital Accounts in the ratio $3:2$; the latter is a deferred loss, not a realisable asset.

Step 2: Calculate the settlement amounts **Working Notes**

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

Bank receipts from debtors, plant and remaining investments total $17,000 + 1,10,000 + 4,500 =$ Rs $1,31,500$. Aadish takes stock for Rs 20,000 and assumes his wife's loan of Rs 30,000. These two non-cash settlements are entered separately on opposite sides of Realisation Account. Realisation expenses of Rs 7,000 are paid through Bank Account.

Step 3: Prepare the Realisation Account **Realisation Account of Aadish and Shreyansh**

Dr. Particulars	Rs	Particulars Cr.	Rs
To Stock	24,000	By Provision for doubtful debts	2,000
To Investments	30,000	By Creditors	90,000
To Debtors	20,000	By Mrs. Aadish's Loan	30,000
To Plant	1,00,000	By Bank (debtors)	17,000
To Bank (creditors)	81,000	By Bank (plant)	1,10,000
To Aadish's Capital (loan assumed)	30,000	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 Loss transferred to:	
		Aadish's Capital	3,000
		Shreyansh's Capital	2,000
Total	**2,92,000**	**Total**	**2,92,000**

The debit total before closing is Rs 2,92,000 and the credit total before loss transfer is Rs 2,87,000. Transfer their difference of Rs 5,000 to the partners: $5,000 \times 3/5 = \text{Rs } 3,000$ to Aadish and $5,000 \times 2/5 = \text{Rs } 2,000$ to Shreyansh. Since Realisation Account is closed on dissolution, no balance is carried forward.

Step 4: Conclusion The realisation loss is **Rs 5,000**, borne by Aadish and Shreyansh as **Rs 3,000 and Rs 2,000**, respectively. Realisation Account closes with equal totals of **Rs 2,92,000**.

Quick Tip to Solve: Transfer debtors at Rs 20,000 and credit the Rs 2,000 provision separately; exclude bank, the partner's loan, reserve and advertisement suspense from Realisation Account.

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

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

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

Solution:

Concept:

- On forfeiture, debit Share Capital with the called-up capital, reverse any premium already due but unpaid, credit the unpaid instalment account and credit Share Forfeiture with capital money actually received.
- On reissue as fully paid, credit Share Capital with the face value. A reissue discount is debited to Share Forfeiture; a reissue premium is credited to Securities Premium Reserve.
- Transfer only the forfeiture balance relating to the shares actually reissued, after deducting any reissue discount, to Capital Reserve.

Step 1: Calculate BCG Limited's amounts **Working Notes for case (i)**

Of the Rs 8 allotment, Rs 4 is capital and Rs 4 is premium. As the first and final call of Rs 4 was not

made, capital called per share is $10 - 4 =$ Rs 6, and capital received per share is $6 - 4 =$ Rs 2.

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

Reissue receipts are $75 \times 15 =$ Rs $1,125$. Since these shares are now fully paid, Share Capital is credited with $75 \times 10 =$ Rs 750, and the balance Rs 375 is premium. There is no reissue discount, so the entire forfeited capital of Rs 150 on these shares becomes Capital Reserve. The uncalled Rs 4 is not treated as an unpaid call on forfeiture.

Step 2: Record BCG Limited's journal entries **Journal of BCG Limited**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		450	
	Securities Premium Reserve A/c Dr.		300	
	To Share Allotment A/c			600
	To Share Forfeiture A/c			150
	(Being 75 shares forfeited for non-payment of allotment including premium)			
	Bank A/c Dr.		1,125	
	To Share Capital A/c			750
	To Securities Premium Reserve A/c			375
	(Being 75 forfeited shares reissued at Rs 15 each as fully paid)			
	Share Forfeiture A/c Dr.		150	
	To Capital Reserve A/c			150
	(Being surplus on all reissued shares transferred to Capital Reserve)			

Step 3: Calculate Geetika Limited's amounts **Working Notes for case (ii)**

Each Rs 50 share was fully called, but only Rs 40 was received. Thus called capital is $1,200 \times 50 =$ Rs $60,000$, unpaid final call is $1,200 \times 10 =$ Rs $12,000$, and capital forfeited is $1,200 \times 40 =$ Rs $48,000$.

$$\text{Bank on reissue} = 900 \times 45 = \text{Rs } 40,500,$$
$$\text{Reissue discount} = 900 \times (50 - 45) = \text{Rs } 4,500,$$
$$\text{Forfeiture on reissued shares} = 900 \times 40 = \text{Rs } 36,000,$$
$$\text{Transfer to Capital Reserve} = 36,000 - 4,500 = \text{Rs } 31,500.$$

The 300 shares not yet reissued retain $300 \times 40 =$ Rs $12,000$ in Share Forfeiture Account. Their forfeited amount cannot be transferred to Capital Reserve before their reissue.

Step 4: Record Geetika Limited's journal entries **Journal of Geetika Limited**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. To Share Final Call A/c To Share Forfeiture A/c (Being 1,200 shares forfeited for non-payment of final call of Rs 10 per share)		60,000	 12,000 48,000
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 900 forfeited shares reissued at Rs 45 each as fully paid)		40,500 4,500	 45,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus relating to 900 reissued shares transferred to Capital Reserve)		31,500	 31,500

Step 5: Conclusion BCG Limited transfers **Rs 150** to Capital Reserve and credits **Rs 375** as reissue premium. Geetika Limited transfers **Rs 31,500** to Capital Reserve, leaving **Rs 12,000** in Share Forfeiture for the 300 unreissued shares.

Quick Tip to Solve: For BCG, use Rs 6 called-up capital on forfeiture but Rs 10 on fully paid reissue. For Geetika, allocate forfeiture to only 900 reissued shares before deducting the reissue discount.

OR

25(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:

- On pro-rata allotment, shares allotted equal shares applied for multiplied by the ratio of total allotted shares to accepted applications. Excess application money is transferred to Share Allotment Account.
- At forfeiture, debit Share Capital with called-up capital, reverse unpaid premium, credit the unpaid instalment, and credit Share Forfeiture with capital already received.
- Forfeited shares do not participate in a call made after forfeiture. An uncalled instalment creates no journal entry.

Step 1: Work out the pro-rata allocation and Yogesh's default **Working Notes.** Allotment ratio is $30,000 : 35,000 = 6 : 7$. Thus Yogesh receives $700 \times 6/7 = 600$ shares. Total application money received is $40,000 \times$ Rs $40 =$ Rs $16,00,000$. Rejected applicants receive $5,000 \times$ Rs $40 =$ Rs $2,00,000$. Required application money on allotted shares is Rs 12,00,000, comprising capital Rs 9,00,000 and premium Rs 3,00,000. The remaining Rs 2,00,000 is adjusted towards allotment.

Yogesh paid $700 \times$ Rs $40 =$ Rs $28,000$, against application due on allotted shares of Rs 24,000. His excess Rs 4,000 is adjusted against the capital component of allotment. Gross allotment due is $600 \times$ Rs $30 =$ Rs $18,000$, leaving Rs 14,000 unpaid, including the entire allotment premium of Rs 6,000. Capital received from him is Rs 18,000 on application plus Rs 4,000 adjusted, or Rs 22,000.

Step 2: Record receipt and adjustment of application money **Journal of Pushkar Limited – application**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received for 40,000 shares at Rs 40 per share)		16,00,000	 16,00,000
	Share Application A/c Dr. To Share Capital A/c To Securities Premium A/c To Share Allotment A/c To Bank A/c (Being application money transferred on 30,000 allotted shares, excess adjusted and rejected applications refunded)		16,00,000	 9,00,000 3,00,000 2,00,000 2,00,000

Step 3: Record allotment due and its receipt Allotment due is $30,000 \times$ Rs $30 =$ Rs $9,00,000$, comprising capital Rs 6,00,000 and premium Rs 3,00,000. After adjusting Rs 2,00,000 application surplus and deducting Yogesh's unpaid Rs 14,000, cash collected on allotment is Rs 6,86,000.

Journal of Pushkar Limited – allotment

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)

	Share Allotment A/c Dr.
	  To Share Capital A/c
	  To Securities Premium A/c
	(Being allotment due on 30,000 shares at Rs 30 each, including premium Rs 10)
			9,00,000	
				6,00,000
				3,00,000

	Bank A/c Dr. To Share Allotment A/c (Being allotment money received after surplus application adjustment, except Rs 14,000 due from Yogesh)		6,86,000	 6,86,000

Step 4: Forfeit Yogesh's shares before making the first call Called-up capital at forfeiture is Rs 50 per share: Rs 30 on application plus Rs 20 on allotment. Hence Share Capital is debited with $600 \times \text{Rs } 50 = \text{Rs } 30,000$. Reverse only unpaid allotment premium, Rs 6,000; application premium was received and is retained. Share Forfeiture receives the capital paid, Rs 22,000.

Journal of Pushkar Limited – forfeiture

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)

	Share Capital A/c Dr.
	Securities Premium A/c Dr.
	  To Share Allotment A/c
	  To Share Forfeiture A/c
	(Being Yogesh's 600 shares forfeited for non-payment of allotment money, reversing unpaid premium)
			30,000
			6,000
				
				14,000
				22,000

Step 5: Record the first call on the remaining shares Shares outstanding after forfeiture are $30,000 - 600 = 29,400$. First call due and received is therefore $29,400 \times \text{Rs } 30 = \text{Rs } 8,82,000$. The second and final call would be Rs 20 per share, but it is not made; no entry arises for that uncalled amount.

Journal of Pushkar Limited – first call

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr. To Share Capital A/c (Being first call due on 29,400 shares at Rs 30 each)		8,82,000	 8,82,000
	Bank A/c Dr. To Share First Call A/c (Being first call money received in full)		8,82,000	 8,82,000

Step 6: Conclusion Yogesh's 600 shares are forfeited, crediting Share Forfeiture by Rs 22,000. Allotment cash received is Rs 6,86,000 and first-call cash received is Rs 8,82,000. Remaining Share Capital is Rs 23,52,000 and Securities Premium is Rs 5,94,000; no entry is made for the uncalled final instalment.

Quick Tip to Solve: Convert applied shares into allotted shares first. At forfeiture remove only called-up capital, reverse only unpaid premium, and exclude the forfeited shares from any later call.

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

(a) 3,000, 7% Debentures of Rs. 100 each are issued at 10% premium, redeemable at a premium of 5%.

(b) 2,000, 8% Debentures of Rs. 100 each are issued at 10% premium, redeemable at par.

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

[6 marks]

Solution:

Concept:

- Credit Debentures Account with face value. Credit Securities Premium Account with premium received on issue; debit Bank Account with the actual issue proceeds.
- Premium payable on redemption is recognised as a liability when debentures are issued. Loss on Issue of Debentures equals discount on issue plus premium payable on redemption.
- The stated interest rate identifies the debenture account. It does not determine either issue proceeds or the redemption premium.

Step 1: Record case (a): issue at premium and redemption at premium **Working Notes.** Face value is $3,000 \times$ Rs $100 =$ Rs $3,00,000$. Issue premium is $10\% \times$ Rs $3,00,000 =$ Rs $30,000$, so the cash received is Rs 3,30,000. Redemption premium is $5\% \times$ Rs $3,00,000 =$ Rs $15,000$. This future obligation is recognised immediately as a loss and a liability; it does not increase cash received.

Journal of Shree Ltd. – case (a)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		3,30,000	
	Loss on Issue of Debentures A/c Dr.		15,000	
	To 7% Debentures A/c			3,00,000
	To Securities Premium A/c			30,000
	To Premium on Redemption of Debentures A/c			15,000
	(Being 3,000 debentures of Rs 100 each issued at 10% premium, redeemable at 5% premium)			

Step 2: Record case (b): issue at premium and redemption at par Face value is $2,000 \times$ Rs $100 =$ Rs $2,00,000$, and issue premium is $10\% \times$ Rs $2,00,000 =$ Rs $20,000$. Cash received is therefore Rs 2,20,000. Since repayment is at par, there is no redemption premium and no loss on issue in this case.

Journal of Shree Ltd. – case (b)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		2,20,000	
	To 8% Debentures A/c			2,00,000
	To Securities Premium A/c			20,000
	(Being 2,000 debentures of Rs 100 each issued at 10% premium, redeemable at par)			

Step 3: Record case (c): issue at discount and redemption at premium Face value is $1,000 \times$ Rs $100 =$ Rs $1,00,000$. Discount on issue is Rs 10,000, leaving cash proceeds of Rs 90,000. Redemption premium is also Rs 10,000. Hence loss on issue is Rs $10,000 +$ Rs $10,000 =$ Rs $20,000$. The debenture liability remains its face value, with the premium liability shown separately.

Journal of Shree Ltd. – case (c)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		90,000	
	Loss on Issue of Debentures A/c Dr.		20,000	
	To 9% Debentures A/c			1,00,000
	To Premium on Redemption of Debentures A/c			10,000
	(Being 1,000 debentures of Rs 100 each issued at 10% discount, redeemable at 10% premium)			

Step 4: Conclusion The issue proceeds for (a), (b) and (c) are Rs 3,30,000, Rs 2,20,000 and Rs 90,000 respectively. Loss on issue is Rs 15,000 in (a), nil in (b), and Rs 20,000 in (c); each journal entry has equal debits and credits.

Quick Tip to Solve: Separate issue price from redemption price: Bank follows issue price, Debentures follows face value, and only discount plus redemption premium enters Loss on Issue.

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 of an enterprise.
- Cash flows from ordinary trading transactions, including collections from debtors and payments to trade creditors, are operating activities.

Step 1: Identify the financing transactions Issue of equity shares, transaction (i), brings in funds from owners and changes share capital. Redemption of debentures, transaction (iii), repays borrowed funds and reduces long-term borrowing. Thus both belong to financing activities: the former is a cash inflow and the latter a cash outflow.

Step 2: Eliminate the operating transactions Cash received from debtors, (ii), is a collection arising from sales, while cash paid against trade payables, (iv), settles operating purchases. Both belong to operating activities. Option (a) omits debenture redemption; (b) incorrectly includes debtors; and (d) incorrectly includes both operating transactions and omits redemption.

Step 3: Conclusion Transactions (i) and (iii) are financing activities. Hence, the correct option is (c).

Quick Tip to Solve: Trace the cash to owners or lenders: share issue and repayment of debentures are financing flows, while customers and suppliers usually indicate operating flows.

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

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

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

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

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

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

Solution:

Concept:

- Gross profit is the excess of revenue from operations (net sales) over the cost of revenue from operations (cost of goods sold).
- Cost of goods sold equals opening inventory plus net purchases plus direct expenses less closing inventory.

Step 1: Rearrange the gross-profit equation By definition, Gross Profit = Revenue from Operations − Cost of Revenue from Operations. Moving the cost term and gross profit to opposite sides gives Cost of Revenue from Operations = Revenue from Operations − Gross Profit.

Step 2: Test the printed equations Option (A) adds gross profit instead of subtracting it. Option (B) incorrectly subtracts net purchases; purchases increase the goods available for sale and must be added. Option (C) adds opening and closing inventories, omits purchases and direct expenses, and does not deduct the unsold stock. Only option (D) agrees with 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: Begin with sales minus cost equals gross profit; rearrange before comparing similar-looking options.

OR

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

(i) Cash Flow Statement

(ii) Statement of Profit and Loss

(iii) Notes to Accounts

(iv) Balance Sheet

Choose the correct option : [1 mark]

(A) (i)

(B) (i) and (ii)

(C) (ii)

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

Correct Answer: (A) (i)

Solution:

Concept:

- Financial analysis tools interpret financial information to assess performance and financial position.
- Common tools include comparative statements, common-size statements, ratio analysis and cash flow analysis.

Step 1: Identify the analytical tool A Cash Flow Statement analyses movements in cash and cash equivalents by classifying cash flows into operating, investing and financing activities. It helps explain the reasons for changes in cash and assess cash-generating ability. Thus statement (i) is the listed tool of analysis.

Step 2: Distinguish the source statements The Statement of Profit and Loss and Balance Sheet supply the information on which analysis is performed. Notes to Accounts explain and supplement their figures. In this question these three are source financial statements or supporting disclosures, rather than separate analytical tools. Options (B) and (D) include such source statements, while (C) selects only the Statement of Profit and Loss.

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

Quick Tip to Solve: Separate the statements supplying accounting data from tools that compare, interpret or analyse those data.

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

Current Assets Rs. 20,00,000

Non-Current Assets Rs. 40,00,000

Long Term Borrowings Rs. 25,00,000

Proprietary Ratio 25% [1 mark]

(A) Rs. 10,00,000

(B) Rs. 14,00,000

(C) Rs. 24,00,000

(D) Rs. 15,00,000

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

Solution:

Concept:

- Proprietary ratio expresses proprietors' funds as a proportion of total assets: Proprietary Ratio = Proprietors' Funds/Total Assets.
- Total assets include both current assets and non-current assets; proprietors' funds represent shareholders' funds.

Step 1: Calculate total assets Add both categories of assets:

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

Long-term borrowings are a liability and are not deducted in the denominator of the proprietary ratio.

Step 2: Apply the given proprietary ratio Since the ratio is $25\% = 0.25$,

$$\text{Proprietors' Funds} = 0.25 \times 60,00,000 = \text{Rs } 15,00,000.$$

As a check, $15,00,000/60,00,000 = 25\%$. The amounts in options (A), (B) and (C) do not yield the given ratio when divided by total assets. Subtracting only long-term borrowings from assets would ignore other liabilities and is unnecessary here.

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

Quick Tip to Solve: For proprietary ratio, multiply the percentage by total assets, without deducting outside liabilities first.

30(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 concern changes in owners' capital and borrowings, including cash returns paid to providers of owners' capital.
- Under the CBSE treatment of AS 3, dividends paid are cash outflows from financing activities for both financial and non-financial enterprises.

Step 1: Identify the nature of dividend paid Dividend paid is a distribution of profit to shareholders as a return on their investment in the enterprise. It is therefore associated with the financing obtained from owners, and is classified as a financing cash outflow.

Step 2: Check the other classifications A financial enterprise may classify interest paid, interest received and dividends received as operating cash flows because they relate to its principal business. This does not make dividends paid an operating flow, so (A) is incorrect. Dividends paid do not acquire or dispose of investments, so (B) is incorrect. Since only financing classification applies, the combined choice (D) is also incorrect.

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

Quick Tip to Solve: Distinguish dividends paid from dividends received: dividends paid remain financing even for a financial enterprise.

OR

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

(A) Investing Activity

(B) Financing Activity

(C) Operating Activity

(D) Both (b) and (c)

Correct Answer: (A) Investing Activity

Solution:

Concept:

- Investing activities include acquiring and disposing of long-term assets and investments, and cash returns earned on investments.
- For a non-financial enterprise, interest received on investments is classified as an investing cash inflow under the CBSE treatment of AS 3.

Step 1: Trace the source of the receipt The receipt is interest earned from investments held by a non-financial enterprise. It represents a return on invested funds rather than income from that enterprise's principal revenue-producing operations. Consequently, its cash receipt belongs to investing activities.

Step 2: Eliminate the competing activities Financing activities concern obtaining capital or borrowings and making related payments; receiving interest from an investment is not raising finance, so (B) is incorrect. The operating classification in (C) would be appropriate for interest received by a financial enterprise, but the question expressly states a non-financial enterprise. Thus the combined operating and financing choice (D) is also incorrect.

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

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

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) Capital work in progress

(b) Calls in advance

(c) Computer software [3 marks]

Solution:

Concept:

- Schedule III classifies assets and liabilities by their nature and current or non-current status. The major head and the appropriate sub-head must both be identified.
- Capital expenditure on an unfinished asset is distinguished from an asset ready for use; intangible

assets have no physical substance.

- Calls in advance are amounts received from shareholders before the company has called them, so they are a liability rather than called-up share capital.

Step 1: Classify capital work in progress This represents expenditure incurred on construction or development of tangible fixed assets that are not yet ready for their intended use. It is classified under Non-current Assets, within Property, Plant and Equipment and Intangible Assets (the fixed-assets grouping), with the separate line item Capital work-in-progress. It is not inventory, because the expenditure is for an asset used in the business rather than goods held for sale.

Step 2: Classify calls in advance The amount has been received before it becomes due on a share call. Until the call is made, it cannot be included in called-up share capital. It is shown under Current Liabilities, sub-head Other Current Liabilities, as Calls in advance.

Step 3: Classify computer software Computer software is an identifiable asset without physical substance. It is shown under Non-current Assets, within Property, Plant and Equipment and Intangible Assets, sub-head Intangible Assets. Software is distinguished from computer hardware, which is tangible property, plant and equipment.

Schedule III classification summary

Item	Major head	Sub-head / line item
Capital work in progress	Non-current Assets	Property, Plant and Equipment and Intangible Assets: Capital work-in-progress
Calls in advance	Current Liabilities	Other Current Liabilities
Computer software	Non-current Assets	Property, Plant and Equipment and Intangible Assets: Intangible Assets

Step 4: Conclusion (a) Non-current Assets: Capital work-in-progress within the fixed-assets grouping; (b) Current Liabilities: Other Current Liabilities; (c) Non-current Assets: Intangible Assets.

Quick Tip to Solve: Ask whether an amount is an unfinished capital asset, a premature shareholder receipt, or a non-physical asset before choosing its head.

32. 'It is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the various items of the Balance Sheet and the Statement of Profit and Loss.' Identify the process and state two objectives of the process identified. [3 marks]

Solution:

Concept:

- Financial statement analysis involves establishing meaningful relationships between financial statement items to identify the firm's financial strengths and weaknesses.
- Its interpretation supports judgments about earning capacity and the ability to meet financial obligations, rather than merely restating reported figures.

Step 1: Identify the process The process is Analysis of Financial Statements, also called Financial Analysis. It examines items in the Balance Sheet and Statement of Profit and Loss and relates them to one another so that the significance of the reported figures can be understood. For example, relating profit to revenue shows the profit earned per unit of sales; looking only at the absolute profit would

not reveal this relationship.

Step 2: Objective 1: assess profitability and earning capacity One objective is to assess the firm's ability to earn profits from its operations and resources. Analysis of revenue, costs, profits and capital employed helps evaluate operating efficiency and whether profitability has improved or deteriorated. This assists management and owners in understanding business performance and identifying areas needing corrective action.

Step 3: Objective 2: assess financial position and solvency Another objective is to evaluate the firm's ability to meet its financial obligations. Relationships among current assets and current liabilities help assess short-term liquidity, while relationships among debt, assets and shareholders' funds help assess long-term solvency. This informs judgments about repayment capacity and the financial security of creditors and lenders.

Step 4: Conclusion The process is Analysis of Financial Statements. Two objectives are to assess profitability and earning capacity, and to assess financial position, including liquidity and long-term solvency.

Quick Tip to Solve: Link each objective to a decision: profitability concerns earning performance; liquidity and solvency concern payment capacity.

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 compares Cost of Revenue from Operations (cost of goods sold) with Average Inventory: $\text{Inventory Turnover Ratio} = \dfrac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$.
- Gross Profit is Revenue from Operations less Cost of Revenue from Operations. Gross Profit Ratio expresses this profit as a percentage of Revenue from Operations, not as a percentage of cost.
- A profit of 25% on cost means that goods costing Rs 100 are sold for Rs 125; the gross profit is Rs 25.

Step 1: Calculate the cost of goods sold Rearrange the inventory turnover formula to find the cost of goods sold. The turnover is six times, so the cost of goods sold equals six times the average inventory:

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

The inventory figure represents an average stock balance; it is not the sales figure to be used as the denominator of Gross Profit Ratio.

Step 2: Work out gross profit and revenue The stated profit percentage is on cost. Apply it to the cost of goods sold, then add the resulting gross profit to cost to obtain revenue:

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

Thus, the profit of Rs 6,00,000 is earned on sales of Rs 30,00,000. Using cost as the denominator again would merely reproduce the given markup and would not calculate the required sales-based ratio.

Step 3: Express gross profit as a percentage of revenue Substitute the calculated profit and revenue into the required ratio:

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

As a check, the same fraction is obtained from the cost basis: profit of Rs 25 on sales of Rs 125 gives $25/125$ of sales.

Step 4: Conclusion The Gross Profit Ratio is $\boxed{20\%}$. Gross Profit is Rs 6,00,000 and Revenue from Operations is Rs 30,00,000.

Quick Tip to Solve: To convert a profit of 25% on cost into a percentage of sales, use $\frac{25}{100+25} \times 100 = 20\%$; do not report the cost-based markup as 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 $= \frac{\text{Current Assets}}{\text{Current Liabilities}}$. Let the original Current Liabilities be Rs L, where $L > 0$; then the original Current Assets are Rs $2L$.
- Inventory, cash and trade receivables are current assets; trade payables are current liabilities. Furniture is a non-current asset, and equity share capital is not a current liability.

- Assess each transaction independently against the original ratio $2:1$. An improvement means an increase in this ratio; a reduction means a decrease.

Step 1: Analyse the credit purchase of goods (a) Goods purchased on credit increase inventory and trade payables by Rs 40,000 each. Therefore, both Current Assets and Current Liabilities rise by the same amount. The new ratio is

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

because $2L + 40,000 < 2(L + 40,000)$. Equal additions to numerator and denominator pull a ratio initially greater than one towards one. Hence, this transaction **reduces** the Current Ratio.

Step 2: Analyse the sale of furniture at a loss (b) The proceeds from furniture with a book value of Rs 8,000 sold at a loss of Rs 2,000 are

$$\text{Sale proceeds} = \text{Rs } 8,000 - \text{Rs } 2,000 = \text{Rs } 6,000.$$

Cash, a current asset, increases by Rs 6,000, while Current Liabilities remain unchanged. Furniture removed from the books is a non-current asset and was never included in the ratio's numerator. Thus, the new ratio is $(2L + 6,000)/L > 2$; the Current Ratio **improves**. The loss reduces profit, but does not offset the cash increase within Current Assets.

Step 3: Analyse collection from trade receivables (c) Receipt of Rs 15,000 from trade receivables increases cash by Rs 15,000 and decreases trade receivables by Rs 15,000. Both balances are Current Assets, so their net change is zero. Current Liabilities also remain unchanged:

$$\text{New Current Ratio} = \frac{2L + 15,000 - 15,000}{L} = 2:1.$$

This transaction therefore causes **no change** in the ratio; it merely changes the composition of Current Assets.

Step 4: Analyse the issue of equity shares (d) An issue of equity shares for cash increases cash or bank by Rs 6,00,000. Equity share capital increases by the same amount, but share capital is shareholders' funds, not a current liability. Consequently, Current Assets increase and Current Liabilities are unchanged:

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

The Current Ratio therefore **improves**.

Step 5: Conclusion The effects on the Current Ratio are: (a) **reduces**; (b) **improves**; (c) **no change**, remaining $2:1$; and (d) **improves**.

Quick Tip to Solve: First identify the changes in Current Assets and Current Liabilities. For the furniture sale, include only the Rs 6,000 proceeds in Current Assets; for collection from receivables, offset the cash increase against the receivables decrease.

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

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

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

Operating Activities'.

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

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

Notes to Accounts :

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

Additional Information :

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

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

Solution:

Concept:

- Under the indirect method, start with the change in the Statement of Profit and Loss balance, add the current tax provision to obtain profit before tax, and adjust non-cash and non-operating items.
- Depreciation is added back because it is a non-cash expense. Debenture interest is added back because, for this non-financial company, interest paid is a financing cash flow.
- A decrease in inventory releases operating cash; a decrease in trade payables uses operating cash. Deduct actual income tax paid after these adjustments.

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

The opening and closing surplus balances are Rs 3,60,000 and Rs 75,000 respectively. No transfer to reserves or dividend adjustment is given. Therefore the decrease represents the loss after tax:

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

The provision for tax must be reconciled separately from operating trade payables. Opening provision plus the current year's tax expense, less tax paid, equals closing provision:

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

The tax expense is added back to the negative profit after tax; this reduces the loss before tax. The actual payment of Rs 80,000 will be deducted only at the final tax-payment stage.

Step 2: Determine depreciation and interest adjustments No disposal of machinery is stated. The rise in accumulated depreciation is therefore the depreciation charged during the year:

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

The additional information prints the debenture issue date as 31 March 2021, before the reporting year began. Taking the stated date as governing the Rs 2,40,000 debentures gives full-year interest:

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

Both expenses are added back to the loss before tax. Purchases of machinery and proceeds from issuing share capital are investing and financing items respectively; they do not enter this operating-activities calculation.

Date clarification: The printed date is inconsistent with the rise from opening debentures of Rs 1,80,000 to closing debentures of Rs 2,40,000. The calculation below follows the explicitly printed issue date. If the additional Rs 60,000 were instead issued on 31 March 2022, interest would be Rs 18,000; that is a different date assumption, not a correction to the printed question.

Step 3: Adjust the operating working capital Inventory decreased from Rs 3,87,000 to Rs 3,54,000, releasing Rs 33,000 of cash. Trade payables decreased from Rs 60,000 to Rs 18,000, using Rs 42,000

of cash:

$$\text{Inventory decrease} = 3,87,000 - 3,54,000 = \text{Rs } 33,000,$$

$$\text{Payables decrease} = 60,000 - 18,000 = \text{Rs } 42,000.$$

Cash and cash equivalents are excluded from working-capital adjustments because they are the quantity being explained. Provision for tax has already been used to derive the tax expense, and the actual tax payment is shown separately.

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

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

Parentheses indicate cash outflows or losses. If the alternative issue date of 31 March 2022 were used, the Rs 6,000 lower interest adjustment would increase net cash used to Rs 2,07,000.

Step 5: Conclusion Following the printed debenture issue date of 31 March 2021, net cash flow from operating activities is $\boxed{-\text{Rs } 2,01,000}$, i.e. net cash used of Rs 2,01,000. The debenture-date inconsistency and the result under the alternative date are shown in the working notes.

Quick Tip to Solve: Reconcile the tax provision before preparing the statement: add back Rs 74,000 tax expense but deduct Rs 80,000 tax paid. Keep the printed debenture issue date visible when calculating interest.

OPTION II (Computerised Accounting)

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

(A) Real-time processing
(B) Batch processing
(C) Data validation
(D) Processing and Revalidation

Correct Answer: (B) Batch processing

Solution:

Concept:

- Batch processing collects transactions or data over a period and processes the collected group together.

- Real-time processing updates the system immediately as each transaction occurs.

Step 1: Identify the processing pattern The decisive words are "accumulated data" and "in one shot". They indicate that input is first collected from different sources and then handled as one group, rather than being processed immediately on arrival.

Step 2: Eliminate the other processes Real-time processing handles each event immediately, so option (A) does not fit. Data validation in option (C) checks acceptability of input; it does not describe the timing of processing. Processing and revalidation in option (D) describes further checking, not the established name for processing accumulated records together.

Step 3: Conclusion Processing the accumulated records together is batch processing. Hence, the correct option is (B).

Quick Tip to Solve: Link "accumulated" and "one shot" to a batch; link "immediate update" to real-time processing.

28(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:

- The costing sub-system gathers information on costs and expenses from other accounting sub-systems.
- An integrated accounting information system shares data among sub-systems rather than requiring each to record all information separately.

Step 1: Identify the information required The question describes a sub-system that obtains information about cost and expenses through links with other sub-systems. The costing sub-system uses such information to determine and analyse the cost of products, services or activities.

Step 2: Distinguish the alternatives Cash and Bank primarily records cash and bank receipts and payments. Expense Accounting records expenditure, whereas the costing sub-system draws together relevant cost information from expense and other sub-systems. Final Accounts prepares the financial statements from accounting balances. Thus neither cash handling nor final statement preparation is the function asked for.

Step 3: Conclusion The described sub-system is the Costing sub-system. Hence, the correct option is (C).

Quick Tip to Solve: When information about costs is obtained by linking several sub-systems, identify the Costing sub-system.

OR

28(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 whether input data satisfies specified rules, limits, formats or reference values.
- Data entry means entering data, while storage means retaining it for later use.

Step 1: Identify the checking operation Comparing input data is a checking operation. In standard terminology, validation compares input with known rules or reference data to test its acceptability. The printed phrase "unknown data" is imprecise; a meaningful validation check requires a defined reference or condition.

Step 2: Compare the available choices Among the listed choices, only data validation names an input-checking process. Data entry describes capturing the input, not checking it. "Information data" and "Storage data" do not name the described comparison process. Therefore the wording still points to the validation option rather than to entry or storage.

Step 3: Conclusion The applicable input-checking process is data validation. Hence, the correct option is (A).

Quick Tip to Solve: Choose validation for checking input; remember that valid checks use known rules, ranges or reference data.

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

(A) The generation of mnemonic codes.

(B) To secure accounts, reports, etc.

(C) The encryption of data.

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

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

Solution:

Concept:

- Codification assigns a systematic code to an account or data item for consistent identification and classification.
- These codes simplify processing, sorting, retrieval and maintenance of accounting records.

Step 1: Identify the purpose of coding A code gives an account or transaction category a convenient, consistent identifier. This reduces repeated lengthy descriptions and makes it easier for a computerised system to classify, process and retrieve records accurately.

Step 2: Separate purpose from code type and security Mnemonic codes in option (A) are only one possible type of code; generating them is not the general purpose of codification. Securing reports in option (B) requires access controls. Encryption in option (C) protects confidentiality by transforming data. Ordinary account coding instead supports easy processing and proper record maintenance, as stated in option (D).

Step 3: Conclusion Codification is needed for easy processing of data and keeping proper records. Hence, the correct option is (D).

Quick Tip to Solve: Distinguish classification codes from security controls: coding organises records; encryption protects confidentiality.

OR

29(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-made package intended to meet common accounting requirements.
- Tailored or specific software is developed or adapted to meet the special requirements of a particular organisation.

Step 1: Match the organisation to the package A very small volume of accounting transactions can be handled by a standard ready-made package. High adaptability means the organisation can readily adopt the standard procedures available in such a package, so extensive custom development is unnecessary.

Step 2: Compare the other options A specific package or a tailored package serves specialised requirements and usually needs additional development or modification. Neither the small transaction volume nor the stated high adaptability indicates such a need. Choosing both specific and tailored packages is therefore also inappropriate for the circumstances given.

Step 3: Conclusion A generic software package is suitable. Hence, the correct option is (D).

Quick Tip to Solve: For small transaction volumes and an organisation willing to adopt standard procedures, choose a generic package.

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

(A) Derived Value

(B) Basic Value

(C) Vertical Value

(D) Horizontal Value

Correct Answer: (A) Derived Value

Solution:

Concept:

- A basic value is entered directly as input, whereas a derived value is obtained by processing inputs through an arithmetic expression or a function.
- A formula uses values or cell references to calculate an output; the calculated output is therefore a derived value.

Step 1: Identify how the value is obtained The question describes the outcome of an arithmetic expression or function. For example, if quantity is 5 and price is Rs 20, the expression 5×20 produces Rs 100. The quantity and price are inputs; the amount is derived from them.

Step 2: Check the alternatives Derived Value fits the calculated outcome. Basic Value refers to an input supplied directly, so it does not describe this output. Vertical Value and Horizontal Value describe neither a recognised input category nor the result of an arithmetic expression; direction on the worksheet does not determine the nature of a value.

Step 3: Conclusion The outcome is a **Derived Value**. Hence, the correct option is (A).

Quick Tip to Solve: Ask whether the value was typed directly or calculated: the calculated result is a derived value.

31. Explain 'Group of Accounts' with reference to Accounting software Tally. [3 marks]

Solution:

Concept:

- A group is a collection of ledger accounts of the same nature, used to classify transactions and present summarised accounting information.
- In Tally, the group under which a ledger is created determines its accounting classification and its placement in financial reports.

Step 1: Explain the meaning of a group A Group of Accounts brings together similar ledger accounts under a common heading. For example, individual customer accounts are grouped under Sundry Debtors and individual supplier accounts under Sundry Creditors. The individual ledgers retain their separate transaction details, while the group provides their combined classification and balance.

Step 2: Explain the grouping hierarchy in Tally Tally provides 28 predefined groups: 15 primary groups and 13 subgroups. Primary groups are the main heads, while subgroups classify accounts more specifically within those heads. For example, Sundry Debtors is a subgroup under Current Assets, and Sundry Creditors is a subgroup under Current Liabilities. Users can create additional groups or

subgroups to suit their reporting needs.

Step 3: Explain its purpose in accounting reports A ledger must be placed under the appropriate group when it is created. Asset and liability groups feed the Balance Sheet, while income and expense groups feed the Profit and Loss Account. Thus grouping permits systematic classification, consolidated balances and meaningful reports. Putting a customer ledger under Sundry Debtors, for instance, ensures that its balance is classified with amounts receivable from customers.

Step 4: Conclusion In Tally, a Group of Accounts is a common classification for similar ledgers, organised into primary groups and subgroups so that balances are summarised correctly in accounting reports.

Quick Tip to Solve: Give one ledger-to-group-to-main-head example, such as a customer's ledger, Sundry Debtors and Current Assets.

32. Explain the methods of 'voucher numbering'. [3 marks]

Solution:

Concept:

- Voucher numbering assigns a reference to a voucher so that a recorded transaction can be identified, located and checked.
- The method is specified for a voucher type. The basic choices are Automatic, Manual and None, depending on who supplies the number or whether numbering is required.

Step 1: Automatic numbering Under this method, the accounting software supplies voucher numbers in sequence without requiring the user to enter each number. For example, successive payment vouchers may receive numbers 1, 2 and 3. A starting number, prefix or suffix and restart period can be configured where required. This method saves entry time and supports a systematic numbering sequence.

Step 2: Manual numbering Under this method, the user enters the voucher number while recording each transaction. It is useful when the number must follow an existing document or an organisation's own reference system. The user must maintain a consistent sequence and avoid duplicate references; a duplicate-number prevention setting may be used where available.

Step 3: No numbering: None Selecting None disables voucher numbering for that voucher type. The software does not assign an automatic number and the user is not required to supply one. This is appropriate only where that type of record does not need a voucher-number reference; it should not be confused with manual numbering.

Step 4: Recognise additional automatic variants Tally also offers Automatic (Manual Override), which proposes a number but permits the user to change it, and Multi-user Auto, which allocates the next available number when users save vouchers concurrently. These extend automatic numbering to particular operating requirements.

Step 5: Conclusion The basic methods are **Automatic**, **Manual** and **None**; automatic numbering may also be used with manual override or in a multi-user environment.

Quick Tip to Solve: Distinguish the three basic choices by who provides the number: software, user, or neither.

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

Solution:

Concept:

- Data formatting is the process of changing the appearance or display of data in spreadsheet cells to make the worksheet clear, consistent and easy to understand.
- Formatting normally changes the presentation, not the underlying stored value or the formula that calculates it. Select the cell or range before applying the required formatting tool.

Step 1: Define data formatting with an example Data formatting arranges the displayed form of numbers and text without changing their basic meaning. For example, the number 2500 may be displayed as Rs 2,500.00 by applying a currency format. A heading may be made bold and centred. Such presentation helps readers identify headings, compare amounts and distinguish totals in accounting worksheets.

Step 2: Number and alignment tools **Number formatting** displays values as numbers, currency, accounting amounts, percentages, dates or times. Decimal-place and comma-style controls make amounts consistent. For example, a stored value of 0.25 can be displayed as 25%. **Alignment tools** position data to the left, centre or right and at the top, middle or bottom of a cell. Wrap Text displays a long label on multiple lines; text orientation changes its direction. Merge and Centre may be used for a title across selected cells.

Step 3: Font, borders and fill tools **Font tools** change the typeface, size, colour and emphasis through bold, italic or underline. These distinguish headings from ordinary entries. **Borders** add lines around cells or below totals to separate sections clearly. **Fill or pattern tools** shade cells to highlight headings, input areas or important results. These controls should be applied consistently so that emphasis has a clear meaning.

Step 4: Apply and reuse the format The Home tab's Font, Alignment and Number groups provide common controls. The **Format Cells** dialog brings together Number, Alignment, Font, Border, Fill and Protection settings; Protection controls whether cells can be edited when the worksheet is protected. Row-height and column-width controls keep the displayed contents visible. **Format Painter** copies an existing format to another cell or range without copying its contents.

Step 5: Conclusion Data formatting improves the presentation of worksheet data through number formats, alignment, fonts, borders, fills and related cell-formatting controls, while preserving the underlying data.

Quick Tip to Solve: Explain a tool with its effect: currency formats amounts, alignment positions text, and borders separate totals.

OR

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

Solution:

Concept:

- Accounting software records, classifies and processes business transactions electronically using the accounts and rules set up for the enterprise.
- Its uses extend from recording day-to-day transactions to controlling balances and preparing information for financial reporting and management.

Step 1: List uses in recording and processing transactions **1. Recording transactions:** It records receipts, payments, purchases, sales and journal adjustments through electronic vouchers, retaining the details needed to trace each transaction.

2. Maintaining ledger accounts: It posts recorded transactions to the appropriate accounts and computes their balances, reducing repeated manual posting.

3. Sales invoicing: It prepares customer invoices and records sales, including relevant discounts and taxes according to the settings used by the business.

4. Inventory management: It maintains stock records, updates quantities for receipts and issues, and provides information about stock availability and valuation.

Step 2: List uses in control and reporting **5. Receivables management:** It maintains customer balances, tracks receipts against invoices and identifies overdue amounts for collection.

6. Payables management: It maintains supplier balances, tracks outstanding bills and helps schedule payments when they fall due.

7. Payroll processing: It calculates employees' earnings, deductions and net pay, and prepares payroll records and salary statements.

8. Preparing reports: It generates a trial balance, financial statements and other accounting reports from the recorded data, helping users review the business's performance and financial position.

Step 3: Conclusion The eight uses are transaction recording, ledger maintenance, sales invoicing, inventory management, receivables management, payables management, payroll processing and preparation of accounting reports.

Quick Tip to Solve: Recall the transaction cycle: record, post, invoice, track stock, collect from customers, pay suppliers, pay employees and report.

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

Solution:

Concept:

- Present value is the current worth of future cash receipts or payments, obtained by discounting them at an appropriate rate. Money available today can earn a return, so equal sums at different dates need not have equal values today.
- For a single future amount, $PV = FV/(1+r)^n$, where FV is the future amount, r the discount rate per period, and n the number of periods.
- The spreadsheet financial function `PV` calculates present value using a constant rate and, where applicable, equal periodic payments.

Step 1: Explain the meaning of present value The present value of an investment is the amount that would have to be invested today, at the specified rate of return, to obtain its future receipts. Discounting brings receipts at different future dates to a common valuation date, namely today. For a positive rate, a fixed future receipt has a smaller present value the further away its receipt date is. If there are several future receipts, their individually discounted values are added to find the investment's present value.

Step 2: State the financial function and its syntax The financial function used is `PV`. Its syntax is:

$$\mathrm{PV}(\text{rate}, \text{nper}, \text{pmt}, [\text{fv}], [\text{type}]).$$

Square brackets identify optional arguments; the brackets themselves are not entered in a spreadsheet formula.

rate: The interest or discount rate for one payment period. For monthly payments with a nominal annual rate of 12%, use $12\%/12$, that is, 1% per month.

nper: The total number of payment periods. For monthly payments over five years, use $5 \times 12 = 60$.

pmt: The constant payment made or received each period. It includes the principal and interest components but excludes unrelated fees or taxes. Enter zero if there are no periodic payments and only a single future amount is involved.

Step 3: Explain the optional arguments and cash-flow signs **fv:** The future value, or balance desired after the last payment. If omitted, it is taken as zero. For a single future receipt, provide that amount as `fv` and use zero as `pmt`.

type: The payment timing: 0 means payments occur at the end of each period; 1 means at the beginning. If omitted, it is taken as 0. Beginning-of-period payments are discounted for one fewer period than corresponding end-of-period payments.

Use consistent time units for `rate` and `nper`. Cash paid out and cash received must have opposite signs: from the investor's viewpoint, the investment is an outflow and the future receipts are inflows. Consequently, positive future receipts normally produce a negative `PV` result, representing the initial amount paid.

Step 4: Illustrate the calculation For example, suppose an investment pays Rs 12,100 after two years,

with no intermediate receipts, and the annual discount rate is 10%. Its present worth is

$$PV = \frac{12,100}{(1+0.10)^2} = \frac{12,100}{1.21} = \text{Rs } 10,000.$$

The spreadsheet formula `=PV(10%,2,0,12100,0)` returns $-10,000$. Its magnitude is the present worth, Rs 10,000, and the negative sign denotes the initial investment outflow required for the positive future receipt.

Step 5: Conclusion Present value expresses future investment cash flows in today's money. The `PV` function calculates it from the periodic rate, number of periods, periodic payment, future value and payment timing, using consistent periods and opposite signs for inflows and outflows.

Quick Tip to Solve: Before using PV, match the rate to the payment period, count those periods, set the payment timing and give cash paid and cash received opposite signs.