CBSE Class 12 Accountancy Question Paper 2023 with Solution PDF-Set 67-2-3

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. (I) Analysis of Financial Statements and (II) Computerised Accounting. Candidates must attempt only **one** of the given options as per the subject opted.

(v) Question number **1 to 16** and **27 to 30** carries **1** mark each.

(vi) Question number **17 to 20, 31** and **32** carries **3** marks each.

(vii) Question number **21, 22** and **33** carries **4** marks each.

(viii) Question number **23 to 26** and **34** carries **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 **4** marks and **2** questions of **six** marks.

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1(A). Net Assets minus capital reserve is: [1 mark]

(A) Purchase consideration

(B) Goodwill

(C) Total Assets

(D) Liquid Assets

Correct Answer: (A) Purchase consideration

Solution:

Concept:

- Net assets are the agreed value of assets taken over less the agreed liabilities assumed.
- Capital reserve arises when the net assets acquired exceed the purchase consideration payable.

Step 1: State the relationship Let net assets be N, purchase consideration be P, and capital reserve be C. On acquisition at a bargain price, the excess of net assets over the price is capital reserve:

$$C = N - P.$$

Step 2: Rearrange and compare the alternatives Rearranging gives $P = N - C$. Goodwill arises in the opposite situation, when the consideration exceeds net assets. Total assets do not deduct liabilities, while liquid assets are only a category of assets. Neither describes net assets less capital reserve.

Step 3: Conclusion Net assets minus capital reserve equals purchase consideration. Hence, the correct option is (A).

Quick Tip to Solve: Write capital reserve as net assets minus purchase price, then transpose to isolate the amount asked for.

OR

1(B). When a company issues shares at a premium, the company can collect securities premium along with the following: [1 mark]

(A) Application money

(B) Allotment money

(C) Call money

(D) Any of the above

Correct Answer: (D) Any of the above

Solution:

Concept:

- Securities premium is the excess of the issue price of a share over its nominal value.
- The terms of issue specify the instalment with which premium becomes payable.

Step 1: Identify the permissible collection stages A company may make the securities premium payable with application money, with allotment money, or with a call. The premium is separately identified from the nominal capital component even when collected in the same instalment.

Step 2: Evaluate the choices Application, allotment and call money are each permissible collection stages. Therefore options (A), (B) and (C) each describe an allowed possibility but none alone includes all possibilities. The inclusive option is appropriate because the question asks when the company can collect the premium.

Step 3: Conclusion Securities premium may be collected with any of the stated instalments. Hence, the correct option is (D).

Quick Tip to Solve: For the timing of securities premium, read the terms of issue; do not assume it must always accompany allotment.

2(A). Ram and Mohan were partners with fixed capitals of Rs. 3,00,000 and Rs. 2,00,000 respectively. As per their partnership deed, interest on capital was allowed @ 10% p.a. Net profit for the year ended 31st March, 2022 was Rs. 30,000. The amount of interest on capital was credited to each partner's current account for the year ended 31st March, 2022 was: [1 mark]

(A) Ram Rs. 30,000 and Mohan Rs. 20,000

(B) Ram Rs. 20,000 and Mohan Rs. 10,000

(C) Ram Rs. 18,000 and Mohan Rs. 12,000

(D) Ram Rs. 30,000 and Mohan Nil

Correct Answer: (C) Ram Rs. 18,000 and Mohan Rs. 12,000

Solution:

Concept:

- Interest on capital is an appropriation of profit unless it is specifically made a charge against profit.

- When profit is insufficient, available profit is distributed in the ratio of the interest amounts due. Under fixed capitals, such adjustments enter current accounts.

Step 1: Calculate the full interest entitlement At 10% per annum, Ram is entitled to $3,00,000 \times 10/100 = \text{Rs } 30,000$, and Mohan to $2,00,000 \times 10/100 = \text{Rs } 20,000$. Their combined entitlement of Rs 50,000 exceeds the available profit of Rs 30,000.

Step 2: Allocate the available profit The interest entitlement ratio is $30,000 : 20,000 = 3 : 2$. Thus the current-account credits are

$$\text{Ram} = 30,000 \times \frac{3}{5} = \text{Rs } 18,000,$$
$$\text{Mohan} = 30,000 \times \frac{2}{5} = \text{Rs } 12,000.$$

Option (A) exceeds profit, option (B) uses the wrong ratio, and option (D) ignores Mohan's proportional entitlement.

Step 3: Conclusion Ram receives Rs 18,000 and Mohan receives Rs 12,000 as interest on capital. Hence, the correct option is (C).

Quick Tip to Solve: Compare total interest due with profit first; if profit is short, divide it in the ratio of interest entitlements.

OR

2(B). Anu, Bindu and Siya were partners in a firm sharing profits and losses in the ratio of 2:2:1. Siya was guaranteed that her share of profit will not be less than Rs. 50,000. The firm's profit for the year ended 31st March, 2022 was Rs. 2,00,000. The amount of deficiency to be borne by Anu was: [1 mark]

(A) Rs. 10,000

(B) Rs. 2,500

(C) Rs. 75,000

(D) Rs. 5,000

Correct Answer: (D) Rs. 5,000

Solution:

Concept:

- A guaranteed partner receives the guaranteed minimum when the ordinary share of profit is lower.
- Without a specified guarantor or special ratio, the other partners bear the deficiency in their mutual profit-sharing ratio.

Step 1: Find the deficiency in Siya share Siya's ordinary share is $2,00,000 \times \frac{1}{5} = \text{Rs } 40,000$. The guaranteed amount is Rs 50,000, so the deficiency is

$$50,000 - 40,000 = \text{Rs } 10,000.$$

Step 2: Distribute the deficiency between the remaining partners Anu and Bindu share profits in the mutual ratio $2:2=1:1$. Anu therefore bears $10,000 \times \frac{1}{2} = \text{Rs } 5,000$. Rs 10,000 is the entire deficiency, not Anu's part; Rs 2,500 uses an incorrect fraction, and Rs 75,000 is not a deficiency allocation.

Step 3: Conclusion The deficiency borne by Anu is Rs 5,000. Hence, the correct option is (D).

Quick Tip to Solve: Calculate the guaranteed partner's shortfall first, then share only that shortfall among the other partners.

---

3. Rohit and Mohit were partners sharing profits and losses in the ratio of 2:1. Their capital accounts as on 31.3.2021 had a credit balance of Rs. 1,09,000 and Rs. 66,000 respectively. They admitted Sahil as a new partner on 1st April, 2021 for 1/5th share in profits. Sahil brought Rs. 25,000 as his share of goodwill premium. He agreed to contribute capital in new profit-sharing ratio. The amount of capital brought by Sahil was: [1 mark]

(A) Rs. 40,000

(B) Rs. 32,000

(C) Rs. 12,50,000

(D) Rs. 50,000

Correct Answer: (D) Rs. 50,000

Solution:

Concept:

- Goodwill premium brought by an incoming partner is credited to the sacrificing partners.
- The incoming partner's proportionate capital is based on the adjusted capital of the old partners and their combined new profit share.

Step 1: Adjust the old partners combined capital Rohit and Mohit have total capital of $1,09,000 + 66,000 = \text{Rs } 1,75,000$. Sahil brings Rs 25,000 as goodwill premium. With no withdrawal stated, this increases the old partners' combined capital to

$$1,75,000 + 25,000 = \text{Rs } 2,00,000.$$

Step 2: Apply the new profit share The old partners retain $1 - \frac{1}{5} = \frac{4}{5}$ of profits. Their adjusted capital of Rs 2,00,000 therefore represents four-fifths of total capital.

$$\text{Total capital} = 2,00,000 \times \frac{5}{4} = \text{Rs } 2,50,000,$$
$$\text{Sahil capital} = 2,50,000 \times \frac{1}{5} = \text{Rs } 50,000.$$

Rs 40,000 incorrectly takes one-fifth of the old partners' capital; Rs 32,000 and Rs 12,50,000 do not follow the required proportion.

Step 3: Conclusion Sahil must bring Rs 50,000 as capital, separately from goodwill premium. Hence,

the correct option is (D).

Quick Tip to Solve: Add retained goodwill premium to old capital, then multiply by the incoming share divided by the old partners' combined new share.

4. Rita and Usha were partners in a firm sharing profits and losses in the ratio of 3:5. During the year Usha withdrew Rs. 15,000 at the end of each month. Interest on drawings is to be charged @ 8% p.a. The average period for the calculation of interest on drawings will be: [1 mark]

(A) $4\frac{1}{2}$ months

(B) 6 months

(C) $6\frac{1}{2}$ months

(D) $5\frac{1}{2}$ month

Correct Answer: (D) $5\frac{1}{2}$ month

Solution:

Concept:

- For equal drawings made at equal intervals, the average period is the mean of the longest and shortest outstanding periods.
- At each month-end, the first withdrawal remains outstanding for eleven months and the last for zero months.

Step 1: Identify the time outstanding For twelve equal withdrawals at the end of successive months, interest runs for $11, 10, 9, \ldots, 1, 0$ months. The withdrawal on the last day of the accounting year earns no interest for that year.

Step 2: Calculate and compare the average period The arithmetic mean of these equally spaced periods is

$$\frac{11+0}{2} = 5.5 \text{ months.}$$

Six months applies to equal drawings in the middle of each month, while six and a half months applies at the beginning. Four and a half months does not match the twelve stated month-end withdrawals. The amount and rate affect interest, but not this average period.

Step 3: Conclusion The average period is $5\frac{1}{2}$ months. Hence, the correct option is (D).

Quick Tip to Solve: For monthly drawings remember the timing sequence: beginning 6.5, middle 6, and end 5.5 months.

5. On the reconstitution of a firm, the value of the land was appreciated by Rs. 2,00,000 and plant and machinery reduced to Rs. 7,00,000 from Rs. 10,00,000. Gain or loss on revaluation will be: [1 mark]

(A) Gain Rs. 1,00,000

(B) Loss Rs. 1,00,000

(C) Loss Rs. 5,00,000

(D) Gain Rs. 5,00,000

Correct Answer: (B) Loss Rs. 1,00,000

Solution:

Concept:

- An increase in an asset's value is a revaluation gain; a decrease is a revaluation loss.
- Net revaluation result equals total gains minus total losses.

Step 1: Calculate the separate changes Land appreciation produces a gain of Rs 2,00,000. Plant and machinery fall from Rs 10,00,000 to Rs 7,00,000, giving a loss of

$$10,00,000 - 7,00,000 = \text{Rs } 3,00,000.$$

The closing value of Rs 7,00,000 is not itself the loss.

Step 2: Offset the loss against the gain The signed result is

$$2,00,000 - 3,00,000 = -\text{Rs } 1,00,000.$$

The negative sign indicates a net loss. A gain of Rs 1,00,000 reverses the sign; amounts of Rs 5,00,000 wrongly add an appreciation and a depreciation as though both affected profit in the same direction.

Step 3: Conclusion There is a revaluation loss of Rs 1,00,000. Hence, the correct option is (B).

Quick Tip to Solve: Compute each asset's change first, assign gains a plus sign and losses a minus sign, and only then total them.

---

6. At the time of forfeiture of shares, share capital account is debited with: [1 mark]

(A) Uncalled amount on shares

(B) Paid up amount on shares

(C) Called up amount on shares

(D) Unpaid amount on shares

Correct Answer: (C) Called up amount on shares

Solution:

Concept:

- Forfeiture cancels the called-up share capital relating to the forfeited shares.
- The amount already received towards nominal capital is credited to Share Forfeiture; unpaid called amounts are cancelled separately.

Step 1: Identify the capital to reverse Share Capital Account was credited as the nominal amount of shares became due through application, allotment and calls. At forfeiture, that credited capital must be reversed by a debit for the called-up amount on the forfeited shares.

Step 2: Distinguish the other amounts The uncalled amount has not yet become due and is not included. The paid-up amount is only the part already received towards capital; it is credited to Share Forfeiture Account. The unpaid amount is the outstanding part of called-up capital, so it alone cannot reverse the full capital credit. Any securities premium adjustment is separate from Share Capital Account.

Step 3: Conclusion Share Capital Account is debited with the called-up amount on the forfeited shares. Hence, the correct option is (C).

Quick Tip to Solve: At forfeiture, debit capital with what was called; distinguish this from the amount received and the calls still unpaid.

---

7. Elite Ltd. issued 20,000, 9% Debentures of Rs. 100 each at a discount of 10%, redeemable at a premium. On issue of these debentures, 'Loss on issue of debentures account' was debited with Rs. 4,00,000. The premium on redemption of debentures is: [1 mark]

(A) Rs. 4,00,000

(B) Rs. 2,00,000

(C) Rs. 6,00,000

(D) Rs. 10,00,000

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

Solution:

Concept:

- Loss on issue of debentures includes the discount allowed on issue and the premium payable on redemption.
- Discount is calculated on the total nominal value of the debentures issued.

Step 1: Calculate the issue discount The nominal value of the issue is $20,000 \times 100 = \text{Rs } 20,00,000$. At a discount of 10%, the discount on issue is

$$20,00,000 \times \frac{10}{100} = \text{Rs } 2,00,000.$$

The 9% coupon determines interest and is unrelated to this issue loss.

Step 2: Separate redemption premium from total loss Total loss on issue is Rs 4,00,000. Subtract the discount already identified:

$$\text{Redemption premium} = 4,00,000 - 2,00,000 = \text{Rs } 2,00,000.$$

Rs 4,00,000 confuses total loss with its premium component. Rs 6,00,000 adds instead of subtracting the discount, and Rs 10,00,000 does not satisfy the loss relationship.

Step 3: Conclusion The premium payable on redemption is Rs 2,00,000. Hence, the correct option is (B).

Quick Tip to Solve: Write loss on issue as discount plus redemption premium; subtract the known discount to recover the premium.

8. Gopal, Krishna and Govind were partners sharing profits and losses in the ratio of 5:4:3. Krishna retired on 1st April, 2022. Gopal and Govind purchased his share of profit by giving him Rs. 1,20,000. Rs. 80,000 was paid by Gopal and Rs. 40,000 by Govind. Gaining ratio is: [1 mark]

(A) 1:2

(B) 5:3

(C) 1:1

(D) 2:1

Correct Answer: (D) 2:1

Solution:

Concept:

- Gaining ratio expresses the additional shares acquired by the continuing partners.
- When they purchase the retiring partner's share for a common valuation, their gains are proportional to the amounts paid.

Step 1: Compare the consideration paid Gopal and Govind pay Rs 80,000 and Rs 40,000 respectively for Krishna's share. Hence their relative gains are

$$80,000 : 40,000 = 2 : 1.$$

Step 2: Check against the old ratio Krishna's old share is $4/12 = 1/3$. Gopal acquires $(1/3)(2/3) = 2/9$, and Govind acquires $(1/3)(1/3) = 1/9$. Their gain ratio remains $2 : 1$. The old ratio $5 : 3$ compares their original shares, not their gains; $1 : 2$ reverses the payments and $1 : 1$ ignores their unequal amounts.

Step 3: Conclusion Gopal and Govind gain in the ratio $2 : 1$. Hence, the correct option is (D).

Quick Tip to Solve: For a share purchased at the same valuation, reduce the continuing partners' payments directly to obtain the gaining ratio.

9. Assertion (A): Under the fluctuating capital method, the balance in the capital account fluctuates from time to time.

Reason (R): Under the fluctuating capital method, all the adjustments such as share of profit and loss, interest on capital, drawings, interest on drawings etc. are recorded directly in the capital accounts of the partners. [1 mark]

(A) (A) is correct but (R) is wrong.

(B) Both (A) and (R) are correct but (R) is not the correct explanation of (A).

(C) Both (A) and (R) are incorrect.

(D) Both (A) and (R) are correct and (R) is the correct explanation of (A).

Correct Answer: (D) Both (A) and (R) are correct and (R) is the correct explanation of (A).

Solution:

Concept:

- Under the fluctuating capital method, each partner has one capital account that records both capital transactions and periodic adjustments.
- Credits such as interest on capital and profit increase the balance; drawings, interest on drawings and losses decrease it.

Step 1: Judge the assertion The assertion is correct: the capital balance changes as transactions and year-end adjustments are posted. It is therefore described as fluctuating.

Step 2: Judge the reason The reason is correct: the partners' shares of profit or loss, interest on capital, drawings and interest on drawings are recorded directly in their capital accounts under this method.

Step 3: Test the explanatory link These direct credits and debits cause the changes stated in the assertion. Thus the reason explains the assertion. Options denying either statement are incorrect, and the option claiming no explanatory connection is also incorrect.

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

Quick Tip to Solve: Ask where routine partner adjustments are posted: capital accounts mean fluctuating capital, while separate current accounts indicate fixed capital.

10. Offer of securities or invitation to subscribe securities to a select group of persons by a company (other than by way of public offer) is known as: [1 mark]

(A) Private placement of shares

(B) Sweat equity

(C) Incorporation cost

(D) Employee stock option plan

Correct Answer: (A) Private placement of shares

Solution:

Concept:

- Private placement is an offer or invitation to subscribe for securities made to a selected group of persons instead of the public.
- Identify the method of raising capital from the recipients of the offer and the terms described.

Step 1: Identify the defining phrase The question specifies a select group of persons and explicitly excludes a public offer. These are the identifying features of private placement.

Step 2: Eliminate the other descriptions Sweat equity compensates eligible employees or directors for know-how, intellectual property or value addition. An employee stock option plan gives employees an option to purchase shares on specified terms. Incorporation cost is an expense of establishing a company. None describes a general securities offer to selected persons.

Step 3: Conclusion The arrangement is private placement of shares. Hence, the correct option is (A).

Quick Tip to Solve: Underline "select group" and "other than public offer": together they identify private placement immediately.

11(A). A partnership firm has four partners. How many additional partners can be admitted into the business as per the provisions of the Companies Act, 2013? [1 mark]

(A) 50

(B) 46

(C) 100

(D) 96

Correct Answer: (B) 46

Solution:

Concept:

- The prescribed maximum number of partners for an ordinary partnership business is 50 under the rules framed under the Companies Act, 2013.
- Additional admission capacity equals the permitted total less the number of existing partners.

Step 1: Identify the relevant ceiling For the ordinary partnership firm in this question, use the prescribed ceiling of 50 partners. The statutory provision permits a prescribed ceiling up to 100, but 100 is not the operative prescribed limit used here.

Step 2: Subtract the existing partners The four existing partners already occupy four places. Therefore,

$$\text{Additional partners} = 50 - 4 = 46.$$

Option (A) gives the total ceiling, not additional admissions. Options (C) and (D) incorrectly use 100 as the operative ceiling.

Step 3: Conclusion The firm can admit 46 additional partners. Hence, the correct option is (B).

Quick Tip to Solve: Distinguish the permitted total from additional partners: subtract the existing four from the prescribed limit of 50.

OR

11(B). Amit and Sumit were partners in a firm with fixed capitals of Rs. 6,00,000 and Rs. 4,00,000 respectively. Kavi was admitted as a new partner for 1/5th share in the profit of the firm. Kavi brought Rs. 40,000 as his share of goodwill premium and Rs. 3,00,000 as his capital. The amount of Goodwill premium credited to Sumit will be: [1 mark]

(A) Rs. 20,000

(B) Rs. 24,000

(C) Rs. 16,000

(D) Rs. 40,000

Correct Answer: (A) Rs. 20,000

Solution:

Concept:

- Goodwill premium is credited to the old partners in their sacrificing ratio.
- When no profit-sharing agreement is given, partners share profits equally; unequal fixed capitals do not establish a profit-sharing ratio.

Step 1: Determine the sacrifice The question gives only Amit's and Sumit's fixed capitals, not an agreed profit-sharing ratio. Their old shares are therefore equal. With no different sacrifice specified, Kavi's $1/5$ share is acquired equally, so each old partner sacrifices $1/10$ and the sacrificing ratio is $1 : 1$.

Step 2: Allocate the premium Sumit receives

$$\text{Rs } 40,000 \times \frac{1}{2} = \text{Rs } 20,000.$$

Under the fixed-capital method this is credited to his current account. Rs 24,000 and Rs 16,000 wrongly allocate premium by the $6 : 4$ capital ratio. Rs 40,000 wrongly assigns the whole premium to Sumit; Kavi's capital is a separate contribution.

Step 3: Conclusion Goodwill premium credited to Sumit is Rs 20,000. Hence, the correct option is (A).

Quick Tip to Solve: Never infer a profit-sharing ratio from fixed capital balances; if no agreement is given, use equal sharing before calculating sacrifice.

12. Total assets of a partnership firm, which was dissolved were Rs. 30,00,000 and its total liabilities were Rs. 6,00,000. Assets were realised at 80% and liabilities were settled at 5% less. If dissolution expenses were Rs. 30,000, the profit or loss on dissolution was: [1 mark]

(A) Profit Rs. 18,00,000

(B) Loss Rs. 6,00,000

(C) Profit Rs. 6,00,000

(D) Loss Rs. 18,00,000

Correct Answer: (B) Loss Rs. 6,00,000

Solution:

Concept:

- Realisation profit or loss measures differences between book values and settlement values, after dissolution expenses.
- Loss on assets and expenses reduce the result; a discount received on settling liabilities increases it.

Step 1: Calculate the loss on realising assets Assets realise only 80% of book value:

$$\text{Proceeds} = \text{Rs } 30,00,000 \times 80\% = \text{Rs } 24,00,000.$$

Thus the loss on assets is Rs 6,00,000.

Step 2: Include settlement savings and expenses The saving on liabilities is Rs $6,00,000 \times 5\% =$ Rs $30,000$. It exactly offsets the dissolution expenses of Rs 30,000. Therefore net loss is

$$\text{Rs } 6,00,000 - \text{Rs } 30,000 + \text{Rs } 30,000 = \text{Rs } 6,00,000.$$

Net cash remaining for partners is not realisation profit; consequently the Rs 18,00,000 alternatives are inappropriate, and a profit is impossible here.

Step 3: Conclusion The loss on dissolution is Rs 6,00,000. Hence, the correct option is (B).

Quick Tip to Solve: Compare the liability settlement saving with expenses first; here they cancel, leaving only the 20 percent loss on assets.

13(A). Radhe Ltd. forfeited 500 shares of Rs. 10 each fully called up for non-payment of final call of Rs. 3 per share. 300 of these shares were reissued at Rs. 8 per share as fully paid-up. The amount credited to Capital Reserve Account was: [1 mark]

(A) Rs. 1,500

(B) Rs. 2,100

(C) Rs. 3,200

(D) Rs. 1,800

Correct Answer: (A) Rs. 1,500

Solution:

Concept:

- Capital reserve receives the forfeiture surplus only for shares actually reissued.
- Surplus equals the amount originally received on those shares less their discount on reissue.

Step 1: Find forfeiture available on reissued shares Each forfeited share had received Rs $10 -$ Rs $3 =$ Rs 7. Of the 500 forfeited shares, only 300 are reissued. The related forfeiture amount is

$$300 \times \text{Rs } 7 = \text{Rs } 2,100.$$

Step 2: Deduct the reissue discount The shares are credited as fully paid at Rs 10 but reissued for Rs 8. Discount is $300 \times$ Rs $2 =$ Rs 600. Hence the transferable surplus is Rs $2,100 -$ Rs $600 =$ Rs $1,500$. Rs 2,100 ignores the discount. Rs 3,200 and Rs 1,800 do not follow this calculation. The Rs 1,400 relating to 200 unreissued shares remains in Share Forfeiture Account.

Step 3: Conclusion Rs 1,500 is credited to Capital Reserve Account. Hence, the correct option is (A).

Quick Tip to Solve: Use the number reissued, not the number forfeited, and deduct reissue discount from the forfeiture amount for those shares alone.

OR

13(B). A Company forfeited 1000 shares of Rs. 10 each, Rs. 7 called up for non-payment of first call of Rs. 2 per share. All these shares were reissued at Rs. 5 per share Rs. 7 paid up. The amount transferred to Capital Reserve Account was: [1 mark]

(A) Rs. 2,000

(B) Rs. 3,000

(C) Rs. 4,000

(D) Rs. 5,000

Correct Answer: (B) Rs. 3,000

Solution:

Concept:

- Forfeiture credit equals the called-up capital already received on the forfeited shares.
- For partly paid reissues, discount is the paid-up value credited less the cash reissue price; uncalled capital is excluded.

Step 1: Calculate the amount forfeited Rs 7 was called up per share and the unpaid first call was Rs 2. The amount already received was therefore Rs 5 per share. For 1,000 shares, the forfeiture credit is

$$1,000 \times \text{Rs } 5 = \text{Rs } 5,000.$$

Step 2: Adjust for the reissue discount Each share is reissued for Rs 5 as Rs 7 paid up, giving a discount of Rs 2 per share, or Rs 2,000 in total. Since all shares are reissued,

$$\text{Capital reserve} = \text{Rs } 5,000 - \text{Rs } 2,000 = \text{Rs } 3,000.$$

Rs 2,000 is the discount, not the reserve; Rs 5,000 ignores that discount, and Rs 4,000 has no basis. The Rs 10 face value must not replace the Rs 7 paid-up value.

Step 3: Conclusion Rs 3,000 is transferred to Capital Reserve Account. Hence, the correct option is (B).

Quick Tip to Solve: For a partly paid reissue, compare the reissue price with the stated paid-up amount of Rs 7, not the face value of Rs 10.

14–15. Read the following hypothetical situation and answer question no. 14 and 15 on its basis :

Rudra, Dev and Shiv were partners in a firm sharing profits in the ratio of 5:3:2. Their fixed capitals were Rs. 6,00,000, Rs. 4,00,000 and Rs. 2,00,000 respectively. Besides his capital Shiv had given a loan of Rs. 75,000 to the firm. Their partnership deed provided for the following:

(i) Interest on capital @ 9% p.a.

(ii) Interest on partner's drawings @ 12% p.a.

(iii) Salary to Rudra Rs. 30,000 per month and to Dev Rs. 40,000 per quarter.

(iv) Interest on Shiv's loan @ 9% p.a.

During the year Rudra withdrew Rs. 50,000 at the end of each quarter; Dev withdrew Rs. 50,000 in the beginning of each half year and Shiv withdrew Rs. 70,000 at the end of each half year.

The profit of the firm for the year ended 31-3-2022 before allowing interest on Shiv's loan was Rs. 7,06,750.

14. How much amount of net profit will be transferred to Profit and Loss Appropriation A/c? [1 mark]

(A) Rs. 7,06,750

(B) Rs. 7,02,250

(C) Rs. 7,00,000

(D) Rs. 7,13,000

Correct Answer: (C) Rs. 7,00,000

Solution:

Concept:

- Interest on a partner's loan is a charge against profit and is deducted before the net profit is transferred to the Profit and Loss Appropriation Account.
- Interest on capital, partners' salaries and interest on drawings are dealt with in the Profit and Loss Appropriation Account; they do not change this initial transfer of net profit.

Step 1: Calculate the charge for Shiv's loan The partnership deed specifies interest at 9% p.a. on Shiv's loan of Rs 75,000. The contractual rate applies, so the statutory rate used when the deed is silent is irrelevant.

$$\text{Interest on loan} = \text{Rs } 75,000 \times \frac{9}{100} = \text{Rs } 6,750.$$

Step 2: Deduct the charge from the stated profit The stated profit of Rs 7,06,750 is before allowing interest on Shiv's loan. Therefore the loan interest must first be debited to the Profit and Loss Account.

$$\text{Net profit} = \text{Rs } 7,06,750 - \text{Rs } 6,750 = \text{Rs } 7,00,000.$$

Option (A) ignores the loan interest. Option (B) deducts Rs 4,500, incorrectly applying 6% despite the deed's 9% rate. Option (D) exceeds the given profit although a charge must reduce it.

Step 3: Conclusion Rs 7,00,000 will be transferred to the Profit and Loss Appropriation Account. Hence, the correct option is (C).

Quick Tip to Solve: Deduct interest on a partner's loan before transferring profit; apply the rate in the partnership deed.

15. What will the amount of interest on drawings of the partners? [1 mark]

(A) Rudra Rs. 2,250; Dev Rs. 4,500 and Shiv Rs. 2,100

(B) Rudra Rs. 9,000; Dev Rs. 9,000 and Shiv Rs. 4,200

(C) Rudra Rs. 4,500; Dev Rs. 4,500 and Shiv Rs. 2,100

(D) Rudra Rs. 24,000; Dev Rs. 12,000 and Shiv Rs. 16,800

Correct Answer: (B) Rudra Rs. 9,000; Dev Rs. 9,000 and Shiv Rs. 4,200

Solution:

Concept:

- Interest on drawings is charged for the time each withdrawal remains outside the firm, at the agreed rate of 12% p.a.
- For equal periodic drawings, interest equals total drawings multiplied by the annual rate and the average period in months divided by 12.

Step 1: Calculate Rudra's interest His four quarter-end drawings remain outstanding for 9, 6, 3 and 0 months. The average period is $(9+6+3+0)/4 = 4.5$ months.

$$I_R = \text{Rs } 2,00,000 \times \frac{12}{100} \times \frac{4.5}{12} = \text{Rs } 9,000.$$

Step 2: Calculate Dev's and Shiv's interest Dev withdraws at the beginning of each half-year, so the periods are 12 and 6 months, averaging 9 months. Shiv withdraws at the end of each half-year, so the periods are 6 and 0 months, averaging 3 months.

$$I_D = \text{Rs } 1,00,000 \times \frac{12}{100} \times \frac{9}{12} = \text{Rs } 9,000.$$

$$I_S = \text{Rs } 1,40,000 \times \frac{12}{100} \times \frac{3}{12} = \text{Rs } 4,200.$$

Options (A) and (C) understate the interest by using incorrect withdrawal totals or periods. Option (D) charges every withdrawal for a full year, despite their different dates.

Step 3: Conclusion Interest on drawings is Rudra: Rs 9,000; Dev: Rs 9,000; Shiv: Rs 4,200. Hence, the correct option is (B).

Quick Tip to Solve: Write the months outstanding first: quarter-end 9, 6, 3, 0; half-year beginning 12, 6; half-year end 6, 0.

16(A). On admission of a new partner, the old partners share the gain or loss on revaluation of assets and reassessment of liabilities in which of the following ratio: [1 mark]

(A) Equally

(B) In old profit sharing ratio

(C) In new profit sharing ratio

(D) In sacrificing ratio

Correct Answer: (B) In old profit sharing ratio

Solution:

Concept:

- Revaluation identifies changes in assets and liabilities belonging to the period before the admission of a new partner.
- The partners who owned the firm before admission receive its revaluation profit, or bear its revaluation loss, in their old profit-sharing ratio.

Step 1: Identify the partners entitled to the adjustment The increase or decrease in net assets arose while the old partners carried on the business. The incoming partner must not receive a share of that past gain or bear that past loss.

Step 2: Select the relevant ratio Therefore, the balance of Revaluation Account is transferred to the old partners' capital or current accounts in the old profit-sharing ratio. Equal distribution applies only if that old ratio was equal. The new ratio applies to future profits; the sacrificing ratio is used for compensating partners for goodwill, not for distributing revaluation results.

Step 3: Conclusion Revaluation gain or loss is shared by the old partners in their old profit-sharing ratio. Hence, the correct option is (B).

Quick Tip to Solve: Link revaluation to the period before admission: past changes belong to the old partners in their old ratio.

OR

16(B). Asha and Nisha were partners in a firm sharing profits and losses in the ratio 3:1. Charu was admitted as a new partner for 1/4th share in the profits of the firm which she acquired equally from Asha and Nisha. The new profit sharing ratio of Asha, Nisha and Charu will be: [1 mark]

(A) 3:1:4

(B) 1:1:2

(C) 5:1:2

(D) 1:2:1

Correct Answer: (C) 5:1:2

Solution:

Concept:

- Each old partner's new share equals that partner's old share less the share sacrificed to the incoming partner.
- Acquiring a share equally means equal fractional sacrifices by the old partners, even when their existing profit shares differ.

Step 1: Calculate each old partner's sacrifice Asha's old share is $3/4$, while Nisha's is $1/4$. Charu acquires $1/4$ of the firm's profits equally from them, so each sacrifices $\frac{1}{4} \times \frac{1}{2} = \frac{1}{8}$.

Step 2: Subtract and express the new shares as a ratio

$$\text{Asha's new share} = \frac{3}{4} - \frac{1}{8} = \frac{5}{8},$$
$$\text{Nisha's new share} = \frac{1}{4} - \frac{1}{8} = \frac{1}{8},$$
$$\text{Charu's share} = \frac{1}{4} = \frac{2}{8}.$$

The shares total $8/8 = 1$. Thus their common denominator gives the ratio $5 : 1 : 2$. Options (A) and (B) give Charu half the total profits, contradicting her one-fourth share. Option (D) increases Nisha's share to one-half even though she sacrifices a share.

Step 3: Conclusion The new profit-sharing ratio of Asha, Nisha and Charu is $5 : 1 : 2$. Hence, the correct option is (C).

Quick Tip to Solve: Divide Charu's one-fourth share equally first; subtract one-eighth from each old partner's original share.

17(a). **Mohan, Sohan and Suresh were partners in a firm sharing profits in the ratio of 2:2:1. Suresh was guaranteed a profit of Rs. 70,000. Any deficiency on account of guarantee to Suresh was to be borne by Mohan and Sohan in 3:2 ratio. The profit of the firm for the year ended 31.3.2022 amounted to Rs. 2,00,000.**

Prepare Profit and Loss Appropriation Account of the firm for the year ended 31.3.2022. [3 marks]

Solution:

Concept:

- Profit is first divided in the agreed profit-sharing ratio. A guaranteed partner must receive at least the promised amount.
- Deficiency equals the guaranteed amount minus the partner's normal share; the guaranteeing partners bear this deficiency in the ratio specified in the agreement.

Step 1: Working Notes: calculate the normal shares and deficiency Divide the available profit of Rs 2,00,000 in the ratio $2:2:1$. Mohan and Sohan each receive $2,00,000 \times 2/5 = \text{Rs } 80,000$, and Suresh's normal share is $2,00,000 \times 1/5 = \text{Rs } 40,000$.

$$\text{Deficiency} = 70,000 - 40,000 = \text{Rs } 30,000.$$

Since Rs 40,000 is below the guarantee, the deficiency must be transferred from the other partners' shares. It is an adjustment within profit distribution, not an additional expense reducing the firm's profit.

Step 2: Allocate the deficiency and prepare the account Mohan bears $30,000 \times 3/5 = \text{Rs } 18,000$, while Sohan bears $30,000 \times 2/5 = \text{Rs } 12,000$. Their adjusted shares are Rs 62,000 and Rs 68,000 respectively. Suresh receives Rs 70,000.

Profit and Loss Appropriation Account
for the year ended 31 March 2022

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Mohan's Capital A/c	62,000	By Profit and Loss A/c	2,00,000	
	To Sohan's Capital A/c	68,000	(Net profit)		
	To Suresh's Capital A/c	70,000			
	Total	2,00,000	Total	2,00,000	

The debit and credit totals agree. The entire profit is appropriated, so this nominal account has no balance carried down. Capital accounts are used because fixed capitals have not been specified.

Step 3: Conclusion Profit is distributed as Mohan Rs 62,000, Sohan Rs 68,000 and Suresh Rs 70,000; the appropriation account totals Rs 2,00,000 on both sides.

Quick Tip to Solve: Give Suresh his normal share first, then recover only the Rs 30,000 shortfall from Mohan and Sohan in 3:2.

OR

17(b). A and B were partners in a firm sharing profits equally. Their capitals were: A Rs. 1,20,000 and B Rs. 80,000. The annual rate of interest is 20%. The profits of the firm for the last three years were Rs. 34,000, Rs. 38,000 and Rs. 30,000. They admitted C as a new partner. On C's admission the goodwill of the firm was valued at 2 years purchase of the super profits.

Calculate the value of goodwill of the firm on C's admission. [3 marks]

Solution:

Concept:

- Normal profit is the return expected on the capital employed: capital employed multiplied by the normal annual rate of return.
- Super profit is the excess of average actual profit over normal profit. Under the super-profit method, goodwill equals positive super profit multiplied by the years' purchase.

Step 1: Working Notes: calculate capital employed and normal profit The partners' capitals represent the capital employed for this valuation. Their equal profit-sharing ratio determines how profits are shared, but does not change the total investment on which a normal return is calculated.

$$\text{Capital employed} = 1,20,000 + 80,000 = \text{Rs } 2,00,000.$$

Using the given annual rate of 20%,

$$\text{Normal profit} = 2,00,000 \times \frac{20}{100} = \text{Rs } 40,000.$$

Step 2: Average the profits and identify the super profit No weights or exceptional adjustments are specified, so take the simple average of the profits of the last three years:

$$\text{Average profit} = \frac{34,000 + 38,000 + 30,000}{3} = \text{Rs } 34,000.$$

$$\text{Super profit} = 34,000 - 40,000 = -\text{Rs } 6,000.$$

The firm earns Rs 6,000 less than the normal annual return. This is a shortfall, not an excess earning available to support goodwill. Merely multiplying the signed shortfall by two gives Rs $-12,000$, but that is not a positive goodwill value payable on admission. When there is no super profit, the value of goodwill by this method is taken as nil.

Step 3: Conclusion The firm has no super profit; hence the value of goodwill on C's admission under the two years' purchase of super profits method is nil (Rs 0).

Quick Tip to Solve: Compare average profit of Rs 34,000 with normal profit of Rs 40,000 before multiplying by two; a shortfall means nil goodwill.

18. Mita, Geeta and Mohit were partners in a firm sharing profits and losses in the ratio of 5:3:2. With effect from 1st April, 2022, they mutually agreed to share profits and losses in the ratio of 2:2:1. It was agreed that:

(i) Goodwill of the firm was valued at Rs. 1,40,000.

(ii) Profit on revaluation of assets and re-assessment of liabilities amounted to Rs. 1,20,000.

Pass necessary journal entries for the above transactions in the books of the firm. Show your working notes clearly. [3 marks]

Solution:

Concept:

- A gaining partner compensates a sacrificing partner for goodwill. Sacrifice equals old share minus new share; a negative result indicates a gain.
- Revaluation profit belongs to the partners in the old profit-sharing ratio because it arises from changes in assets and liabilities existing before the new agreement.

Step 1: Working Notes: determine sacrifice, gain and revaluation shares Express the old ratio $5:3:2$ and new ratio $2:2:1$ with denominator 10.

$$\text{Mita's sacrifice} = \frac{5}{10} - \frac{4}{10} = \frac{1}{10},$$
$$\text{Geeta's sacrifice} = \frac{3}{10} - \frac{4}{10} = -\frac{1}{10},$$
$$\text{Mohit's sacrifice} = \frac{2}{10} - \frac{2}{10} = 0.$$

Geeta compensates Mita by $1,40,000 \times 1/10 = \text{Rs } 14,000$. Mohit has no goodwill adjustment. Goodwill is adjusted through capitals without raising an asset.

Allocate revaluation profit of Rs 1,20,000 in the old ratio: Mita $1,20,000 \times 5/10 = \text{Rs } 60,000$; Geeta $1,20,000 \times 3/10 = \text{Rs } 36,000$; Mohit $1,20,000 \times 2/10 = \text{Rs } 24,000$.

Step 2: Record the necessary journal entries **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1 April 2022	Geeta's Capital A/c Dr.		14,000	
	To Mita's Capital A/c			14,000
	(Being goodwill compensation for Geeta's gain and Mita's sacrifice adjusted through capitals)			
1 April 2022	Revaluation A/c Dr.		1,20,000	
	To Mita's Capital A/c			60,000
	To Geeta's Capital A/c			36,000
	To Mohit's Capital A/c			24,000
	(Being revaluation profit transferred to partners in their old ratio of 5:3:2)			

Each entry balances. Capital accounts are used since fixed capitals are not specified.

Step 3: Conclusion Debit Geeta's Capital A/c and credit Mita's Capital A/c by Rs 14,000 for goodwill. Transfer revaluation profit to Mita, Geeta and Mohit as Rs 60,000, Rs 36,000 and Rs 24,000 respectively.

Quick Tip to Solve: Use old minus new for goodwill sacrifice, but use the old 5:3:2 ratio alone to divide the Rs 1,20,000 revaluation profit.

19. Vibha, Sudha and Ashish were partners in a firm sharing profits in the ratio 2:3:1. Sudha retired and the balance in her capital account after making necessary adjustments on account of reserves, revaluation of assets and re-assessment of liabilities was Rs. 85,000. Vibha and Ashish agreed to pay Sudha Rs. 1,15,000 in full settlement of her claim. Record the necessary journal entry for goodwill on Sudha's retirement. [3 marks]

Solution:

Concept:

- When the settlement exceeds the retiring partner's adjusted capital, the excess represents that partner's share of goodwill.
- Continuing partners compensate the retiring partner by debiting their capital accounts in their gaining ratio and crediting the retiring partner's capital account.

Step 1: Calculate Sudha's share of goodwill **Working Notes**

Sudha's capital after adjustment of reserves, assets and liabilities is Rs 85,000. Her agreed settlement is Rs 1,15,000. The excess is compensation for her share of the firm's goodwill:

$$\text{Sudha's goodwill share} = 1,15,000 - 85,000 = \text{Rs } 30,000.$$

Sudha's old profit share is $3/6 = 1/2$. Thus, the implied goodwill of the whole firm is $30,000 \div (1/2) =$ Rs $60,000$, although only her share needs adjustment.

Step 2: Determine the gaining ratio and amounts No different future ratio is specified, so Vibha and Ashish continue in their relative old ratio of $2:1$. Their new shares are $2/3$ and $1/3$, respectively.

$$\text{Vibha's gain} = \frac{2}{3} - \frac{2}{6} = \frac{1}{3},$$
$$\text{Ashish's gain} = \frac{1}{3} - \frac{1}{6} = \frac{1}{6}.$$

The gaining ratio is therefore $2:1$. Vibha bears $30,000 \times 2/3 =$ Rs $20,000$, and Ashish bears $30,000 \times 1/3 =$ Rs $10,000$.

Step 3: Record the goodwill adjustment **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Vibha's Capital A/c Dr.		20,000	
	Ashish's Capital A/c Dr.		10,000	
	To Sudha's Capital A/c			30,000
	(Being Sudha's goodwill share adjusted through the gaining partners' capital accounts in the ratio of 2:1)			

This raises Sudha's capital balance from Rs 85,000 to Rs 1,15,000. A goodwill asset need not be raised because the compensation is adjusted directly among the partners.

Step 4: Conclusion Debit Vibha's Capital A/c by Rs 20,000 and Ashish's Capital A/c by Rs 10,000; credit Sudha's Capital A/c by Rs 30,000.

Quick Tip to Solve: Subtract adjusted capital from the agreed settlement first; distribute only this goodwill share among the continuing partners in their gaining ratio.

20(a). Sinco Ltd. purchased assets of the book value of Rs. 1,98,000 from Dixon Ltd. It was agreed that the purchase consideration be paid by issuing 10% debentures of Rs. 100 each.

Record the necessary journal entries in the books of Sinco Ltd. assuming that the debentures have been issued:

(i) At a discount of 10%.

(ii) At a premium of 10%. [3 marks]

Solution:

Concept:

- Assets purchased are debited and the vendor is credited with the purchase consideration. Here, the consideration is Rs 1,98,000.
- Number of debentures equals purchase consideration divided by issue price per debenture. Debentures are always credited at their face value; discount is debited and securities premium is credited separately.

Step 1: Record the purchase of assets This purchase entry is common to both independent cases. It recognises the assets acquired and the amount due to Dixon Ltd. before settling that liability with debentures.

Journal of Sinco Ltd. (common entry)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr. To Dixon Ltd. (Being assets purchased from Dixon Ltd. for Rs 1,98,000)		1,98,000	1,98,000

Step 2: Account for issue at a discount of 10% **Working Notes: Case (i)**

Issue price $= 100 - 10 =$ Rs 90 per debenture.

$$\text{Number issued} = 1,98,000 \div 90 = 2,200,$$
$$\text{Face value} = 2,200 \times 100 = \text{Rs } 2,20,000,$$
$$\text{Discount} = 2,200 \times 10 = \text{Rs } 22,000.$$

The vendor receives debentures with an issue value of Rs 1,98,000, which settles the full consideration; their face value is higher because they are issued at a discount.

Journal of Sinco Ltd.: Case (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Dixon Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 10% Debentures A/c (Being 2,200 debentures of Rs 100 each issued at 10% discount to settle the purchase consideration)		1,98,000 22,000	 2,20,000

Step 3: Account for issue at a premium of 10% **Working Notes: Case (ii)**

Issue price $= 100 + 10 =$ Rs 110 per debenture.

$$\text{Number issued} = 1,98,000 \div 110 = 1,800,$$
$$\text{Face value} = 1,800 \times 100 = \text{Rs } 1,80,000,$$
$$\text{Premium} = 1,800 \times 10 = \text{Rs } 18,000.$$

The premium forms part of the issue value but is credited separately from the debenture liability.

Journal of Sinco Ltd.: Case (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Dixon Ltd. Dr.		1,98,000	
	To 10% Debentures A/c			1,80,000
	To Securities Premium Reserve A/c			18,000
	(Being 1,800 debentures of Rs 100 each issued at 10% premium to settle the purchase consideration)			

Step 4: Conclusion In case (i), issue 2,200 debentures and debit discount of Rs 22,000. In case (ii), issue 1,800 debentures and credit securities premium of Rs 18,000. Each case settles Rs 1,98,000 due to Dixon Ltd.

Quick Tip to Solve: Divide consideration by Rs 90 for the discount case and Rs 110 for the premium case; use Rs 100 only to calculate the debenture liability.

OR

20(b). On 1.4.2021 Y Ltd. invited applications for issuing 10,000, 9% debentures of Rs. 100 each at a discount of 6%. The entire amount was payable with application. Application for 12,000, 9% debentures were received. 9% debentures were allotted on pro-rata basis to all the applicants. Excess money received with applications was refunded. On 31.3.2022 the company decided to write off discount on issue of debentures according to the provisions of the Companies Act, 2013. On that date the company had Rs. 10,000 in its securities premium reserve account.

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

Solution:

Concept:

- Debenture application money is received at the issue price. The debenture liability is credited at face value and the discount is debited separately.
- Under pro-rata allotment each applicant receives the same proportion of the debentures applied for. Excess application money is refunded when the entire issue price has already been collected.
- Securities premium may be used to write off discount on issue of debentures. Any remaining discount written off is charged to the Statement of Profit and Loss.

Step 1: Calculate application money and refund **Working Notes**

Each debenture is issued for $100 - 6 =$ Rs 94. The allotment ratio is $10,000 : 12,000 = 5 : 6$, so

applicants receive five debentures for every six applied for.

$$\text{Application money received} = 12,000 \times 94 = \text{Rs } 11,28,000,$$
$$\text{Amount retained on allotment} = 10,000 \times 94 = \text{Rs } 9,40,000,$$
$$\text{Refund} = 2,000 \times 94 = \text{Rs } 1,88,000,$$
$$\text{Discount on issue} = 10,000 \times 6 = \text{Rs } 60,000.$$

The face-value liability is $10,000 \times 100 = \text{Rs } 10,00,000$. The 9% rate is the interest rate and does not change the issue price or the refund calculation.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1.4.2021	Bank A/c Dr. To 9% Debenture Application A/c (Being application money received for 12,000 debentures at Rs 94 each)		11,28,000	 11,28,000
1.4.2021	9% Debenture Application A/c Dr. Discount on Issue of Debentures A/c Dr. To 9% Debentures A/c (Being 10,000 debentures allotted pro-rata at a discount of 6%)		9,40,000 60,000	 10,00,000
1.4.2021	9% Debenture Application A/c Dr. To Bank A/c (Being excess application money refunded to applicants)		1,88,000	 1,88,000

The application account closes because Rs 9,40,000 transferred to allotment plus Rs 1,88,000 refunded equals Rs 11,28,000 received.

Step 3: Write off the discount at year end Discount of Rs 60,000 is written off using the available Securities Premium Reserve of Rs 10,000 first. The balance charged to the Statement of Profit and Loss is $60,000 - 10,000 = \text{Rs } 50,000$.

Journal of Y Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.3.2022	Securities Premium Reserve A/c Dr. Statement of Profit and Loss Dr. To Discount on Issue of Debentures A/c (Being discount on issue of debentures written off against securities premium and the Statement of Profit and Loss)		10,000 50,000	 60,000

Step 4: Conclusion Application money received is Rs 11,28,000 and the refund is Rs 1,88,000. The Rs 60,000 discount is fully written off: Rs 10,000 against Securities Premium Reserve and Rs 50,000 against the Statement of Profit and Loss.

Quick Tip to Solve: Refund excess applications at Rs 94 each, not Rs 100; distinguish the 6% issue discount from the 9% debenture interest rate.

21. Saraswati Ltd. has an authorised capital of Rs. 10,00,000 divided into equity shares of Rs. 10 each. Subscribed and fully paid up share capital of the company was Rs. 4,00,000. To meet its new financial requirements, the company issued 20,000 equity shares of Rs. 10 each which were payable as follows: Rs. 3 on application; Rs. 3 on allotment, Rs. 2 on first call and Rs. 2 on second and final call. The issue was fully subscribed. The allotment money was payable on 1st May 2021, first call money on 1st August 2021 and final call on 1st October 2021. X whom 1000 shares were allotted, did not pay the allotment and call money; Y an allotee of 600 shares, did not pay the two calls; and Z whom 400 shares were allotted, did not pay the final call. Present the share capital in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013. Also prepare Notes to Accounts for the same. [4 marks]

Solution:

Concept:

- Share capital is shown under Shareholders' Funds in the Equity and Liabilities section of the balance sheet. Authorised, issued and subscribed capital are explained in the accompanying note.
- Called-up capital less calls in arrears gives paid-up capital. Shares on which all calls have been paid are distinguished from subscribed shares that are not fully paid.

Step 1: Calculate the unpaid amounts **Working Notes:** All Rs 10 per share has been called up. X has paid only application money, Y has paid application and allotment money, and Z has paid everything except the final call. Therefore:

$$\begin{aligned} \text{X's arrears} &= 1,000(3+2+2) = \text{Rs } 7,000, \\ \text{Y's arrears} &= 600(2+2) = \text{Rs } 2,400, \\ \text{Z's arrears} &= 400(2) = \text{Rs } 800, \\ \text{Total calls in arrears} &= 7,000 + 2,400 + 800 = \text{Rs } 10,200. \end{aligned}$$

The unpaid shares number $1,000 + 600 + 400 = 2,000$. Hence, of the new issue, $20,000 - 2,000 = 18,000$ shares are fully paid. The existing fully paid capital represents $4,00,000/10 = 40,000$ shares. Total fully paid shares are thus 58,000.

Step 2: Prepare the balance sheet extract **Saraswati Ltd.**

Balance Sheet (Extract, after the final call)

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	5,89,800

Step 3: Prepare the note to share capital **Notes to Accounts**

Note 1: Share Capital

Particulars	Amount (Rs)
Authorised capital	
1,00,000 equity shares of Rs 10 each	10,00,000
Issued capital	
60,000 equity shares of Rs 10 each	6,00,000
Subscribed capital	
Subscribed and fully paid-up:	
58,000 equity shares of Rs 10 each	5,80,000
Subscribed but not fully paid-up:	
2,000 equity shares of Rs 10 each, fully called-up	20,000
Less: Calls in arrears	(10,200)
Paid-up amount on shares not fully paid-up	9,800
Total paid-up share capital	**5,89,800**

The issued capital includes the existing 40,000 shares and the new 20,000 shares. No forfeiture is stated, so all 60,000 shares remain subscribed. Authorised capital is the permitted ceiling; it is not added to paid-up capital.

Step 4: Conclusion The balance sheet shows share capital of **Rs 5,89,800**, being called-up capital of Rs 6,00,000 less calls in arrears of Rs 10,200, supported by Note 1 above.

Quick Tip to Solve: First count the 2,000 defaulting shares. Keep their paid-up amount separate from the 58,000 fully paid shares, and include the company's existing capital.

---

22. P, Q and R were partners in a firm sharing profits and losses in the ratio of 2:1:2. Their balance sheet on 31st March, 2022 was as follow:

Balance Sheet of P, Q and R as on 31.3.2022

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	48,000	Bank	25,000
Bills payable	22,000	Debtors	75,000
General Reserve	80,000	Stock	2,00,000
Profit for 2021-22	2,00,000	Machinery	3,00,000
Capitals: P 5,00,000 Q 2,50,000 R 5,00,000	12,50,000	Land and Building	10,00,000
Total	16,00,000	Total	16,00,000

On 30th June, 2022, Q died. The partnership deed provided that on the death of a partner his executors will be entitled for the following:

(i) Balance in his Capital account.

(ii) Interest on capital @ 6% p.a.

(iii) His share in the profits of the firm till the date of his death calculated on the basis of last year's profit.

(iv) His share in the goodwill of the firm calculated on the basis of the three years purchase of the average profits of last four years.

Profits for 2018-19 were Rs. 3,00,000, for 2019-20 were Rs. 4,00,000 and for 2020-21 were Rs. 1,00,000.

On 1.6.2022 Q withdrew Rs. 50,000 for meeting his medical expenses.

Prepare Q's Capital Account on his death to be presented to his executors. [4 marks]

Solution:

Concept:

- A deceased partner's capital is credited with his share of accumulated profits, reserves, interest on capital, profit up to death and goodwill. Drawings are debited and the balance is transferred to his executor.
- Q's profit share is $1/5$. Goodwill equals average past profit multiplied by the agreed years' purchase. Profit to death is estimated for the elapsed part of the current year.

Step 1: Calculate accumulated entitlements and interest **Working Notes:** Q's opening capital is Rs 2,50,000. The general reserve and the separately shown profit for 2021–22 have not yet been distributed to partners. Q therefore receives:

$$\text{Share of reserve} = 80,000 \times \frac{1}{5} = \text{Rs } 16,000,$$
$$\text{Share of 2021–22 profit} = 2,00,000 \times \frac{1}{5} = \text{Rs } 40,000.$$

Interest on the stated capital is allowed from 1 April to 30 June, a period of three months:

$$\text{Interest} = 2,50,000 \times \frac{6}{100} \times \frac{3}{12} = \text{Rs } 3,750.$$

The medical withdrawal of Rs 50,000 is treated as drawings, not a permanent reduction of capital. It is debited separately; the deed gives no provision for interest on drawings.

Step 2: Determine profit to death and goodwill Last year's profit was Rs 2,00,000. Q's estimated share for the first three months of 2022–23 is:

$$2,00,000 \times \frac{3}{12} \times \frac{1}{5} = \text{Rs } 10,000.$$

This is distinct from his share of the undistributed 2021–22 profit. The four completed years' profits, including 2021–22, total:

$$3,00,000 + 4,00,000 + 1,00,000 + 2,00,000 = \text{Rs } 10,00,000.$$

$$\text{Average profit} = 10,00,000/4 = \text{Rs } 2,50,000,$$
$$\text{Firm's goodwill} = 2,50,000 \times 3 = \text{Rs } 7,50,000,$$
$$\text{Q's share of goodwill} = 7,50,000 \times \frac{1}{5} = \text{Rs } 1,50,000.$$

P and R continue in their relative old ratio $2:2 = 1:1$; each gains $1/2 - 2/5 = 1/10$. They bear Q's goodwill equally, Rs 75,000 each, through their capital accounts.

Step 3: Prepare Q's capital account **Q's Capital Account (up to 30 June 2022)**

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Drawings A/c	50,000	By Balance b/d	2,50,000
To Q's Executor's A/c	4,19,750	By General Reserve A/c	16,000
		By Profit and Loss A/c	40,000
		By Interest on Capital A/c	3,750
		By Profit and Loss Suspense A/c	10,000
		By P's Capital A/c (goodwill)	75,000
		By R's Capital A/c (goodwill)	75,000
Total	**4,69,750**	**Total**	**4,69,750**

The credit total is Rs 4,69,750. After deducting drawings of Rs 50,000, the amount due is transferred to Q's Executor's Account, closing Q's Capital Account. There is no continuing balance in the deceased partner's capital account.

Step 4: Conclusion The amount payable to Q's executors is **Rs 4,19,750**. Q's Capital Account balances at Rs 4,69,750 on each side before its net balance is transferred to the executor.

Quick Tip to Solve: Include the Rs 2,00,000 profit for 2021–22 twice for different purposes: Q's undistributed share is credited in full, while only three months of that annual profit estimates his current-year share.

23. Pass the necessary journal entries for the following transactions on the dissolution of the partnership firm of Tanay and Mehak after various assets (other than cash) and external liabilities have been transferred to Realisation Account:

(i) Creditors of Rs. 60,000 accepted stock valued at Rs. 59,000 in full settlement of their claim.

(ii) Tanay agreed to pay off his wife's loan of Rs. 12,000.

(iii) The firm had a debit balance of Rs. 18,000 in the profit and loss account on the date of dissolution.

(iv) An unrecorded liability of Rs. 20,000 was paid by partner, Mehak, at a discount of 10%.

(v) Tanay's loan of Rs. 4,000 was paid through a cheque.

(vi) Expenses on dissolution amounted to Rs. 11,000, which were paid by Mehak. [6 marks]

Solution:

Concept:

- Realisation Account records the settlement of external liabilities and the sale or takeover of assets after their book values have been transferred to it. A creditor taking an asset in full settlement requires no further entry when both balances have already been transferred.
- When a partner pays a firm's liability or its dissolution expenses personally, credit that partner's Capital Account. A partner's own loan is settled separately through the partner's Loan Account.
- An accumulated debit balance in Profit and Loss Account is transferred to the partners' Capital Accounts in their profit-sharing ratio. Since no ratio is given here, Tanay and Mehak share it equally.

Step 1: (i) Deal with stock taken by creditors No journal entry is required. Creditors of Rs 60,000 and stock of Rs 59,000 have already been transferred to Realisation Account, and the creditors accept

that stock in full settlement. Neither cash nor a partner's account is involved. The difference of Rs 1,000 is automatically reflected in the balance of Realisation Account; it is not recorded as a separate gain entry.

Step 2: (ii) Record Tanay taking over his wife's loan The wife's loan is an external liability already transferred to Realisation Account. Tanay now assumes responsibility for Rs 12,000, so Realisation Account is debited and his Capital Account is credited.

Journal of Tanay and Mehak

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr.		12,000	
	To Tanay's Capital A/c			12,000
	(Being wife's loan taken over by Tanay)			

Step 3: (iii) Transfer the accumulated loss **Working Notes**

No profit-sharing ratio is specified. Thus the Rs 18,000 loss is shared equally: $18,000 \div 2 = 9,000$ for each partner. Debit the partners' Capital Accounts because the accumulated loss reduces their claims, and credit Profit and Loss Account to close its debit balance.

Journal of Tanay and Mehak

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Tanay's Capital A/c Dr.		9,000	
	Mehak's Capital A/c Dr.		9,000	
	To Profit and Loss A/c			18,000
	(Being accumulated loss transferred equally to the partners' capital accounts)			

Step 4: (iv) Record payment of the unrecorded liability **Working Notes**

The amount actually paid is $20,000 \times 90\% = 18,000$. Since the liability was unrecorded, debit Realisation Account only with the settlement amount. Credit Mehak's Capital Account because she paid it personally. No separate entry for the Rs 2,000 discount is required.

Journal of Tanay and Mehak

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr.		18,000	
	To Mehak's Capital A/c			18,000
	(Being unrecorded liability of Rs 20,000 settled by Mehak at a discount of 10%)			

Step 5: (v) Pay Tanay's loan by cheque A partner's loan is not an external liability transferred to Realisation Account. Debit Tanay's Loan Account to extinguish the Rs 4,000 liability and credit Bank Account for the cheque payment.

Journal of Tanay and Mehak

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Tanay's Loan A/c Dr.		4,000	
	To Bank A/c			4,000
	(Being Tanay's loan repaid by cheque)			

Step 6: (vi) Record dissolution expenses paid by Mehak The expenses of Rs 11,000 belong to the firm. Mehak has paid them on its behalf; the question does not say that she agreed to bear them. Hence debit Realisation Account and credit her Capital Account, rather than Bank Account.

Journal of Tanay and Mehak

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr.		11,000	
	To Mehak's Capital A/c			11,000
	(Being dissolution expenses paid by Mehak on behalf of the firm)			

Step 7: Conclusion Transaction (i) needs no entry. In (ii), credit Tanay's Capital Account by Rs 12,000; in (iii), debit each partner's Capital Account by Rs 9,000; in (iv) and (vi), credit Mehak's Capital Account by Rs 18,000 and Rs 11,000 respectively. In (v), debit Tanay's Loan Account and credit Bank Account by Rs 4,000. Every journal entry above has equal debits and credits.

Quick Tip to Solve: First identify who pays: a partner paying the firm's liability earns a capital credit, while payment of that partner's own loan closes the separate Loan Account. Do not record stock handed directly to an already-transferred creditor again.

---

24. Pass necessary journal entries for the issue of debentures in the following cases:

(i) Issued 5,000, 9% debentures of Rs. 100 each at a discount of 10% redeemable at a premium of 5% after 5 years.

(ii) Issued 30,000, 12% debentures of Rs. 100 each at a premium of 5% and redeemable at par after 5 years.

(iii) Issued 8,750, 12% debentures of Rs. 100 each at par, redeemable at par after 5 years. [6 marks]

Solution:

Concept:

- Debentures Account is credited with the nominal value: number of debentures multiplied by face value. The interest rate identifies the debenture account; it does not change the issue proceeds.
- Bank Account is debited with the actual amount received. An issue premium is credited to Securities Premium Reserve, while an issue discount is a capital loss.
- Premium payable on redemption is recognised when debentures are issued. For debentures issued at a discount and redeemable at a premium, Loss on Issue of Debentures equals the issue discount plus the redemption premium.

Step 1: (i) Record issue at a discount, redeemable at a premium **Working Notes**

The nominal value of the 9% debentures is $5,000 \times 100 = \text{Rs } 5,00,000$.

$$\begin{aligned} \text{Issue discount} &= 5,00,000 \times 10\% = \text{Rs } 50,000, \\ \text{Bank proceeds} &= 5,00,000 - 50,000 = \text{Rs } 4,50,000, \\ \text{Redemption premium} &= 5,00,000 \times 5\% = \text{Rs } 25,000, \\ \text{Loss on issue} &= 50,000 + 25,000 = \text{Rs } 75,000. \end{aligned}$$

The redemption premium is credited separately as a liability even though redemption will occur after five years. The full nominal amount remains in 9% Debentures Account.

Journal: Case (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		4,50,000	
	Loss on Issue of Debentures A/c Dr.		75,000	
	To 9% Debentures A/c			5,00,000
	To Premium on Redemption of Debentures A/c			25,000
	(Being 5,000 debentures of Rs 100 each issued at 10% discount, redeemable at 5% premium after five years)			

Check: total debit $4,50,000 + 75,000 = 5,25,000$, equal to total credit $5,00,000 + 25,000 = 5,25,000$.

Step 2: (ii) Record issue at a premium, redeemable at par **Working Notes**

The nominal value is $30,000 \times 100 =$ Rs $30,00,000$. The premium received is $30,00,000 \times 5\% =$ Rs $1,50,000$, so the bank receives Rs 31,50,000. Because redemption is at par, there is no redemption premium or loss on issue.

Journal: Case (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		31,50,000	
	To 12% Debentures A/c			30,00,000
	To Securities Premium Reserve A/c			1,50,000
	(Being 30,000 debentures of Rs 100 each issued at 5% premium, redeemable at par after five years)			

The issue premium is a capital receipt credited to Securities Premium Reserve, not to Debentures Account or interest income. The debit of Rs 31,50,000 equals credits of Rs 30,00,000 and Rs 1,50,000.

Step 3: (iii) Record issue at par, redeemable at par **Working Notes**

The nominal value is $8,750 \times 100 =$ Rs $8,75,000$. Both issue price and redemption price equal face value, so the entire cash receipt is credited to 12% Debentures Account. There is no discount, securities premium or redemption premium.

Journal: Case (iii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		8,75,000	
	To 12% Debentures A/c			8,75,000
	(Being 8,750 debentures of Rs 100 each issued at par, redeemable at par after five years)			

Debit and credit are both Rs 8,75,000. These entries record the issue; neither the future repayment nor an interest payment occurs at this stage.

Step 4: Conclusion Case (i) records bank proceeds of Rs 4,50,000 and loss on issue of Rs 75,000 against debentures of Rs 5,00,000 and redemption premium of Rs 25,000. Case (ii) records Rs 31,50,000 received, comprising nominal capital of Rs 30,00,000 and securities premium of Rs 1,50,000. Case (iii) records an issue of Rs 8,75,000 at par.

Quick Tip to Solve: Calculate face value first. Use the issue percentage to find Bank and the redemption percentage to find the future premium; the 9% or 12% interest rate never enters these issue-price calculations.

25(a). **Ganga Ltd. invited applications for issuing 10,000 equity shares of Rs. 10 each. The amount per share was payable as follows: Rs. 2 on application, Rs. 3 on allotment, Rs. 3 on first call and Rs. 2 on second and final call.**

Applications were received for 15,000 shares. The applications for 3,000 shares were rejected and application money refunded. The shares were allotted on pro-rata basis to the applicants of 12,000 shares. Excess money received with applications was adjusted towards sums due on allotment. All shareholders paid the allotment money except one shareholder who was allotted 200 shares. These shares were forfeited. The first call was made thereafter and duly received. The second and final call was not yet made.

Pass Journal entries for the above transactions in the books of Ganga Ltd. Open Calls-in-Arrears Account wherever required. [6 marks]

Solution:

Concept:

- Pro-rata allotment distributes the issued shares in the ratio of shares allotted to applications accepted. Excess application money is credited to Share Allotment Account.
- On forfeiture, Share Capital Account is debited with the called-up capital; unpaid amounts are cancelled and capital money already received is credited to Share Forfeiture Account.
- Calls-in-Arrears Account records the unpaid amount after adjusting excess application money. Calls made after forfeiture apply only to the remaining shares.

Step 1: Calculate the pro-rata adjustment and the default **Working Notes.** Of the 15,000 applications, 3,000 are rejected. Thus 10,000 shares are allotted against 12,000 applications, a ratio of $5 : 6$.

$$\text{Application receipts} = 15,000 \times 2 = \text{Rs } 30,000,$$
$$\text{Refund} = 3,000 \times 2 = \text{Rs } 6,000,$$
$$\text{Excess adjusted} = (12,000 - 10,000) \times 2 = \text{Rs } 4,000.$$

The shareholder allotted 200 shares had applied for $200 \times 6/5 = 240$ shares. He paid Rs 480 on application, of which Rs 400 represents application capital and Rs 80 is adjusted towards allotment. Consequently his allotment arrears are $200 \times 3 - 80 = \text{Rs } 520$, and bank receives $30,000 - 4,000 - 520 = \text{Rs } 25,480$ on allotment.

Step 2: Record application and allotment **Journal of Ganga Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 15,000 shares)		30,000	 30,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Bank A/c (Being application money transferred, excess adjusted and rejected applications refunded)		30,000	 20,000 4,000 6,000
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment of Rs 3 per share due on 10,000 shares)		30,000	 30,000
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Share Allotment A/c (Being allotment money received after adjustment, with arrears separately recorded)		25,480 520	 26,000

Step 3: Record forfeiture and the first call At forfeiture only Rs 5 per share has been called. Share Capital is debited with $200 \times 5 =$ Rs $1,000$, while Share Forfeiture receives the entire Rs 480 paid, including the Rs 80 application excess adjusted on allotment. Thereafter the first call is due on $10,000 - 200 = 9,800$ shares: $9,800 \times 3 =$ Rs $29,400$.

Journal of Ganga Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. To Calls-in-Arrears A/c To Share Forfeiture A/c (Being 200 shares forfeited for non-payment of allotment)		1,000	 520 480
	Share First Call A/c Dr. To Share Capital A/c (Being first call of Rs 3 per share due on 9,800 shares)		29,400	 29,400
	Bank A/c Dr. To Share First Call A/c (Being first call received in full)		29,400	 29,400

No entry is passed for the second and final call because it has not been made.

Step 4: Open and close the arrears account **Calls-in-Arrears Account**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Share Allotment A/c	520	By Share Capital A/c	520	
	Total	520	Total	520	

The forfeiture entry cancels the Rs 520 debit balance, so the account closes with no balance carried down.

Step 5: Conclusion Allotment arrears of Rs 520 are cancelled on forfeiture, and Rs 480 is credited to Share Forfeiture Account. The first call of Rs 29,400 is fully received on the surviving 9,800 shares; their called-up capital is Rs 78,400. The final call remains uncalled.

Quick Tip to Solve: For the 200-share defaulter, first recover the 240 shares applied for. Deduct his Rs 80 application excess from allotment due before computing arrears and forfeiture.

OR

25(b). Mukund Ltd. invited applications for issuing 50,000 equity shares of Rs. 10 each at 10% premium. The amount per share was payable as follows: Rs. 3 on application, Rs. 3 (including premium) on allotment and balance amount on first and final call. Applications were received for 1,20,000 shares and shares were allotted on pro-rata basis to all the applicants. The excess money received on application was adjusted towards sums due on allotment only. Application money in excess to sums due on allotment was refunded. A shareholder who had applied for 6,000 shares, could not pay the call money and his shares were forfeited.

Pass necessary Journal entries for the above transactions in the books of Mukund Ltd. [6 marks]

Solution:

Concept:

- A premium of 10% on a Rs 10 share is Rs 1. Premium is credited to Securities Premium Reserve, separately from the nominal share capital.
- Excess application money is adjusted only to the extent of allotment due when the question so directs; any remaining excess is refunded, not retained against calls.
- On forfeiture, Share Capital Account is debited with called-up nominal capital. Premium already received is not reversed; only the capital money received is credited to Share Forfeiture Account.

Step 1: Compute the allotment, refund and call amounts **Working Notes.** The issue price is $10 + 1 = \text{Rs } 11$. Application is Rs 3, allotment is Rs 3 (capital Rs 2 and premium Rs 1), so the first and final call is $11 - 3 - 3 = \text{Rs } 5$ per share. The allotment ratio is $50,000 : 1,20,000 = 5 : 12$.

$$\begin{aligned}
\text{Application receipts} &= 1,20,000 \times 3 = \text{Rs } 3,60,000,\\
\text{Application capital} &= 50,000 \times 3 = \text{Rs } 1,50,000,\\
\text{Excess application money} &= 3,60,000 - 1,50,000 = \text{Rs } 2,10,000,\\
\text{Allotment adjusted} &= 50,000 \times 3 = \text{Rs } 1,50,000,\\
\text{Refund} &= 2,10,000 - 1,50,000 = \text{Rs } 60,000.
\end{aligned}$$

Thus all allotment dues, including the premium of Rs 50,000, are satisfied by adjustment; no further allotment cash is received. No part of the excess is available for the later call.

Step 2: Journalise application and allotment **Journal of Mukund Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being applications received for 1,20,000 shares at Rs 3 each)		3,60,000	 3,60,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Bank A/c (Being application capital transferred, excess adjusted to allotment and remainder refunded)		3,60,000	 1,50,000 1,50,000 60,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being allotment due on 50,000 shares, including premium of Rs 1 per share)		1,50,000	 1,00,000 50,000

Step 3: Find the defaulting shareholder's amounts Shares allotted to the applicant for 6,000 shares are $6,000 \times 5/12 = 2,500$. His application payment is Rs 18,000. Of this, Rs 7,500 is application capital and Rs 7,500 settles allotment, while Rs 3,000 is refunded. Therefore Rs 15,000 has been retained, consisting of Rs 12,500 capital and Rs 2,500 premium.

$$\text{Call unpaid} = 2,500 \times 5 = \text{Rs } 12,500,$$
$$\text{Total call due} = 50,000 \times 5 = \text{Rs } 2,50,000,$$
$$\text{Call received} = 2,50,000 - 12,500 = \text{Rs } 2,37,500.$$

All Rs 10 of nominal capital has been called before forfeiture. Consequently Share Capital is debited with $2,500 \times 10 = \text{Rs } 25,000$, and Share Forfeiture is credited with $2,500 \times (3+2) = \text{Rs } 12,500$. The premium was received on allotment and is retained in Securities Premium Reserve.

Step 4: Record the call and forfeiture **Journal of Mukund Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First and Final Call A/c Dr. To Share Capital A/c (Being first and final call of Rs 5 per share due)		2,50,000	 2,50,000
	Bank A/c Dr. To Share First and Final Call A/c (Being call money received except on 2,500 shares)		2,37,500	 2,37,500
	Share Capital A/c Dr. To Share First and Final Call A/c To Share Forfeiture A/c (Being 2,500 fully called shares forfeited for non-payment of the call)		25,000	 12,500 12,500

The unpaid call is retained in the call account until forfeiture and then cancelled. A separate Calls-in-Arrears Account is not necessary in this alternative.

Step 5: Conclusion Rs 60,000 is refunded and Rs 2,37,500 is received on the call. The 2,500 defaulted shares are forfeited with Share Capital debited by Rs 25,000 and Share Forfeiture credited by Rs

12,500. Securities Premium Reserve remains Rs 50,000.

Quick Tip to Solve: Deduct both Rs 3 instalments from the Rs 11 issue price to obtain the Rs 5 call. On forfeiture, exclude the Rs 1 premium already received from the amount credited to Share Forfeiture.

26(a). Madhav and Girdhari were partners in a firm sharing profits and losses in the ratio of 3:1. Their balance sheet as at 31st March, 2022 was as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capital: Madhav 3,00,000 Girdhari 2,00,000	5,00,000	Machinery	4,70,000
Workmen's compensation fund	60,000	Investment	1,10,000
Creditors	1,90,000	Debtors 1,20,000 Less: Provision for doubtful debts 10,000	1,10,000
Employee's Provident fund	1,10,000	Stock	1,40,000
		Cash	30,000
Total	8,60,000	Total	8,60,000

On 1st April, 2022, they admitted Jyoti into partnership for 1/4th share in the profits of the firm. Jyoti brought Rs. 1,86,000 as her capital and Rs. 40,000 as her share of goodwill premium in cash. The following terms were agreed upon:

(i) Stock was found undervalued by Rs. 23,000.

(ii) 20% of the investments were taken over by Girdhari at book value.

(iii) Claim on account of workmen's compensation amounted to Rs. 70,000, which was to be paid later.

(iv) Creditors included a sum of Rs. 27,000 which was not likely to be claimed.

Prepare Revaluation A/c and Partners' Capital Accounts on Jyoti's admission. [6 marks]

Solution:

Concept:

- Revaluation records increases or decreases in assets and liabilities at admission; its profit belongs to the old partners in their old profit-sharing ratio.
- Goodwill premium compensates sacrificing partners. In the absence of a different sacrifice arrangement, Madhav and Girdhari sacrifice in their old ratio, $3:1$.
- An asset taken by a partner at book value is debited to that partner's capital, without revaluation profit or loss. Only the excess of a compensation claim over its existing fund is a revaluation loss.

Step 1: Calculate the admission adjustments **Working Notes.** The stock increase is Rs 23,000 and the reduction in creditors is Rs 27,000. The compensation claim exceeds its fund by $70,000 - 60,000 =$ Rs $10,000$; only this deficiency is debited to Revaluation. The full Rs 70,000 remains payable, since payment is to be made later. The employees' provident fund remains an outside liability and is not

distributed to partners.

$$\text{Revaluation profit} = 23,000 + 27,000 - 10,000 = \text{Rs } 40,000,$$
$$\text{Madhav's share} = 40,000 \times \frac{3}{4} = \text{Rs } 30,000,$$
$$\text{Girdhari's share} = 40,000 \times \frac{1}{4} = \text{Rs } 10,000.$$

Girdhari takes investments of $1,10,000 \times 20\% = \text{Rs } 22,000$, debited to his capital. The Rs 40,000 goodwill premium is credited to Madhav, Rs 30,000, and Girdhari, Rs 10,000. Jyoti's capital credit is Rs 1,86,000; her separate goodwill payment is not part of her capital.

Step 2: Prepare the Revaluation Account **Revaluation Account**

Dr.			Cr.
Particulars	Rs	Particulars	Rs
To Workmen's compensation claim	10,000	By Stock	23,000
To Madhav's Capital (profit)	30,000	By Creditors	27,000
To Girdhari's Capital (profit)	10,000		
Total	50,000	Total	50,000

The account is closed by transferring its Rs 40,000 profit to the old partners; Jyoti receives no share of this pre-admission profit.

Step 3: Prepare the Partners' Capital Accounts **Partners' Capital Accounts**

M = Madhav, G = Girdhari, J = Jyoti; all amounts are in Rs.

Dr.							Cr.
Particulars	M	G	J	Particulars	M	G	J
To Investment	–	22,000	–	By Balance b/d	3,00,000	2,00,000	–
To Balance c/d	3,60,000	1,98,000	1,86,000	By Revaluation	30,000	10,000	–
				By Premium for goodwill	30,000	10,000	–
				By Cash (capital)	–	–	1,86,000
Total	3,60,000	2,20,000	1,86,000	Total	3,60,000	2,20,000	1,86,000

No withdrawal of the goodwill premium is specified, so its credits remain in the old partners' capitals. Girdhari's debit of Rs 22,000 records the investment taken over, rather than a cash withdrawal.

Step 4: Conclusion Revaluation profit is Rs 40,000. Closing capitals are Madhav Rs 3,60,000, Girdhari Rs 1,98,000 and Jyoti Rs 1,86,000.

Quick Tip to Solve: Compare the compensation claim with its fund first: debit Revaluation only for the Rs 10,000 excess, and debit Girdhari's capital directly for investments taken at book value.

OR

26(b). Radhika, Ridhima and Rupanshi were partners in a firm sharing profits and losses in the ratio of 3:5:2. On 31st March, 2022, their balance sheet was as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Sundry Creditors	60,000	Cash	50,000
General Reserve	40,000	Stock	80,000
Capitals: Radhika 3,00,000 Ridhima 2,00,000 Rupanshi 1,00,000	6,00,000	Debtors	40,000
		Investments	30,000
		Buildings	5,00,000
Total	7,00,000	Total	7,00,000

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

(i) Goodwill of the firm be valued at Rs. 3,00,000.

(ii) Building was valued at Rs. 6,20,000.

(iii) Capital of the new firm was fixed at Rs. 5,00,000, which will be in the new profit sharing ratio of the partners; the necessary adjustments for this purpose were to be made by opening current accounts of the partners.

Prepare Revaluation Account and Partners' Capital Accounts on Ridhima's retirement. [6 marks]

Solution:

Concept:

- Revaluation profit and accumulated reserves earned before retirement are credited to all old partners in their old profit-sharing ratio.
- The retiring partner's goodwill share is borne by the continuing partners in their gaining ratio. If no new ratio is specified, they continue in their relative old ratio.
- Where fixed total capital is prescribed and adjustments are through current accounts, differences between adjusted and required capitals are transferred to current accounts without any cash movement.

Step 1: Work out the ratios and goodwill adjustment **Working Notes.** The old ratio of Radhika, Ridhima and Rupanshi is $3:5:2$. The continuing partners, Radhika and Rupanshi, share profits in $3:2$. Their gains are

$$\text{Radhika's gain} = \frac{3}{5} - \frac{3}{10} = \frac{3}{10},$$
$$\text{Rupanshi's gain} = \frac{2}{5} - \frac{2}{10} = \frac{2}{10}.$$

Thus the gaining ratio is $3:2$. Ridhima's goodwill share is $3,00,000 \times 5/10 = \text{Rs } 1,50,000$. Debit Radhika's capital by $1,50,000 \times 3/5 = \text{Rs } 90,000$, debit Rupanshi's capital by Rs 60,000, and credit Ridhima's capital by Rs 1,50,000. Goodwill is adjusted through capitals without raising a goodwill asset.

Step 2: Prepare the Revaluation Account Building appreciation is $6,20,000 - 5,00,000 = \text{Rs } 1,20,000$.

There are no other revaluation adjustments. Allocate this profit in $3 : 5 : 2$, giving Rs 36,000, Rs 60,000 and Rs 24,000 respectively.

Revaluation Account

Dr.		Cr.	
Particulars	Rs	Particulars	Rs
To Radhika's Capital	36,000	By Building	1,20,000
To Ridhima's Capital	60,000		
To Rupanshi's Capital	24,000		
Total	1,20,000	Total	1,20,000

The entire profit is transferred to the old partners, so Revaluation closes without a balance.

Step 3: Calculate the capital and current-account adjustments General Reserve of Rs 40,000 is credited in $3 : 5 : 2$: Radhika Rs 12,000, Ridhima Rs 20,000 and Rupanshi Rs 8,000. The adjusted capitals are

$$\text{Radhika} = 3,00,000 + 12,000 + 36,000 - 90,000 = \text{Rs } 2,58,000,$$

$$\text{Ridhima} = 2,00,000 + 20,000 + 60,000 + 1,50,000 = \text{Rs } 4,30,000,$$

$$\text{Rupanshi} = 1,00,000 + 8,000 + 24,000 - 60,000 = \text{Rs } 72,000.$$

Required capitals out of Rs 5,00,000 are Radhika Rs 3,00,000 and Rupanshi Rs 2,00,000, in $3 : 2$. Hence debit their current accounts by Rs 42,000 and Rs 1,28,000 respectively and credit their capital accounts by these amounts. No payment terms are stated for Ridhima, so transfer the amount due to her Loan Account.

Step 4: Prepare the Partners' Capital Accounts **Partners' Capital Accounts**

Ra = Radhika, Ri = Ridhima, Ru = Rupanshi; all amounts are in Rs.

Dr.				Cr.			
Particulars	Ra	Ri	Ru	Particulars	Ra	Ri	Ru
To Ridhima's Capital (goodwill)	90,000	–	60,000	By Balance b/d	3,00,000	2,00,000	1,00,000
To Ridhima's Loan	–	4,30,000	–	By General Reserve	12,000	20,000	8,000
To Balance c/d	3,00,000	–	2,00,000	By Revaluation	36,000	60,000	24,000
				By Radhika's Capital (goodwill)	–	90,000	–
				By Rupanshi's Capital (goodwill)	–	60,000	–
				By Current A/c	42,000	–	1,28,000
Total	3,90,000	4,30,000	2,60,000	Total	3,90,000	4,30,000	2,60,000

Step 5: Conclusion Revaluation profit is Rs 1,20,000. Ridhima is due Rs 4,30,000. Closing capitals are Radhika Rs 3,00,000 and Rupanshi Rs 2,00,000; their current accounts have debit balances of Rs 42,000 and Rs 1,28,000 respectively.

Quick Tip to Solve: Adjust reserve, revaluation and goodwill before comparing capitals with the Rs 5,00,000 target; a capital shortfall transferred to current account creates a debit current balance.

Part B (20 marks)

Option - I (Analysis of Financial Statements)

27(A). Interest of Rs. 3,000 received in cash on loans and advances will result in: [1 mark]

(a) cash inflow from operating activities.

(b) cash inflow from investing activities.

(c) cash inflow from financing activities.

(d) No change in cash or cash equivalents.

Correct Answer: (b) cash inflow from investing activities.

Solution:

Concept:

- For a non-financial enterprise, interest received on loans and advances is an investing cash flow: it is a return on funds invested outside normal trading operations.
- A cash receipt increases cash and cash equivalents. Classification depends on the nature of the receipt, rather than simply on whether it is income.

Step 1: Identify the cash flow and its source The enterprise has actually received Rs 3,000 in cash as interest on loans and advances. It therefore has a cash inflow. Loans and advances represent investment of funds, and the interest is the return on that investment. Under the usual non-financial-enterprise classification, the receipt belongs to investing activities.

Step 2: Compare the alternatives Option (a) would be appropriate for interest receipts of a financial enterprise whose principal business is lending, which is not specified here. Option (c) concerns raising finance or its repayment, whereas this receipt earns a return on funds lent. Option (d) is incorrect because cash has increased by Rs 3,000. Thus the investing classification in option (b) fits the stated receipt.

Step 3: Conclusion Interest received causes a cash inflow of Rs 3,000 from investing activities. Hence, the correct option is (b).

Quick Tip to Solve: Separate the interest return from borrowing: interest received by a non-financial enterprise is an investing inflow.

OR

27(B). In case of a financial enterprise whose main business is lending and borrowing, 'interest paid' and 'interest received' are classified as: [1 mark]

(A) Operating activities

(B) Investing activities

(C) Financing activities

(D) Cash equivalents

Correct Answer: (A) Operating activities

Solution:

Concept:

- Operating activities are the principal revenue-producing activities of an enterprise.
- For a financial enterprise, lending and borrowing form the main business, so related interest receipts and payments are operating cash flows.

Step 1: Identify the nature of the business The question specifies a financial enterprise whose main business is lending and borrowing. Interest received is its normal business revenue and interest paid is a normal cost of earning that revenue.

Step 2: Classify both interest flows Both interest received and interest paid therefore belong to operating activities. Investing and financing classifications used for interest in a non-financial enterprise do not apply here. Cash equivalents describe highly liquid short-term investments; they are not a classification for interest receipts or payments.

Step 3: Conclusion Both interest paid and interest received are operating activities. Hence, the correct option is (A).

Quick Tip to Solve: Underline "financial enterprise" first: interest on its lending and borrowing is part of its ordinary operations.

28(A). Which of the following is a tool of Analysis of Financial Statements? [1 mark]

(A) Statement of Profit & Loss

(B) Ratio Analysis

(C) Balance Sheet

(D) Notes to Accounts

Correct Answer: (B) Ratio Analysis

Solution:

Concept:

- Financial statement analysis uses techniques to interpret accounting data and assess financial performance and position.
- Ratio analysis expresses a meaningful relationship between two related accounting figures.

Step 1: Identify the analytical technique Ratio analysis is a tool of financial statement analysis. For example, comparing current assets with current liabilities gives the current ratio, which helps assess short-term payment capacity.

Step 2: Distinguish the other choices The Statement of Profit and Loss and the Balance Sheet are financial statements that provide information for analysis. Notes to Accounts explain and supplement their figures. These are sources of financial information, whereas ratio analysis is a technique applied to that information.

Step 3: Conclusion Ratio Analysis is the tool of Analysis of Financial Statements. Hence, the correct option is (B).

Quick Tip to Solve: Distinguish a source of figures from a method applied to them: statements provide data, while ratios analyse it.

OR

28(B). _____ ratios are calculated to determine the ability of the business to service its debt in the long run. [1 mark]

(A) Profitability

(B) Solvency

(C) Liquidity

(D) Turnover

Correct Answer: (B) Solvency

Solution:

Concept:

- Solvency ratios assess the long-term financial position and the capacity to meet long-term debt obligations.
- Liquidity ratios concern short-term obligations, while profitability and turnover ratios measure earnings and efficiency respectively.

Step 1: Use the time horizon in the question The words "service its debt in the long run" refer to long-term financial soundness. Solvency ratios, such as debt-equity ratio and interest coverage ratio, help creditors judge this ability.

Step 2: Eliminate the other ratio groups Profitability ratios measure profit earned relative to sales or investment. Liquidity ratios concern the ability to pay short-term liabilities. Turnover ratios measure how efficiently assets are used. None of these groups is the direct classification asked for by the long-term debt-service wording.

Step 3: Conclusion Solvency ratios are calculated to determine the ability to service debt in the long run. Hence, the correct option is (B).

Quick Tip to Solve: Match the time horizon: long-term debt points to solvency; short-term payment capacity points to liquidity.

29. Which of the following transactions will not result in flow of cash: [1 mark]

(A) Cash withdrawn from the bank Rs. 7,000

(B) Issue of shares Rs. 20,00,000

(C) Purchase of investments Rs. 60,000

(D) Payment of wages Rs. 11,000

Correct Answer: (A) Cash withdrawn from the bank Rs. 7,000

Solution:

Concept:

- Cash includes cash in hand and demand deposits with banks.
- A transfer between components of cash does not change total cash and cash equivalents and is excluded from the cash flow statement.

Step 1: Examine the bank withdrawal Withdrawing Rs 7,000 from the bank increases cash in hand by Rs 7,000 and reduces the bank balance by the same amount. Thus, the change in total cash is $7,000 - 7,000 = 0$. It is an internal transfer between two forms of cash.

Step 2: Compare the remaining transactions An issue of shares for cash brings a financing cash inflow of Rs 20,00,000. Purchase of investments gives an investing cash outflow of Rs 60,000, and payment of wages gives an operating cash outflow of Rs 11,000. Each changes the total cash balance, unlike the withdrawal.

Step 3: Conclusion Cash withdrawn from the bank, Rs 7,000, does not result in a cash flow. Hence, the correct option is (A).

Quick Tip to Solve: Check cash in hand and bank together: an equal increase in one and decrease in the other creates no cash flow.

30. The 'Inventory Turnover Ratio' from the following information will be:

Revenue from operations Rs. 12,00,000

Average Inventory Rs. 2,00,000

Gross loss ratio 20% [1 mark]

(A) 6 times

(B) 5 times

(C) 7.2 times

(D) 3 times

Correct Answer: (C) 7.2 times

Solution:

Concept:

- Inventory turnover ratio equals cost of revenue from operations divided by average inventory.
- A gross loss means that cost of revenue from operations exceeds revenue from operations by the amount of the loss.

Step 1: Calculate gross loss The gross loss ratio is based on revenue from operations. Therefore,

$$\text{Gross loss} = 12,00,000 \times \frac{20}{100} = \text{Rs } 2,40,000.$$

Step 2: Calculate cost and turnover Add the loss to revenue to find the cost:

$$\text{Cost of revenue from operations} = 12,00,000 + 2,40,000 = \text{Rs } 14,40,000.$$

Hence,

$$\text{Inventory turnover ratio} = \frac{14,40,000}{2,00,000} = 7.2 \text{ times.}$$

Using sales directly gives 6 times but uses the wrong numerator. Neither 5 times nor 3 times follows from the cost and inventory given.

Step 3: Conclusion The Inventory Turnover Ratio is 7.2 times. Hence, the correct option is (C).

Quick Tip to Solve: For a gross loss, add the loss to revenue before dividing by average inventory; do not subtract it as gross profit.

31. Under which major heads and sub-heads will the following items be presented in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013?

(i) Income received in advance

(ii) Computer Software

(iii) Balance of forfeited shares account [3 marks]

Solution:

Concept:

- Schedule III groups Balance Sheet items by their nature under equity, liabilities and assets.
- An advance receipt for income not yet earned is a liability; an identifiable software asset has no physical substance.
- The balance of Share Forfeiture Account represents the amount already paid on forfeited shares and is disclosed under Share Capital.

Step 1: Classify income received in advance Income received in advance has been collected before the related service or benefit has been provided. It is not income earned for the current period. It is shown under the major head Current Liabilities and the sub-head Other Current Liabilities.

Step 2: Classify computer software Computer software is a non-current asset used in the business over future periods. Since it lacks physical substance, it is included under Fixed Assets: Intangible Assets, within the major head Non-current Assets.

Step 3: Classify the forfeited shares balance The balance of Share Forfeiture Account is capital in nature. It is shown under the major head Shareholders' Funds and the sub-head Share Capital, disclosing the amount originally paid up on forfeited shares. It is not a revenue receipt or a trade liability. Only the surplus attributable to shares subsequently reissued is transferred to Capital Reserve.

Step 4: Present the required heads

Item	Major head	Sub-head
Income received in advance	Current Liabilities	Other Current Liabilities
Computer Software	Non-current Assets	Fixed Assets: Intangible Assets
Balance of forfeited shares account	Shareholders' Funds	Share Capital

Step 5: Conclusion The respective sub-heads are Other Current Liabilities, Intangible Assets under Fixed Assets, and Share Capital, under the major heads shown above.

Quick Tip to Solve: Classify by nature: unearned income is owed, software is intangible, and the balance on forfeited shares remains within share capital.

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

Solution:

Concept:

- Ratio analysis studies meaningful arithmetical relationships between related figures in financial statements.
- A ratio condenses accounting information for interpretation, but its reliability depends on the underlying data and accounting methods.

Step 1: Identify the technique The technique is Ratio Analysis. It regroups financial statement data and expresses relationships as a proportion, percentage or number of times. For example, the current ratio compares current assets with current liabilities to help assess liquidity. Merely calculating a ratio is not enough; it must be interpreted in context.

Step 2: Explain dependence on accounting data First limitation: ratio analysis is subject to the limitations of financial statements. If the underlying accounting figures contain errors, omissions or window dressing, the ratios calculated from them also give a misleading picture. An arithmetically correct ratio cannot correct unreliable source information or establish the true financial position by itself.

Step 3: Explain differences in accounting practices Second limitation: differences in accounting policies restrict comparability. Two enterprises may use different depreciation methods or inventory valuation methods. Their profits and asset values, and therefore the ratios based on them, can differ even when their underlying operations are similar. Comparing the ratios without considering these differences may lead to an incorrect conclusion about performance or efficiency.

Step 4: Conclusion The technique is Ratio Analysis. Two limitations are dependence on the reliability of accounting data and restricted comparability caused by different accounting policies.

Quick Tip to Solve: For each limitation, state the cause and its effect on interpretation: unreliable data misleads, and different policies weaken comparison.

33(a). (i) Calculate Revenue from operations of 'BN Ltd.' from the following information:

Current Assets Rs. 8,00,000

Quick ratio 1.5:1

Current ratio 2:1

Inventory turnover ratio 6 times

Goods were sold at a profit of 25% on cost.

(ii) The operating ratio of a company is 60%. State whether 'purchase of goods costing Rs. 20,000' will increase, decrease or not change the operating ratio. [4 marks]

Solution:

Concept:

- Current ratio is current assets divided by current liabilities. Quick ratio is quick assets divided by current liabilities; inventory is excluded from quick assets.
- Inventory turnover ratio equals cost of revenue from operations divided by average inventory. Profit on cost is added to cost to obtain revenue from operations.
- Operating ratio equals $\dfrac{\text{Cost of revenue from operations} + \text{Operating expenses}}{\text{Revenue from operations}} \times 100$.

Step 1: (i) Calculate current liabilities and quick assets Use the current ratio first, since current assets are given:

$$\text{Current liabilities} = \frac{\text{Rs } 8,00,000}{2} = \text{Rs } 4,00,000.$$

Then use the quick ratio with the same current liabilities:

$$\text{Quick assets} = 1.5 \times \text{Rs } 4,00,000 = \text{Rs } 6,00,000.$$

Step 2: (i) Determine inventory and the cost of goods sold No prepaid expenses are given, so the difference between current assets and quick assets is inventory:

$$\text{Inventory} = \text{Rs } 8,00,000 - \text{Rs } 6,00,000 = \text{Rs } 2,00,000.$$

As no separate opening and closing inventories are provided, use the inventory so obtained as the inventory base for the given turnover ratio:

$$\text{Cost of revenue from operations} = 6 \times \text{Rs } 2,00,000 = \text{Rs } 12,00,000.$$

Step 3: (i) Add profit calculated on cost The profit is 25% of cost, not 25% of sales. Therefore:

$$\begin{aligned} \text{Gross profit} &= \text{Rs } 12,00,000 \times \frac{25}{100} = \text{Rs } 3,00,000, \\ \text{Revenue from operations} &= \text{Rs } 12,00,000 + \text{Rs } 3,00,000 \\ &= \text{Rs } 15,00,000. \end{aligned}$$

Step 4: (ii) Analyse the purchase of goods The purchase of goods costing Rs 20,000 by itself does not change the operating ratio. Purchases increase by Rs 20,000 and inventory on hand also increases by

Rs 20,000. In the calculation of cost of goods sold, the increase in purchases is offset by the equal increase in closing inventory. Thus cost of revenue from operations, operating expenses and revenue from operations remain unchanged. Merely acquiring goods is not the same as selling or consuming them.

Step 5: Conclusion (i) Revenue from operations of BN Ltd. is $\boxed{\text{Rs } 15,00,000}$. (ii) The operating ratio will **not change**; it remains $\boxed{60\%}$.

Quick Tip to Solve: Find liabilities from the current ratio before using the quick ratio. For a purchase-only transaction, check the equal increase in closing inventory before changing cost of goods sold.

OR

33(b). The debt equity ratio of M Ltd. is 2:1. State with reasons whether the following transactions will increase, decrease or not change the debt equity ratio:

(i) Obtained a loan from ICICI Bank Rs. 1,00,000 payable after 5 yrs.

(ii) Purchased machinery for cash Rs. 1,50,000.

(iii) Redeemed 9% debentures Rs. 1,00,000.

(iv) Issued equity shares for purchase of machinery of Rs. 5,00,000 to the vendors. [4 marks]

Solution:

Concept:

- Debt-equity ratio is $\dfrac{\text{Long-term debt}}{\text{Shareholders' funds}}$. Long-term borrowings, including debentures, form the numerator; equity share capital and reserves form part of the denominator.
- Analyse each transaction separately. An increase in debt alone raises the ratio, a reduction in debt alone lowers it, and an increase in shareholders' funds alone lowers it.

Step 1: (i) Examine the loan repayable after five years The loan of Rs 1,00,000 from ICICI Bank is a long-term borrowing because it is payable after five years. It increases long-term debt, while shareholders' funds remain unchanged. Therefore, the debt-equity ratio **increases** above 2:1. If the original shareholders' funds are E, the original debt is $2E$, and the new ratio is

$$\frac{2E + 1,00,000}{E} > 2.$$

Step 2: (ii) Examine machinery purchased for cash Paying Rs 1,50,000 for machinery increases machinery and decreases cash by the same amount. This is an exchange of one asset for another; it does not create long-term debt or change shareholders' funds. Both components of the ratio remain unchanged. Hence, the debt-equity ratio **does not change** and remains 2:1. A reduction in cash alone is not a reduction in equity.

Step 3: (iii) Examine the redemption of debentures Redemption of 9% debentures of Rs 1,00,000 reduces long-term debt by Rs 1,00,000. No premium or other adjustment to shareholders' funds is

stated. Hence, shareholders' funds remain unchanged and the debt-equity ratio **decreases** below 2:1:

$$\frac{2E - 1,00,000}{E} < 2.$$

The 9% figure is the coupon rate; it does not change the principal amount removed from long-term debt on redemption.

Step 4: (iv) Examine equity shares issued to the machinery vendors Issuing equity shares of Rs 5,00,000 to acquire machinery increases equity share capital, and therefore shareholders' funds, by Rs 5,00,000. Long-term debt remains unchanged. The increase in the denominator makes the debt-equity ratio **decrease** below 2:1:

$$\frac{2E}{E + 5,00,000} < 2.$$

No cash receipt is necessary for shareholders' funds to increase: shares issued for consideration other than cash also increase share capital.

Step 5: Conclusion The effects on the debt-equity ratio are: (i) **Increase**; (ii) **No change** (2:1); (iii) **Decrease**; and (iv) **Decrease**.

Quick Tip to Solve: Track only long-term debt and shareholders' funds. Machinery for cash changes neither; machinery acquired by issuing shares increases the denominator.

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

Sujata started a small enterprise under the 'Skill India Scheme'. As the business grew, the revenue started increasing and she decided to form 'Sujata Ltd.' to achieve her objectives with 10 other like minded persons. The financial position of the company is given in its Balance Sheet as at 31.3.2022:

Balance Sheet of Sujata 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) Equity share capital		20,00,000	17,00,000
(b) Reserves and Surplus (Statement of Profit and Loss)		3,00,000	4,00,000
2. Non-current Liabilities			
Long term Borrowings		3,00,000	2,00,000
3. Current Liabilities			
Trade payables		50,000	25,000
Total		26,50,000	23,25,000
II. Assets			
1. Non-current Assets			
(a) Fixed Assets			
(i) Tangible Assets		8,00,000	9,00,000
(ii) Intangible Assets		5,00,000	2,00,000
(b) Non-current Investments		3,00,000	4,00,000
2. Current Assets			
(a) Inventories		4,00,000	5,00,000
(b) Trade Receivables		1,50,000	1,25,000
(c) Cash & Cash equivalents		5,00,000	2,00,000
Total		26,50,000	23,25,000

Additional Information:

Depreciation of Rs. 1,00,000 was charged on Tangible Assets during the year.

On the basis of the above information prepare the 'Cash Flow Statement' of Sujata Ltd. [6 marks]

Solution:

Concept:

- The indirect method adjusts the change in the Statement of Profit and Loss for non-cash charges and changes in operating working capital.
- Purchases and sales of non-current assets are investing activities; proceeds from share capital and long-term borrowings are financing activities.
- The total of operating, investing and financing cash flows must equal closing cash and cash equivalents less their opening balance.

Step 1: Calculate the loss and adjust depreciation The balance in the Statement of Profit and Loss falls from Rs 4,00,000 to Rs 3,00,000. With no dividend, tax or other appropriation stated, the loss for the year is Rs 1,00,000. Depreciation of Rs 1,00,000 is a non-cash expense and is added back:

$$\text{Loss for the year} = 3,00,000 - 4,00,000 = -1,00,000,$$

$$\text{Operating result before working capital changes} = -1,00,000 + 1,00,000 = 0.$$

The decline in tangible assets from Rs 9,00,000 to Rs 8,00,000 is entirely explained by the stated depreciation, so there is no purchase or disposal cash flow for tangible assets.

Step 2: Analyse working capital and non-current balances Inventories decrease by Rs 1,00,000, releasing operating funds. Trade receivables increase by Rs 25,000, using operating funds, while trade payables increase by Rs 25,000, providing operating funds. Thus operating cash flow is $0 + 1,00,000 - 25,000 + 25,000 = \text{Rs } 1,00,000$.

With no non-cash transactions or disposal gains/losses specified, the increase in intangible assets is treated as a cash purchase of Rs 3,00,000 and the decrease in non-current investments as cash realisation of Rs 1,00,000. Share capital increases by Rs 3,00,000 and long-term borrowings by Rs 1,00,000; these are financing receipts.

Step 3: Prepare the cash flow statement **Sujata Ltd.**

Cash Flow Statement for the year ended 31st March, 2022

Particulars	Amount (Rs)
A. Cash flow from operating activities	
Net loss before tax	(1,00,000)
Add: Depreciation on tangible assets	1,00,000
Operating profit before working capital changes	Nil
Add: Decrease in inventories	1,00,000
Less: Increase in trade receivables	(25,000)
Add: Increase in trade payables	25,000
Cash generated from operations	1,00,000
Net cash from operating activities (A)	**1,00,000**
B. Cash flow from investing activities	
Purchase of intangible assets	(3,00,000)
Sale of non-current investments	1,00,000
Net cash used in investing activities (B)	**(2,00,000)**
C. Cash flow from financing activities	
Proceeds from issue of equity shares	3,00,000
Proceeds from long-term borrowings	1,00,000
Net cash from financing activities (C)	**4,00,000**
Net increase in cash and cash equivalents (A+B+C)	3,00,000
Add: Opening cash and cash equivalents	2,00,000
Closing cash and cash equivalents	**5,00,000**

No tax payment is supplied in the question, so none is deducted. Parentheses denote cash outflows or losses.

Step 4: Conclusion Net cash from operations is Rs 1,00,000, net cash used in investing is Rs 2,00,000 and net cash from financing is Rs 4,00,000. The net cash increase of Rs 3,00,000 reconciles opening cash of Rs 2,00,000 with closing cash of Rs 5,00,000.

Quick Tip to Solve: Before treating a fall in fixed assets as a sale, check whether depreciation fully explains it; here it does.

Option - II (Computerised Accounting)

27. _____ works as a platform to work with 'Tally. [1 mark]

(A) Company information

(B) Active company

(C) Gateway of Tally

(D) Master

Correct Answer: (C) Gateway of Tally

Solution:

Concept:

- The Gateway of Tally is the main working interface from which the user accesses the accounting functions of Tally.

- Company selection and master creation are individual functions; the platform provides access to those functions.

Step 1: Identify the central platform The question asks for the platform through which a user works with Tally. The Gateway of Tally presents the menu used to reach accounting vouchers, masters and reports after a company is selected.

Step 2: Distinguish the other options Company information concerns company details and company management. An active company is the company currently selected for work. A master holds relatively permanent details such as ledger or stock-item information. None of these names identifies the central working menu.

Step 3: Conclusion The correct option is (C): Gateway of Tally.

Quick Tip to Solve: Look for the main working menu: Gateway gives access to masters, vouchers and reports.

28(A). Which of the following components of computerised accounting system are known as raw facts for any business organisation? [1 mark]

(A) Procedure

(B) Data

(C) Hardware

(D) Software

Correct Answer: (B) Data

Solution:

Concept:

- Data are raw facts and figures collected about business events before processing.
- Processing converts data into useful information, such as accounting reports.

Step 1: Identify the raw input Dates, invoice numbers, quantities and transaction amounts are examples of raw business facts. These inputs are collectively called data in a computerised accounting system.

Step 2: Eliminate the remaining components Procedures are the prescribed steps for operating the system. Hardware means its physical equipment, while software means the programs that process inputs. These three components help handle the facts; they are not the facts themselves.

Step 3: Conclusion The correct option is (B): Data.

Quick Tip to Solve: Separate raw inputs from the tools that process them: transaction facts are data.

OR

28(B). Which of the following software packages is suitable for an organization where the volume of accounting transactions is small and adaptability is very high? [1 mark]

(A) Specific

(B) Tailored

(C) Generic

(D) (b) and (c) both

Correct Answer: (C) Generic

Solution:

Concept:

- Generic or ready-to-use accounting software serves common accounting requirements and is suitable for a small volume of transactions.
- High adaptability here means that the organisation can readily adapt its accounting requirements and procedures to a standard package.

Step 1: Match the stated requirements For a small transaction volume, a standard generic package can provide the usual accounting facilities economically. Since the organisation has high adaptability, it can work within the features and procedures already offered by that package.

Step 2: Compare with specialised packages Specific or tailored packages are designed around particular organisational requirements. Tailoring is justified when standard software cannot adequately meet those requirements; the question instead describes a small volume and high adaptability. Thus the combined option including tailored software is not the best classification.

Step 3: Conclusion The correct option is (C): Generic.

Quick Tip to Solve: Combine both clues: small transaction volume and willingness to adapt point to generic software.

29(A). A _____ is identified by combination of letter and number corresponding to particular location within the spreadsheet. [1 mark]

(A) Row

(B) Cell

(C) Column

(D) Range

Correct Answer: (B) Cell

Solution:

Concept:

- A cell is the intersection of a row and a column in a spreadsheet.
- A cell address combines a column letter with a row number, for example A1 or C5.

Step 1: Read the location reference In the address C5, C names the column and 5 names the row.

Their intersection specifies one particular location in the worksheet. That single location is a cell.

Step 2: Check the other choices A row is normally identified by a number alone and a column by a letter alone. A range is a group of cells and is commonly expressed using its first and last cell addresses, such as A1:C5. Hence neither row, column nor range is the requested single letter-and-number location.

Step 3: Conclusion The correct option is (B): Cell.

Quick Tip to Solve: Read an address such as C5 as column C plus row 5: the intersection is a cell.

OR

29(B). Entries required to make trading account and profit and loss account are known as: [1 mark]

(A) Opening entries.

(B) Adjusting entries.

(C) Closing entries.

(D) (a) and (b) both.

Correct Answer: (C) Closing entries.

Solution:

Concept:

- Closing entries transfer balances of nominal accounts to the Trading Account and Profit and Loss Account at the end of an accounting period.
- Opening entries bring forward opening balances; adjusting entries recognise accruals, prepayments and other period-end adjustments.

Step 1: Identify the transfer needed for final accounts Balances relating to trading items, such as purchases and sales, are transferred to the Trading Account. Other expenses and incomes are transferred to the Profit and Loss Account. These transfers close the relevant nominal accounts.

Step 2: Distinguish adjustment from closure Adjusting entries correct or complete the period figures, for example by recognising outstanding expenses, but are not the name given to the transfers that make up the trading and profit and loss accounts. Opening entries begin a period. Therefore neither opening nor adjusting entries, nor their combination, fits the description.

Step 3: Conclusion The correct option is (C): Closing entries.

Quick Tip to Solve: When nominal-account balances are transferred to trading and profit and loss accounts, think closing entries.

30. The ranges are identified within Excel by: [1 mark]

(A) Using Hashtag

(B) Using Vector

(C) Using Comma

(D) Using Colour

Correct Answer: (D) Using Colour

Solution:

Concept:

- A range is a cell or a collection of cells used together in a spreadsheet operation.
- While a formula is being entered or edited, Excel uses coloured outlines to distinguish the referenced ranges and corresponding coloured references in the formula.

Step 1: Identify the visual cue Colour helps the user connect each reference in a formula with its range on the worksheet. Different referenced ranges can be outlined in different colours, making it easier to check that the intended cells have been selected.

Step 2: Eliminate the other choices A hashtag is not the visual identification method for ranges. A vector is not a range-identification convention in Excel. A comma can separate arguments or references in suitable expressions, but it does not provide the coloured visual identification asked about here.

Step 3: Conclusion Ranges are identified within Excel using colour. Hence, the correct option is (D).

Quick Tip to Solve: During formula editing, match a coloured cell reference with the outline of the same colour on the worksheet.

31. Explain any three advantages of using charts. [3 marks]

Solution:

Concept:

- A chart is a graphical representation of numerical data, using elements such as bars, lines or sectors.
- Charts turn a large set of figures into an easily interpreted visual summary; an appropriate chart type must be chosen for the information being presented.

Step 1: Explain easy understanding Charts present complex or voluminous numerical information in a simple and attractive form. A reader can grasp the broad message quickly without examining every entry in a table. For example, a pie chart of expenses shows the relative importance of each expense category at a glance.

Step 2: Explain easier comparison Charts facilitate comparison between categories, departments or periods. Bars of different heights make differences in amounts readily visible. For example, a column chart of sales of several branches helps management identify the branch with the highest sales and compare its performance with that of the others.

Step 3: Explain identification of trends Charts help reveal patterns and changes over time, which

support planning and decision-making. A line chart of monthly sales can show a rising trend, a decline or seasonal fluctuations more clearly than a list of amounts. Management can use the observed pattern when planning stock and sales targets.

Step 4: Conclusion Three advantages of charts are easy understanding of data, convenient comparison and clear identification of trends for decision-making.

Quick Tip to Solve: Pair each advantage with an example: expenses for understanding, branch sales for comparison and monthly sales for trends.

32. Explain two main groups in which 'Group of Accounts' is classified in Accounting Software 'Tally'. [3 marks]

Solution:

Concept:

- An account group brings together ledger accounts of a similar nature so that their balances can be consolidated in accounting reports.
- Tally's predefined groups are classified by their position in the hierarchy into Primary Groups and Secondary Groups, also called Sub-groups.

Step 1: Explain Primary Groups Primary Groups are the main, top-level groups in the classification of accounts. They are not placed under another account group. In the standard predefined classification, Tally provides 15 Primary Groups. They determine the broad presentation of balances in the Balance Sheet or the Profit and Loss Account. Examples include Capital Account, Current Assets, Current Liabilities, Sales Accounts and Purchase Accounts.

Step 2: Explain Secondary Groups Secondary Groups, or Sub-groups, are placed under Primary Groups and provide a more detailed classification of accounts having similar characteristics. Tally provides 13 predefined Secondary Groups. For example, Sundry Debtors, Bank Accounts and Cash-in-hand are sub-groups under Current Assets, while Sundry Creditors is a sub-group under Current Liabilities. Their balances are included in the total of the relevant parent group.

Step 3: Relate the two levels A customer's ledger can be placed under Sundry Debtors; that sub-group is included under Current Assets. Thus, the secondary level supplies useful detail while the primary level presents the consolidated category in the financial statements.

Step 4: Conclusion The two main classifications are Primary Groups and Secondary Groups (Sub-groups); the standard 28 predefined groups consist of 15 primary and 13 secondary groups.

Quick Tip to Solve: Remember the hierarchy: customer's ledger, then Sundry Debtors, then Current Assets; the latter two illustrate secondary and primary groups.

33(a). What is a 'Pivot table'? State any three of its advantages. [4 marks]

Solution:

Concept:

- A Pivot table is an interactive spreadsheet table that summarises and analyses a large set of source data by arranging selected fields into rows, columns and values.
- It groups records into categories and applies a summary function, such as sum, count or average, to the corresponding values. Changing the arrangement changes the view of the data without rewriting the source records.

Step 1: Explain the meaning with an example Suppose a sales list contains the date, branch, product and amount of each sale. A Pivot table can display branches as row headings, products as column headings and total sales amounts as values. Many individual transactions are thereby condensed into a compact branch-wise and product-wise report.

Step 2: State quick summarisation as an advantage A Pivot table quickly summarises large volumes of data. It can calculate totals, counts and averages for each category and show grand totals. For example, it can produce total sales for every branch without requiring the user to prepare a separate manual calculation for each branch.

Step 3: State flexible analysis as an advantage Fields can be rearranged between rows and columns to examine the same information from different viewpoints. A product-wise summary can be changed into a branch-wise or period-wise summary. This flexibility makes comparisons easier and saves the effort of creating an entirely new report for every analytical question.

Step 4: State selective reporting as an advantage Filtering and grouping allow the user to focus on relevant information. For example, the report can display one branch or group transaction dates into months to examine monthly sales. This helps reveal patterns and locate categories that need attention while retaining access to the underlying data.

Step 5: Conclusion A Pivot table is an interactive tool for summarising and analysing data. Its advantages include quick summarisation, flexible rearrangement for comparison and selective analysis through filtering and grouping.

Quick Tip to Solve: Use a sales list to remember the functions: total by branch, rearrange by product, and filter or group by period.

OR

33(b). List eight uses of Accounting Software. [4 marks]

Solution:

Concept:

- Accounting software records, processes and summarises financial transactions, using an integrated database to reduce repeated entry of the same information.
- Its uses cover routine transaction processing, control of balances and preparation of reports for

management and financial reporting.

Step 1: List uses in recording and controlling transactions 1. **Recording transactions:** It records receipts, payments, purchases, sales and journal vouchers and posts their effects to the appropriate ledger accounts.

2. **Billing and invoicing:** It prepares sales invoices and credit notes, calculates invoice totals and maintains customer-wise billing records.

3. **Accounts receivable management:** It maintains customer balances, tracks collections and identifies outstanding amounts and overdue debts for follow-up.

4. **Accounts payable management:** It records suppliers' bills, maintains amounts payable and helps schedule payments as they become due.

Step 2: List uses in operations and reporting 5. **Inventory management:** It records stock receipts and issues, maintains item-wise quantities and helps determine stock values and replenishment requirements.

6. **Payroll processing:** It computes employees' earnings, deductions and net salaries and generates payroll statements or payslips.

7. **Bank reconciliation:** It compares cash-book bank transactions with bank-statement entries and helps identify outstanding cheques, deposits and other differences.

8. **Preparation of accounting reports:** It generates ledger summaries, trial balances, profit and loss statements and balance sheets from the recorded data, allowing timely review of performance and financial position.

Step 3: Conclusion Eight uses are transaction recording, billing and invoicing, receivables management, payables management, inventory management, payroll processing, bank reconciliation and preparation of accounting reports.

Quick Tip to Solve: Recall eight separate tasks across recording, customer and supplier balances, stock, employees, banks and final reports; do not count several names for the same report as separate uses.

34. Name the function which is often used to calculate the payment for mortgage loans that have fixed rate of interest. Also explain its syntax. [6 marks]

Solution:

Concept:

- The **PMT** function calculates the constant periodic payment on a loan when the interest rate and the payment interval remain fixed.
- Each payment includes principal repayment and interest. The function does not automatically include separate taxes, insurance premiums or loan-related fees.
- The interest rate and the total number of payments must use the same time unit. Money received and money paid are represented by opposite signs.

Step 1: Identify the function and write its syntax The required spreadsheet financial function is **PMT**. Its syntax is

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

In a worksheet, the formula begins with an equals sign: `=PMT(rate,nper,pv,[fv],[type])`. The square brackets indicate optional arguments in the syntax; they are not typed around actual values in a formula. The first three arguments are required.

Step 2: Explain the required arguments **rate:** The interest rate for one payment period, entered as a decimal or percentage. For monthly repayments on a loan with a quoted annual interest rate of r, use $r/12$.

nper: The total number of payment periods over the loan's term. For monthly payments over y years, use $12y$.

pv: The present value of the loan, normally the principal amount borrowed. A positive principal represents an amount received by the borrower; the function then returns a negative payment to show an outflow.

Step 3: Explain the optional arguments **fv:** The future value or balance desired after the final payment. It is normally zero for a loan that is to be completely repaid. If omitted, it defaults to zero.

type: This specifies when payments fall due. Use 0 for payments at the end of each period and 1 for payments at the beginning. If omitted, it defaults to 0. Ordinary mortgage instalments paid at month-end therefore use 0.

Step 4: Apply consistent periods and cash-flow signs For a loan amount L, annual interest rate r, a term of y years and monthly instalments paid at month-end, the formula is

$$\mathrm{PMT}(r/12, 12y, L, 0, 0).$$

Its negative result represents the borrower's monthly repayment. To display the instalment as a positive amount, use `=-PMT(r/12,12*y,L,0,0)` in a worksheet where those names represent the corresponding input values. Dividing the annual rate by 12 while leaving the term in years would mix periods and give an incorrect payment.

Step 5: Conclusion The function is **PMT**, with syntax `=PMT(rate,nper,pv,[fv],[type])`. It returns the fixed periodic loan payment using the periodic interest rate, number of payments, principal, desired final balance and payment timing.

Quick Tip to Solve: For monthly mortgage payments, divide the annual rate by 12 and multiply the years by 12; use fv $= 0$ and type $= 0$ for a fully repaid loan with month-end payments.