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

## Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

### General Instructions

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

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

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

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

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

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

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

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

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

## Part A (60 marks)

*(Accounting for Partnership Firms and Companies)*

**1(i). Keshav and Karan were partners in a firm sharing profits equally. The capitalised value of average profits of the firm was Rs. 18,00,000. Assets of the firm were Rs. 20,00,000 (excluding goodwill) and Liabilities were Rs. 5,00,000. The value of goodwill of the firm by capitalisation of average profits method will be:** [1 mark]

(A) Rs. 2,00,000

(B) Rs. 3,00,000

(C) Rs. 4,00,000

(D) Rs. 3,50,000

**Correct Answer:** (B) Rs. 3,00,000

**Solution:**

**Concept:**

- Capital employed equals identifiable assets less outside liabilities.
- Under capitalisation of average profits, goodwill equals capitalised business value less actual capital employed.

**Step 1:** Find capital employed Actual capital employed is Rs $20,00,000 -$ Rs $5,00,000 =$ Rs $15,00,000$. Goodwill is excluded from assets, so it must not be deducted again.

**Step 2:** Calculate goodwill The excess of capitalised value over capital employed is Rs $18,00,000 -$ Rs $15,00,000 =$ Rs $3,00,000$. None of Rs 2,00,000, Rs 4,00,000 or Rs 3,50,000 equals this excess.

**Step 3:** Conclusion Goodwill is Rs $3,00,000$. Hence, the correct option is (B).

**Quick Tip to Solve:** Deduct outside liabilities from assets before subtracting capital employed from capitalised value.

OR

**1(ii). A and B were partners in a firm sharing profits and losses in the ratio of 3:2. On 1st April, 2021 the balances in their capital accounts were Rs. 1,50,000 and Rs. 2,00,000 respectively. The partnership deed provided that interest on partners capital will be allowed @ 10% per annum. During the year ended 31st March, 2022, the firm incurred a loss of Rs. 10,000. Interest on A's capital will be:** [1 mark]

(A) Rs. 15,000

(B) Rs. 9,000

(C) Nil

(D) Rs. 6,000

**Correct Answer:** (C) Nil

**Solution:**

**Concept:**

- Interest on capital is an appropriation of profit, unless the deed expressly makes it a charge.
- A stated interest rate alone does not authorise interest out of capital when the firm incurs a loss.

**Step 1:** Examine availability of profit The firm incurred a loss of Rs $10,000$. Thus there is no profit available for allowing interest on capital under the ordinary appropriation rule.

**Step 2:** Apply the deed correctly The deed provides interest at $10\%$, but does not say it is payable irrespective of profit or loss. Although $1,50,000 \times 10\% = \text{Rs } 15,000$, that amount cannot be allowed here. Rs 9,000 and Rs 6,000 also incorrectly assume an appropriation is available.

**Step 3:** Conclusion Interest on A's capital is Nil. Hence, the correct option is (C).

**Quick Tip to Solve:** Check whether profit exists before multiplying capital by the stated interest rate.

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**2(i). _____ is the basis of relationship between the partners to run the partnership business.** [1 mark]

(A) Offer

(B) Agreement

(C) Understanding

(D) Acceptance

**Correct Answer:** (B) Agreement

**Solution:**

**Concept:**

- Partnership arises from an agreement between persons to share profits of a business.
- The business must be carried on by all partners or by any of them acting for all.

**Step 1:** Identify the foundation The partners mutually agree to conduct business and share its profits. This agreement creates their partnership relationship and determines their rights and duties.

**Step 2:** Distinguish the alternatives An offer and its acceptance are steps in forming an agreement; neither alone is the basis of the completed relationship. A mere understanding does not express the contractual foundation as precisely as agreement. The agreement may be oral or written; a written partnership deed records its terms.

**Step 3:** Conclusion Agreement is the basis of the relationship. Hence, the correct option is (B).

**Quick Tip to Solve:** Link partnership with agreement and mutual agency, even when no written deed is mentioned.

OR

**2(ii). At the time of change in profit sharing ratio among existing partners, 'Reserves' are transferred to Partners' Capital Accounts in the following ratio:** [1 mark]

(A) Sacrificing ratio

(B) Gaining ratio

(C) Old profit sharing ratio

(D) New profit sharing ratio

**Correct Answer:** (C) Old profit sharing ratio

**Solution:**

**Concept:**

- Reserves accumulated before reconstitution belong to the partners in their old profit sharing ratio.
- Sacrificing and gaining ratios measure changes in future profit rights, rather than ownership of past profits.

**Step 1:** Identify the period of the reserves The reserves were earned before the change in the profit sharing ratio. Each existing partner therefore has a claim on them according to the ratio applying while those profits accumulated.

**Step 2:** Choose the applicable ratio Transfer the reserves to the partners' capital accounts in the old profit sharing ratio. The new ratio concerns subsequent profits. Sacrificing and gaining ratios are used for compensatory adjustments such as goodwill, so neither is the basis for distributing these accumulated reserves.

**Step 3:** Conclusion Reserves are transferred in the old profit sharing ratio. Hence, the correct option is (C).

**Quick Tip to Solve:** For accumulated profits at reconstitution, identify the ratio that applied before the change.

**3(i). Mehak and Ravish were partners in a firm. On dissolution of the firm, the loan given by Mehak to the firm was Rs. 30,000, by Ravish was Rs. 15,000, and by Mrs. Ravish was Rs. 10,000. The first payment will be made for:** [1 mark]

(A) Ravish's loan

(B) Mehak's loan

(C) Mrs. Ravish's loan

(D) Mehak's loan and Ravish's loan in the ratio of their loan amount

**Correct Answer:** (C) Mrs. Ravish's loan

**Solution:**

**Concept:**

- On dissolution, outside liabilities are settled before loans advanced by partners.
- A loan by a partner's relative is an outside liability when that relative is not a partner.

**Step 1:** Classify the three loans Mehak and Ravish are partners, so their loans of Rs 30,000 and Rs 15,000 are partners' advances. Mrs. Ravish is not stated to be a partner; her Rs 10,000 loan is a third-party liability.

**Step 2:** Apply payment priority Outside creditors have priority over partners' loans. Therefore Mrs. Ravish must be paid first. Neither Mehak's larger loan nor Ravish's loan gets priority merely because of its amount. Sharing a payment between the partners in their loan ratio applies only after settling outside liabilities.

**Step 3:** Conclusion Mrs. Ravish's loan is paid first. Hence, the correct option is (C).

**Quick Tip to Solve:** Classify a lender by partner status, not by family relationship or the size of the loan.

OR

**3(ii). Surbhi and Leena were partners in a firm sharing profits and losses in the ratio of 5:3. Ashi was admitted as a new partner for 1/4 share in the profits of the firm. Ashi acquired 3/5 of her share from Surbhi. From the following, how much share did Ashi acquire from Leena:** [1 mark]

(A) 1/10

(B) 3/20

(C) 2/5

(D) 3/8

**Correct Answer:** (A) 1/10

**Solution:**

**Concept:**

- A new partner's total share is the sum of the shares acquired from existing partners.
- The stated fraction of her share must be multiplied by her total share in the firm.

**Step 1:** Calculate the share from Surbhi Ashi receives $\frac{1}{4}$ of the firm's profit. Of this, $\frac{3}{5}$ comes from

Surbhi, so Surbhi sacrifices $\frac{3}{5} \times \frac{1}{4} = \frac{3}{20}$.

**Step 2:** Find the remainder from Leena Leena supplies the remaining share: $\frac{1}{4} - \frac{3}{20} = \frac{5}{20} - \frac{3}{20} = \frac{1}{10}$. The option $3/20$ is Surbhi's contribution; $2/5$ is only the fraction of Ashi's share supplied by Leena. The old share $3/8$ is not the sacrifice.

**Step 3:** Conclusion Ashi acquires $\frac{1}{10}$ from Leena. Hence, the correct option is (A).

**Quick Tip to Solve:** Multiply the remaining fraction 2/5 by Ashi's total share 1/4.

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**4(i). Sunbeam Ltd. issued 20,000, 11% debentures of Rs. 100 each at a premium of 10%, redeemable at a premium of 5%. The 'Loss on Issue of Debentures Account' will debited by:** [1 mark]

(A) Rs. 3,00,000

(B) Rs. 2,00,000

(C) Rs. 1,00,000

(D) Rs. 22,00,000

**Correct Answer:** (C) Rs. 1,00,000

**Solution:**

**Concept:**

- Loss on issue includes discount on issue, if any, and premium payable on redemption.
- Premium received on issue is credited separately to Securities Premium Account.

**Step 1:** Calculate face value and redemption premium Total nominal value is $20,000 \times$ Rs $100 =$ Rs $20,00,000$. The redemption premium is $20,00,000 \times 5\% =$ Rs $1,00,000$.

**Step 2:** Identify the debit to loss There is no discount on issue because debentures are issued at a premium. Thus the loss debit consists only of Rs 1,00,000 redemption premium. Rs 2,00,000 is the issue premium, Rs 3,00,000 incorrectly adds both premiums, and Rs 22,00,000 is the issue proceeds rather than the loss.

**Step 3:** Conclusion Loss on Issue of Debentures Account is debited by Rs $1,00,000$. Hence, the correct option is (C).

**Quick Tip to Solve:** Keep premium received on issue separate from premium payable on redemption.

OR

**4(ii). Nargis Ltd. purchased assets of Rs. 8,00,000 and took over liabilities of Rs. 2,00,000 from Gauri Ltd. The payment was made by issue of 8% Debentures of Rs. 100 each at a premium of 20%. Number of debentures issued will be:** [1 mark]

(A) 50,000

(B) 5,000

(C) 6,000

(D) 6,00,000

**Correct Answer:** (B) 5,000

**Solution:**

**Concept:**

- Purchase consideration here equals assets taken over less liabilities assumed.
- Number of debentures equals purchase consideration divided by issue price per debenture.

**Step 1:** Find the purchase consideration Net assets acquired are Rs $8,00,000$ − Rs $2,00,000$ = Rs $6,00,000$. This is the amount to be discharged by issuing debentures.

**Step 2:** Use the issue price Each debenture is issued for Rs $100 + 20\%$ of Rs $100$ = Rs $120$. Hence the number is $6,00,000/120 = 5,000$. Using face value alone gives the incorrect 6,000; 6,00,000 is the consideration amount, and 50,000 is inconsistent with the issue price. The 8

**Step 3:** Conclusion The company issues 5,000 debentures. Hence, the correct option is (B).

**Quick Tip to Solve:** Divide consideration by face value plus issue premium, not by the coupon rate or face value alone.

**5. Which of the following statements is true for 'Reserve Capital'?** [1 mark]

(A) It is a portion of the uncalled capital to be called only in the event of winding up of the company.

(B) It is a part of the subscribed capital which has been called-up on the shares.

(C) It is that portion of the called-up capital which has been actually received from the shareholders.

(D) It is that part of the authorised capital that is actually issued to the public for subscription.

**Correct Answer:** (A) It is a portion of the uncalled capital to be called only in the event of winding up of the company.

**Solution:**

**Concept:**

- Reserve capital is the portion of uncalled share capital reserved to be called only on winding up.
- Called-up, paid-up and issued capital describe different stages of share capital.

**Step 1:** Identify reserve capital The defining feature is the restriction on when this uncalled capital may be demanded: only in the event of winding up of the company. Thus the first statement gives the correct meaning.

**Step 2:** Check the other descriptions The part of subscribed capital already called on shares is

called-up capital, so (B) is incorrect. The called amount actually received is paid-up capital, so (C) is incorrect. The part of authorised capital offered for public subscription is issued capital, so (D) describes a different category.

**Step 3:** Conclusion Reserve capital is the specified portion of uncalled capital callable only on winding up. Hence, the correct option is (A).

**Quick Tip to Solve:** Look for both conditions together: uncalled capital and a call restricted to winding up.

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**6. Gopal, Krishna and Govind are partners sharing profits and losses in the ratio of 5:4:3. Krishna retired on 1st April, 2022. Gopal and Govind purchased her share of profit by giving her Rs. 1,20,000, Rs. 80,000 being paid by Gopal and Rs. 40,000 by Govind. The gaining ratio will be:** [1 mark]

(A) 5:3

(B) 4:3

(C) 1:1

(D) 2:1

**Correct Answer:** (D) 2:1

**Solution:**

**Concept:**

- Gaining ratio measures the proportions in which continuing partners acquire the retiring partner's share.
- When the same share is purchased for specified payments, gains are proportional to those payments.

**Step 1:** Identify the consideration Gopal pays Rs 80,000 and Govind pays Rs 40,000 towards Krishna's share. These payments, rather than the old ratio of 5:4:3, determine the acquisition of that share.

**Step 2:** Calculate and compare

$$\text{Gopal} : \text{Govind} = 80,000 : 40,000 = 2 : 1.$$

Thus Gopal acquires twice as much of Krishna's share as Govind. Ratios 5:3 and 4:3 incorrectly use old profit shares; 1:1 would require equal payments.

**Step 3:** Conclusion The gaining ratio is $2 : 1$. Hence, the correct option is (D).

**Quick Tip to Solve:** For a purchased retiring share, simplify the continuing partners' payments, not their old profit ratio.

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**7. Assertion (A): Interest on partners' loan is debited to Profit and Loss Account.**

**Reason (R): Interest on partners' loan is a charge against profits.**

**On the basis of the above Assertion (A) and Reason (R), choose the correct option from the following:**

[1 mark]

(A) Assertion (A) is correct and Reason (R) is wrong.

(B) Assertion (A) is wrong and Reason (R) is correct.

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

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

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

**Solution:**

**Concept:**

- Interest on a partner's loan is a business expense and a charge against profit.
- A charge is recorded before determining divisible profit; an appropriation distributes profit after it is earned.

**Step 1:** Judge the assertion The assertion is correct. Interest due on a partner's loan is debited to the Profit and Loss Account because it is an expense of obtaining finance.

**Step 2:** Judge the reason The reason is also correct. Loan interest is a charge against profits, payable even when profits are insufficient or the firm incurs a loss.

**Step 3:** Relate the statements The reason explains the assertion: being a charge requires a debit to Profit and Loss Account, rather than Profit and Loss Appropriation Account. Options (A), (B) and (D) incorrectly reject at least one true statement.

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

**Quick Tip to Solve:** Separate a partner's lender capacity from ownership: loan interest is an expense, not a profit appropriation.

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**8(i). A share of Rs. 10 issued at a premium of Rs. 2 per share on which Rs. 8 per share (including premium) have been called and Rs. 6 per share (including premium) is received, is forfeited. Share Capital Account will be debited by:**

[1 mark]

(A) Rs. 10

(B) Rs. 8

(C) Rs. 12

(D) Rs. 6

**Correct Answer:** (D) Rs. 6

**Solution:**

**Concept:**

- On forfeiture, Share Capital Account is debited with called-up nominal capital, excluding securities premium.

- Face value, issue price and amount received are different from called-up share capital.

**Step 1:** Separate premium from called amount The total amount called is Rs 8, including Rs 2 premium. Therefore called-up nominal capital is $8 - 2 = \text{Rs } 6$ per share.

**Step 2:** Apply the forfeiture rule Share Capital Account is debited by Rs 6, irrespective of the amount already received. Rs 10 is full face value, Rs 8 includes premium and Rs 12 is full issue price; none is the called-up nominal capital.

**Step 3:** Conclusion Share Capital Account is debited by Rs 6. Hence, the correct option is (D).

**Quick Tip to Solve:** Remove the premium from the called amount before calculating the Share Capital debit on forfeiture.

OR

**8(ii). A share of Rs. 100 on which Rs. 70 has been received is forfeited for non-payment of final call of Rs. 30. The minimum price at which this share can be re-issued is:** [1 mark]

(A) Rs. 70

(B) Rs. 30

(C) Rs. 100

(D) Rs. 130

**Correct Answer:** (B) Rs. 30

**Solution:**

**Concept:**

- The discount on reissue cannot exceed the capital amount forfeited on that share.
- Minimum reissue price equals paid-up face value on reissue less the available forfeiture credit.

**Step 1:** Find the maximum permissible discount The share has face value Rs 100 and Rs 70 already received; only the final call of Rs 30 is unpaid. Thus Rs 70 is available in Share Forfeiture Account and can meet a reissue discount.

**Step 2:** Calculate the minimum price

$$\text{Minimum reissue price} = 100 - 70 = \text{Rs } 30.$$

At this price the Rs 70 discount exactly uses the forfeiture credit. Rs 70, Rs 100 and Rs 130 are possible higher prices, but none is the minimum.

**Step 3:** Conclusion The minimum reissue price is Rs 30. Hence, the correct option is (B).

**Quick Tip to Solve:** For minimum reissue price, subtract capital already forfeited from the face value made fully paid.

**9. Anu, Charu and Divya are partners sharing profits and losses in the ratio of 2:1:2. Their capitals were Rs. 5,00,000, Rs. 3,00,000 and Rs. 2,00,000 respectively. Anu personally guaranteed that in any year, Divya's share of profit after allowing interest on capital to all partners @ 5% p.a. would not be less than Rs. 75,000. The profit for the year ending 31st March, 2022 amounted to Rs. 2,00,000. Divya's amount of guarantee is short by the following amount:** [1 mark]

(A) Rs. 75,000

(B) Rs. 5,000

(C) Rs. 15,000

(D) Rs. 20,000

**Correct Answer:** (C) Rs. 15,000

**Solution:**

**Concept:**

- Interest on capital is allowed before distributing the remaining profit in the agreed ratio.
- A personally guaranteed deficiency is borne entirely by the partner who gives the guarantee.

**Step 1:** Allow interest on capitals Interest at 5% is Rs 25,000 for Anu, Rs 15,000 for Charu and Rs 10,000 for Divya. Total interest is Rs 50,000, leaving $2,00,000 - 50,000 = \text{Rs } 1,50,000$ for distribution.

**Step 2:** Compute normal shares Distribute the remaining Rs 1,50,000 in 2:1:2. Anu receives Rs 60,000, Charu Rs 30,000 and Divya Rs 60,000. The guarantee concerns Divya's profit share after interest, so her separate Rs 10,000 interest is not included in this comparison.

**Step 3:** Adjust the personal guarantee Divya's deficiency is $75,000 - 60,000 = \text{Rs } 15,000$. Anu alone bears it: her final share is $60,000 - 15,000 = \text{Rs } 45,000$, Charu remains at Rs 30,000 and Divya receives Rs 75,000. These shares total Rs 1,50,000; adding interest reconciles to Rs 2,00,000.

**Step 4:** Check the alternatives Rs 75,000 is the guaranteed share, not its deficiency. Rs 5,000 would wrongly include Divya's interest within the guarantee, and Rs 20,000 does not follow from her normal profit share.

**Step 5:** Conclusion Divya's guarantee is short by Rs 15,000. Hence, the correct option is (C).

**Quick Tip to Solve:** First deduct all capital interest; compare the guaranteed share with the remaining profit share alone.

**10. Anu, Charu and Divya are partners sharing profits and losses in the ratio of 2:1:2. Their capitals were Rs. 5,00,000, Rs. 3,00,000 and Rs. 2,00,000 respectively. Anu personally guaranteed that in any year, Divya's share of profit after allowing interest on capital to all partners @ 5% p.a. would not be less than Rs. 75,000. The profit for the year ending 31st March, 2022 amounted to Rs. 2,00,000.**

**The final amount of profit distributed among the partners after adjustment of guaranteed amount will be:** [1 mark]

(A) Anu Rs. 50,000; Charu Rs. 25,000; Divya Rs. 75,000

(B) Anu Rs. 55,000; Charu Rs. 30,000; Divya Rs. 65,000

(C) Anu Rs. 57,000; Charu Rs. 28,000; Divya Rs. 65,000

(D) Anu Rs. 45,000; Charu Rs. 30,000; Divya Rs. 75,000

**Correct Answer:** (D) Anu Rs. 45,000; Charu Rs. 30,000; Divya Rs. 75,000

**Solution:**

**Concept:**

- Interest on capital is allowed before distributing the remaining profit in the agreed ratio.
- A personally guaranteed deficiency is borne entirely by the partner who gives the guarantee.

**Step 1:** Allow interest on capitals Interest at 5% is Rs 25,000 for Anu, Rs 15,000 for Charu and Rs 10,000 for Divya. Total interest is Rs 50,000, leaving $2,00,000 - 50,000 =$ Rs $1,50,000$ for distribution.

**Step 2:** Compute normal shares Distribute the remaining Rs 1,50,000 in 2:1:2. Anu receives Rs 60,000, Charu Rs 30,000 and Divya Rs 60,000. The guarantee concerns Divya's profit share after interest, so her separate Rs 10,000 interest is not included in this comparison.

**Step 3:** Adjust the personal guarantee Divya's deficiency is $75,000 - 60,000 =$ Rs $15,000$. Anu alone bears it: her final share is $60,000 - 15,000 =$ Rs $45,000$, Charu remains at Rs 30,000 and Divya receives Rs 75,000. These shares total Rs 1,50,000; adding interest reconciles to Rs 2,00,000.

**Step 4:** Check the alternatives Option (A) redistributes the deficiency to Charu even though Anu alone guaranteed it. Options (B) and (C) give Divya only Rs 65,000 and therefore do not meet her Rs 75,000 guaranteed share.

**Step 5:** Conclusion Final profit shares: Anu Rs 45,000; Charu Rs 30,000; Divya Rs 75,000. Hence, the correct option is (D).

**Quick Tip to Solve:** First deduct all capital interest; compare the guaranteed share with the remaining profit share alone.

**11. Vikram and Sumit were partners in a firm sharing profits and losses in the ratio of 2:1. The capitals of Vikram and Sumit after all adjustments were Rs. 50,000 and Rs. 40,000 respectively. They admitted Jayant as a partner for 1/3 share in the profits of the firm. Jayant brought proportionate capital in the firm. The amount of capital brought in by Jayant was:** [1 mark]

(A) Rs. 45,000

(B) Rs. 30,000

(C) Rs. 60,500

(D) Rs. 90,000

**Correct Answer:** (A) Rs. 45,000

**Solution:**

**Concept:**

- The adjusted combined capital of old partners represents their combined share in the reconstituted firm.
- New partner's proportionate capital equals old partners' capital multiplied by new share divided by old partners' combined new share.

**Step 1:** Identify the capital base Vikram and Sumit have combined adjusted capitals of $50,000 + 40,000 = \text{Rs } 90,000$. Since Jayant obtains $1/3$, the old partners together retain $2/3$.

**Step 2:** Calculate Jayant capital

$$\text{Jayant capital} = 90,000 \times \frac{1/3}{2/3} = \text{Rs } 45,000.$$

The implied total capital is Rs 1,35,000. Rs 30,000 incorrectly takes one-third of the old capital; Rs 90,000 is the old combined capital; Rs 60,500 has no basis in the given shares.

**Step 3:** Conclusion Jayant brings capital of Rs 45,000. Hence, the correct option is (A).

**Quick Tip to Solve:** Treat the existing Rs 90,000 as two-thirds of total capital after admission, not as the total itself.

**12. Rhythm Ltd. took over assets of Rs. 30,00,000 and liabilities of Rs. 12,00,000 of Shyam Ltd. for a purchase consideration of Rs. 23,00,000. Excess value of purchase consideration of Rs. 5,00,000 over net assets will be:** [1 mark]

(A) Debited to Goodwill Account

(B) Credited to Capital Reserve Account

(C) Credited to Vendors' Account

(D) Debited to Capital Reserve Account

**Correct Answer:** (A) Debited to Goodwill Account

**Solution:**

**Concept:**

- Net assets acquired equal assets taken over less liabilities assumed.
- Purchase consideration exceeding net assets is goodwill, an asset debited on acquisition.

**Step 1:** Compute net assets

$$\text{Net assets} = 30,00,000 - 12,00,000 = \text{Rs } 18,00,000.$$

This is the identifiable net value acquired from Shyam Ltd.

**Step 2:** Identify the difference

$$\text{Goodwill} = 23,00,000 - 18,00,000 = \text{Rs } 5,00,000.$$

The excess is debited to Goodwill Account. Capital reserve arises when net assets exceed consideration, which is the opposite situation. Vendors' Account records the total consideration payable, not this excess separately; a debit to Capital Reserve is also inappropriate.

**Step 3:** Conclusion Rs 5,00,000 is debited to Goodwill Account. Hence, the correct option is (A).

**Quick Tip to Solve:** Compare consideration with assets minus liabilities: a positive excess of price is purchased goodwill.

**13. Isha and Naman were partners in a firm sharing profits and losses in the ratio of 2:3. With effect from 1st April, 2022 they agreed to share profits and losses equally. Due to change in the profit sharing ratio, Isha's gain or sacrifice will be:** [1 mark]

(A) Sacrifice 1/10

(B) Gain 1/10

(C) Sacrifice 2/5

(D) Gain 2/5

**Correct Answer:** (B) Gain 1/10

**Solution:**

**Concept:**

- Gain equals new profit share minus old profit share; a positive difference is a gain.
- Sacrifice equals old share minus new share, so the sign must be interpreted consistently.

**Step 1:** Write comparable shares Isha's old share is $2/(2+3) = 2/5$. Under equal sharing her new share is $1/2$. Expressing both in tenths gives an old share of $4/10$ and new share of $5/10$.

**Step 2:** Determine gain or sacrifice

$$\text{Gain} = \frac{1}{2} - \frac{2}{5} = \frac{5-4}{10} = \frac{1}{10}.$$

Her entitlement increases, so this is not a sacrifice. The fraction $2/5$ is her old share, not the amount of change, ruling out the remaining two alternatives.

**Step 3:** Conclusion Isha gains $1/10$. Hence, the correct option is (B).

**Quick Tip to Solve:** Convert old and new shares to a common denominator, then check whether the partner's share rises or falls.

**14. A partnership firm has capital employed of Rs. 6,00,000. Its average profits are Rs. 80,000. The normal rate of return in similar type of business is 10%. The amount of super profits are:** [1 mark]

(A) Rs. 60,000

(B) Rs. 8,000

(C) Rs. 20,000

(D) Rs. 52,000

**Correct Answer:** (C) Rs. 20,000

**Solution:**

**Concept:**

- Normal profit is the return expected on capital employed at the normal rate; super profit is average profit less normal profit.
- Use Normal profit $=$ Capital employed $\times$ Normal rate$/100$.

**Step 1:** Calculate normal profit On capital employed of Rs 6,00,000, the normal profit is

$$6,00,000 \times \frac{10}{100} = \text{Rs } 60,000.$$

This is the expected return, not the excess earned by the firm.

**Step 2:** Compare actual and normal earnings The average earnings exceed this normal return by

$$\text{Super profit} = 80,000 - 60,000 = \text{Rs } 20,000.$$

Option (A) gives normal profit itself. Rs 8,000 in (B) applies the rate to average profit, which is not the required base. Rs 52,000 in (D) is neither the normal profit nor the excess.

**Step 3:** Conclusion Super profits are $\boxed{\text{Rs } 20,000}$. Hence, the correct option is (C).

**Quick Tip to Solve:** First apply the normal return to capital employed, then subtract that return from average profit.

**15. On 1st April, 2021, Narmada Ltd. issued 5,000, 8% Debentures of Rs. 100 each at a premium of 10%. The total amount of interest on debentures for the year ending 31st March, 2022 will be:** [1 mark]

(A) Rs. 25,000

(B) Rs. 20,000

(C) Rs. 50,000

(D) Rs. 40,000

**Correct Answer:** (D) Rs. 40,000

**Solution:**

**Concept:**

- Debenture interest is calculated on nominal (face) value, regardless of the premium received on issue.
- Interest equals nominal principal multiplied by the annual rate and the fraction of the year outstanding.

**Step 1:** Find nominal principal and period The nominal value of 5,000 debentures of Rs 100 each is

$$5,000 \times 100 = \text{Rs } 5,00,000.$$

From 1st April, 2021 to 31st March, 2022 they remain outstanding for one complete year.

**Step 2:** Calculate the annual interest

$$\text{Interest} = 5,00,000 \times \frac{8}{100} \times 1 = \text{Rs } 40,000.$$

The issue premium does not bear coupon interest. Rs 20,000 would be only half-year interest; Rs

25,000 and Rs 50,000 imply rates of 5 percent and 10 percent on face value, rather than the stated 8 percent.

**Step 3:** Conclusion Total interest is $\boxed{\text{Rs } 40,000}$. Hence, the correct option is (D).

**Quick Tip to Solve:** Ignore the issue premium when calculating the coupon; use face value and the actual period outstanding.

**16. Sunbeam Limited issued 4,000, 6% Debentures of Rs. 100 each at Rs. 95 per debenture. 6% Debentures account will be credited by:** [1 mark]

(A) Rs. 3,80,000

(B) Rs. 4,40,000

(C) Rs. 4,00,000

(D) Rs. 20,000

**Correct Answer:** (C) Rs. 4,00,000

**Solution:**

**Concept:**

- The Debentures Account records the nominal liability, so it is credited at face value.
- The difference between face value and cash proceeds is debited separately as discount on issue.

**Step 1:** Compute the nominal liability The company owes the face value of all 4,000 debentures, even though the issue price is lower. Thus,

$$4,000 \times \text{Rs } 100 = \text{Rs } 4,00,000.$$

This is the amount credited to 6% Debentures Account.

**Step 2:** Separate cash proceeds and discount Cash proceeds are $4,000 \times 95 = \text{Rs } 3,80,000$, while discount is $4,000 \times 5 = \text{Rs } 20,000$. Together these debit amounts equal the nominal credit. Option (A) is only the cash received and option (D) is only the discount. Option (B), Rs 4,40,000, exceeds the contractual face liability and has no basis in the stated issue terms.

**Step 3:** Conclusion 6% Debentures Account is credited by $\boxed{\text{Rs } 4,00,000}$. Hence, the correct option is (C).

**Quick Tip to Solve:** Keep nominal debt, cash received and issue discount separate; the debenture account always carries face value.

**17. Kanak, Kamal and Kanha are partners in a firm. Their fixed capitals were Rs. 5,00,000, Rs. 10,00,000 and Rs. 15,00,000 respectively. They share profits in the ratio of their fixed capitals. Firm closes its books of accounts on 31st March every year. Kanak died on 30th September, 2021. Kanak's share of profit till the date of death from the last Balance Sheet date, was to be calculated on the basis of sales. Sales and Profit for the year 2020-21 were Rs. 20,00,000 and Rs. 2,00,000 respectively. Sales from 1st April, 2021 to 30th September, 2021 were Rs. 6,00,000.**

**(i) Calculate Kanak's share of profit.**

**(ii) Pass necessary journal entry to record Kanak's share of profit.** [3 marks]

**Solution:**

**Concept:**

- Where interim profit is estimated on sales, apply the preceding year's profit-to-sales rate to sales up to death.
- The deceased partner receives his profit-sharing fraction of estimated profit. With fixed capitals, adjustments are posted to the Current Account.

**Step 1:** Determine Kanak's share and the profit rate The profit-sharing ratio equals the fixed capital ratio:

$$5,00,000 : 10,00,000 : 15,00,000 = 1 : 2 : 3.$$

Therefore Kanak's share is $1/6$. The previous year's profit rate on sales is

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

The rate relates profits to sales, not to capital.

**Step 2:** Estimate profit up to death and allocate it For sales of Rs 6,00,000 from 1st April to 30th September, 2021, estimated firm profit is

$$6,00,000 \times \frac{10}{100} = \text{Rs } 60,000.$$

Kanak's share is consequently

$$60,000 \times \frac{1}{6} = \text{Rs } 10,000.$$

No further six-month fraction is needed, since the given sales already cover the period up to death.

**Step 3:** Record the adjustment Journal of the firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 30 Sep. | Profit and Loss Suspense A/c Dr. | | 10,000 | |
| 2021 | To Kanak's Current A/c | | | 10,000 |
| | (Being Kanak's share of estimated profit up to death credited under the fixed capital method) | | | |

Profit and Loss Suspense is debited because the actual current-year profit has not yet been determined. Kanak's fixed capital remains unchanged; his entitlement is credited to his Current Account.

**Step 4:** Conclusion Kanak's share of profit is $\boxed{\text{Rs } 10,000}$, credited to his Current Account by debiting Profit and Loss Suspense Account.

**Quick Tip to Solve:** For a sales-based estimate, use sales up to death directly; do not multiply the resulting profit by time again.

**18(a). M Ltd. issued 10,000, 8% Debentures of Rs. 100 each at 6% discount. The amount was payable as Rs. 60 on application and the balance on allotment. All money was duly received.**

**Pass necessary journal entries in the books of M Ltd.** [3 marks]

**Solution:**

**Concept:**

- Debentures are credited at face value; discount on issue is debited separately.
- Application and allotment receipts are credited to their respective accounts, which are then transferred against the debenture liability.

**Step 1:** Calculate issue proceeds and allotment The face value is $10,000 \times 100 = \text{Rs } 10,00,000$. Discount at 6% is Rs 60,000, so the issue price is Rs 94 per debenture and total cash proceeds are Rs 9,40,000. Application is Rs 60 per debenture, or Rs 6,00,000. The cash balance payable on allotment is $94 - 60 = \text{Rs } 34$ per debenture, or Rs 3,40,000. The remaining nominal liability after application is Rs 4,00,000, comprising this cash and discount.

**Step 2:** Record application receipt and transfer Journal of M Ltd.

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 6,00,000 | |
| | To Debenture Application A/c | | | 6,00,000 |
| | (Being application money received on 10,000 debentures at Rs 60 each) | | | |
| | Debenture Application A/c Dr. | | 6,00,000 | |
| | To 8% Debentures A/c | | | 6,00,000 |
| | (Being application money transferred to debentures) | | | |

**Step 3:** Record allotment due and receipt Journal of M Ltd. (continued)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Debenture Allotment A/c Dr. | | 3,40,000 | |
| | Discount on Issue of Debentures A/c Dr. | | 60,000 | |
| | To 8% Debentures A/c | | | 4,00,000 |
| | (Being allotment due and discount on issue recorded) | | | |
| | Bank A/c Dr. | | 3,40,000 | |
| | To Debenture Allotment A/c | | | 3,40,000 |
| | (Being all allotment money received) | | | |

**Step 4:** Conclusion Debentures stand credited at Rs 10,00,000; total cash received is Rs 9,40,000 and discount on issue is Rs 60,000.

**Quick Tip to Solve:** Calculate the allotment cash from the discounted issue price of Rs 94, not from the face value of Rs 100.

OR

**18(b). A company forfeited 4,000 shares of Rs. 10 each fully called-up, on which application money of Rs. 3 each has been paid. Out of these, 2,000 shares were reissued as fully paid up for Rs. 18,000. Pass necessary journal entries for above transactions.** [3 marks]

**Solution:**

**Concept:**

- On forfeiture, debit Share Capital with called-up value, credit unpaid calls and credit Share Forfeiture with capital already received.
- Reissue discount is debited to Share Forfeiture. Only the surplus relating to shares actually reissued transfers to Capital Reserve.

**Step 1:** Calculate forfeiture and reissue amounts Called-up capital on 4,000 shares is $4,000 \times 10 =$ Rs $40,000$. Application money received is $4,000 \times 3 =$ Rs $12,000$, leaving Rs 28,000 unpaid. On reissue, the paid-up value of 2,000 shares is Rs 20,000 and cash received is Rs 18,000, so reissue discount is Rs 2,000.

**Step 2:** Record forfeiture and reissue Journal of the company

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Capital A/c Dr. | | 40,000 | |
| | To Calls in Arrears A/c | | | 28,000 |
| | To Share Forfeiture A/c | | | 12,000 |
| | (Being 4,000 fully called-up shares forfeited for non-payment of Rs 7 per share) | | | |
| | Bank A/c Dr. | | 18,000 | |
| | Share Forfeiture A/c Dr. | | 2,000 | |
| | To Share Capital A/c | | | 20,000 |
| | (Being 2,000 forfeited shares reissued as fully paid at Rs 9 per share) | | | |

**Step 3:** Transfer realised capital profit Forfeiture attributable to the 2,000 reissued shares is $12,000 \times 2,000/4,000 =$ Rs $6,000$. After deducting Rs 2,000 reissue discount, capital profit is Rs 4,000. Journal of the company (continued)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Forfeiture A/c Dr. | | 4,000 | |
| | To Capital Reserve A/c | | | 4,000 |
| | (Being surplus on the reissued shares transferred to Capital Reserve) | | | |

The remaining Rs 6,000 in Share Forfeiture relates to the 2,000 unreissued shares and is retained until their disposal.

**Step 4:** Conclusion Credit Share Forfeiture by Rs 12,000 on forfeiture; debit it by Rs 2,000 on reissue and transfer Rs 4,000 to Capital Reserve.

**Quick Tip to Solve:** Apportion forfeiture money to the reissued shares first, then deduct their reissue discount to find capital reserve.

**19(a).** **Raman, Manan and Naman were partners sharing profit in the ratio of 2:1:1. Raman withdrew Rs. 3,000 every month and Manan withdrew Rs. 4,000 every month. Interest on drawings @ 6% p.a. was charged whereas the partnership deed was silent about interest on drawings.**

**Showing your working clearly, pass the necessary adjustment entry to rectify the error.** [3 marks]

**Solution:**

**Concept:**

- When the partnership deed is silent, no interest on drawings is charged. Therefore, both the partners' debits for interest and the corresponding profit credits must be reversed.
- For equal monthly drawings with no withdrawal dates specified, use an average period of six months. Interest is annual drawings multiplied by the annual rate and $6/12$.

**Step 1:** Calculate the interest wrongly charged Raman's annual drawings were $3,000 \times 12 = \text{Rs } 36,000$, and Manan's were $4,000 \times 12 = \text{Rs } 48,000$. Thus,

$$I_R = 36,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 1,080,$$
$$I_M = 48,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 1,440.$$

The firm wrongly added total interest of Rs 2,520 to divisible profits. Naman had no interest on drawings charged.

**Step 2:** Determine the net adjustment The additional profit was wrongly credited in the ratio $2:1:1$: Raman Rs 1,260, Manan Rs 630 and Naman Rs 630. Reverse these credits and refund the interest debited to Raman and Manan.

| Particulars | Raman (Rs) | Manan (Rs) | Naman (Rs) |
|---|---|---|---|
| Refund of interest: credit | 1,080 | 1,440 | Nil |
| Withdrawal of profit: debit | 1,260 | 630 | 630 |
| Net adjustment | 180 Dr. | 810 Cr. | 630 Dr. |

The net debits, Rs 810, equal the net credit, confirming that the correction changes only the distribution among partners.

**Step 3:** Pass the adjustment entry

Journal of the Firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Raman's Capital A/c Dr. | | 180 | |
| | Naman's Capital A/c Dr. | | 630 | |
| | To Manan's Capital A/c | | | 810 |
| | (Being interest on drawings wrongly charged and the resulting profit distribution rectified) | | | |

If capitals are maintained under the fixed-capital method, the same adjustment is made through partners' current accounts.

**Step 4:** Conclusion Raman's Capital A/c is debited by Rs 180, Naman's Capital A/c by Rs 630, and Manan's Capital A/c is credited by Rs 810.

**Quick Tip to Solve:** Reverse both effects: refund interest to the drawers and remove the profit share credited to every partner.

OR

**19(b). Arun and Barun were partners sharing profits in the ratio of 3:2. Their capitals were Rs. 50,000 and Rs. 30,000 respectively. Partnership deed provided for interest on capital @ 6% p.a. to Arun and Barun and quarterly salary of Rs. 1,000 to Barun. Arun had given a loan of Rs. 1,00,000 on 1st October, 2021 to the firm without any agreement about interest. For the year 2021-22, the profits earned were Rs. 26,800.**

**Prepare Profit and Loss Appropriation Account of the firm for the year ended 31st March, 2022.**

[3 marks]

**Solution:**

**Concept:**

- Interest on a partner's loan is a charge against profit. In the absence of an agreement, allow $6\%$ per annum before transferring net profit to the Appropriation Account.
- Interest on capital and partner salary are appropriations. Share only the residual profit in the agreed ratio $3:2$.

**Step 1:** Calculate profit available for appropriation Arun's loan was outstanding from 1st October, 2021 to 31st March, 2022, a period of six months. Therefore,

$$\text{Loan interest} = 1,00,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 3,000.$$

Profit available for appropriation is $26,800 - 3,000 = \text{Rs } 23,800$. Loan interest is a charge, not an appropriation.

**Step 2:** Calculate the agreed appropriations and residual profit Interest on capital for the full year is Rs $50,000 \times 6/100 = 3,000$ for Arun and Rs $30,000 \times 6/100 = 1,800$ for Barun. Barun's salary is quarterly, so the annual amount is Rs $1,000 \times 4 = 4,000$. Residual profit is $23,800 - 3,000 - 1,800 - 4,000 =$ Rs $15,000$. Arun receives $15,000 \times 3/5 = \text{Rs } 9,000$, and Barun receives $15,000 \times 2/5 = \text{Rs } 6,000$.

**Step 3:** Prepare the appropriation account

Profit and Loss Appropriation Account, year ended 31st March, 2022

| Dr. | Particulars | Amount (Rs) | Particulars | Amount (Rs) | Cr. |
|---|---|---|---|---|---|
| | To Interest on Capital: | | By Profit and Loss A/c | 23,800 | |
| | Arun | 3,000 | | | |
| | Barun | 1,800 | | | |
| | To Barun's Salary | 4,000 | | | |
| | To Profit transferred to: | | | | |
| | Arun's Capital A/c | 9,000 | | | |
| | Barun's Capital A/c | 6,000 | | | |
| | Total | 23,800 | Total | 23,800 | |

There is no balance carried down: the whole profit has been appropriated.

**Step 4:** Conclusion The Appropriation Account totals Rs 23,800. Residual profit is Rs 15,000, shared as Arun Rs 9,000 and Barun Rs 6,000.

**Quick Tip to Solve:** Deduct six months of loan interest first; multiply a quarterly salary by four before dividing residual profit.

**20. Vanshika and Shikha were partners in a firm with capitals of Rs. 1,00,000 and Rs. 80,000 respectively. They admitted Nisha on 1st April, 2022 as a new partner for 1/4 share in the future profits of the firm. Nisha brought Rs. 90,000 as her capital. Nisha aquired her share equally from Vanshika and Shikha. Calculate the value of goodwill of the firm and pass necessary journal entries on Nisha's admission, assuming that Nisha did not bring her share of goodwill premium in cash. Show the working clearly.** [3 marks]

**Solution:**

**Concept:**

- When a new partner's capital is given for a specified profit share, implied total capital equals that capital divided by the share acquired.
- Hidden goodwill is implied total capital less the actual combined capital after admission. If premium is not brought in cash, debit the new partner's capital and credit sacrificing partners in their sacrificing ratio.

**Step 1:** Calculate the implied goodwill Nisha brings Rs 90,000 for a $1/4$ share. The capitalised value of the firm implied by her contribution is

$$90,000 \div \frac{1}{4} = \text{Rs } 3,60,000.$$

The actual capitals after introducing Nisha's cash, before adjusting goodwill, total

$$1,00,000 + 80,000 + 90,000 = \text{Rs } 2,70,000.$$

Hence hidden goodwill is $3,60,000 - 2,70,000 = \text{Rs } 90,000$. The comparison includes Nisha's capital as well as the capitals of the two old partners.

**Step 2:** Calculate premium and its allocation Nisha's share of goodwill is $90,000 \times 1/4 = \text{Rs } 22,500$. She acquires her share equally from Vanshika and Shikha, so each sacrifices $1/8$, and their sacrificing ratio is $1:1$. Thus each old partner is credited with $22,500/2 = \text{Rs } 11,250$. Since premium is not brought in cash, Nisha's capital is debited instead. No goodwill asset needs to be raised in the books.

**Step 3:** Record the admission entries

Journal of the Firm (1st April, 2022)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 90,000 | |
| | To Nisha's Capital A/c | | | 90,000 |
| | (Being capital introduced by Nisha on admission) | | | |
| | Nisha's Capital A/c Dr. | | 22,500 | |
| | To Vanshika's Capital A/c | | | 11,250 |
| | To Shikha's Capital A/c | | | 11,250 |
| | (Being Nisha's share of goodwill adjusted through capital in the sacrificing ratio 1:1) | | | |

**Step 4:** Conclusion The goodwill of the firm is Rs 90,000. Debit Nisha's Capital A/c by Rs 22,500 and credit Vanshika's and Shikha's Capital A/cs by Rs 11,250 each.

**Quick Tip to Solve:** Use the capital contribution before goodwill adjustment to infer total capital, and credit premium in the sacrificing ratio.

**21. Pawan Ltd. was registered with an authorised capital of Rs. 10,00,000 divided into 1,00,000 equity shares of Rs. 10 each. The company offered to the public for subscription, 80,000 equity shares. The amount per share was payable as follows:**

**On application - Rs. 3,**

**On allotment - Rs. 2**

**On first call - Rs. 3 and**

**On second and final call the balance**

**The issue was fully subscribed and all amounts due were received except the first and final call money on 2,000 shares allotted to Chavi. Her shares were forfeited.**

**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:**

- Authorised capital is the maximum nominal capital registered; issued capital is the nominal value offered for subscription.
- After forfeiture, subscribed fully paid capital excludes the forfeited shares. The amount already received on those shares remains in Share Forfeiture Account and is added under share capital until reissue.

**Step 1:** Calculate fully paid capital and forfeiture balance The second and final call is Rs $[10 - (3 + 2 + 3)] =$ Rs $2$ per share. Chavi paid application and allotment only, i.e. Rs $5$ per share. Thus her unpaid calls were $2,000 \times (3 + 2) =$ Rs $10,000$, and the amount received on forfeited shares was $2,000 \times 5 =$ Rs $10,000$.

After forfeiture, fully paid shares outstanding are $80,000 - 2,000 = 78,000$, representing $78,000 \times 10 =$ Rs $7,80,000$. Calls in arrears on the forfeited shares no longer remain as a deduction from outstanding subscribed capital.

**Step 2:** Present the Balance Sheet extract and supporting note **Pawan Ltd. — Balance Sheet (Extract)**

| Particulars | Note No. | Amount (Rs) |
|---|---|---|
| I. Equity and Liabilities | | |
| 1. Shareholders' funds | | |
| (a) Share capital | 1 | 7,90,000 |

**Notes to Accounts — Note 1: Share Capital**

| Particulars | Amount (Rs) |
|---|---|
| Authorised capital:<br>1,00,000 equity shares of Rs 10 each | 10,00,000 |
| Issued capital:<br>80,000 equity shares of Rs 10 each | 8,00,000 |
| Subscribed and fully paid-up capital:<br>78,000 equity shares of Rs 10 each<br>Add: Forfeited shares (amount originally paid-up) | 7,80,000<br>10,000 |
| Total share capital | 7,90,000 |

The forfeited amount is disclosed separately from fully paid shares. No reissue is stated, so it is retained under share capital; no transfer to capital reserve arises at this stage.

**Step 3:** Conclusion Share capital shown in the Balance Sheet is $\boxed{\text{Rs } 7,90,000}$, comprising fully paid capital of Rs 7,80,000 and forfeited shares of Rs 10,000.

**Quick Tip to Solve:** Exclude forfeited shares from the fully paid share count, then add only the money actually received on those shares.

**22. Ravi, Kavi and Chand were partners sharing profits in the ratio of 5:3:2. On 31st March, 2022, their Balance Sheet was as follows:**

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|
| Sundry Creditors | 70,000 | Land and Building | 3,50,000 |
| Chand's Loan | 20,000 | Stock | 3,00,000 |
| Mrs. Chand's Loan | 20,000 | Debtors 2,00,000 Less provision 10,000 | 1,90,000 |
| Capitals:<br>Ravi 4,00,000<br>Kavi 3,00,000<br>Chand 1,00,000 | 8,00,000 | Cash | 70,000 |
| Total | 9,10,000 | Total | 9,10,000 |

**The firm was dissolved on the above date.**

**(i) Land and Building and Stock were sold for Rs. 6,00,000. Debtors were realised at 10% less than the book value.**

**(ii) Mrs. Chand's loan was settled by giving her a computer of Rs. 22,000 not recorded in the books.**

**(iii) Ravi paid off one of the creditors Rs. 20,000 in settlement of his amount of Rs. 30,000.**

**(iv) Remaining creditors were paid in cash.**

**Prepare Realisation Account.** [4 marks]

**Solution:**

**Concept:**

- Transfer non-cash assets to the debit of Realisation Account at gross book values, and outside liabilities and asset provisions to its credit. Cash and partner loans are excluded.
- An outside creditor taking an unrecorded asset needs no separate entry after its liability has been transferred. A partner paying a creditor is credited through the partner's capital account for the actual payment.

**Step 1:** Determine realisation receipts and settlements Debtors are recorded at Rs 2,00,000, with provision of Rs 10,000 shown separately. Their realisation is $2,00,000 \times 90\% =$ Rs $1,80,000$. Combined cash receipts from land, building, stock and debtors are $6,00,000 + 1,80,000 =$ Rs $7,80,000$.

Mrs. Chand's loan of Rs 20,000 is an outside liability and is transferred to Realisation Account. Its settlement by the unrecorded computer requires no further entry; neither the computer's stated Rs 22,000 nor its difference from the loan is separately posted. Chand's own loan is a partner loan and is not transferred.

Ravi is credited with Rs 20,000, the sum he actually paid for a creditor's claim of Rs 30,000. Remaining creditors are $70,000 - 30,000 =$ Rs $40,000$, paid in cash.

**Step 2:** Prepare and balance Realisation Account **Realisation Account**

| Dr. Particulars | Amount (Rs) | Particulars Cr. | Amount (Rs) |
|---|---|---|---|
| To Land and Building | 3,50,000 | By Sundry Creditors | 70,000 |
| To Stock | 3,00,000 | By Mrs. Chand's Loan | 20,000 |
| To Debtors | 2,00,000 | By Provision for Doubtful Debts | 10,000 |
| To Ravi's Capital A/c | 20,000 | By Cash (assets realised) | 7,80,000 |
| To Cash (creditors) | 40,000 | By Partners' Capital A/cs (loss): | |
| | | Ravi | 15,000 |
| | | Kavi | 9,000 |
| | | Chand | 6,000 |
| Total | 9,10,000 | Total | 9,10,000 |

Debit postings total Rs 9,10,000, while credits before the loss transfer total Rs 8,80,000. The resulting loss is Rs 30,000, allocated in the profit-sharing ratio $5:3:2$: Ravi Rs 15,000, Kavi Rs 9,000 and Chand Rs 6,000. Realisation is closed by this transfer and has no balance carried down.

**Step 3:** Conclusion Realisation loss is $\boxed{\text{Rs } 30,000}$, borne by Ravi, Kavi and Chand as Rs 15,000, Rs 9,000 and Rs 6,000 respectively.

**Quick Tip to Solve:** Use gross debtors for the 10% realisation reduction; credit their provision separately to Realisation Account.

**23(a). Lotus Ltd. invited applications for issuing 80,000 equity shares of Rs. 10 each at a premium of Rs. 4 per share. The amount was payable as follows:**

**On application - Rs. 5 per share and**

**On allotment - Rs. 9 per share (included premium).**

**Applications were received for 1,40,000 shares and allotment was made to all applicants on pro-rata basis. Money overpaid on applications was adjusted towards sums due on allotment. Rajiv, who had applied for 1,400 shares, failed to pay the allotment money. His shares were forfeited. Later on, these forfeited shares were reissued at Rs. 9 per share as fully paid up.**

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

**Solution:**

**Concept:**

- Pro-rata allotment distributes available shares in the ratio of shares offered to shares applied for; excess application money reduces the allotment payable.
- On forfeiture, debit called-up capital and unpaid securities premium; credit unpaid allotment and the capital amount received to Share Forfeiture.
- Reissue discount is debited to Share Forfeiture. The remaining forfeiture balance on the reissued shares is transferred to Capital Reserve.

**Step 1:** Calculate allotment and default The allotment ratio is $80,000 : 1,40,000 = 4 : 7$. Rajiv receives $1,400 \times 4/7 = 800$ shares. He paid application money of $1,400 \times 5 =$ Rs $7,000$, of which $800 \times 5 =$ Rs $4,000$ is application capital and Rs 3,000 is adjusted to allotment. His allotment due is $800 \times 9 =$ Rs $7,200$, so the unpaid balance is Rs 4,200. The allotment capital due is Rs 4,000; the Rs 3,000 excess is absorbed by this capital component, leaving the entire Rs 3,200 premium unpaid. Capital received on these shares is therefore Rs 7,000.

**Step 2:** Record issue and allotment Journal of Lotus Ltd.

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>To Share Application A/c<br>(Being application money received on 1,40,000 shares at Rs 5 each) | | 7,00,000 | <br>7,00,000 |
| | Share Application A/c Dr.<br>To Share Capital A/c<br>To Share Allotment A/c<br>(Being application money transferred and surplus adjusted towards allotment) | | 7,00,000 | <br>4,00,000<br>3,00,000 |
| | Share Allotment A/c Dr.<br>To Share Capital A/c<br>To Securities Premium A/c<br>(Being allotment due on 80,000 shares, including premium at Rs 4 each) | | 7,20,000 | <br>4,00,000<br>3,20,000 |
| | Bank A/c Dr.<br>To Share Allotment A/c<br>(Being allotment balance received except Rs 4,200 due from Rajiv) | | 4,15,800 | <br>4,15,800 |

**Step 3:** Record forfeiture and reissue Journal of Lotus Ltd. (continued)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Capital A/c Dr.<br>Securities Premium A/c Dr.<br>To Share Allotment A/c<br>To Share Forfeiture A/c<br>(Being Rajiv's 800 shares forfeited for unpaid allotment) | | 8,000<br>3,200 | <br><br>4,200<br>7,000 |
| | Bank A/c Dr.<br>Share Forfeiture A/c Dr.<br>To Share Capital A/c<br>(Being 800 forfeited shares reissued at Rs 9 each as fully paid) | | 7,200<br>800 | <br><br>8,000 |
| | Share Forfeiture A/c Dr.<br>To Capital Reserve A/c<br>(Being surplus on reissue transferred to capital reserve) | | 6,200 | <br>6,200 |

The reissue discount is $800 \times (10-9) = \text{Rs } 800$, within the Rs 7,000 forfeiture credit. Since all forfeited shares are reissued, the entire remaining surplus is transferred: $7,000 - 800 = \text{Rs } 6,200$.

**Step 4:** Conclusion Rajiv is allotted 800 shares; his unpaid allotment is Rs 4,200. On forfeiture, Rs 7,000 is credited to Share Forfeiture; reissue produces a Capital Reserve of Rs 6,200.

**Quick Tip to Solve:** First separate the allotment capital from its premium before finding the unpaid premium to reverse on forfeiture.

OR

**23(b). Tulip Ltd. invited applications for issuing 2,40,000 equity shares of Rs. 10 each at a premium of Rs. 4 per share. The amount was payable as under:**

**On application - Rs. 4 per share (including premium Rs. 2)**

**On allotment - Rs. 4 per share**

**On first and final call - Rs. 6 per share (including premium Rs. 2)**

**Applications for 3,00,000 shares were received and pro-rata allotment was made to all the applicants. Excess application money received with applications was adjusted towards sums due on allotment. All moneys were duly received except from Rohini who had applied for 7,500 shares, and failed to pay allotment and first and final call.**

**Pass the necessary journal entries for the above transactions in the books of Tulip Ltd. Open Calls-in-arrears and Calls-in-advance account, wherever necessary.**

[6 marks]

**Solution:**

**Concept:**

- Under pro-rata allotment, shares allotted equal shares applied for multiplied by the allotment ratio.
- Application premium is recognised only on allotted shares; excess application receipts are adjusted

against allotment.

- Calls-in-Arrears records amounts already due but unpaid. Calls-in-Advance is used only for amounts received before the relevant call becomes due.

**Step 1:** Compute excess application and Rohini's default The allotment ratio is $2,40,000 : 3,00,000 = 4 : 5$. Rohini receives $7,500 \times 4/5 = 6,000$ shares. Her application payment is $7,500 \times 4 =$ Rs $30,000$; the application amount required on her allotment is $6,000 \times 4 =$ Rs $24,000$. Hence Rs 6,000 is adjusted against allotment of $6,000 \times 4 =$ Rs $24,000$, leaving Rs 18,000 unpaid. Her first and final call arrear is $6,000 \times 6 =$ Rs $36,000$. Total arrears are Rs 54,000. Overall excess application is $(3,00,000 - 2,40,000) \times 4 =$ Rs $2,40,000$.

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

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>  To Share Application A/c<br>(Being application money received on 3,00,000 shares at Rs 4 each) | | 12,00,000 | <br>12,00,000 |
| | Share Application A/c Dr.<br>  To Share Capital A/c<br>  To Securities Premium A/c<br>  To Share Allotment A/c<br>(Being application money allocated and surplus adjusted towards allotment) | | 12,00,000 | <br>4,80,000<br>4,80,000<br>2,40,000 |
| | Share Allotment A/c Dr.<br>  To Share Capital A/c<br>(Being allotment of Rs 4 per share due on 2,40,000 shares) | | 9,60,000 | <br>9,60,000 |
| | Bank A/c Dr.<br>Calls-in-Arrears A/c Dr.<br>  To Share Allotment A/c<br>(Being allotment balance received and Rohini's default transferred to arrears) | | 7,02,000<br>18,000 | <br><br>7,20,000 |

**Step 3:** Record first and final call Journal of Tulip Ltd. (continued)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share First and Final Call A/c Dr.<br>  To Share Capital A/c<br>  To Securities Premium A/c<br>(Being first and final call due including premium of Rs 2 per share) | | 14,40,000 | <br>9,60,000<br>4,80,000 |
| | Bank A/c Dr.<br>Calls-in-Arrears A/c Dr.<br>  To Share First and Final Call A/c<br>(Being call money received except Rohini's Rs 36,000) | | 14,04,000<br>36,000 | <br><br>14,40,000 |

The total capital credited is $4,80,000 + 9,60,000 + 9,60,000 =$ Rs $24,00,000$, and securities premium is $4,80,000 + 4,80,000 =$ Rs $9,60,000$. Bank receipts total Rs 33,06,000; adding arrears of Rs 54,000 gives the full issue consideration of Rs 33,60,000.

**Step 4:** Open the required account Calls-in-Arrears Account

| Dr. | Particulars | Amount (Rs) | Particulars | Amount (Rs) | Cr. |
|---|---|---|---|---|---|
| | To Share Allotment A/c<br>To Share First and Final Call A/c | 18,000<br>36,000 | By Balance c/d | 54,000 | |
| | Total | 54,000 | Total | 54,000 | |
| | To Balance b/d | 54,000 | | | |

No Calls-in-Advance Account is necessary: all excess application money is adjusted against allotment, and no money is received for a future call before it becomes due.

**Step 5:** Conclusion Rohini receives 6,000 shares. Calls-in-Arrears has a debit balance of Rs 54,000, comprising allotment Rs 18,000 and first and final call Rs 36,000. No Calls-in-Advance Account is required.

**Quick Tip to Solve:** Adjust Rohiniś Rs 6,000 excess application before measuring her allotment arrear; her call arrear remains the full Rs 36,000.

**24(a). On 31st March, 2022 the Balance Sheet of partners A and B, who were sharing profits in the ratio of 3:2 was as follows:**

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|
| Creditors | 30,000 | Cash at Bank | 20,000 |
| Investment Fluctuation Fund | 12,000 | Debtors 85,000 Less provision 5,000 | 80,000 |
| General Reserve | 25,000 | Stock | 1,30,000 |
| Capitals:<br>A 1,60,000<br>B 1,40,000 | 3,00,000 | Investments | 60,000 |
| | | Furniture | 77,000 |
| Total | 3,67,000 | Total | 3,67,000 |

**On 1st April 2022, they decided to admit C as a new partner for 1/5 share in the profits on the following terms:**

**(i) C brought Rs. 1,00,000 as his Capital and Rs. 50,000 as his share of Premium for Goodwill.**

**(ii) One month salary Rs. 2,000 was outstanding.**

**(iii) The market value of investments was Rs. 50,000.**

**(iv) A debtor, whose dues were written off as bad debts, paid Rs. 12,000 in full settlement.**

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

**Solution:**

**Concept:**

- Revaluation records changes in assets and liabilities at admission; its profit belongs to A and B in their old ratio 3 : 2.
- Investment Fluctuation Fund first absorbs the fall in investments. Only its unused balance is

credited to the old partners. General Reserve also belongs exclusively to them.

- Premium for goodwill compensates sacrificing partners. Since no different sacrifice is specified, A and B sacrifice in their old ratio $3:2$.

**Step 1:** Calculate reserve and goodwill adjustments The loss on investments is $60,000 - 50,000 =$ Rs $10,000$. Set this off against the Investment Fluctuation Fund of Rs 12,000; transfer its balance of Rs 2,000 to A and B as Rs 1,200 and Rs 800. No investment loss enters Revaluation Account because the fund fully covers it.

General Reserve of Rs 25,000 is divided as Rs 15,000 and Rs 10,000. C's goodwill premium of Rs 50,000 is credited to A and B as Rs 30,000 and Rs 20,000. C's capital is credited separately with Rs 1,00,000; the premium does not increase his capital.

**Step 2:** Prepare Revaluation Account The recovered bad debt was already written off, so its receipt is a gain of Rs 12,000. The outstanding salary creates a new liability of Rs 2,000. Thus revaluation profit is Rs 10,000, shared by A and B as Rs 6,000 and Rs 4,000.

**Revaluation Account**

| Dr. | | | Cr. |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Outstanding Salary | 2,000 | By Bank (bad debts recovered) | 12,000 |
| To A's Capital | 6,000 | | |
| To B's Capital | 4,000 | | |
| Total | 12,000 | Total | 12,000 |

**Step 3:** Prepare Partners Capital Accounts All balances below are carried forward as capitals. The goodwill premium remains in the business because no withdrawal is stated.

**Partners' Capital Accounts**

| Dr. | | | | | | | Cr. |
|---|---|---|---|---|---|---|---|
| Particulars | A (Rs) | B (Rs) | C (Rs) | Particulars | A (Rs) | B (Rs) | C (Rs) |
| To Balance c/d | 2,12,200 | 1,74,800 | 1,00,000 | By Balance b/d | 1,60,000 | 1,40,000 | – |
| | | | | By General Reserve | 15,000 | 10,000 | – |
| | | | | By Inv. Fluct. Fund | 1,200 | 800 | – |
| | | | | By Premium for Goodwill | 30,000 | 20,000 | – |
| | | | | By Revaluation | 6,000 | 4,000 | – |
| | | | | By Bank | – | – | 1,00,000 |
| Total | 2,12,200 | 1,74,800 | 1,00,000 | Total | 2,12,200 | 1,74,800 | 1,00,000 |

**Step 4:** Conclusion Revaluation profit is Rs 10,000. Closing capitals are A: Rs 2,12,200; B: Rs 1,74,800; C: Rs 1,00,000.

**Quick Tip to Solve:** Use the investment fund against the investment fall before calculating revaluation profit; transfer only the unused fund to the old partners.

OR

**24(b). Anita, Geeta and Sita were partners in a firm sharing profits and losses in the ratio of 2:2:1. Their Balance Sheet as at 31st March, 2022 was as follow:**

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|
| Capitals:<br>Anita 2,00,000<br>Geeta 2,00,000<br>Sita 1,00,000 | 5,00,000 | Land and Building | 4,80,000 |
| General Reserve | 30,000 | Investments | 1,20,000 |
| Creditors | 5,00,000 | Debtors 1,50,000 Less Provision 10,000 | 1,40,000 |
| | | Stock | 1,20,000 |
| | | Cash at Bank | 1,70,000 |
| Total | 10,30,000 | Total | 10,30,000 |

**On the above date, Anita retired from the firm and the remaining partners decided to carry on the business. It was agreed to revalue the assets and reassess the liabilities as follows:**

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

**(ii) Land and Building was to be appreciated by Rs. 1,23,000.**

**(iii) Bad debts amounted to Rs. 20,000. A provision for doubtful debts was to be maintained at 10% on debtors.**

**(iv) Anita was paid Rs. 80,000 immediately by cheque. The balance amount was transferred to her loan account which was to be paid in two equal annual instalments along with interest @ 10% p.a.**

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

**Solution:**

**Concept:**

- Revaluation profit and General Reserve are divided among all three partners in their old ratio $2:2:1$.
- The retiring partner is credited with her goodwill share; gaining partners bear it in their gaining ratio. A loan account receives the unpaid retirement balance.

**Step 1:** Work out debtors and revaluation After writing off bad debts, debtors are $1,50,000 - 20,000 =$ Rs $1,30,000$. The required provision is $10\% \times 1,30,000 =$ Rs $13,000$. Against the existing Rs 10,000 provision this means a net additional charge of Rs 3,000. Together with bad debts, the total debtor-related loss is Rs 23,000.

The appreciation in Land and Building is Rs 1,23,000. Therefore revaluation profit is Rs 1,00,000, credited to Anita, Geeta and Sita as Rs 40,000, Rs 40,000 and Rs 20,000 respectively.

**Revaluation Account**

| Dr. | | Cr. | |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Bad Debts | 20,000 | By Land and Building | 1,23,000 |
| To Provision for Doubtful Debts | 3,000 | | |
| To Anita's Capital | 40,000 | | |
| To Geeta's Capital | 40,000 | | |
| To Sita's Capital | 20,000 | | |
| Total | 1,23,000 | Total | 1,23,000 |

**Step 2:** Adjust reserve and goodwill General Reserve of Rs 30,000 is credited in the old ratio: Anita Rs 12,000, Geeta Rs 12,000 and Sita Rs 6,000. In the absence of a stated change between continuing partners, Geeta and Sita continue in their relative ratio $2:1$.

$$\text{Geeta's gain} = \frac{2}{3} - \frac{2}{5} = \frac{4}{15},$$
$$\text{Sita's gain} = \frac{1}{3} - \frac{1}{5} = \frac{2}{15}.$$

Their gaining ratio is therefore $2:1$. Anita's goodwill share is $3,00,000 \times 2/5 = \text{Rs } 1,20,000$. Debit Geeta's capital by Rs 80,000 and Sita's capital by Rs 40,000, and credit Anita's capital by Rs 1,20,000. Goodwill is adjusted through capitals rather than retained as an asset.

**Step 3:** Prepare Partners Capital Accounts Anita's entitlement is Rs 3,72,000, comprising opening capital Rs 2,00,000, reserve Rs 12,000, revaluation profit Rs 40,000 and goodwill Rs 1,20,000. After the immediate cheque of Rs 80,000, Rs 2,92,000 is transferred to Anita's Loan Account. Interest relates to subsequent periods and is not charged on the retirement date.

**Partners' Capital Accounts**

| Dr. | | | | | | | Cr. |
|---|---|---|---|---|---|---|---|
| Particulars | Anita (Rs) | Geeta (Rs) | Sita (Rs) | Particulars | Anita (Rs) | Geeta (Rs) | Sita (Rs) |
| To Anita's Capital | – | 80,000 | 40,000 | By Balance b/d | 2,00,000 | 2,00,000 | 1,00,000 |
| To Bank | 80,000 | – | – | By General Reserve | 12,000 | 12,000 | 6,000 |
| To Anita's Loan | 2,92,000 | – | – | By Revaluation | 40,000 | 40,000 | 20,000 |
| To Balance c/d | – | 1,72,000 | 86,000 | By Geeta's Capital | 80,000 | – | – |
| | | | | By Sita's Capital | 40,000 | – | – |
| Total | 3,72,000 | 2,52,000 | 1,26,000 | Total | 3,72,000 | 2,52,000 | 1,26,000 |

**Step 4:** Conclusion Revaluation profit is Rs 1,00,000. Anita receives Rs 80,000 by cheque and a loan credit of Rs 2,92,000. Geeta and Sita carry forward capitals of Rs 1,72,000 and Rs 86,000.

**Quick Tip to Solve:** Calculate the new doubtful-debt provision on debtors after bad debts, then compare it with the old provision to avoid charging the full provision twice.

**25. Trisha, Anisha and Rishika were partners in a firm sharing profits and losses in the ratio of 2:2:1. Their Balance Sheet as at 31st March, 2022 was as follows:**

| Liabilities | Amount (Rs) | Assets | Amount (Rs) |
|---|---|---|---|
| Capitals: | | Plant and Machinery | 5,00,000 |
| Trisha: 3,00,000 | | Stock | 1,00,000 |
| Anisha: 2,00,000 | | Debtors | 60,000 |
| Rishika: 1,00,000 | 6,00,000 | Cash at Bank | 40,000 |
| General Reserve | 50,000 | | |
| Creditors | 50,000 | | |
| Total | 7,00,000 | Total | 7,00,000 |

**Trisha died on 31st July, 2022. According to the partnership deed, the executors of the deceased partner were entitled to:**

**(i) Balance in partner's capital account.**

**(ii) Salary @ Rs. 15,000 per quarter.**

**(iii) Share of goodwill calculated on the basis of twice the average of past three year's profits.**

**(iv) Share of profits from the closure of the last accounting year till the date of death on the basis of last year's profit. Profit for 2019-20, 2020-21 and 2021-22 were Rs. 1,00,000, Rs. 2,00,000 and Rs. 1,50,000 respectively.**

**(v) Trisha withdrew Rs. 20,000 on 1st May, 2022 for her personal use.**

**Showing your working clearly, prepare Trisha's Capital Account to be rendered to her executors.**

[6 marks]

**Solution:**

**Concept:**

- The deceased partner's capital is credited with her share of accumulated reserves, goodwill, salary and profit up to death; drawings reduce the amount payable.
- Trisha's profit share is $2/5$. The period from 1 April to 31 July is four months; one quarter contains three months.

**Step 1:** Calculate reserve and salary entitlements General Reserve represents profits accumulated before death and is distributed in the old profit-sharing ratio $2:2:1$. Trisha's share is $50,000 \times 2/5 =$ Rs $20,000$. Her salary is Rs $15,000$ per quarter, so salary for four months is $15,000 \times 4/3 =$ Rs $20,000$. Both amounts are credited to her capital account. No interest on drawings is charged because no rate or such provision is given.

**Step 2:** Calculate goodwill and interim profit The average profit is $(1,00,000 + 2,00,000 + 1,50,000)/3 =$ Rs $1,50,000$. Therefore, the firm's goodwill is $2 \times 1,50,000 =$ Rs $3,00,000$, and Trisha's share is $3,00,000 \times 2/5 =$ Rs $1,20,000$. Assuming the continuing partners retain their relative shares, Anisha and Rishika gain in the ratio $2:1$, so their capital accounts bear Rs 80,000 and Rs 40,000 respectively. Profit to the date of death is estimated from the immediately preceding year's profit: $1,50,000 \times 4/12 \times 2/5 =$ Rs $20,000$. This is credited through Profit and Loss Suspense Account, since the current year's final profit is not yet known.

**Step 3:** Prepare the deceased partner's capital account Trisha's Capital Account (amounts in Rs)

| Dr. | | Cr. | |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Drawings | 20,000 | By Balance b/d | 3,00,000 |
| To Trisha's Executors A/c | 4,60,000 | By General Reserve | 20,000 |
| | | By Salary | 20,000 |
| | | By Anisha's Capital | 80,000 |
| | | By Rishika's Capital | 40,000 |
| | | By P&L Suspense | 20,000 |
| Total | 4,80,000 | Total | 4,80,000 |

The debit transfer closes Trisha's capital account and establishes the liability in her executors' account. It is a transfer, not evidence of immediate cash payment. The credits total Rs 4,80,000; after drawings of Rs 20,000, the net claim is Rs 4,60,000.

**Step 4:** Conclusion The amount transferred to Trisha's Executors Account is $\boxed{\text{Rs } 4,60,000}$.

**Quick Tip to Solve:** Convert the quarterly salary using four months divided by three, but prorate annual profit using four months divided by twelve.

**26. (a) On 1st October, 2021 Pihu Ltd. issued Rs. 15,00,000, 9% Debentures of Rs. 20 each at a discount of Rs. 6 per debenture. The company had a balance of Rs. 1,00,000 in 'Securities Premium Reserve Account' on the same date. On 31st March, 2022 the company decided to write off discount on issue of debentures according to the provisions of Companies Act, 2013.**

**Pass necessary journal entries for issue of debentures and writing off discount on issue of debentures.**

**(b) On 1st April, 2021, Soma Ltd. purchased land from Mona Ltd. Soma Ltd. issued a cheque of Rs. 10,00,000 and accepted a bill of exchange payable after 6 months for Rs. 5,00,000 in favour of Mona Ltd. The balance amount was paid by issuing 5,000, 10% Debentures of Rs. 100 each at par.**

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

**Solution:**

**Concept:**

- Debentures are credited at their face value; the difference between face value and cash proceeds on a discounted issue is debited to Discount on Issue of Debentures Account.
- Securities Premium Reserve may be used to write off discount on issue of debentures. The balance is charged to Statement of Profit and Loss.
- Assets purchased for consideration other than cash are recorded at the total purchase consideration. A bill accepted creates Bills Payable, while debentures issued at par are credited at face value.

**Step 1:** (a) Calculate the issue proceeds and discount Number of debentures $= 15,00,000/20 = 75,000$. Issue price per debenture $= 20 - 6 =$ Rs 14. Bank proceeds are $75,000 \times 14 =$ Rs $10,50,000$, and total discount is $75,000 \times 6 =$ Rs $4,50,000$. Of this discount, Rs 1,00,000 is written off against Securities Premium Reserve and the remaining $4,50,000 - 1,00,000 =$ Rs $3,50,000$ against Statement of Profit and Loss. The 9 percent rate determines interest, not the proceeds or discount, and no interest entry is asked for.

**Step 2:** (a) Record Pihu Ltd.'s journal entries Journal of Pihu Ltd. (amounts in Rs)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 1 Oct. 2021 | Bank A/c Dr.<br>Discount on Issue of Debentures A/c Dr.<br>To 9% Debentures A/c<br>(Being 75,000 debentures of Rs 20 each issued at a discount of Rs 6 each) | | 10,50,000<br>4,50,000 | <br><br>15,00,000 |
| 31 Mar. 2022 | Securities Premium Reserve A/c Dr.<br>Statement of Profit and Loss Dr.<br>To Discount on Issue of Debentures A/c<br>(Being discount written off using the available securities premium and the balance charged to profit and loss) | | 1,00,000<br>3,50,000 | <br><br>4,50,000 |

**Step 3:** (b) Determine the cost of land and record the purchase Debentures issued to Mona Ltd. have a value of $5,000 \times 100 =$ Rs $5,00,000$. Total purchase consideration is therefore $10,00,000 + 5,00,000 + 5,00,000 =$ Rs $20,00,000$. First recognise land and the vendor liability, then discharge that liability through bank, bills payable and debentures. Accepting the bill does not represent an immediate payment from bank.

Journal of Soma Ltd. (amounts in Rs)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 1 Apr. 2021 | Land A/c Dr.<br>To Mona Ltd. A/c<br>(Being land purchased from Mona Ltd.) | | 20,00,000 | <br>20,00,000 |
| 1 Apr. 2021 | Mona Ltd. A/c Dr.<br>To Bank A/c<br>To Bills Payable A/c<br>To 10% Debentures A/c<br>(Being vendor settled by cheque, acceptance of a six-month bill and issue of 5,000 debentures at par) | | 20,00,000 | <br>10,00,000<br>5,00,000<br>5,00,000 |

**Step 4:** Conclusion Pihu Ltd. receives Rs 10,50,000 and writes off discount of Rs 4,50,000. Soma Ltd. records land at Rs 20,00,000 and issues debentures of Rs 5,00,000 as part of its settlement.

**Quick Tip to Solve:** Find the number of debentures from face value first; apply the discount per debenture to that number, not to cash proceeds.

## Part B (20 marks)

*OPTION I (Analysis of Financial Statements)*

**27(i). Which of the following is not a 'Profitability Ratio':** [1 mark]

(A) Gross Profit Ratio

(B) Return on Investment

(C) Proprietary Ratio

(D) Operating Ratio

**Correct Answer:** (C) Proprietary Ratio

**Solution:**

**Concept:**

- Profitability ratios measure profit earned relative to sales, investment or operating activity.
- The proprietary ratio compares shareholders' funds with total assets and is a solvency ratio.

**Step 1:** Identify the purpose of the proprietary ratio Proprietary ratio equals shareholders' funds divided by total assets. It shows the proportion of assets financed by owners' funds and helps assess long-term financial stability. Its numerator is a financing amount, not a profit figure, so it does not measure profitability.

**Step 2:** Check the other three options Gross Profit Ratio measures gross profit relative to revenue from operations. Return on Investment compares profit with capital employed. Operating Ratio compares operating cost with revenue from operations and indicates operating profitability inversely: a lower ratio normally means a higher operating profit margin. Hence all three belong to profitability analysis, whereas Proprietary Ratio belongs to solvency analysis.

**Step 3:** Conclusion The correct option is (C): Proprietary Ratio.

**Quick Tip to Solve:** A ratio comparing owners' funds with assets measures financing stability; look for profit, sales or operating costs in profitability ratios.

OR

**27(ii). Which of the following is a tool of 'Analysis of Financial Statements':** [1 mark]

(A) Cash Flow Statement

(B) Statement of Profit and Loss

(C) Balance Sheet

(D) Both (a) and (b)

**Correct Answer:** (A) Cash Flow Statement

**Solution:**

**Concept:**

- Financial statement analysis uses tools such as comparative statements, common-size statements, ratio analysis and cash flow analysis.
- A cash flow statement explains changes in cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

**Step 1:** Identify the analytical tool A Cash Flow Statement analyses the sources and uses of cash during an accounting period. It helps assess liquidity and the ability of the business to generate cash, so option (A) is a tool of financial statement analysis.

**Step 2:** Check the other alternatives The Statement of Profit and Loss reports income, expenses and profit; the Balance Sheet reports financial position. They are basic financial statements used as inputs for analysis, rather than the analytical tools asked for here. Therefore options (B) and (C) do not fit, and option (D) is also incorrect because it includes (B).

**Step 3:** Conclusion The correct option is (A): Cash Flow Statement.

**Quick Tip to Solve:** Distinguish the statements being analysed from tools used to analyse their information.

**28(i). The Debt-Equity Ratio of a company is 2:1. Which of the following transactions will increase the Debt-Equity Ratio?** [1 mark]

(A) Issue of shares Rs. 1,00,000

(B) Issue of 9% debentures Rs. 4,00,000

(C) Issue of bonus shares Rs. 3,00,000

(D) Payment of creditors Rs. 50,000

**Correct Answer:** (B) Issue of 9% debentures Rs. 4,00,000

**Solution:**

**Concept:**

- Debt-Equity Ratio equals long-term debt divided by shareholders' funds.
- Shareholders' funds include share capital and reserves; a transfer between these components does not change their total.

**Step 1:** Test the increase in long-term debt Let shareholders' funds be $E$; the initial long-term debt is $2E$. Issuing debentures of Rs 4,00,000 increases only long-term debt. The new ratio is

$\frac{2E + 4,00,000}{E} > 2$. Hence option (B) increases the ratio.

**Step 2:** Eliminate the other transactions Issue of shares increases shareholders' funds and reduces the ratio. Issue of bonus shares transfers reserves to share capital, leaving total shareholders' funds unchanged. Payment of creditors reduces cash and current liabilities; it does not alter long-term debt or shareholders' funds. Thus (A) decreases the ratio, while (C) and (D) leave it unchanged.

**Step 3:** Conclusion The correct option is (B): Issue of 9% debentures of Rs 4,00,000.

**Quick Tip to Solve:** Check long-term debt and total shareholders' funds separately for each transaction.

OR

**28(ii). During the year ended 31st March, 2022, Shradha Ltd. earned net profit of Rs. 15,00,000 before interest and tax. The company has a 10% long term debt of Rs. 50,00,000. The tax rate is 40%. The Interest Coverage Ratio of the company will be:** [1 mark]

(A) 2 times

(B) 3 times

(C) 1.2 times

(D) 1.5 times

**Correct Answer:** (B) 3 times

**Solution:**

**Concept:**

- Interest Coverage Ratio measures the number of times profit before interest and tax covers interest on long-term debt.
- Interest Coverage Ratio $= \frac{\text{Profit before interest and tax}}{\text{Interest on long-term debt}}$.

**Step 1:** Calculate the annual interest Interest on the 10% long-term debt is

$$\text{Interest} = \text{Rs } 50,00,000 \times \frac{10}{100} = \text{Rs } 5,00,000.$$

**Step 2:** Calculate coverage and check the alternatives The given profit of Rs 15,00,000 is already before interest and tax. Therefore

$$\text{Interest Coverage Ratio} = \frac{15,00,000}{5,00,000} = 3 \text{ times}.$$

The tax rate is irrelevant because the numerator is profit before tax. Two times would use profit after interest; 1.2 and 1.5 times do not apply the required EBIT-to-interest formula.

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

**Quick Tip to Solve:** When EBIT is supplied, divide it directly by annual interest; do not deduct tax.

**29. Which of the following transactions would result in inflow of cash and cash equivalents:** [1 mark]

(A) Furniture costing Rs. 80,000 sold for Rs. 75,000

(B) Issue of bonus shares Rs. 5,00,000

(C) Payment to trade payables Rs. 15,000

(D) Provided depreciation on fixed assets Rs. 11,000

**Correct Answer:** (A) Furniture costing Rs. 80,000 sold for Rs. 75,000

**Solution:**

**Concept:**

- A cash inflow occurs when a transaction increases cash or cash equivalents.
- A non-cash transaction changes accounting balances without any receipt or payment of cash.

**Step 1:** Identify the cash receipt Sale of furniture for Rs 75,000 produces a cash receipt of Rs 75,000. The furniture's original cost of Rs 80,000 does not change the amount received. Thus option (A) gives an inflow, classified as an investing cash inflow.

**Step 2:** Check the remaining transactions Issue of bonus shares capitalises reserves and involves no cash. Payment to trade payables of Rs 15,000 is an outflow, since cash is paid. Depreciation of Rs 11,000 is a non-cash expense and does not itself involve any receipt. Consequently neither bonus shares nor depreciation produces cash inflow, and the payment in (C) has the opposite effect.

**Step 3:** Conclusion The correct option is (A): Furniture costing Rs 80,000 sold for Rs 75,000.

**Quick Tip to Solve:** For cash inflow, locate the actual receipt; asset cost and non-cash charges are irrelevant.

**30. Which of the following transactions is not related to cash flows from investing activities:** [1 mark]

(A) Purchase of marketable securities Rs. 25,000

(B) Sale of land Rs. 2,80,000

(C) Sale of investments Rs. 3,00,000

(D) Purchase of equipment Rs. 1,00,000

**Correct Answer:** (A) Purchase of marketable securities Rs. 25,000

**Solution:**

**Concept:**

- Investing cash flows arise from acquisition and disposal of long-term assets and investments other than cash equivalents.
- Marketable securities treated as cash equivalents form part of cash and cash equivalents; movements within this total are excluded from cash flows.

**Step 1:** Identify the excluded transaction Purchase of marketable securities for Rs 25,000 is treated here as a movement between cash and cash equivalents. It is therefore excluded from investing cash flows. The purchase changes the composition of cash and cash equivalents rather than their combined balance.

**Step 2:** Check the other three alternatives Sale of land for Rs 2,80,000 is disposal of a long-term asset

and is an investing inflow. Sale of investments for Rs 3,00,000 is also an investing inflow. Purchase of equipment for Rs 1,00,000 is acquisition of a long-term asset and is an investing outflow. Thus (B), (C) and (D) all belong to investing activities.

**Step 3:** Conclusion The correct option is (A): Purchase of marketable securities of Rs 25,000.

**Quick Tip to Solve:** Exclude transfers between cash and cash equivalents before classifying investing flows.

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

**(i) Mining Rights**

**(ii) Income received in advance**

**(iii) Capital work in progress** [3 marks]

**Solution:**

**Concept:**

- Schedule III separates assets into non-current and current assets and liabilities into non-current and current liabilities.
- Intangible assets are identifiable rights without physical substance; capital work in progress represents assets still under construction.

**Step 1:** Classify mining rights Mining rights give the company a legal right to extract minerals over a period of time. They are not a physical asset or inventory. Accordingly, the major head is Non-current assets, the head is Fixed assets, and the sub-head is Intangible assets.

**Step 2:** Classify income received in advance Income received in advance is money already collected for goods or services still to be supplied. It is a liability because the company has an outstanding obligation, rather than earned revenue. It is presented under Current liabilities, sub-head Other current liabilities.

**Step 3:** Classify capital work in progress Capital work in progress records expenditure on fixed assets whose construction is not yet completed and which are not yet ready for intended use. It is presented under Non-current assets, within Fixed assets, as Capital work in progress. It is kept separate from completed tangible assets until ready for use.

**Step 4:** Present the Schedule III classification

| Item | Major head | Head / Sub-head |
|---|---|---|
| Mining rights | Non-current assets | Fixed assets: Intangible assets |
| Income received in advance | Current liabilities | Other current liabilities |
| Capital work in progress | Non-current assets | Fixed assets: Capital work in progress |

**Step 5:** Conclusion Mining rights: Non-current assets–Intangible assets; income received in advance: Current liabilities–Other current liabilities; capital work in progress: Non-current assets–Fixed assets–Capital work in progress.

**Quick Tip to Solve:** A right is intangible; an unearned receipt is a liability; unfinished construction is capital work in progress.

**32. Identify and state the significance of any two ratios that are calculated to measure the efficiency of operations of business based on effective utilisation of resources.** [3 marks]

**Solution:**

**Concept:**

- Activity or turnover ratios measure how efficiently a business uses its resources to generate revenue.
- Inventory Turnover Ratio and Trade Receivables Turnover Ratio are two activity ratios; they compare a period's flow with the relevant average balance.

**Step 1:** Identify Inventory Turnover Ratio

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}.$$

Average inventory is opening inventory plus closing inventory, divided by two. This ratio shows how many times inventory is sold and replaced during the year. A higher ratio generally indicates faster movement and efficient inventory management; a very low ratio may indicate slow-moving goods, overstocking or funds blocked in inventory. An excessively high ratio may also signal insufficient stock.

**Step 2:** Identify Trade Receivables Turnover Ratio

$$\text{Trade Receivables Turnover Ratio} = \frac{\text{Net Credit Revenue from Operations}}{\text{Average Trade Receivables}}.$$

Trade receivables include debtors and bills receivable, and their average is the mean of opening and closing balances. This ratio shows how many times receivables are converted into cash in a year. A higher ratio generally indicates quicker collection, more effective credit control and fewer funds tied up in receivables; a lower ratio suggests slower collection and possible collection difficulties.

**Step 3:** Interpret their efficiency significance Both ratios assess the utilisation of working capital resources. Inventory turnover focuses on stock movement, while receivables turnover focuses on collection from credit customers. Their interpretation should take account of the nature of the business, its credit policy and comparisons with previous periods or similar firms.

**Step 4:** Conclusion Two suitable ratios are Inventory Turnover Ratio and Trade Receivables Turnover Ratio. They measure efficiency of inventory utilisation and collection of trade receivables, respectively.

**Quick Tip to Solve:** Match the resource to the related flow: inventory with cost of sales, receivables with net credit sales.

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

**Average Inventory Rs. 1,60,000; Inventory Turnover Ratio 8 times, Average Trade Receivables Rs. 2,00,000; Trade Receivables Turnover Ratio 6 times and Cash Sales 25% of Total Sales.** [4 marks]

**Solution:**

**Concept:**

- Inventory Turnover Ratio equals Cost of Revenue from Operations divided by Average Inventory. The ratio therefore determines cost, not sales.
- Trade Receivables Turnover Ratio equals Net Credit Revenue from Operations divided by Average Trade Receivables. It determines credit sales only.
- Gross Profit Ratio is Gross Profit divided by Revenue from Operations, multiplied by 100. Gross profit is sales less the cost of those sales.

**Step 1:** Calculate the cost of sales Using the inventory turnover ratio,

$$\begin{aligned}\text{Cost of Revenue from Operations} &= \text{Average Inventory} \times 8\\ &= \text{Rs } 1,60,000 \times 8\\ &= \text{Rs } 12,80,000.\end{aligned}$$

This is the cost of the goods sold during the period, before adding gross profit.

**Step 2:** Calculate credit sales and total sales Using the trade receivables turnover ratio,

$$\text{Credit Sales} = \text{Rs } 2,00,000 \times 6 = \text{Rs } 12,00,000.$$

Cash sales are $25\%$ of total sales. Hence credit sales are $100\% - 25\% = 75\%$ of total sales, and

$$\text{Total Sales} = \text{Rs } 12,00,000 \times \frac{100}{75} = \text{Rs } 16,00,000.$$

The corresponding cash sales are Rs $4,00,000$, which, when added to credit sales, confirm the total.

**Step 3:** Calculate gross profit and the ratio

$$\begin{aligned}\text{Gross Profit} &= \text{Rs } 16,00,000 - \text{Rs } 12,80,000\\ &= \text{Rs } 3,20,000,\\ \text{Gross Profit Ratio} &= \frac{3,20,000}{16,00,000} \times 100 = 20\%.\end{aligned}$$

Use total revenue, including cash and credit sales, in the denominator. Using credit sales alone would overstate the profit percentage.

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

**Quick Tip to Solve:** Credit sales represent 75 percent of total sales here; divide them by 0.75 before calculating the gross profit percentage.

OR

**33(b). From the following information, calculate Working Capital Turnover Ratio:**

**Capital Employed Rs. 1,00,000**

**Non-Current Assets Rs. 80,000**

**Cost of Revenue from Operations Rs. 3,20,000**

**Gross Profit Ratio 20%** [4 marks]

**Solution:**

**Concept:**

- Capital Employed equals Non-Current Assets plus Working Capital. Therefore, Working Capital can be found by subtracting Non-Current Assets from Capital Employed.
- Gross Profit Ratio is the percentage of Revenue from Operations retained as gross profit. If gross profit is $20\%$ of revenue, cost is the remaining $80\%$.
- Working Capital Turnover Ratio is Revenue from Operations divided by Working Capital. It measures revenue generated per rupee of working capital.

**Step 1:** Determine working capital Apply the capital employed relationship:

$$\begin{aligned}\text{Working Capital} &= \text{Capital Employed} - \text{Non-Current Assets}\\ &= \text{Rs } 1,00,000 - \text{Rs } 80,000\\ &= \text{Rs } 20,000.\end{aligned}$$

This is the amount representing current assets less current liabilities. Non-current assets are excluded because they are not part of working capital.

**Step 2:** Determine Revenue from Operations Gross profit is $20\%$ of revenue, so Cost of Revenue from Operations is $100\% - 20\% = 80\%$ of revenue. Accordingly,

$$\begin{aligned}\text{Revenue from Operations} &= \text{Rs } 3,20,000 \times \frac{100}{80}\\ &= \text{Rs } 4,00,000.\end{aligned}$$

The gross profit implied by this revenue is Rs $80,000$. Its ratio to Rs $4,00,000$ is the stated $20\%$, confirming the conversion from cost to revenue. Adding $20\%$ of cost would be incorrect because the given ratio is on sales.

**Step 3:** Calculate Working Capital Turnover Ratio Use revenue in the numerator and the working capital calculated above in the denominator:

$$\begin{aligned}\text{Working Capital Turnover Ratio} &= \frac{\text{Revenue from Operations}}{\text{Working Capital}}\\ &= \frac{4,00,000}{20,000} = 20 \text{ times}.\end{aligned}$$

Thus, each rupee of working capital supports Rs 20 of Revenue from Operations during the period.

**Step 4:** Conclusion Working Capital Turnover Ratio is $\boxed{20 \text{ times}}$.

**Quick Tip to Solve:** Convert cost to sales by dividing by 0.80, and subtract non-current assets from capital employed before forming the ratio.

34. Read the following hypothetical text and answer the given question on this basis:

Azad, inspired by 'Make-in-India' mission, initiated his start-up in the form of a company 'Azad Ltd.' along with six other promoters in 2016. The company has been earning good revenue consistently. The financial position of Azad Ltd. as at 31st March, 2022 was as follows:

Balance Sheet of Azad Ltd. as at 31st March, 2022

| Particulars | Note No. | 31.3.2022 (Rs.) | 31.3.2021 (Rs.) |
|---|---|---|---|
| I - Equity and Liabilities: | | | |
| 1. Shareholders' Funds | | | |
| (a) Share Capital | | 19,00,000 | 17,00,000 |
| (b) Reserves and Surplus | 1 | 6,00,000 | 3,00,000 |
| 2. Non-Current Liabilities | | | |
| Long-term Borrowings | 2 | 5,00,000 | 4,00,000 |
| 3. Current Liabilities | | | |
| (a) Short-term Borrowings | 3 | 1,70,000 | 1,75,000 |
| (b) Short-term Provisions | 4 | 2,00,000 | 1,65,000 |
| Total | | 33,70,000 | 27,40,000 |
| II - Assets: | | | |
| 1. Non-Current Assets | | | |
| (a) Fixed Assets | | | |
| (i) Tangible Assets | 5 | 24,00,000 | 19,00,000 |
| (ii) Intangible Assets | 6 | 4,00,000 | 3,00,000 |
| (b) Non-current Investments | | 1,00,000 | 2,00,000 |
| 2. Current Assets | | | |
| (a) Current Investments | | 1,40,000 | 1,70,000 |
| (b) Inventories | | 2,60,000 | 1,30,000 |
| (c) Cash and Cash Equivalents | | 70,000 | 40,000 |
| Total | | 33,70,000 | 27,40,000 |

Notes to Accounts:

| Note No. | Particulars | 31.3.2022 (Rs.) | 31.3.2021 (Rs.) |
|---|---|---|---|
| (1) | Reserves and Surplus (Surplus i.e. Balance in Statement of Profit and Loss) | 6,00,000 | 3,00,000 |
| (2) | Long-term Borrowings: 12% Debentures | 5,00,000 | 4,00,000 |
| (3) | Short-term Borrowings: Bank Overdraft | 1,70,000 | 1,75,000 |
| (4) | Short-term Provisions: Provision for Tax | 2,00,000 | 1,65,000 |
| (5) | Tangible Assets: Machinery | 26,00,000 | 20,00,000 |
| | Less Accumulated Depreciation | (2,00,000) | (1,00,000) |
| | | 24,00,000 | 19,00,000 |
| (6) | Intangible Assets: Goodwill | 4,00,000 | 3,00,000 |

**Additional Information:**

**(i) Rs. 1,00,000, 12% Debentures were issued on 1st April, 2021.**

**(ii) A piece of machinery costing Rs. 80,000 on which accumulated depreciation was Rs. 40,000, was sold at a gain of Rs. 10,000.**

**Calculate cash flows from 'Investing Activities' and 'Financing Activities'.** [6 marks]

**Solution:**

**Concept:**

- Investing activities include purchases and disposals of machinery, goodwill and non-current investments.
- Financing activities include share and debenture proceeds, repayment of bank overdraft and interest paid by a non-financial company.
- Use the gross machinery balances to find cash purchases; the disposed asset must be added back when reconciling the cost account.

**Step 1:** Calculate machinery purchased and sale proceeds Gross machinery increased from Rs 20,00,000 to Rs 26,00,000 after disposal of machinery costing Rs 80,000. Hence,

$$\text{Purchases} = 26,00,000 - 20,00,000 + 80,000 = \text{Rs } 6,80,000.$$

The carrying amount of machinery sold was Rs $80,000 - 40,000 = 40,000$. Since its sale produced a gain of Rs 10,000, cash received was Rs $40,000 + 10,000 = 50,000$. The gain is already included in the sale proceeds and is not an additional investing receipt.

**Step 2:** Prepare cash flow from investing activities Goodwill increased by Rs $4,00,000 - 3,00,000 = 1,00,000$, representing purchase. Non-current investments decreased by Rs 1,00,000, representing sale proceeds in the absence of any other adjustment. Current investments are included in cash equivalents for this cash-flow classification and their movement is not included as a separate investing flow.

Cash Flow Statement of Azad Ltd. (extract), year ended 31st March, 2022

| Particulars | Amount (Rs) |
|---|---|
| Cash flows from investing activities | |
| Purchase of machinery | (6,80,000) |
| Proceeds from sale of machinery | 50,000 |
| Purchase of goodwill | (1,00,000) |
| Proceeds from sale of non-current investments | 1,00,000 |
| Net cash used in investing activities | (6,30,000) |

**Step 3:** Calculate financing receipts and payments Share capital increased by Rs $19,00,000 - 17,00,000 = 2,00,000$, giving an issue receipt. Debentures issued on 1st April, 2021 yielded Rs 1,00,000, and remained outstanding throughout the year. Thus the full closing debenture balance bears interest for the entire year:

$$\text{Interest paid} = 5,00,000 \times \frac{12}{100} = \text{Rs } 60,000.$$

Bank overdraft decreased by Rs $1,75,000 - 1,70,000 = 5,000$, a financing repayment. No dividend payment is given.

**Step 4:** Prepare cash flow from financing activities Cash Flow Statement of Azad Ltd. (extract), year ended 31st March, 2022

| Particulars | Amount (Rs) |
|---|---|
| Cash flows from financing activities | |
| Proceeds from issue of shares | 2,00,000 |
| Proceeds from issue of 12% debentures | 1,00,000 |
| Repayment of bank overdraft | (5,000) |
| Interest paid on debentures | (60,000) |
| Net cash generated from financing activities | 2,35,000 |

The balance in the Statement of Profit and Loss, inventory and tax provision relate to the operating calculation, which is not required here.

**Step 5:** Conclusion Net cash used in investing activities is Rs $6,30,000$. Net cash generated from financing activities is Rs $2,35,000$.

**Quick Tip to Solve:** Reconcile machinery at original cost, and charge a full year of interest on debentures issued on 1st April.

*OPTION II (Computerised Accounting)*

**27(i). From the following a legend can be repositioned on a chart:** [1 mark]

(A) On the corner only

(B) Anywhere

(C) On right-side only

(D) On the bottom of x-axis

**Correct Answer:** (B) Anywhere

**Solution:**

**Concept:**

- A chart legend identifies the data series by matching their names with colours or symbols.
- The legend is a movable chart element; its position can be adjusted for readability.

**Step 1:** Identify the chart element A legend explains which data series each colour or symbol represents. After selecting the legend, its placement can be changed within the chart area to a suitable location.

**Step 2:** Compare the choices The legend is not restricted to a corner, the right side or the bottom of the x-axis. Those are possible placements, but none is the only permitted position. Therefore, the unrestricted choice, anywhere, is correct.

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

**Quick Tip to Solve:** Select the legend itself before dragging it to avoid moving the complete chart.

OR

**27(ii). Which of the following are the five pillars of computerised accounting system:** [1 mark]

(A) Data, Report, Ledger, Hardware, Software

(B) Data, People, Procedure, Hardware, Software

(C) People, Procedure, Ledger, Data, Chart of Accounts

(D) Data, Coding, Procedure, Rules, Output

**Correct Answer:** (B) Data, People, Procedure, Hardware, Software

**Solution:**

**Concept:**

- A computerised accounting system combines data, people, procedures, hardware and software.
- These five components jointly collect, process and communicate accounting information.

**Step 1:** Identify the five components Data are the transaction facts; people operate and use the system; procedures specify how work is performed; hardware provides the physical equipment; software supplies the instructions for processing.

**Step 2:** Eliminate the other lists Option (B) contains all five components. Reports, ledgers and the chart of accounts are outputs or accounting structures rather than substitutes for the complete set of system components. Coding, rules and output likewise do not form the standard five-pillar list.

**Step 3:** Conclusion The correct option is (B): Data, People, Procedure, Hardware, Software.

**Quick Tip to Solve:** Recall the five components as facts, users, methods, equipment and programs.

**28. Which of the following menu is used to create a group:** [1 mark]

(A) Gateway to Tally > master > accounting information > display

(B) Gateway to Tally > master > edit > accounting information

(C) Gateway to Tally > master > accounting information > create

(D) Gateway to Tally > master > alter > accounting information

**Correct Answer:** (C) Gateway to Tally > master > accounting information > create

**Solution:**

**Concept:**

- A group classifies ledgers under a common accounting category in Tally.
- Creating a new master requires the Create command under accounting information.

**Step 1:** Identify the required action The question asks for creating a new group. Groups belong to accounting masters, so the relevant route proceeds through masters and accounting information to the creation command.

**Step 2:** Choose the creation route Option (C) ends in Create and therefore matches the requested action. Display is used to view existing information; Edit and Alter relate to changes to existing masters. They do not represent the stated creation path.

**Step 3:** Conclusion The correct option is (C): Gateway to Tally > master > accounting information > create.

**Quick Tip to Solve:** Match the final menu action to the task: Create adds a new master; Alter changes one.

**29. From the following, identify the Accounting information sub-system which generates periodic reports about sales and collections made:** [1 mark]

(A) Cash and Bank sub-system

(B) Sales and Accounts Receivable sub-system

(C) Inventory sub-system

(D) Budget sub-system

**Correct Answer:** (B) Sales and Accounts Receivable sub-system

**Solution:**

**Concept:**

- Accounting information is organised into sub-systems for related transactions.
- The sales and accounts receivable sub-system records sales, customer dues and collections against those dues.

**Step 1:** Match the reports to their transactions Periodic sales reports require sales records, while collection reports require customer receipts and the settlement of amounts receivable. These are linked parts of the sales and receivables cycle.

**Step 2:** Eliminate the other sub-systems The cash and bank sub-system covers cash and bank transactions generally, inventory tracks stock quantities and values, and the budget sub-system supports plans and comparisons. The sub-system specifically responsible for both sales and collections is Sales and Accounts Receivable.

**Step 3:** Conclusion The correct option is (B): Sales and Accounts Receivable sub-system.

**Quick Tip to Solve:** Use the business cycle named in the question: customer sales and customer collections belong together.

**30(i). Absence of data items is represented by one of the special values from the following i.e.:** [1 mark]

(A) Single value
(B) Stored value
(C) Multi value
(D) Null value

**Correct Answer:** (D) Null value

**Solution:**

**Concept:**

- A null value denotes the absence of a data value in a field.
- Null is different from a numeric zero or an explicitly entered blank text value.

**Step 1:** Interpret absence of data When a data item has no supplied or available value, the database must distinguish that absence from an actual recorded value. The special representation used for this purpose is null.

**Step 2:** Compare the alternatives Single value and multi value describe how many values an attribute may hold, while stored value refers generally to retained data. None of these specifically denotes missing data. Null value is the only option that expresses absence of a data item.

**Step 3:** Conclusion The correct option is (D): Null value.

**Quick Tip to Solve:** Treat null as missing information; do not automatically replace it with zero.

OR

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

(A) Storage data
(B) Information data
(C) Data entry
(D) Data validation

**Correct Answer:** (D) Data validation

**Solution:**

**Concept:**

- Data validation checks input data against prescribed criteria or comparison data before accepting it for processing.
- Data entry inputs facts, storage retains them, and information is the meaningful output of processing.

**Step 1:** Identify the checking operation The defining action in the question is comparing input data. Such a comparison is a check on the acceptability of an input, which is the purpose of data validation. A validation check can compare an entered value with an allowed list, a permitted range or another

reference value.

**Step 2:** Eliminate the other choices Storage data concerns retaining data and does not describe a checking process. Information data refers to processed, meaningful results. Data entry is the act of entering data, which may subsequently be validated; entry itself is not the comparison described.

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

**Quick Tip to Solve:** Look for the verb: entering means data entry, retaining means storage, and checking by comparison means validation.

**31. Differentiate between 'Generic software' and 'Specific software' on any three bases.** [3 marks]

**Solution:**

**Concept:**

- Generic software is developed to meet common requirements of a broad class of users.
- Specific software is developed or tailored to the particular requirements of an individual organisation.

**Step 1:** Compare purpose and suitability Generic software serves the common accounting needs of many businesses, such as recording vouchers and preparing standard reports. Its features are designed for a wide market. Specific software serves a particular organisation: its processing rules, documents and reports reflect that organisation's own operations. Thus the first basis is the range of users and requirements served.

**Step 2:** Compare development cost Generic software is normally less expensive to acquire because its development cost is spread over many users. Specific software usually costs more because development, testing and tailoring are undertaken for a particular user. The comparison concerns the usual acquisition or development cost; it does not imply that every generic package is free.

**Step 3:** Compare availability and implementation Generic software is generally available as a ready-made package, so it can be purchased and installed relatively quickly after configuration and training. Specific software requires requirements analysis, design, development and testing for the organisation and therefore usually takes longer to become operational. These are three distinct bases: purpose, cost and implementation time.

**Step 4:** Conclusion Generic software meets common needs at a usually lower cost and is readily available; specific software meets an organisation's particular needs at a usually higher cost and takes longer to develop and implement.

**Quick Tip to Solve:** Use the same three bases for both sides: users served, development cost and time to implement.

**32. Explain the following two features of Computerised Accounting System:**

**(i) Simple and integrated**

**(ii) Accuracy and speed** [3 marks]

**Solution:**

**Concept:**

- A computerised accounting system records and processes accounting transactions using accounting software and a common database.
- Integration links accounting functions; accuracy and speed describe how the system processes correctly entered transactions.

**Step 1:** Explain simple and integrated A computerised accounting system simplifies recording through organised input screens and standard procedures. Once a transaction is entered, the related accounting records are updated through the integrated system. For example, a credit sale can update the sales record, the customer's account and inventory records, where the relevant modules are linked. Users need not independently re-enter the same transaction in every book. Integration therefore reduces duplication and helps maintain consistency between related records and reports.

**Step 2:** Explain accuracy and speed The computer performs calculations and applies programmed posting rules rapidly and consistently. It can process a large volume of transactions and generate ledger balances, a trial balance and financial reports in a short time. Correctly entered data and correctly configured software produce accurate computations, avoiding routine manual arithmetic errors. However, incorrect input or an incorrect rule can still produce incorrect results: speed and computational accuracy do not remove the need for proper input checks and accounting controls.

**Step 3:** Conclusion Simple and integrated means easy recording with linked updates across the system. Accuracy and speed mean rapid, consistent processing and calculation, subject to correct data and software settings.

**Quick Tip to Solve:** Explain integration with one transaction updating several records, then qualify accuracy with correct input and correct rules.

**33(a). State the steps to be taken in preparation of a chart.** [4 marks]

**Solution:**

**Concept:**

- A chart is a graphical representation of worksheet data that helps users compare values, identify trends and understand relationships.
- Preparing a chart requires selecting suitable source data, choosing the chart type and completing its labels and presentation.

**Step 1:** Prepare and select the worksheet data Enter the data in an organised worksheet table. Give each data series a clear heading and include the category labels, such as months or product names. Check that numerical entries are correct and comparable. Select the complete range to be plotted, including the relevant row and column headings, so that the spreadsheet can identify both the values

and their labels.

**Step 2:** Insert a suitable chart and identify its data series Choose the Insert Chart command or Chart Wizard and select an appropriate chart type and subtype. For example, a column chart compares categories, a line chart shows changes over time, and a pie chart shows parts of a whole. Confirm the data range and whether the series are arranged in rows or columns. Check the preview to ensure that each series and category has been identified correctly.

**Step 3:** Set chart options and labels Enter a meaningful chart title and, where applicable, the horizontal and vertical axis titles with their units. Set the legend to identify multiple series. Add suitable data labels or gridlines if these help interpretation. Check the scale and other chart options so that the display represents the data clearly. In a wizard-based spreadsheet these options are specified in the chart-options stage.

**Step 4:** Choose placement and finish Choose whether to place the chart as an object on the current worksheet or on a separate chart sheet. Finish the chart creation process, then resize and position it appropriately. Review the final chart against the selected worksheet values, correct any missing labels or mistaken series, and save the workbook. The traditional wizard sequence is chart type, source data, chart options and chart location.

**Step 5:** Conclusion Select the data, choose the chart type, confirm the source range and series, specify titles and other chart options, choose its location, and finish and check the chart.

**Quick Tip to Solve:** Remember the Chart Wizard order: type, source data, options and location; select and verify the worksheet data first.

OR

**33(b). What is meant by Accounting Cycle? State its basic phases.** [4 marks]

**Solution:**

**Concept:**

- The accounting cycle is the complete sequence of accounting procedures used to process financial transactions of an accounting period and prepare financial statements.
- Its basic phases are data collection, recording, classification and summarisation; analysis and interpretation help users understand the resulting information.

**Step 1:** Meaning of accounting cycle The accounting cycle is the recurring sequence that starts with identifying financial transactions and ends with preparation of financial statements and closing the books for the period. Transactions supported by source documents are systematically converted into useful accounting information. The same sequence is followed in the next accounting period, which is why it is called a cycle.

**Step 2:** Collection and recording of data First, identify monetary transactions and collect evidence such as invoices, receipts and vouchers. Analyse each transaction to determine the accounts affected and the debit and credit involved. Record the transactions chronologically in the journal or appropriate subsidiary books. In a computerised system, this recording is normally done through the relevant

accounting vouchers.

**Step 3:** Classification of recorded transactions Post the entries to their respective ledger accounts so that transactions relating to each account are grouped together. Balance the ledger accounts and prepare a trial balance to check the arithmetical agreement of debit and credit balances. Make necessary adjustments for items such as outstanding expenses, prepaid expenses, accrued income and depreciation.

**Step 4:** Summarisation and reporting Summarise the adjusted accounting data in financial statements: the trading and profit and loss account or statement of profit and loss, and the balance sheet. These show the result of operations and financial position. Analyse and interpret the information for users, and close nominal accounts so the next accounting period can begin.

**Step 5:** Conclusion The accounting cycle is the repeated process of converting transactions into financial statements. Its basic phases are collection of data, recording, classification and summarisation, followed by analysis and interpretation of the accounting information.

**Quick Tip to Solve:** Remember the sequence: collect evidence, record transactions, classify in ledgers and summarise in financial statements.

**34. Name the financial function which returns accrued interest on a bond with 5% coupon rate and where issue and settlement date of investment is also given. Also explain its syntax.** [6 marks]

**Solution:**

**Concept:**

- Accrued interest is interest earned on a security up to the settlement date but not yet paid. A coupon bond pays interest periodically.
- The spreadsheet financial function ACCRINT returns accrued interest for a security that pays periodic interest; the annual coupon rate is entered as a percentage or decimal.

**Step 1:** Identify the required function Use the financial function `ACCRINT`. It calculates accrued interest on a bond or other security that pays periodic interest. For this bond, the annual coupon rate argument is $5\% = 0.05$. The issue and settlement dates are supplied as date arguments. This function is appropriate because the security bears a coupon; `ACCRINTM` applies to a security that pays interest at maturity.

**Step 2:** Write the syntax The syntax is:

```
ACCRINT(issue, first_interest, settlement,
    rate, par, frequency, [basis], [calc_method])
```

Square brackets indicate optional arguments and are not typed when entering the function. Begin the formula with an equals sign in a spreadsheet cell.

**Step 3:** Explain the date and rate arguments `issue` is the date on which the security was issued. `first_interest` is the date of its first interest payment. `settlement` is the date on which the buyer acquires the security, later than the issue date. Enter valid spreadsheet dates, preferably using the

DATE function or cell references containing dates. `rate` is the annual coupon interest rate: enter $5\%$ or $0.05$ for the bond in the question, rather than the number 5.

**Step 4:** Explain value, frequency and day-count basis `par` is the face value of the security on which interest is computed. `frequency` is the number of coupon payments per year: 1 for annual, 2 for half-yearly and 4 for quarterly payments. `basis` specifies the day-count convention: 0 or omitted means US (NASD) 30/360; 1 means actual/actual; 2 means actual/360; 3 means actual/365; and 4 means European 30/360. Thus the convention determines how the accrued portion of a year is measured.

**Step 5:** Explain the optional calculation method and application `calc_method` is a logical value relevant when settlement is after the first interest date. TRUE, the default, calculates total accrued interest from issue to settlement; FALSE calculates from the first interest date to settlement. If cells A1, B1 and C1 hold the issue, first-interest and settlement dates respectively, D1 holds par value and E1 holds coupon frequency, an illustrative formula is `=ACCRINT(A1,B1,C1,5%,D1,E1,0,TRUE)`. The question gives no actual dates, face value or frequency, so a numerical interest amount cannot be computed.

**Step 6:** Conclusion The required function is `ACCRINT`, with the annual rate argument equal to $5\%$. Its arguments specify the issue date, first interest date, settlement date, coupon rate, par value, payment frequency, optional day-count basis and optional calculation method.

**Quick Tip to Solve:** Use ACCRINT for periodic coupon interest, enter 5% as the rate and check the coupon frequency and day-count basis before calculating.