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

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

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

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

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

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

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1(i). 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 creditors are paid before advances or loans made by partners.
- A loan from a partner's relative is an outside liability when that relative is not a partner.

Step 1: Identify the creditors 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 loan of Rs 10,000 is an outside liability.

Step 2: Apply the payment order Outside liabilities rank before partners' loans. Hence Mrs. Ravish must be paid before either partner. The larger size of Mehak's loan does not give it priority. Proportionate payment of the two partners' loans is considered only after outside liabilities have been settled.

Step 3: Conclusion The first payment is Mrs. Ravish's loan, Rs 10,000. Correct option: (C).

Quick Tip to Solve: Classify the lender as an outsider or a partner before comparing loan amounts.

OR

1(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 equals the sum of the shares acquired from the existing partners.
- The fraction of Ashi's share obtained from Leena is the balance after Surbhi's contribution.

Step 1: Calculate Surbhi's sacrifice Ashi acquires $\frac{1}{4}$ of the firm's profits. Of this share, Surbhi gives $\frac{3}{5}$. Thus Surbhi's sacrifice is $\frac{3}{5} \times \frac{1}{4} = \frac{3}{20}$.

Step 2: Find the share acquired from Leena The remaining share must come from Leena:

$$\frac{1}{4} - \frac{3}{20} = \frac{5-3}{20} = \frac{1}{10}.$$

The option $\frac{3}{20}$ represents Surbhi's sacrifice, while $\frac{2}{5}$ is only the fraction of Ashi's share acquired from Leena. Leena's old share $\frac{3}{8}$ is not her sacrifice.

Step 3: Conclusion Ashi acquired $\frac{1}{10}$ share from Leena. Correct option: (A).

Quick Tip to Solve: Multiply the remaining fraction of the incoming partner's share by her total share.

2(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: Find the face value and redemption premium Total face value is $20,000 \times \text{Rs } 100 = \text{Rs } 20,00,000$. The redemption premium is $20,00,000 \times \frac{5}{100} = \text{Rs } 1,00,000$.

Step 2: Determine the loss debited The debentures are issued at a premium, so there is no discount on issue. Loss on Issue of Debentures Account is therefore debited with the redemption premium alone, Rs 1,00,000. Rs 2,00,000 is the issue premium and Rs 22,00,000 is the issue proceeds; neither is the loss. Adding the issue premium to redemption premium to get Rs 3,00,000 is also incorrect.

Step 3: Conclusion Loss on Issue of Debentures Account is debited by Rs 1,00,000. Correct option: (C).

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

OR

2(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 equals assets purchased less liabilities taken over.
- Number of debentures equals purchase consideration divided by the issue price per debenture.

Step 1: Calculate purchase consideration The net amount payable to Gauri Ltd. is

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

Taking over liabilities reduces the consideration payable for the assets.

Step 2: Use the issue price Each Rs 100 debenture is issued at a premium of 20%, so its issue price is $100 + 20 = \text{Rs } 120$. Therefore,

$$\text{Number} = \frac{6,00,000}{120} = 5,000.$$

The 8% rate determines interest, not the issue price. Dividing by face value gives the distractor 6,000; 6,00,000 is the rupee consideration, not a count, and 50,000 is too large.

Step 3: Conclusion Number of debentures issued is 5,000. Correct option: (B).

Quick Tip to Solve: Divide net assets by face value plus issue premium, not by face value alone.

3(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 basis of partnership The relationship of partners is contractual. An agreement establishes their consent to carry on the business as partners and governs their rights and duties. It may be oral or written; a written agreement is commonly recorded in a partnership deed.

Step 2: Distinguish the options An offer and its acceptance are steps towards forming a contract, but neither alone states the completed basis of the partnership relationship. A mere understanding does not necessarily establish the partnership agreement and its essential terms. Hence agreement is the appropriate term for the blank.

Step 3: Conclusion Agreement is the basis of the relationship between partners. Correct option: (B).

Quick Tip to Solve: Remember that partnership comes from an agreement, so look for the contractual basis.

OR

3(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:

- Accumulated reserves represent profits earned before the change in the profit sharing ratio.
- Past profits belong to the existing partners in the old profit sharing ratio.

Step 1: Determine who earned the reserves The reserves standing in the books have accumulated during the period when partners shared profits in their old ratio. Their entitlement to these profits is therefore determined by that old ratio, even though future profits will be shared differently.

Step 2: Select the applicable ratio When reserves are transferred, each partner's capital account is credited in the old profit sharing ratio. The new ratio applies to future profits. Sacrificing and gaining ratios measure changes in shares and are used for related compensation adjustments, such as goodwill; they do not distribute the accumulated reserves.

Step 3: Conclusion Reserves are transferred in the old profit sharing ratio. Correct option: (C).

Quick Tip to Solve: Match accumulated profits with the ratio that applied when those profits were earned.

4(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 assets excluding goodwill less outside liabilities.
- Under capitalisation of average profits, goodwill equals capitalised value of average profits less actual capital employed.

Step 1: Calculate actual capital employed The stated assets exclude goodwill, so actual capital employed is

$$\text{Rs } 20,00,000 - \text{Rs } 5,00,000 = \text{Rs } 15,00,000.$$

Liabilities must be deducted because they finance part of the assets.

Step 2: Calculate goodwill The capitalised value of average profits is Rs 18,00,000. Thus

$$\text{Goodwill} = 18,00,000 - 15,00,000 = \text{Rs } 3,00,000.$$

The equal profit sharing ratio is not needed to value the firm's total goodwill. The other offered amounts do not equal the excess of capitalised value over capital employed.

Step 3: Conclusion Goodwill of the firm is Rs 3,00,000. Correct option: (B).

Quick Tip to Solve: First deduct liabilities from assets; subtract that net capital from capitalised profits.

OR

4(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 partners' capital is an appropriation of profit unless the deed specifically makes it a charge.
- When the firm incurs a loss, no interest on capital is allowed under the ordinary appropriation rule.

Step 1: Interpret the deed The deed provides interest at 10% per annum but does not state that it is payable even in a loss or that it is a charge against profits. Therefore the provision is subject to the availability of profit for appropriation.

Step 2: Apply the loss condition The firm incurred a loss of Rs 10,000 for the year. Consequently, no interest on capital is allowed to A. Although $1,50,000 \times 10\% = \text{Rs } 15,000$, that amount is only the nominal annual calculation and cannot be appropriated from a loss. Rs 9,000 and Rs 6,000 also do not arise under this rule; the 3:2 ratio does not create a profit available for interest.

Step 3: Conclusion Interest on A's capital is Nil. Correct option: (C).

Quick Tip to Solve: Check whether there is profit available before calculating interest on partners' capital.

5. 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 charge against profits, distinct from interest on capital.
- A charge is debited in determining net profit or loss; an appropriation distributes the resulting profit.

Step 1: Judge Assertion (A) Interest on partners' loans is debited to the Profit and Loss Account. It is an expense of obtaining finance for the business, so Assertion (A) is correct.

Step 2: Judge Reason (R) Interest on a partner's loan is a charge against profits and is payable even when the firm has insufficient profit or incurs a loss. Therefore Reason (R) is also correct.

Step 3: Relate the two statements and select the option Because loan interest is a charge, it enters the Profit and Loss Account in computing profit rather than the Profit and Loss Appropriation Account. Thus the reason explains the assertion. Options (A), (B) and (D) each wrongly treat at least one true statement as false. The printed option (C) correctly states that both statements are correct.

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

Quick Tip to Solve: Distinguish a partner's loan interest, a charge, from capital interest, an appropriation.

6(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 is debited with the called-up nominal capital, excluding securities premium.

- Premium received is retained in Securities Premium; only unpaid premium would be reversed.

Step 1: Separate capital from premium The total called amount is Rs 8 per share, including premium of Rs 2. Thus called-up share capital is $8 - 2 = \text{Rs } 6$ per share. The face value of Rs 10 is not fully called.

Step 2: Check the alternatives The Rs 6 received includes Rs 2 premium, so capital received is Rs 4 and unpaid capital is Rs 2. Capital debited on forfeiture is therefore $4 + 2 = \text{Rs } 6$. Rs 8 includes premium; Rs 10 is face value; Rs 12 is face value plus premium, so none gives called-up capital.

Step 3: Conclusion Share Capital Account is debited by $\boxed{\text{Rs } 6}$. Hence, the correct option is (D).

Quick Tip to Solve: Subtract the called premium from the total called amount before debiting Share Capital.

OR

6(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 maximum discount on reissue cannot exceed the amount forfeited on the shares being reissued.
- Minimum reissue price equals paid-up value on reissue less the available forfeited amount.

Step 1: Find the permissible discount The share has nominal value Rs 100 and Rs 70 has already been received. On forfeiture, this Rs 70 becomes the amount available in Share Forfeiture Account for this share. It can absorb a reissue discount up to Rs 70.

Step 2: Compute and check the floor For reissue as fully paid, the minimum price is $100 - 70 = \text{Rs } 30$. At this price the Rs 70 discount uses the forfeited balance exactly. Rs 70 and Rs 100 are permissible higher prices, but are not the minimum. Rs 130 is a premium price and is also not the minimum.

Step 3: Conclusion The minimum reissue price is $\boxed{\text{Rs } 30}$. Hence, the correct option is (B).

Quick Tip to Solve: Use face value minus capital already forfeited to obtain the lowest fully paid reissue price.

7. 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:

- Proportionate capital is determined using adjusted capitals and the partners' collective share in the reconstituted firm.
- New partner's capital equals existing adjusted capital multiplied by new partner's share divided by the continuing partners' share.

Step 1: Identify the capital represented by old partners Vikram and Sumit together have adjusted capital $50,000 + 40,000 = \text{Rs } 90,000$. Since Jayant receives $1/3$, the old partners together retain $2/3$ of the profits. Their capital therefore represents this $2/3$ share.

Step 2: Calculate the new contribution Total proportionate capital is $90,000 \div (2/3) = \text{Rs } 1,35,000$. Jayant contributes $1,35,000 \times 1/3 = \text{Rs } 45,000$. Rs 30,000 wrongly takes one-third of old capital; Rs 90,000 is old partners' combined capital. Rs 60,500 does not follow the proportionate-capital calculation.

Step 3: Conclusion Jayant brings $\boxed{\text{Rs } 45,000}$. Hence, the correct option is (A).

Quick Tip to Solve: Treat Rs 90,000 as two-thirds of total capital, not as the capital of the whole firm.

8. 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:

- Debentures Account records the nominal value of debentures issued, irrespective of issue price.
- An issue below face value creates Discount on Issue of Debentures; the discount does not reduce the credit to Debentures Account.

Step 1: Calculate the nominal liability The company issues 4,000 debentures, each having face value Rs 100. The principal liability recorded in 6% Debentures Account is therefore $4,000 \times 100 =$ Rs $4,00,000$. The 6% rate determines interest, not the initial principal.

Step 2: Distinguish proceeds from discount Bank proceeds are $4,000 \times 95 =$ Rs $3,80,000$, and issue discount is $4,000 \times 5 =$ Rs $20,000$. These are separate debit amounts. Thus options (A) and (D) describe proceeds and discount respectively; Rs 4,40,000 has no basis in the stated face value or issue price.

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: Multiply number issued by face value for Debentures Account; use issue price only for bank proceeds.

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 appropriated before dividing the remaining profit in the agreed ratio.
- A guarantee of profit share after interest is compared with the residual profit share, excluding interest on capital.

Step 1: Find divisible profit after interest Interest on Anu's, Charu's and Divya's capitals is respectively $5,00,000 \times 5\% = 25,000$, $3,00,000 \times 5\% = 15,000$ and $2,00,000 \times 5\% = 10,000$. Total interest is Rs 50,000, leaving $2,00,000 - 50,000 =$ Rs $1,50,000$.

Step 2: Compare Divya's share with her guarantee Divya's ordinary share of the remaining profit is $1,50,000 \times 2/5 =$ Rs $60,000$. The shortfall is $75,000 - 60,000 =$ Rs $15,000$, borne personally by Anu. Rs 5,000 wrongly includes Divya's interest in the guaranteed profit share; Rs 75,000 is the guarantee itself, and Rs 20,000 is not the deficiency.

Step 3: Conclusion The guarantee is short by $\boxed{\text{Rs } 15,000}$. Hence, the correct option is (C).

Quick Tip to Solve: First deduct all partners' interest; compare only Divya's residual profit share with Rs 75,000.

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:

- Residual profit is divided in the profit-sharing ratio after interest on capital is allowed.
- When one partner personally guarantees another partner's share, only the guarantor bears the deficiency.

Step 1: Compute the ordinary profit shares Interest on capital totals $25,000 + 15,000 + 10,000 =$ Rs $50,000$. The residual profit is $2,00,000 - 50,000 =$ Rs $1,50,000$. In the ratio $2:1:2$, Anu, Charu and Divya initially receive Rs 60,000, Rs 30,000 and Rs 60,000 respectively.

Step 2: Transfer the guarantee deficiency Divya needs an additional $75,000 - 60,000 =$ Rs $15,000$. Anu personally bears it, so the final residual shares are Anu $60,000 - 15,000 =$ Rs $45,000$, Charu Rs 30,000 and Divya Rs 75,000. These sum to Rs 1,50,000. Options (A), (B) and (C) alter the stated ratio or fail to provide Divya's guaranteed residual share.

Step 3: Conclusion The final profit shares are Anu Rs 45,000, Charu Rs 30,000 and Divya Rs 75,000. Hence, the correct option is (D).

Quick Tip to Solve: Charge the entire Rs 15,000 shortfall to Anu because the guarantee is personal; Charu is unaffected.

11. 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 is the ratio in which continuing partners acquire the retiring partner's profit share.
- Where the purchase consideration for that share is specified, the acquired fractions are proportional to the amounts paid.

Step 1: Identify the acquisition proportions Krishna's old share is $4/12$. Gopal and Govind jointly purchase it for Rs 1,20,000, contributing Rs 80,000 and Rs 40,000 respectively. Their proportions of the purchased share are $80,000/1,20,000 = 2/3$ and $40,000/1,20,000 = 1/3$.

Step 2: Calculate and distinguish the gaining ratio Gopal gains $(4/12)(2/3) = 2/9$, while Govind gains $(4/12)(1/3) = 1/9$. Hence their gains are in the ratio $2:1$. The ratio $5:3$ is their old relative share, not their gain; $4:3$ and $1:1$ do not match the stated purchase contributions.

Step 3: Conclusion The gaining ratio of Gopal and Govind is $\boxed{2:1}$. Hence, the correct option is (D).

Quick Tip to Solve: For a purchased retirement share, reduce the continuing partners' purchase payments to their simplest ratio.

12. Average capital employed in a firm is Rs. 3,00,000. The normal rate of return in the business is 20% and the firm's average profits are Rs. 80,000. Value of goodwill by capitalisation of super profits method is: [1 mark]

(A) Rs. 8,00,000

(B) Rs. 1,00,000

(C) Rs. 2,00,000

(D) Rs. 6,00,000

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

Solution:

Concept:

- Normal profit equals capital employed multiplied by the normal rate of return.
- Super profit is average profit less normal profit; capitalised goodwill equals super profit multiplied by 100 divided by the normal rate in percent.

Step 1: Determine super profit Normal profit on capital employed is $3,00,000 \times 20/100 = \text{Rs } 60,000$. The firm earns average profit of Rs 80,000, so super profit is $80,000 - 60,000 = \text{Rs } 20,000$. Only this

excess return is capitalised for goodwill.

Step 2: Capitalise and check the result Goodwill is $20,000 \times 100/20 =$ Rs $1,00,000$. As a check, capitalised business value is $80,000 \times 100/20 =$ Rs $4,00,000$; subtracting capital employed Rs 3,00,000 again yields Rs 1,00,000. Rs 8,00,000, Rs 2,00,000 and Rs 6,00,000 do not follow the required normal-return calculation.

Step 3: Conclusion Goodwill is $\boxed{\text{Rs } 1,00,000}$. Hence, the correct option is (B).

Quick Tip to Solve: Compute normal profit first; capitalise only the Rs 20,000 excess over normal profit.

13. Jeevan Ltd. forfeited 50 shares of Rs. 100 each on which allotment money of Rs. 30 per share (including premium of Rs. 10 per share) and first call of Rs. 30 per share was not received. The second and final call of Rs. 20 per share was not yet made. The amount credited to 'Share Forfeiture Account' on forfeiture of these shares will be: [1 mark]

(A) Rs. 2,500

(B) Rs. 2,000

(C) Rs. 5,000

(D) Rs. 1,500

Correct Answer: (D) Rs. 1,500

Solution:

Concept:

- Share Forfeiture Account is credited with capital money actually received on forfeited shares, excluding premium.
- Uncalled capital is excluded from called-up capital; unpaid premium is reversed separately and is not forfeited capital received.

Step 1: Find called-up capital and unpaid capital Of Rs 100 face value, the second and final call of Rs 20 is uncalled, so called-up capital is Rs 80 per share. Unpaid allotment contains capital of $30 - 10 =$ Rs 20, and the unpaid first call is Rs 30. Thus unpaid capital totals Rs 50 per share.

Step 2: Find the capital received Capital actually received is $80 - 20 - 30 =$ Rs 30 per share. For 50 shares, Share Forfeiture Account is credited with $50 \times 30 =$ Rs $1,500$. Rs 2,500 is unpaid capital, Rs 5,000 is total face value and Rs 2,000 is neither the received capital nor the correct forfeiture credit.

Step 3: Conclusion Share Forfeiture Account is credited with $\boxed{\text{Rs } 1,500}$. Hence, the correct option is (D).

Quick Tip to Solve: Remove the uncalled final call and exclude premium when finding capital actually received.

14. A portion of the called-up capital which has been actually received from the shareholders is termed as: [1 mark]

(A) Called-up capital

(B) Subscribed capital

(C) Issued capital

(D) Paid-up capital

Correct Answer: (D) Paid-up capital

Solution:

Concept:

- Called-up capital is the amount the company has demanded on subscribed shares.
- Paid-up capital is the portion of called-up capital actually received from shareholders.

Step 1: Apply the definition The question emphasises actual receipt from shareholders. Thus it asks for paid-up capital. If some called-up amount remains unpaid, that unpaid portion is calls in arrears.

Step 2: Check the other choices Called-up capital includes amounts demanded but still unpaid. Subscribed capital refers to the shares taken up by subscribers, while issued capital is the portion offered for subscription. Neither measures actual collection. In symbols, Paid-up capital $=$ Called-up capital $-$ Calls in arrears.

Step 3: Conclusion The correct option is (D): Paid-up capital.

Quick Tip to Solve: Link the words actually received with paid-up; demanded amounts are called-up capital.

15. If a fixed amount is withdrawn by a partner at the end of each quarter, 'interest on drawings' on the total amount withdrawn will be calculated for: [1 mark]

(A) 4 1/2 months

(B) 9 months

(C) 6 months

(D) 3 months

Correct Answer: (A) 4 1/2 months

Solution:

Concept:

- For equal drawings at equal intervals, interest on total drawings uses the average outstanding period.
- Interest equals total drawings multiplied by the annual rate and the average period in years.

Step 1: List the outstanding periods End-of-quarter withdrawals occur at the ends of months 3, 6, 9 and 12. Until the year ends, the respective amounts remain withdrawn for $9, 6, 3, 0$ months. The final withdrawal bears no interest for that accounting year.

Step 2: Calculate and compare The equal amounts give equal weights, so

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

Nine months counts only the first withdrawal; six months is the average for middle-of-quarter drawings, while three months is not the mean of these four periods.

Step 3: Conclusion The correct option is (A): $4\frac{1}{2}$ months.

Quick Tip to Solve: Write the four outstanding periods first: end-of-quarter means 9, 6, 3 and 0 months.

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16. Mehak and Chehak were partners with capitals of Rs. 40,000 each. They admitted Aadi as a new partner for 1/5 share in the profits of the firm. Aadi brought Rs. 80,000 as his capital. On Aadi's admission, the Profit and Loss Account of the firm showed a debit balance of Rs. 10,000. Value of goodwill of the firm on Aadi's admission will be: [1 mark]

(A) Rs. 2,50,000

(B) Rs. 2,40,000

(C) Rs. 2,30,000

(D) Rs. 4,00,000

Correct Answer: (A) Rs. 2,50,000

Solution:

Concept:

- Hidden goodwill is the excess of implied total capital over actual adjusted capital.
- An accumulated debit balance of Profit and Loss Account reduces the old partners' combined capital before goodwill is measured.

Step 1: Infer the capitalised value Aadi brings Rs 80,000 for a $1/5$ share. Hence the implied capital of the whole firm is

$$80,000 \div \frac{1}{5} = \text{Rs } 4,00,000.$$

This is the value including hidden goodwill, not goodwill itself.

Step 2: Deduct adjusted actual capital Old capitals total Rs 80,000. The debit balance of Rs 10,000 is an accumulated loss, reducing them to Rs 70,000. Adding Aadi's Rs 80,000 gives actual adjusted capital Rs 1,50,000. Thus

$$\text{Goodwill} = 4,00,000 - 1,50,000 = \text{Rs } 2,50,000.$$

Rs 2,40,000 ignores the loss; Rs 2,30,000 adds it instead of deducting it from capital; Rs 4,00,000 is the total implied value.

Step 3: Conclusion Goodwill is Rs 2,50,000; the correct option is (A).

Quick Tip to Solve: Subtract accumulated losses from old capitals before comparing them with the implied total capital.

17(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, interest on drawings cannot be charged.
- An incorrect charge both debits the withdrawing partner and increases divisible profit; both effects must be reversed.

Step 1: Calculate the incorrect charges As no monthly withdrawal date is specified, use the standard average period of six months. Raman's total drawings are $3,000 \times 12 = \text{Rs } 36,000$; Manan's are $4,000 \times 12 = \text{Rs } 48,000$. Therefore the wrongly charged amounts are

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

Naman has no stated drawings.

Step 2: Find the net adjustments The total excess profit was Rs 2,520, wrongly distributed in the ratio $2:1:1$. Reverse credits of Rs 1,260 to Raman and Rs 630 each to Manan and Naman. Also refund the incorrect charges by crediting Raman Rs 1,080 and Manan Rs 1,440. Net results are: Raman debit $1,260 - 1,080 = \text{Rs } 180$, Manan credit $1,440 - 630 = \text{Rs } 810$, and Naman debit Rs 630. Total debits equal the credit of Rs 810.

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 incorrect interest on drawings and its distribution rectified)			

Step 4: Conclusion Debit Raman's Capital Account Rs 180 and Naman's Capital Account Rs 630; credit Manan's Capital Account Rs 810.

Quick Tip to Solve: Reverse both the original drawings charge and the profit credit produced by that charge.

OR

17(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 agreement its rate is 6% per annum.
- Interest on capital and partner salary are appropriations of profit under the partnership deed.

Step 1: Adjust profit for loan interest Arun's loan is outstanding from 1 October 2021 to 31 March 2022, i.e. six months. Interest is

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

Thus the profit transferred from Profit and Loss Account after this charge is $26,800 - 3,000 = \text{Rs } 23,800$. Loan interest is not entered as an appropriation.

Step 2: Calculate the appropriations Interest on capital is $50,000 \times 6\% = \text{Rs } 3,000$ for Arun and $30,000 \times 6\% = \text{Rs } 1,800$ for Barun. Barun's annual salary is $1,000 \times 4 = \text{Rs } 4,000$. Residual profit is $23,800 - 3,000 - 1,800 - 4,000 = \text{Rs } 15,000$. Sharing it in $3 : 2$ gives Arun Rs 9,000 and Barun Rs 6,000.

Step 3: Prepare the account Profit and Loss Appropriation Account for the year ended 31 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	

The entire available profit is appropriated, so this nominal account closes with no balance carried down.

Step 4: Conclusion The account totals Rs 23,800 on each side; residual profit is credited to Arun Rs 9,000 and Barun Rs 6,000.

Quick Tip to Solve: Deduct partner-loan interest before opening the appropriation account, and convert quarterly salary to annual salary.

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; the difference between face value and issue proceeds is Discount on Issue of Debentures.
- Application and allotment accounts collect the amounts payable at the respective stages.

Step 1: Compute the issue amounts The face value is $10,000 \times 100 = \text{Rs } 10,00,000$. Discount is $10,00,000 \times 6\% = \text{Rs } 60,000$, so total cash proceeds are Rs 9,40,000. Application money is $10,000 \times 60 = \text{Rs } 6,00,000$. The remaining cash due on allotment is $9,40,000 - 6,00,000 = \text{Rs } 3,40,000$, or Rs 34 per debenture. The 8% coupon rate does not determine issue proceeds.

Step 2: Record the application stage 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 debenture capital)			

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 at Rs 34 per debenture and discount at Rs 6 per debenture recorded)			
	Bank A/c Dr.		3,40,000	
	To Debenture Allotment A/c			3,40,000
	(Being allotment money received in full)			

The two credits to 8% Debentures Account total Rs 10,00,000, while receipts total Rs 9,40,000; the Rs 60,000 difference is the recorded discount.

Step 4: Conclusion Bank receives Rs 9,40,000; 8% Debentures Account is credited with Rs 10,00,000 and discount is debited with Rs 60,000.

Quick Tip to Solve: Calculate allotment from the discounted issue price of Rs 94, so the cash balance after application is Rs 34.

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 the called-up amount, credit Calls in Arrears with the unpaid amount and credit Share Forfeiture with the capital money already received.
- Reissue discount is debited to Share Forfeiture. Only the surplus attributable to shares actually reissued is transferred to Capital Reserve.

Step 1: Calculate forfeiture and reissue amounts The called-up capital cancelled is $4,000 \times$ Rs $10 =$ Rs $40,000$. Application money received is $4,000 \times$ Rs $3 =$ Rs $12,000$, leaving unpaid calls of Rs $28,000$. The 2,000 shares reissued have paid-up value Rs $20,000$. Cash received is Rs 18,000, so the reissue discount is Rs 2,000. Forfeiture money belonging to these shares is $2,000 \times$ Rs $3 =$ Rs $6,000$; hence the realised capital profit is $6,000 - 2,000 =$ Rs $4,000$.

Step 2: Record the necessary journal entries 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 shares forfeited for non-payment of calls)			
	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)			
	Share Forfeiture A/c Dr.		4,000	
	To Capital Reserve A/c			4,000
	(Being surplus on reissued shares transferred to capital reserve)			

The remaining Rs 6,000 in Share Forfeiture relates to the 2,000 shares still awaiting reissue and is retained there.

Step 3: Conclusion The capital reserve created is Rs 4,000; the remaining Share Forfeiture balance is Rs 6,000.

Quick Tip to Solve: Allocate forfeiture money to the shares reissued before subtracting their reissue discount.

19. 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:

- When profit is estimated on sales, apply the previous year profit-to-sales percentage to sales up to the date of death.
- Under the fixed capital method, the deceased partner share of interim profit is credited to the Current Account; Profit and Loss Suspense Account is debited.

Step 1: Determine Kanak profit fraction The partners share profits in proportion to their fixed capitals. Thus,

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

Kanak receives $1/(1+2+3) = 1/6$ of the firm profit. The capital ratio determines the profit share; the capital amounts themselves are not used as the profit base.

Step 2: Calculate profit up to 30 September 2021 The profit rate on sales for 2020–21 is

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

Applying this rate to actual sales from 1 April 2021 to 30 September 2021 gives estimated firm profit of $6,00,000 \times 10\% =$ Rs $60,000$. Consequently, Kanak share is $60,000 \times 1/6 =$ Rs $10,000$. No further six-month fraction is applied: Rs 6,00,000 is already the sales figure for the relevant period.

Step 3: Record Kanak share of interim profit Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
30 Sept. 2021	Profit and Loss Suspense A/c Dr.		10,000	
	To Kanak's Current A/c			10,000
	(Being Kanak's share of profit up to death credited on the sales basis)			

The Current Account is used because the capitals are fixed; this revenue entitlement does not alter Kanak fixed capital.

Step 4: Conclusion Kanak share of profit is Rs 10,000, credited to his Current Account by debiting Profit and Loss Suspense Account.

Quick Tip to Solve: When the given sales already cover the death period, do not multiply the estimated profit by time again.

20. A and B are partners in a firm sharing profits in the ratio of 3:2. C is admitted into the firm for 1/4 share in profits. The total capital of the firm is agreed upon as Rs. 2,00,000 and C is to bring in cash equivalent to 1/4 of this amount as his capital. The capitals of other partners are also to be adjusted in the ratio of their respective share in profits. The capitals of A and B after all adjustments are Rs. 60,000 and Rs. 45,000 respectively.

Calculate the new capitals of A and B and pass necessary journal entries. [3 marks]

Solution:

Concept:

- With no different sacrifice specified, the old partners retain their relative ratio of 3:2 in the remaining profit share after admitting C.
- Agreed capital of each partner equals total capital multiplied by the new profit share. A shortfall from the adjusted existing capital is brought in through Bank.

Step 1: Calculate the new ratio and required capitals C receives $1/4$, leaving $3/4$ for A and B in their old ratio of $3:2$. Therefore,

$$A = \frac{3}{4} \times \frac{3}{5} = \frac{9}{20}, \qquad B = \frac{3}{4} \times \frac{2}{5} = \frac{6}{20}, \qquad C = \frac{5}{20}.$$

The new profit-sharing ratio is $9:6:5$. On agreed total capital of Rs 2,00,000, required capitals are

$$A = 2,00,000 \times \frac{9}{20} = \text{Rs } 90,000, \quad B = 2,00,000 \times \frac{6}{20} = \text{Rs } 60,000.$$

C must bring $2,00,000 \times 1/4 = \text{Rs } 50,000$.

Step 2: Find the additional cash to be introduced A adjusted existing capital is Rs 60,000, so his deficiency is $90,000 - 60,000 = \text{Rs } 30,000$. B adjusted existing capital is Rs 45,000, so his deficiency is $60,000 - 45,000 = \text{Rs } 15,000$. Both therefore introduce cash. The combined inflow including C is $30,000 + 15,000 + 50,000 = \text{Rs } 95,000$; added to existing capitals of Rs 1,05,000, this produces the agreed Rs 2,00,000.

Step 3: Pass journal entries Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		50,000	
	To C's Capital A/c			50,000
	(Being capital brought in by C on admission)			
	Bank A/c Dr.		45,000	
	To A's Capital A/c			30,000
	To B's Capital A/c			15,000
	(Being deficiencies in capitals brought in by A and B)			

Step 4: Conclusion New capitals: A Rs 90,000 and B Rs 60,000. A brings Rs 30,000, B brings Rs 15,000 and C brings Rs 50,000.

Quick Tip to Solve: First reserve C share; distribute the remaining capital between A and B in 3:2, then compare with adjusted balances.

21. 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: Ravi 4,00,000 Kavi 3,00,000 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:

- Realisation Account records the transfer and disposal of non-cash assets and the settlement of outside liabilities. Assets are transferred at gross book values; their related provisions are credited separately.
- A partner's loan is settled separately and is not transferred to Realisation Account. Realisation profit or loss is divided in the existing profit-sharing ratio, here $5:3:2$.

Step 1: Determine the transfers and realisations Land and Building, Stock and Debtors are debited at Rs 3,50,000, Rs 3,00,000 and Rs 2,00,000 respectively. The provision for doubtful debts of Rs 10,000 is credited separately, together with creditors of Rs 70,000 and Mrs. Chand's loan of Rs 20,000. Cash and Chand's own loan are excluded. Debtors realise $2,00,000 \times 90\% = \text{Rs } 1,80,000$; hence total cash from assets is $6,00,000 + 1,80,000 = \text{Rs } 7,80,000$.

Step 2: Record settlement of liabilities The unrecorded computer is given directly to Mrs. Chand in full settlement of her loan. No separate entry is made for this exchange: the liability has already been credited on transfer, while the unrecorded asset has no transferred book value. Its stated Rs 22,000 value does not create an additional cash payment. Ravi is credited with the actual Rs 20,000 he pays, through a debit to Realisation Account. The remaining creditors are $70,000 - 30,000 = \text{Rs } 40,000$, paid in cash.

Step 3: Prepare the account and distribute the loss Realisation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Land and Building	3,50,000	By Provision for doubtful debts	10,000
To Stock	3,00,000	By Sundry Creditors	70,000
To Debtors	2,00,000	By Mrs. Chand's Loan	20,000
To Ravi's Capital	20,000	By Cash: assets realised	7,80,000
To Cash: creditors paid	40,000	By Loss transferred to:	
		Ravi's Capital	15,000
		Kavi's Capital	9,000
		Chand's Capital	6,000
Total	9,10,000	Total	9,10,000

The debit total before balancing is Rs 9,10,000 and the credit total is Rs 8,80,000. Their difference is a loss of Rs 30,000. Since this is a nominal account, its balance is transferred to the partners' capital accounts, not carried down. The partners bear $30,000 \times 5/10 = 15,000$, $30,000 \times 3/10 = 9,000$, and $30,000 \times 2/10 = 6,000$ respectively.

Step 4: Conclusion The 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: Transfer gross debtors and credit their provision separately; do not enter a second amount for an unrecorded asset handed directly to a creditor.

22. On 1st April, 2021, Vishwas Ltd. was formed with an authorised capital of Rs. 10,00,000 divided into 1,00,000 equity shares of Rs. 10 each. The company issued a prospectus inviting applications for 90,000 equity shares. The company received applications for 85,000 equity shares. Shyam, holding 3,000 shares, did not pay the first and final call of Rs. 2 per share. His 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 permitted capital; issued capital is the portion offered for subscription. Subscribed capital reflects shares actually taken up, adjusted for forfeiture.
- After forfeiture, the paid-up amount received on forfeited shares is disclosed separately as an addition under Share Capital until reissue. Calls unpaid on those forfeited shares are not deducted again.

Step 1: Calculate outstanding fully paid shares The company has authorised capital of $1,00,000 \times$ Rs $10 =$ Rs $10,00,000$ and issued capital of $90,000 \times$ Rs $10 =$ Rs $9,00,000$. Applications were received for 85,000 shares, so the issue was undersubscribed. Of these, Shyam's 3,000 shares were forfeited. The remaining $85,000 - 3,000 = 82,000$ shares are fully paid and contribute $82,000 \times$ Rs $10 =$ Rs $8,20,000$.

Step 2: Determine the forfeited amount Shyam did not pay the final Rs 2 per share, so he had paid

$10 - 2 = \text{Rs } 8$ per share. The amount forfeited is therefore $3,000 \times \text{Rs } 8 = \text{Rs } 24,000$. His unpaid call was Rs 6,000, but the forfeiture cancels those shares from subscribed capital. Thus it is not shown as a further deduction from the Rs 8,20,000 relating to the continuing shares. No reissue is mentioned, so the forfeited amount remains in Share Capital.

Step 3: Present the Balance Sheet extract and supporting note Balance Sheet of Vishwas Ltd. (Extract) as at 31st March, 2022

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	8,44,000

Notes to Accounts: Note 1 – Share Capital

Particulars	Amount (Rs)
Authorised capital:	
1,00,000 Equity Shares of Rs 10 each	10,00,000
Issued capital:	
90,000 Equity Shares of Rs 10 each	9,00,000
Subscribed and fully paid-up capital:	
82,000 Equity Shares of Rs 10 each, fully paid	8,20,000
Add: Forfeited shares (amount originally paid-up)	24,000
Total Share Capital	8,44,000

The number of shares offered remains the issued capital disclosure even though subscriptions were lower. For subscribed capital, the forfeited shares are excluded from the continuing fully paid shares and their actual paid amount is disclosed separately.

Step 4: Conclusion Share Capital shown under Shareholders' Funds is $\boxed{\text{Rs } 8,44,000}$, comprising Rs 8,20,000 fully paid capital and Rs 24,000 forfeited shares.

Quick Tip to Solve: After forfeiture, remove the defaulting shares from subscribed capital and add only the amount already received on them.

23. 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: Trisha 3,00,000 Anisha 2,00,000 Rishika 1,00,000	6,00,000	Plant and Machinery	5,00,000
General Reserve	50,000	Stock	1,00,000
Creditors	50,000	Debtors	60,000
		Cash at Bank	40,000
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 is credited with the opening capital, share of accumulated reserves, goodwill, salary and profit accrued up to death. Drawings are debited.
- Trisha's share is $2/5$. The period from 1st April to 31st July is four months; a quarter contains three months.
- Goodwill equals twice the average of the three annual profits. The amount finally payable is transferred to the executor's account.

Step 1: Calculate reserve and salary Trisha's share of the general reserve is

$$50,000 \times \frac{2}{5} = \text{Rs } 20,000.$$

Her salary for four months is

$$15,000 \times \frac{4}{3} = \text{Rs } 20,000.$$

The opening capital of Rs 3,00,000 is brought forward at its existing balance. The general reserve belongs to all the old partners in their old profit-sharing ratio; hence Trisha receives two-fifths.

Step 2: Calculate goodwill and profit up to death The average annual profit and total goodwill are

$$\text{Average profit} = \frac{1,00,000 + 2,00,000 + 1,50,000}{3} = \text{Rs } 1,50,000,$$
$$\text{Goodwill} = 2 \times 1,50,000 = \text{Rs } 3,00,000.$$

Trisha's goodwill share is $3,00,000 \times 2/5 = \text{Rs } 1,20,000$. In the absence of a change in the continuing partners' relative shares, Anisha and Rishika gain in the ratio $2:1$; their capital accounts are debited with Rs 80,000 and Rs 40,000 respectively. Using the last accounting year's profit, Trisha's estimated profit share for four months is

$$1,50,000 \times \frac{4}{12} \times \frac{2}{5} = \text{Rs } 20,000.$$

This is credited through Profit and Loss Suspense Account; it is separate from her salary entitlement.

Step 3: Prepare the capital account **Trisha's Capital Account (as at 31st July, 2022)**

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Drawings	20,000	By Balance b/d	3,00,000	
	To Trisha's Executor's A/c	4,60,000	By General Reserve	20,000	
			By Salary	20,000	
			By Anisha's Capital A/c	80,000	
			By Rishika's Capital A/c	40,000	
			By Profit and Loss Suspense A/c	20,000	
	Total	4,80,000	Total	4,80,000	

The executor transfer closes Trisha's capital account. It is not a payment by bank: the question gives no settlement payment. The drawings of Rs 20,000 reduce the amount due, and no interest on drawings is charged because none is specified.

Step 4: Conclusion The amount payable to Trisha's executors is $\boxed{\text{Rs } 4,60,000}$.

Quick Tip to Solve: Use four months for both salary and profit, but divide salary by three months per quarter and annual profit by twelve.

24(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 is in the ratio $80,000 : 1,40,000 = 4 : 7$. Excess application money is transferred to Share Allotment Account.
- Allotment of Rs 9 consists of Rs 5 share capital and Rs 4 securities premium. Unreceived premium is reversed on forfeiture; only capital received is credited to Share Forfeiture Account.
- Reissue discount is debited to Share Forfeiture Account. The surplus relating to the reissued shares is transferred to Capital Reserve.

Step 1: Calculate application adjustment and Rajiv's default Application receipts are $1,40,000 \times 5 =$ Rs $7,00,000$. Application capital on shares allotted is $80,000 \times 5 =$ Rs $4,00,000$; therefore Rs 3,00,000 is adjusted towards allotment.

$$\text{Allotment due} = 80,000 \times 9 = \text{Rs } 7,20,000,$$

$$\text{Rajiv's allotment} = 1,400 \times \frac{4}{7} = 800 \text{ shares},$$

$$\text{His excess application} = 1,400 \times 5 - 800 \times 5 = \text{Rs } 3,000,$$

$$\text{His unpaid allotment} = 800 \times 9 - 3,000 = \text{Rs } 4,200,$$

$$\text{Allotment cash received} = 7,20,000 - 3,00,000 - 4,200 = \text{Rs } 4,15,800.$$

Rajiv's excess application money is applied against the capital portion of allotment first. Of the Rs 4,000 allotment capital, Rs 3,000 is thus paid; Rs 1,000 capital and Rs 3,200 premium remain unpaid. Total capital received from him is Rs 7,000.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 1,40,000 shares)		7,00,000	 7,00,000

	Share Application A/c Dr.
	  To Share Capital A/c
	  To Share Allotment A/c
	(Being application money adjusted on pro-rata allotment)
			7,00,000	
				4,00,000
				3,00,000

	Share Allotment A/c Dr.
	  To Share Capital A/c
	  To Securities Premium A/c
	(Being allotment money due, including premium)
			7,20,000	
				4,00,000
				3,20,000

	Bank A/c Dr. To Share Allotment A/c (Being allotment money received except Rs 4,200 due from Rajiv, after application adjustment)		4,15,800	 4,15,800

The unpaid Rs 4,200 remains in Share Allotment Account until forfeiture; a separate Calls-in-Arrears Account is unnecessary here.

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

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

	Share Capital A/c Dr.
	Securities Premium A/c Dr.
	  To Share Allotment A/c
	  To Share Forfeiture A/c
	(Being Rajiv's 800 fully called shares forfeited and unpaid premium reversed)
			8,000
			3,200
				
				4,200
				7,000

	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Being 800 forfeited shares reissued at Rs 9 each as fully paid)		7,200 800	 8,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being surplus on reissue transferred to capital reserve)		6,200	 6,200

The reissue discount is $800 \times (10-9) = \text{Rs } 800$, which is covered by forfeited capital of Rs 7,000. Since all the forfeited shares have been reissued, the entire remaining balance, $7,000 - 800 = \text{Rs } 6,200$, becomes capital reserve.

Step 4: Conclusion Rajiv is allotted 800 shares; Rs 4,200 is unpaid. Forfeited capital is Rs 7,000 and the transfer to Capital Reserve is $\boxed{\text{Rs } 6,200}$.

Quick Tip to Solve: First find Rajiv's 800 allotted shares, then subtract his Rs 3,000 application surplus from the Rs 7,200 allotment demand.

OR

24(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:

- Pro-rata allotment adjusts excess application money against allotment due; it is not an additional capital receipt.
- Share capital and securities premium are credited separately when the relevant instalment becomes due. Calls-in-arrears records the instalment amounts that remain unpaid.

Step 1: Calculate pro-rata allotment and Rohini's arrears The allotment ratio is $2,40,000 : 3,00,000 = 4 : 5$. Hence Rohini receives $7,500 \times 4/5 = 6,000$ shares. Total application receipts are $3,00,000 \times 4 =$ Rs $12,00,000$. Application money required on allotted shares is Rs 9,60,000, comprising capital Rs 4,80,000 and premium Rs 4,80,000. Excess Rs 2,40,000 is transferred to allotment.

Rohini paid Rs 30,000 on application. Of this, Rs 24,000 belongs to her 6,000 shares and Rs 6,000 adjusts allotment. Her allotment arrears are $6,000 \times 4 - 6,000 =$ Rs $18,000$. Her call arrears are $6,000 \times 6 =$ Rs $36,000$. Thus allotment cash is Rs 7,02,000 and call cash is Rs 14,04,000.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received)		12,00,000	 12,00,000

	Share Application A/c Dr.
	  To Equity Share Capital A/c
	  To Securities Premium A/c
	  To Share Allotment A/c
	(Being application adjusted and surplus transferred)
			12,00,000	
				4,80,000
				4,80,000
				2,40,000

	Share Allotment A/c Dr. To Equity Share Capital A/c (Being allotment due on 2,40,000 shares)		9,60,000	 9,60,000
	Bank A/c Dr. Calls-in-arrears A/c Dr. To Share Allotment A/c (Being balance allotment received except Rohini's arrears)		7,02,000 18,000	 7,20,000

Step 3: Record the 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.
	  To Equity Share Capital A/c
	  To Securities Premium A/c
	(Being call due, including premium of Rs 2 per share)
			14,40,000	
				9,60,000
				4,80,000

	Bank A/c Dr. Calls-in-arrears A/c Dr. To Share First and Final Call A/c (Being call received except Rohini's unpaid call)		14,04,000 36,000	 14,40,000

The call credit comprises Rs 4 capital and Rs 2 premium per share. No forfeiture entry is passed because the question gives no forfeiture.

Step 4: Open the necessary arrears account Calls-in-arrears Account

Dr.	Particulars	Amount (Rs)	Particulars	Amount (Rs)	Cr.
	To Share Allotment To Share First and Final Call	18,000 36,000	By Balance c/d	54,000	
	Total	54,000	Total	54,000	

The debit balance represents Rohini's unpaid allotment and call. No Calls-in-advance Account is necessary: the excess application money has been fully adjusted against allotment, as directed.

Step 5: Conclusion Rohini is allotted $6,000$ shares; total calls-in-arrears are $\boxed{\text{Rs } 54,000}$, comprising Rs 18,000 allotment and Rs 36,000 call.

Quick Tip to Solve: First allot the shares in the ratio 4:5, then deduct Rohini's excess application money from her allotment due.

25(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	
General Reserve	25,000	Less provision 5,000	80,000
Capitals:		Stock	1,30,000
A 1,60,000		Investments	60,000
B 1,40,000	3,00,000	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:

- Pre-admission reserves and revaluation profit belong to A and B in their old profit-sharing ratio $3:2$. C does not share these accumulated amounts.
- An Investment Fluctuation Fund first absorbs the fall in the value of investments. Only its excess is credited to the old partners' capital accounts.
- Premium for goodwill compensates the sacrificing partners. Since no different sacrifice is specified, A and B sacrifice in the old ratio $3:2$.

Step 1: Allocate the existing reserves and goodwill Investments fall from Rs 60,000 to Rs 50,000, a loss of Rs 10,000. The Investment Fluctuation Fund of Rs 12,000 absorbs this loss; its excess of Rs 2,000 is distributed to A and B as Rs 1,200 and Rs 800. Thus, the investment loss does not enter the Revaluation Account again.

$$\text{General reserve: A} = 25,000 \times 3/5 = 15,000,$$
$$\text{General reserve: B} = 25,000 \times 2/5 = 10,000.$$
$$\text{Goodwill premium: A} = 50,000 \times 3/5 = 30,000,$$
$$\text{Goodwill premium: B} = 50,000 \times 2/5 = 20,000.$$

C brings Rs 1,00,000 as capital separately from his Rs 50,000 goodwill premium. Only the capital contribution is credited to C's Capital Account; the premium is credited to A and B. The new ratio would be $12:8:5$, with A and B retaining four-fifths in their old ratio.

Step 2: Prepare the Revaluation Account Outstanding salary creates a liability and is debited to Revaluation Account. Recovery of a debt written off earlier is a gain and is credited to Revaluation

Account through Bank Account. It does not reduce the debtors now appearing in the balance sheet. The net profit is Rs 12,000 less Rs 2,000, or Rs 10,000, allocated as Rs 6,000 to A and Rs 4,000 to B.

Revaluation Account as at 1st April, 2022

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Outstanding Salary	2,000	By Bank (recovery)	12,000
To A's Capital (profit)	6,000		
To B's Capital (profit)	4,000		
Total	12,000	Total	12,000

Step 3: Prepare Partners' Capital Accounts Credit each old partner with the opening capital and his share of general reserve, excess Investment Fluctuation Fund, revaluation profit and goodwill premium. There are no withdrawals specified. The closing balances are carried down on the debit side to balance the accounts.

Partners' Capital Accounts as at 1st April, 2022

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 Gen. Reserve	15,000	10,000	—
				By I.F. Fund (excess)	1,200	800	—
				By Revaluation	6,000	4,000	—
				By Goodwill premium	30,000	20,000	—
				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; and C: Rs 1,00,000.

Quick Tip to Solve: Use the Investment Fluctuation Fund to absorb the investment loss first; distribute only the Rs 2,000 surplus to the old partners.

OR

25(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: Anita 2,00,000 Geeta 2,00,000 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 existing general reserve belong to all partners in the old ratio $2:2:1$. Goodwill payable to the retiring partner is borne by continuing partners in their gaining ratio.
- Bad debts are written off before computing the new provision. The existing provision is adjusted against the combined requirement; only the additional loss affects Revaluation Account.

Step 1: Calculate revaluation profit and distribute the reserve Debtors after bad debts are $1,50,000 - 20,000 =$ Rs $1,30,000$. The required provision is $10\% \times 1,30,000 =$ Rs $13,000$. Hence the net revaluation loss on debtors is $20,000 + 13,000 - 10,000 =$ Rs $23,000$. This uses the old provision once only. Appreciation of land and building is Rs 1,23,000, so revaluation profit is Rs 1,00,000. It is credited to Anita, Geeta and Sita as Rs 40,000, Rs 40,000 and Rs 20,000. General reserve of Rs 30,000 is similarly distributed as Rs 12,000, Rs 12,000 and Rs 6,000.

Step 2: Prepare Revaluation Account Revaluation Account (amounts in Rs)

Dr.	Particulars	Amount	Particulars	Amount	Cr.
	To Bad debts	20,000	By Land and Building	1,23,000	
	To Provision (increase)	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 3: Adjust goodwill and determine Anita's settlement No new profit-sharing ratio is given, so Geeta and Sita continue in their old relative ratio $2:1$. Their gains are $2/3 - 2/5 = 4/15$ and $1/3 - 1/5 = 2/15$; the gaining ratio is $2:1$. Anita's goodwill share is $3,00,000 \times 2/5 =$ 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. Anita's total claim is $2,00,000 + 12,000 + 40,000 + 1,20,000 =$ Rs $3,72,000$. After the immediate bank payment of Rs 80,000, transfer Rs 2,92,000 to her loan account. The future interest is not an expense on the retirement date; it will accrue subsequently.

Step 4: Prepare the partners' capital accounts Anita's Capital Account (amounts in Rs)

Dr.	Particulars	Amount	Particulars	Amount	Cr.
	To Bank	80,000	By Balance b/d	2,00,000	
	To Anita's Loan	2,92,000	By General Reserve	12,000	
			By Revaluation	40,000	
			By Geeta's Capital	80,000	
			By Sita's Capital	40,000	
	Total	3,72,000	Total	3,72,000	

Geeta's Capital Account (amounts in Rs)

Dr.	Particulars	Amount	Particulars	Amount	Cr.
	To Anita's Capital	80,000	By Balance b/d	2,00,000	
	To Balance c/d	1,72,000	By General Reserve	12,000	
			By Revaluation	40,000	
	Total	2,52,000	Total	2,52,000	

Sita's Capital Account (amounts in Rs)

Dr.	Particulars	Amount	Particulars	Amount	Cr.
	To Anita's Capital	40,000	By Balance b/d	1,00,000	
	To Balance c/d	86,000	By General Reserve	6,000	
			By Revaluation	20,000	
	Total	1,26,000	Total	1,26,000	

Step 5: Conclusion Revaluation profit is Rs 1,00,000; Anita's loan is Rs 2,92,000. Closing capitals are Geeta Rs 1,72,000 and Sita Rs 86,000.

Quick Tip to Solve: First reduce debtors by bad debts, then calculate the 10% provision; charge goodwill to Geeta and Sita in their gaining ratio of 2:1.

26. (a) On 1st April, 2022, Smith Ltd. acquired assets of Rs. 80,00,000 from Bharat Ltd. and took over its liabilities of Rs. 10,00,000 for a purchase consideration of Rs. 72,00,000. Rs. 10,00,000 was paid by issuing a bank draft in favour of Bharat Ltd., Rs. 8,00,000 by accepting a Bill of Exchange drawn upon them by Bharat Ltd. payable after four months and the balance by issuing 11% debentures at a discount of 10%.

Pass the necessary journal entries for the above transactions in the books of Smith Ltd.

(b) On 1st April, 2021, Bingo Ltd. issued Rs. 20,00,000, 9% debentures of Rs. 100 each at a premium of 10%, redeemable at a premium of 5%. Pass the necessary journal entries for issue of debentures in the books of Bingo Ltd. [6 marks]

Solution:

Concept:

- Purchase consideration in excess of net assets is goodwill. Debentures issued at a discount settle the vendor at their issue price, while Debentures Account records face value.
- On issue at a premium, credit Securities Premium Reserve. Premium payable on redemption is credited separately and debited to Loss on Issue of Debentures.

Step 1: (a) Compute goodwill and the debenture face value Net assets acquired are $80,00,000 - 10,00,000 =$ Rs $70,00,000$. Purchase consideration is Rs 72,00,000, so goodwill is Rs 2,00,000. The consideration remaining after the bank draft and bill is $72,00,000 - 10,00,000 - 8,00,000 =$ Rs $54,00,000$. At a 10% discount, issue price is 90% of face value. Thus debentures issued have face value $54,00,000 \times 100/90 =$ Rs $60,00,000$, and discount is Rs 6,00,000. The 11% rate is the coupon rate, not the issue-price percentage.

Step 2: (a) Record the acquisition and settlement Journal of Smith Ltd. (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2022	Sundry Assets A/c Dr.		80,00,000	
	Goodwill A/c Dr.		2,00,000	
	To Sundry Liabilities A/c			10,00,000
	To Bharat Ltd.			72,00,000
	(Being assets and liabilities taken over for the agreed consideration)			
1-4-2022	Bharat Ltd. Dr.		72,00,000	
	Discount on Issue of Debentures A/c Dr.		6,00,000	
	To Bank A/c			10,00,000
	To Bills Payable A/c			8,00,000
	To 11% Debentures A/c			60,00,000
	(Being vendor paid by draft, acceptance of a four-month bill and debentures issued at 10% discount)			

The acquisition entry totals Rs 82,00,000 on each side; the settlement entry totals Rs 78,00,000 on each side. The bill's maturity payment is not an acquisition-date transaction.

Step 3: (b) Calculate proceeds and record the issue The number of debentures is $20,00,000/100 = 20,000$. Issue premium is $10\% \times 20,00,000 =$ Rs $2,00,000$; bank proceeds are Rs 22,00,000. Redemption premium is $5\% \times 20,00,000 =$ Rs $1,00,000$, recognised as a loss at issue.

Journal of Bingo Ltd. (amounts in Rs)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2021	Bank A/c Dr.		22,00,000	
	Loss on Issue of Debentures A/c Dr.		1,00,000	
	To 9% Debentures A/c			20,00,000
	To Securities Premium Reserve A/c			2,00,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(Being 20,000 debentures of Rs 100 issued at 10% premium, redeemable at 5% premium)			

Total debits and credits are Rs 23,00,000 each. Redemption premium is an additional future liability and does not increase the cash received on issue.

Step 4: Conclusion Smith Ltd.: goodwill Rs 2,00,000; 11% debentures Rs 60,00,000; discount Rs 6,00,000. Bingo Ltd.: bank proceeds Rs 22,00,000 and redemption premium Rs 1,00,000.

Quick Tip to Solve: For Smith, divide the unpaid purchase price by 90%; for Bingo, compute both premiums on face value, keeping the redemption liability separate.

Part B (20 marks)

OPTION – I
(Analysis of Financial Statements)

27. 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 activities involve acquisition and disposal of long-term assets and investments other than cash equivalents.
- Marketable securities held as cash equivalents form part of cash management; movements within cash and cash equivalents are excluded from cash flows.

Step 1: Identify the cash-management transaction In this question, marketable securities are treated as cash equivalents. Purchasing them for Rs 25,000 merely converts one component of cash and cash equivalents into another. It is therefore excluded from investing cash flows.

Step 2: Check the other three choices Sale of land for Rs 2,80,000 is an investing inflow because land is a long-term asset. Sale of investments for Rs 3,00,000 is also an investing inflow. Purchase of equipment for Rs 1,00,000 is an investing outflow. Thus choices (B), (C) and (D) all relate to

investing activities.

Step 3: Conclusion Purchase of marketable securities, Rs 25,000, is the required transaction. Hence, the correct option is (A).

Quick Tip to Solve: Check whether a security represents a cash equivalent before classifying its purchase as an investing outflow.

28. 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:

- Cash inflow means an actual receipt of cash or cash equivalents during the period.
- The sale proceeds of a fixed asset are an investing cash inflow; its book value and gain or loss do not determine the amount received.

Step 1: Identify the cash receipt Selling furniture costing Rs 80,000 for Rs 75,000 brings Rs 75,000 into the business. The difference of Rs 5,000 is a loss on sale; it does not prevent the sale proceeds from being a cash inflow.

Step 2: Check the other transactions Bonus shares merely capitalise reserves and involve no cash receipt. Payment to trade payables of Rs 15,000 is a cash outflow. Depreciation of Rs 11,000 is a non-cash expense and does not itself bring cash into the business.

Step 3: Conclusion Furniture sold for Rs 75,000 results in a cash inflow of Rs 75,000. Hence, the correct option is (A).

Quick Tip to Solve: Look for actual money received; a loss on sale can still accompany a cash inflow.

29(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.
- An increase in long-term debt with equity unchanged increases this ratio.

Step 1: Analyse the debenture issue Let shareholders' funds be E, so existing long-term debt is $2E$. Issuing debentures adds Rs 4,00,000 to debt while equity stays unchanged. The new ratio is $(2E + 4,00,000)/E$, which exceeds 2.

Step 2: Eliminate the other options Issuing shares increases equity and lowers the ratio. Bonus shares transfer reserves to share capital, leaving total shareholders' funds unchanged. Paying creditors reduces a current liability and cash; it changes neither long-term debt nor shareholders' funds.

Step 3: Conclusion Issue of 9% debentures of Rs 4,00,000 increases the Debt-Equity Ratio. Hence, the correct option is (B).

Quick Tip to Solve: For this ratio, classify debt as long-term borrowing before judging a transaction.

OR

29(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 is Profit before interest and tax/Interest on long-term debt.
- Tax is excluded because the numerator measures earnings available before both interest and tax.

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

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

Step 2: Compute interest coverage Profit before interest and tax is already given as Rs 15,00,000. Therefore,

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

The 40% tax rate is irrelevant. The other values, 2, 1.2 and 1.5 times, do not equal the prescribed EBIT-to-interest ratio.

Step 3: Conclusion The Interest Coverage Ratio is 3 times. Hence, the correct option is (B).

Quick Tip to Solve: When EBIT is given, divide it directly by interest; do not deduct tax or interest first.

30(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 assess profit earned relative to sales, operating costs or investment.
- Proprietary ratio is Shareholders' funds/Total assets, and assesses long-term financial stability.

Step 1: Classify the proprietary ratio The proprietary ratio measures the proportion of assets financed by owners' funds. Its numerator is equity, not profit, and it is therefore a solvency ratio rather than a profitability ratio.

Step 2: Check the remaining choices Gross Profit Ratio relates gross profit to revenue from operations. Return on Investment relates earnings to capital employed. Operating Ratio relates operating cost to revenue and helps assess operating profitability. Thus all three belong to profitability analysis, whereas Proprietary Ratio does not.

Step 3: Conclusion Proprietary Ratio is not a profitability ratio. Hence, the correct option is (C).

Quick Tip to Solve: A ratio comparing owners' funds with assets tests financing strength rather than profit earning.

OR

30(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 to interpret financial position and performance.
- A Cash Flow Statement analyses changes in cash and cash equivalents through operating, investing and financing activities.

Step 1: Identify the analytical tool The Cash Flow Statement explains the sources and uses of cash during the accounting period. It helps evaluate liquidity, cash generation and the relationship between profit and cash, so it is a tool of financial statement analysis.

Step 2: Distinguish the underlying statements The Statement of Profit and Loss and the Balance Sheet provide the basic accounting data to be analysed. In this classification they are financial statements, rather than analytical tools. Therefore option (B), option (C), and the combination in option (D) do not answer the question correctly.

Step 3: Conclusion Cash Flow Statement is a tool of Analysis of Financial Statements. Hence, the correct option is (A).

Quick Tip to Solve: Distinguish statements supplying the raw data from tools that interpret those data.

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) Public Deposits

(ii) Income received in advance

(iii) Loose Tools [3 marks]

Solution:

Concept:

- Schedule III classifies liabilities and assets into current and non-current categories and then the appropriate sub-heads.
- Borrowings are obligations to repay funds; advance income is an obligation to provide services; loose tools form part of inventories.

Step 1: Classify Public Deposits Public deposits are funds borrowed by the company from the public. In the standard classification for this question, they are shown under Non-current Liabilities, with the

sub-head Long-term Borrowings. They are not owners' capital because the company must repay them.

Step 2: Classify income received in advance Income received in advance is money received before the related income is earned. It remains a liability until the company provides the goods or services. It is classified under Current Liabilities, with the sub-head Other Current Liabilities, rather than being included in the current period's earned income.

Step 3: Classify Loose Tools Loose tools are included in inventories. They appear under Current Assets, with the sub-head Inventories. Their classification is distinct from the large plant and equipment reported as non-current fixed assets.

Step 4: Conclusion The classifications are:

Item	Major head	Sub-head
Public Deposits	Non-current Liabilities	Long-term Borrowings
Income received in advance	Current Liabilities	Other Current Liabilities
Loose Tools	Current Assets	Inventories

Quick Tip to Solve: Advance income is a liability; loose tools belong to inventories in the prescribed classification.

32. 'It is a process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the various items of the Balance Sheet and the Statement of Profit and Loss.'

Identify the process and state two objectives of the process identified above. [3 marks]

Solution:

Concept:

- Financial statement analysis studies relationships among the items in financial statements to interpret a firm's financial health.
- The analysis converts reported accounting figures into information useful for judging performance, risk and the ability to meet obligations.

Step 1: Identify the process The process is Analysis of Financial Statements, also called financial statement analysis. It establishes meaningful relationships between items in the Balance Sheet and the Statement of Profit and Loss so that the firm's financial strengths and weaknesses can be assessed. Reading an isolated figure does not give the same insight as relating it to relevant financial data.

Step 2: Objective 1: assess profitability and operating efficiency An objective is to assess the earning capacity and operating efficiency of the business. Relationships between sales, expenses, profits and investment show whether the firm generates adequate profit and uses its resources efficiently. Comparisons over time can indicate improvement or deterioration in performance.

Step 3: Objective 2: assess financial position Another objective is to assess the firm's short-term and long-term financial position. Analysis of assets, liabilities and owners' funds helps judge liquidity and solvency, including the ability to pay current obligations and service long-term debt. These findings support decisions by management, lenders and investors.

Step 4: Conclusion The process is Analysis of Financial Statements. Its objectives include assessing

profitability and operating efficiency, and assessing liquidity, solvency and overall financial position.

Quick Tip to Solve: Pair one objective about earnings with one about financial strength to keep the two objectives distinct.

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. It therefore gives cost, rather than sales, when multiplied by average inventory.
- Trade Receivables Turnover Ratio equals Net Credit Revenue from Operations divided by Average Trade Receivables. Gross Profit Ratio is $\dfrac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100$.

Step 1: Calculate cost of revenue from operations Average inventory is Rs 1,60,000 and the inventory turnover ratio is 8 times. Hence,

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

Step 2: Calculate credit sales and total sales Using average trade receivables of Rs 2,00,000 and their turnover ratio of 6 times,

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

Cash sales constitute 25% of total sales, so credit sales constitute the remaining $100\% - 25\% = 75\%$. Therefore,

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

As a check, cash sales are $25\% \times \text{Rs } 16,00,000 = \text{Rs } 4,00,000$; cash and credit sales together equal Rs 16,00,000.

Step 3: Calculate gross profit and its percentage of sales Gross profit is the excess of revenue from operations over its cost:

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

The denominator is total sales, including both cash and credit sales; using credit sales alone would misstate the ratio.

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

Quick Tip to Solve: First recover credit sales from receivables turnover, then divide by 75% to obtain total sales before finding gross profit.

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:

- Working Capital Turnover Ratio is $\dfrac{\text{Revenue from Operations}}{\text{Working Capital}}$. Working capital is current assets less current liabilities.
- Capital employed equals non-current assets plus working capital. Gross Profit Ratio expresses gross profit as a percentage of revenue from operations, so cost is the remaining percentage of revenue.

Step 1: Determine working capital from capital employed The part of capital employed that remains after financing non-current assets represents working capital:

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

Thus Rs 20,000 is the net current asset investment used as the denominator of the required turnover ratio. Capital employed itself is not the denominator.

Step 2: Recover revenue from operations from its cost Gross profit is 20% of revenue from operations. Consequently, cost of revenue from operations is $100\% - 20\% = 80\%$ of revenue. With cost given as Rs 3,20,000,

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

This also gives gross profit of Rs 80,000, which is 20% of Rs 4,00,000 and reconciles revenue with its cost. The 20% is a margin on sales, so adding 20% to cost would give an incorrect revenue figure.

Step 3: Apply the working capital turnover formula Use revenue from operations, rather than its cost, as the numerator:

$$\text{Working Capital Turnover Ratio} = \frac{\text{Rs } 4,00,000}{\text{Rs } 20,000}.$$

Both amounts are expressed in the same currency, so their quotient is expressed in times. It measures the revenue generated for each rupee of working capital employed.

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

Quick Tip to Solve: Subtract non-current assets from capital employed, and divide cost by 0.80 to recover sales when the gross profit margin is 20%.

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 cash purchases and sales of non-current assets and investments that are not cash equivalents.
- Financing activities include changes in share capital and borrowings, and interest paid by a non-financial company.
- Sale proceeds equal book value plus gain; machinery purchases are reconstructed from gross cost balances.

Step 1: Calculate machinery sale proceeds and purchases The machinery sold had book value Rs $80,000$ − Rs $40,000$ = Rs $40,000$. Adding the gain of Rs 10,000 gives cash sale proceeds of Rs 50,000. Use gross machinery cost, not the net carrying amounts, to find purchases:

$$\begin{aligned}\text{Purchases} &= \text{Closing gross cost} - \text{Opening gross cost} + \text{Cost sold}\\ &= 26,00,000 - 20,00,000 + 80,000\\ &= \text{Rs } 6,80,000.\end{aligned}$$

Accumulated depreciation on the asset sold is used to find its book value; it is not an additional cash receipt.

Step 2: Prepare cash flows from investing activities Goodwill increases by Rs 1,00,000, representing purchase of goodwill. Non-current investments decrease by Rs 1,00,000 and current investments by Rs 30,000, representing sale proceeds in the absence of any stated gain, loss or other adjustment.

Current investments are shown separately from cash and cash equivalents and are included here.

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

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

Step 3: Calculate financing receipts and interest Share capital rises from Rs 17,00,000 to Rs 19,00,000, giving cash proceeds of Rs 2,00,000. Debentures of Rs 1,00,000 were issued on 1st April, 2021, so both the opening debentures and this new issue carry interest for the entire year:

$$\text{Interest paid} = (4,00,000 + 1,00,000) \times \frac{12}{100} = \text{Rs } 60,000.$$

Bank overdraft falls from Rs 1,75,000 to Rs 1,70,000, so repayment of Rs 5,000 is a financing cash outflow. No interest payable adjustment is given.

Step 4: Prepare cash flows from financing activities Cash Flow Statement of Azad Ltd. (Extract) for the year ended 31st March, 2022

Particulars	Amount (Rs)
B. Cash flows from financing activities	
Proceeds from issue of share capital	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

Changes in inventories, tax provisions and the profit and loss balance relate to operating activities and are not inserted in these two extracts. The gain on machinery is already reflected in sale proceeds and is not added a second time.

Step 5: Conclusion Net cash used in investing activities is $\boxed{\text{Rs } 6,00,000}$; net cash generated from financing activities is $\boxed{\text{Rs } 2,35,000}$.

Quick Tip to Solve: Reconstruct machinery purchases from gross cost, and charge a full year of interest on debentures issued on 1st April.

OPTION II (Computerised Accounting)

27. How many logical values can be entered into a logical function? [1 mark]

(A) 255

(B) 127

(C) 31

(D) 15

Correct Answer: (A) 255

Solution:

Concept:

- Logical functions test conditions and work with the logical results TRUE and FALSE.
- Spreadsheet logical functions such as AND and OR accept up to 255 logical arguments.

Step 1: Identify what is being counted Here, logical values entered into a function means the logical arguments supplied to it. It does not mean the number of distinct truth values: those are only TRUE and FALSE.

Step 2: Apply the argument limit The supported maximum is 255 logical arguments. The alternatives 127, 31 and 15 are smaller numbers and do not give this maximum; hence none of those limits answers the question.

Step 3: Conclusion Up to 255 logical values can be entered. Hence, the correct option is (A).

Quick Tip to Solve: Distinguish the 255 allowed arguments from the two possible truth values.

28(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 each data series by its colour, pattern or symbol.
- The legend is a chart object whose position can be changed to improve readability.

Step 1: Identify the movable chart object Selecting the legend allows its position to be changed within the chart area. It can be moved so that it does not conceal the plotted values or their labels.

Step 2: Compare the position choices A legend may be placed on the right, at the bottom or in other suitable positions, including by dragging it. Thus the restrictions in options (A), (C) and (D) are incorrect: no one listed edge or corner is compulsory.

Step 3: Conclusion A legend can be repositioned anywhere on a chart. Hence, the correct option is (B).

Quick Tip to Solve: Select the legend itself before dragging it to an uncluttered position.

OR

28(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 information resources, human resources and computing resources.
- Its five pillars are data, people, procedures, hardware and software.

Step 1: Identify the five essential components Data are the accounting facts; people operate and use the system; procedures specify how transactions are processed. Hardware provides physical equipment and software supplies the programs.

Step 2: Eliminate incomplete lists Reports and ledgers are accounting outputs or records, rather than substitutes for people and procedures. Coding, rules and output describe particular processing aspects. Options (A), (C) and (D) therefore do not list all five pillars together.

Step 3: Conclusion The five pillars are Data, People, Procedure, Hardware and Software. Hence, the correct option is (B).

Quick Tip to Solve: Recall the five pillars as data, users, working procedures, machines and programs.

29(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 database uses a NULL value to represent missing, unavailable or unknown data.
- NULL is distinct from zero and from an ordinary value stored in a field.

Step 1: Recognise absence of information When no data item is available for a field, the system must distinguish that absence from a legitimate numerical or text entry. The special value NULL provides this distinction.

Step 2: Compare the alternatives Single value describes one value and multi value describes several values; neither denotes absence. Stored value merely describes data held in storage. Only null value specifically represents the missing data item in this question.

Step 3: Conclusion Absence of a data item is represented by a null value. Hence, the correct option is (D).

Quick Tip to Solve: Treat NULL as missing information, rather than as the number zero or a blank-looking value.

OR

29(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 against specified conditions or criteria before the input is accepted.
- Validation helps prevent unsuitable values from entering an accounting database.

Step 1: Identify the intended checking process The question describes a comparison involving input data. Among the processes listed, data validation is the checking operation: input is tested against permitted criteria, such as an allowed range or required format.

Step 2: Distinguish checking from other operations Data entry records the input, while storage retains it. Information data is not the name of an input-checking process. Although the printed wording says "unknown data", the named process intended by this comparison is data validation.

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

Quick Tip to Solve: Choose validation when input is checked; choose data entry when it is simply recorded.

30. From the following, identify the Accounting information sub-system which deals with payment of wages and salaries to employees: [1 mark]

(A) Tax accounting sub-system

(B) Expense accounting sub-system

(C) Cost accounting sub-system

(D) Payroll accounting sub-system

Correct Answer: (D) Payroll accounting sub-system

Solution:

Concept:

- An accounting information system has specialised sub-systems for different accounting activities.
- The payroll sub-system maintains employee remuneration records and processes wages, salaries, deductions and net pay.

Step 1: Identify the activity Payment of wages and salaries is an employee remuneration activity. It requires details such as employee identity, attendance, pay rates, allowances and deductions; these are handled by payroll accounting.

Step 2: Compare the alternatives Tax accounting deals primarily with tax obligations and returns. Expense accounting deals with business expenditure generally, while cost accounting ascertains and controls costs. Although wages can affect expenses and costs, the specialised sub-system responsible for paying employees is payroll accounting.

Step 3: Conclusion Hence, the correct option is (D): Payroll accounting sub-system.

Quick Tip to Solve: Link wages, salaries, employee deductions and net pay directly with payroll.

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

Solution:

Concept:

- Generic software is developed for common requirements of a broad range of users or organisations.
- Specific software is developed to meet the particular requirements of an individual user or organisation.

Step 1: Basis 1: Scope of use Generic software serves many users who have similar routine requirements. Its standard features can be used across different businesses. Specific software serves the particular procedures, reporting needs and operations of the organisation for which it is developed.

Step 2: Basis 2: Cost of development Generic software usually has a lower acquisition cost per user because development costs are spread over a large number of customers. Specific software usually costs more because its design, development and testing are undertaken for a particular organisation and its requirements.

Step 3: Basis 3: Availability and development time Generic software is normally available as a ready-to-use package, so it can be obtained and put into use relatively quickly after installation and

training. Specific software requires an analysis of the user's requirements, development, testing and implementation; consequently it generally takes longer to become available.

Step 4: Conclusion Thus, generic and specific software differ in their scope of use, cost and time required for availability.

Quick Tip to Solve: Compare the same basis on both sides: many users versus one organisation, shared cost versus individual development cost, and ready-made versus developed to order.

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 (CAS) uses accounting software and a database to record, process and report financial transactions.
- Its usefulness comes from linked processing of accounting data and rapid, accurate execution of programmed operations.

Step 1: Simple and integrated A CAS simplifies routine accounting by providing a convenient way to enter and process transactions. Its accounting functions are integrated: the same transaction data is shared across relevant records and reports. For example, recording a credit sale can update the sales record, the customer's account and the balances used in reports. Data need not be entered separately for every output, which reduces repetitive work and helps maintain consistency among records.

Step 2: Accuracy and speed A CAS performs calculations, classification and posting very quickly, and can generate reports promptly even when the volume of transactions is large. With correct input data and correctly configured software, calculations and processing are accurate and consistent, reducing manual arithmetic and posting errors. Accuracy is conditional: wrong data or an incorrect accounting configuration can still produce wrong results, so input checks and controls remain necessary.

Step 3: Conclusion Thus, a CAS combines simple, integrated processing with fast and accurate accounting operations, subject to correct data and proper system configuration.

Quick Tip to Solve: For integration, explain how one entry updates linked records; for accuracy, always connect correct output with correct input and processing.

33(a). Explain the accounting group of 'Current Liabilities'. [4 marks]

Solution:

Concept:

- An accounting group brings together ledger accounts of a similar nature for consistent classification and preparation of reports.

- Current liabilities are obligations expected to be settled in the normal operating cycle, held primarily for trading, or due for settlement within twelve months; they also include obligations for which there is no unconditional right to defer settlement for at least twelve months.

Step 1: Meaning and purpose of the group The Current Liabilities group collects ledger accounts representing amounts payable by the business in the short term. Grouping these accounts enables the accounting software to classify them together and present the relevant liability balances in the balance sheet. These obligations normally arise from day-to-day business operations or short-term financing.

Step 2: Important accounts included Typical accounts include sundry creditors or trade payables for goods and services purchased on credit, bills payable, outstanding expenses such as wages or rent due, and statutory dues such as taxes payable. Short-term borrowings also belong to current liabilities when they meet the current classification criteria. In an accounting package, related ledgers may be arranged under sub-groups such as Sundry Creditors, Duties and Taxes, and Provisions, according to the nature and expected settlement of each balance.

Step 3: Balances and presentation A liability normally has a credit balance: recording an amount owed increases the liability, while its payment reduces it. For example, wages due but unpaid are recorded as Outstanding Wages and grouped under Current Liabilities. On payment, that liability is reduced. The group balances support presentation of current liabilities separately from non-current liabilities, helping users assess obligations falling due in the near term.

Step 4: Conclusion The Current Liabilities group therefore gathers short-term obligations, such as trade payables, bills payable and outstanding expenses, for proper classification and reporting.

Quick Tip to Solve: Classify a liability by its nature and settlement period; the word payable alone does not establish whether it is current.

OR

33(b). Give the meaning of the terms (i) Labels, and (ii) Values as used in spreadsheets. [4 marks]

Solution:

Concept:

- A spreadsheet stores entries in cells identified by column letters and row numbers. The nature of an entry determines how it is used.
- Labels describe the worksheet's contents; values provide the numerical data on which calculations operate.

Step 1: (i) Meaning of labels Labels are text or descriptive entries entered in spreadsheet cells to identify, name or explain data. They make a worksheet understandable by providing titles, column headings, row headings and account names. For example, Sales, Purchases, Employee Name and Total Expenses are labels. A label may contain letters, spaces and digits, but it is treated as text rather than as a numerical amount for arithmetic. Thus, a heading such as Quarter 1 identifies a period; its digit is part of the description and does not make it a numerical value.

Step 2: (ii) Meaning of values Values are numerical entries in spreadsheet cells that can be used

in arithmetic operations and formulae. They may be whole numbers, decimals, positive or negative numbers and percentages. For example, entering sales of Rs 25,000 and expenses of Rs 18,000 provides two values; a formula subtracting expenses from sales gives a profit of Rs 7,000. The words Sales and Expenses identify what the amounts represent, while the amounts themselves supply the data for calculation. Changing a numerical input allows related formulae to recalculate their results.

Step 3: Conclusion Labels are descriptive text used to identify spreadsheet data, whereas values are numerical data used in calculations.

Quick Tip to Solve: Ask whether the entry names the data or supplies a number for calculation: Sales is a label; 25,000 is a value.

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 the interest earned on a bond over the relevant period but not yet received or paid. The annual coupon rate specifies interest as a proportion of face value.
- The spreadsheet financial function ACCRINT calculates accrued interest for a security carrying periodic coupon payments; the annual rate in this question is $5\% = 0.05$.

Step 1: Identify the function and write its syntax The required function is `ACCRINT`. Its syntax is shown over two lines for readability; it is entered as one formula in a cell:

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

Square brackets in this description denote optional arguments; they are not typed into the formula. The function returns an amount of interest, not the annual interest rate. The coupon rate must therefore be supplied as an input.

Step 2: Explain the date and amount arguments `issue` is the issue date; `first_interest` is the date of the first coupon payment; and `settlement` is the date on which the buyer settles the purchase. `rate` is the annual coupon rate, entered here as 5% or 0.05. `par` is the bond's face value. Dates should be valid spreadsheet dates. The issue and settlement dates define the relevant holding interval, while the coupon schedule determines how that interval is measured for interest accrual.

Step 3: Explain frequency and optional arguments `frequency` is the number of coupon payments each year: 1 for annual, 2 for half-yearly and 4 for quarterly payments. `basis` specifies the day-count convention: 0 or omitted means US 30/360; 1 means actual/actual; 2 means actual/360; 3 means actual/365; and 4 means European 30/360. When settlement is later than the first interest date, `calc_method` set to TRUE (the default) accumulates from issue; FALSE accumulates from the first interest date. Hence the convention and payment schedule must match the bond's terms; a coupon rate alone does not determine the accrued amount.

Step 4: Conclusion Use `ACCRINT`, supplying 0.05 as the rate and the bond's dates, face value, coupon

frequency and applicable day-count convention as its other inputs.

Quick Tip to Solve: Enter the annual rate as 0.05 even for half-yearly coupons; frequency 2 separately tells the function how often coupons are paid.