# CBSE Class 12 Accountancy Question Paper 2023 with Solution PDF-Set 67-4-1

## Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

### General Instructions

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

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

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

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

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

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

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

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

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

## Part A (60 marks)

*(Accounting for Partnership Firms and Companies)*

**1. Vijay and Ajay are partners in a firm. The partnership agreement provides for interest on drawings @ 12% per annum. Which of the following account will be debited to transfer interest on drawings to Profit and Loss Appropriation A/c?** [1 mark]

(A) Interest on Drawings Account

(B) Bank Account

(C) Partners' Current Account

(D) Partners' Capital Account

**Correct Answer:** (A) Interest on Drawings Account

**Solution:**

**Concept:**

- Interest on drawings is an income of the firm, collected from partners for using firm funds for personal purposes.
- The separate Interest on Drawings Account has a credit balance before its transfer to Profit and Loss Appropriation Account.

**Step 1:** Identify the stage of recording Charging interest to a partner debits the partner's capital or current account and credits Interest on Drawings Account. The question instead asks about transferring that accumulated interest to Profit and Loss Appropriation Account.

**Step 2:** Close the interest account To close a credit balance, debit the same account and transfer its balance to the credit of Profit and Loss Appropriation Account. Bank Account is not involved in this transfer; partners' capital and current accounts belong to the earlier charging stage.

**Step 3:** Conclusion Interest on Drawings Account will be debited. Hence, the correct option is (A).

**Quick Tip to Solve:** Distinguish charging interest to partners from transferring the interest income: only the latter closes Interest on Drawings Account.

**2. On dissolution of the firm of Ramesh, Suresh and Naresh, Naresh had agreed to bear all realisation expenses for which he was paid Rs. 14,500. Actual expenses on realisation amounted to Rs. 11,000 which were paid by Naresh. The amount to be credited to Naresh's capital account will be:** [1 mark]

(A) Rs. 11,000

(B) Rs. 3,500

(C) Rs. 14,500

(D) Rs. 25,500

**Correct Answer:** (C) Rs. 14,500

**Solution:**

**Concept:**

- When a partner agrees to bear realisation expenses for a fixed amount, the agreed amount is charged to Realisation Account and credited to that partner's capital account.
- Expenses paid personally by the partner under this arrangement create no additional reimbursement by the firm.

**Step 1:** Apply the agreed arrangement Naresh undertook to bear all realisation expenses in return for Rs 14,500. Therefore, the agreed allowance credited to his capital account is Rs 14,500, irrespective of the actual expense incurred.

**Step 2:** Separate actual expenses from the allowance Naresh himself paid the Rs 11,000 expense. No further entry for that payment is needed in the firm's books. Rs 3,500 is his saving under the arrangement; Rs 25,500 incorrectly adds the expense to the allowance. Neither amount is the required capital credit.

**Step 3:** Conclusion Naresh's Capital Account is credited by Rs 14,500. Hence, the correct option is (C).

**Quick Tip to Solve:** If a partner bears expenses for an agreed sum and pays them personally, credit only the agreed sum, not actual expenses or the saving.

**3(i). Manmohan Ltd. invited applications for issuing 50,000 equity shares of Rs. 10 each at par. The amount payable per share was as follows:**

**On application Rs. 3; on allotment Rs. 4 and on first and final call Rs. 3.**

**Applications were received for 1,45,000 equity shares. Applications for 20,000 equity shares were rejected and remaining applicants were allotted shares on a pro-rata basis. Excess application money received with application was adjusted towards sums due on allotment and first and final call. Amount credited to calls-in-advance account was:** [1 mark]

(A) Rs. 2,25,000

(B) Rs. 25,000

(C) Rs. 1,75,000

(D) Nil

**Correct Answer:** (B) Rs. 25,000

**Solution:**

**Concept:**

- Application money from rejected applicants is refunded and is excluded from the money available for pro-rata adjustment.
- Excess application money first meets allotment due; any remaining excess adjusted against a future call is credited to Calls-in-Advance Account.

**Step 1:** Find excess application money Accepted applications cover $1,45,000 - 20,000 = 1,25,000$ shares. Money received from them is $1,25,000 \times 3 =$ Rs $3,75,000$. Application money needed on allotted shares is $50,000 \times 3 =$ Rs $1,50,000$. Thus excess application money is Rs 2,25,000.

**Step 2:** Adjust allotment before the future call Allotment due is $50,000 \times 4 =$ Rs $2,00,000$. The balance available for the first and final call is therefore

$$\text{Calls in advance} = 2,25,000 - 2,00,000 = \text{Rs } 25,000.$$

Rs 2,25,000 is the total excess before allotment adjustment; Rs 1,75,000 is not the resulting balance, and Nil overlooks the remaining surplus.

**Step 3:** Conclusion Calls-in-Advance Account is credited by Rs 25,000. Hence, the correct option is (B).

**Quick Tip to Solve:** Refund rejected applications first, then subtract application and allotment requirements from accepted applicants' money.

OR

**3(ii). Which of the following statement is correct regarding subscribed capital?** [1 mark]

(A) It is the amount of share capital which a company is authorised to issue by its Memorandum of Association.

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

(C) It is that part of the issued capital which has been actually subscribed by the public.

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

**Correct Answer:** (C) It is that part of the issued capital which has been actually subscribed by the public.

**Solution:**

**Concept:**

- Authorised capital is the maximum share capital permitted by the company's Memorandum of Association; issued capital is the portion offered for subscription.
- Subscribed capital is the part of issued capital actually subscribed by the public. Paid-up capital is the called-up amount actually received.

**Step 1:** Locate subscribed capital in the sequence The sequence is authorised capital, issued capital, subscribed capital, called-up capital and paid-up capital. Subscribed capital identifies how much of the issued capital investors have agreed to take, rather than the maximum permitted or the cash already received.

**Step 2:** Check the four descriptions Option (A) defines authorised capital and option (B) defines issued capital. Option (C) describes the portion of issued capital actually subscribed by the public. Option (D) describes paid-up capital, which concerns receipts against calls rather than subscriptions.

**Step 3:** Conclusion Subscribed capital is that part of issued capital actually subscribed by the public. Hence, the correct option is (C).

**Quick Tip to Solve:** Match the key verbs: authorised means permitted, issued means offered, subscribed means taken, and paid-up means received.

**4(i). On 1st October 2020, Amit, a partner, advanced a loan of Rs. 1,20,000 to the firm. In the absence of partnership deed, the amount of interest on loan to be paid on 31st March, 2021 will be:** [1 mark]

(A) Rs. 3,600

(B) Rs. 7,200

(C) Rs. 12,000

(D) Rs. 6,000

**Correct Answer:** (A) Rs. 3,600

**Solution:**

**Concept:**

- In the absence of an agreement, interest on a partner's loan to the firm is allowed at 6% per annum.

- Simple interest is principal multiplied by annual rate and the fraction of a year for which the loan remains outstanding.

**Step 1:** Determine the rate and time Amit advanced a loan, not additional capital. The applicable default interest rate is 6% per annum. From 1 October 2020 to 31 March 2021, the loan remains outstanding for six months, or half a year.

**Step 2:** Calculate interest for six months

$$\text{Interest} = 1,20,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 3,600.$$

Rs 7,200 would be interest for an entire year. Rs 12,000 and Rs 6,000 do not follow the required 6% rate applied for six months; the loan must not be treated like capital on which interest requires an agreement.

**Step 3:** Conclusion Interest payable to Amit is Rs 3,600. Hence, the correct option is (A).

**Quick Tip to Solve:** For a partner's loan with no agreement, start at 6% per annum and then adjust for the exact number of months.

OR

**4(ii). Vijay, Ajay and Sanjay are partners in a firm sharing profits and losses in the ratio of 7:5:8. Sanjay died on 28th August, 2021. His share in the profits of the firm till the date of his death was determined at Rs. 75,000. It will be debited to which of the following accounts?** [1 mark]

(A) Profit and Loss Suspense Account

(B) Profit and Loss Account

(C) Profit and Loss Appropriation Account

(D) Profit and Loss Adjustment Account

**Correct Answer:** (A) Profit and Loss Suspense Account

**Solution:**

**Concept:**

- A deceased partner is entitled to a share of profit earned from the start of the accounting period to the date of death.
- An estimated share before final accounts are prepared is recorded through Profit and Loss Suspense Account, with credit to the deceased partner's capital account.

**Step 1:** Identify the entitlement Sanjay's share of profit up to 28 August 2021 has already been determined as Rs 75,000. This amount increases the sum due to his estate and is therefore credited to his Capital Account. It should not be multiplied again by his 8/20 profit-sharing fraction.

**Step 2:** Identify the corresponding debit The corresponding debit is made to Profit and Loss Suspense Account because the interim profit share is being recorded before the full-period result is finalised. The ordinary Profit and Loss and Appropriation Accounts concern the final result and its distribution; Profit and Loss Adjustment Account is not used for this interim entitlement.

**Step 3:** Conclusion Profit and Loss Suspense Account is debited by Rs 75,000. Hence, the correct option is (A).

**Quick Tip to Solve:** When a deceased partner's profit share is already given, record that amount directly through Profit and Loss Suspense Account.

**5(i). Anuradha Ltd. issued 2,00,000, 7% debentures of Rs. 100 each at a discount of 5% redeemable at a premium of 5%. Discount on issue and premium on redemption were accounted for through 'Loss on Issue of Debentures Account.' On issue of debentures, 'Loss on Issue of Debentures Account' will be:** [1 mark]

(A) Credited by Rs. 10,00,000

(B) Debited by Rs. 10,00,000

(C) Debited by Rs. 20,00,000

(D) Credited by Rs. 20,00,000

**Correct Answer:** (C) Debited by Rs. 20,00,000

**Solution:**

**Concept:**

- Loss on issue of debentures includes both the discount allowed at issue and the premium payable on redemption.
- Both amounts are calculated on the nominal value of debentures; the loss is a debit, while the coupon rate determines periodic interest.

**Step 1:** Calculate both components Total nominal value is $2,00,000 \times 100 = \text{Rs } 2,00,00,000$. Issue discount at 5% is Rs 10,00,000. Redemption premium at 5% is another Rs 10,00,000. The 7% coupon rate does not enter either calculation.

**Step 2:** Combine the issue loss

$$\text{Loss on issue} = 10,00,000 + 10,00,000 = \text{Rs } 20,00,000.$$

Loss on Issue of Debentures Account is debited for this total. Rs 10,00,000 counts only one component, while the alternatives with a credit reverse the normal treatment of a loss.

**Step 3:** Conclusion Loss on Issue of Debentures Account is debited by Rs 20,00,000. Hence, the correct option is (C).

**Quick Tip to Solve:** Add discount on issue and premium on redemption, both on face value; ignore the coupon rate when calculating issue loss.

OR

**5(ii). Diksha Ltd. issued 4,000, 9% Debentures of Rs. 100 each at a discount of 10%, redeemable at a premium. 'Discount on Issue of Debentures' and 'Premium on Redemption of Debentures' were accounted for through 'Loss on Issue of Debentures Account'. If the amount of 'Loss on Issue of Debentures Account' was Rs. 60,000, then the amount of premium on redemption was:** [1 mark]

(A) Rs. 60,000

(B) Rs. 40,000

(C) Rs. 20,000

(D) Rs. 80,000

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

**Solution:**

**Concept:**

- Loss on issue of debentures equals discount on issue plus premium on redemption when both are recorded in the same loss account.
- The discount percentage applies to the total face value, not to the issue proceeds or the coupon interest.

**Step 1:** Calculate discount on issue Total face value is $4,000 \times 100 = \text{Rs } 4,00,000$. The discount is $4,00,000 \times 10/100 = \text{Rs } 40,000$. The 9% coupon rate concerns interest and is irrelevant to this calculation.

**Step 2:** Find the balance attributable to premium

$$\text{Redemption premium} = 60,000 - 40,000 = \text{Rs } 20,000.$$

Rs 60,000 is the combined loss, while Rs 40,000 is only the issue discount. Rs 80,000 is inconsistent with the given total loss: the two loss components together must equal Rs 60,000.

**Step 3:** Conclusion The premium on redemption is Rs 20,000. Hence, the correct option is (C).

**Quick Tip to Solve:** When total loss is given, subtract the issue discount to isolate the premium payable on redemption.

**6. Assertion (A): Increase in the value of liabilities on reconstitution of a firm is debited to Revaluation Account.**

**Reason (R): Increase in the value of liabilities is a loss.**

**Select the correct alternative from the following:** [1 mark]

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

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

(C) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

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

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

**Solution:**

**Concept:**

- Revaluation Account records gains and losses arising from revised asset and liability values on reconstitution.
- An increase in a liability reduces the firm's net assets and is therefore a revaluation loss, recorded on the debit side.

**Step 1:** Evaluate the assertion An increased liability requires a credit to that liability account and a corresponding debit to Revaluation Account. Therefore the assertion that the increase is debited to Revaluation Account is correct.

**Step 2:** Evaluate the reason If the firm must pay more to settle a liability without receiving any additional asset, the net amount available to partners falls. This reduction is a loss. The reason is therefore correct.

**Step 3:** Test the explanatory relationship Revaluation Account is debited precisely because the increase in liability is a loss. Thus the reason explains the assertion, rather than merely stating an unrelated fact. Options (A), (B) and (D) each incorrectly reject at least one of the two correct statements.

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

**Quick Tip to Solve:** For revaluation, ask whether net assets fall: a liability increase causes a loss and therefore a debit to Revaluation Account.

**7. On dissolution of a partnership firm, furniture appearing in the Balance Sheet was Rs. 2,00,000. 50% of the furniture was taken over by a partner at Rs. 65,000 and balance 50% was sold at 20% less than the book value. The amount debited to bank account was:** [1 mark]

(A) Rs. 1,45,000

(B) Rs. 80,000

(C) Rs. 65,000

(D) Rs. 1,85,000

**Correct Answer:** (B) Rs. 80,000

**Solution:**

**Concept:**

- Bank Account is debited only for cash actually received from disposal of assets.
- An asset taken over by a partner is settled through that partner's Capital Account; it does not generate a bank receipt.

**Step 1:** Separate the two disposals The furniture has a total book value of Rs 2,00,000. The half sold outside the firm has book value $2,00,000 \times 50\% =$ Rs $1,00,000$. The other half is taken over by a partner for Rs 65,000, which is a non-cash settlement.

**Step 2:** Calculate the bank receipt The outside sale is at a discount of 20% on its book value. Therefore, cash received is

$$1,00,000 \times \frac{80}{100} = \text{Rs } 80,000.$$

Rs 1,45,000 adds the partner's takeover value to the bank receipt; Rs 65,000 is only the takeover value. Rs 1,85,000 does not follow from the stated sale terms.

**Step 3:** Conclusion Bank Account is debited by Rs 80,000. Hence, the correct option is (B).

**Quick Tip to Solve:** For a bank debit on dissolution, include cash sales only; exclude assets taken over by partners.

**8. Part of the uncalled share capital that can be called up only at the time of winding up of the company is called:** [1 mark]

(A) Issued capital

(B) Paid-up capital

(C) Reserve capital

(D) Un-issued capital

**Correct Answer:** (C) Reserve capital

**Solution:**

**Concept:**

- Uncalled capital is the portion of subscribed share capital that the company has not yet demanded.
- Reserve capital is the part of uncalled capital reserved to be called only on the company's winding

up.

**Step 1:** Identify the timing restriction The important words are "uncalled" and "only at the time of winding up". This amount is not available for an ordinary call during the company's continuing business. That special restriction identifies reserve capital.

**Step 2:** Distinguish the other capital terms Issued capital is the part of authorised capital offered for subscription, and paid-up capital is the amount actually paid by shareholders. Un-issued capital has not been offered for subscription at all. None of these three definitions specifies an uncalled amount callable only on winding up. Reserve capital must also not be confused with a capital reserve, which is a reserve arising from capital profits.

**Step 3:** Conclusion The amount is reserve capital. Hence, the correct option is (C).

**Quick Tip to Solve:** Link "reserve capital" with uncalled share capital and winding up; a capital reserve is a different concept.

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**9(i). Ria and Surbhi were partners in a firm sharing profits and losses in the ratio of 3:2. With effect from 1st April, 2022, they agreed to share profits equally. The goodwill of the firm was valued at Rs. 3,00,000. The adjustment will be done by which of the following transaction?** [1 mark]

(A) Debiting Surbhi's account by Rs. 30,000 and crediting Ria's account by Rs. 30,000.

(B) Debiting Ria's account by Rs. 30,000 and crediting Surbhi's account by Rs. 30,000.

(C) Debiting Surbhi's account by Rs. 3,000 and crediting Ria's account by Rs. 3,000.

(D) Debiting Ria's account by Rs. 3,000 and crediting Surbhi's account by Rs. 3,000.

**Correct Answer:** (A) Debiting Surbhi's account by Rs. 30,000 and crediting Ria's account by Rs. 30,000.

**Solution:**

**Concept:**

- When partners change their profit shares, a gaining partner compensates a sacrificing partner for goodwill.
- Sacrifice equals old share minus new share; compensation equals goodwill multiplied by the fraction gained or sacrificed.

**Step 1:** Calculate the sacrifice and gain Ria's old share is $3/5$, and her new share is $1/2$. Her sacrifice is

$$\frac{3}{5} - \frac{1}{2} = \frac{1}{10}.$$

Surbhi's gain is $1/2 - 2/5 = 1/10$. Thus Surbhi must compensate Ria, not the other way round.

**Step 2:** Determine the goodwill adjustment The compensation is

$$\text{Rs } 3,00,000 \times \frac{1}{10} = \text{Rs } 30,000.$$

Debit Surbhi's account, since she gains, and credit Ria's account, since she sacrifices. Option (B) reverses these roles. Options (C) and (D) use Rs 3,000, which is one-tenth of the required adjustment; (D) also reverses the accounts.

**Step 3:** Conclusion Debit Surbhi's account and credit Ria's account by Rs 30,000 each. Hence, the correct option is (A).

**Quick Tip to Solve:** Find old share minus new share first: a positive result receives goodwill compensation, and a negative result pays it.

OR

**9(ii). Naman, Suman and Mohit were partners in a firm sharing profits in the ratio 8:5:3. With effect from 1st April, 2022, they decided that in future, they will share the profits in the ratio 5:6:5. Identify the gain or sacrifice by the partners due to change in profit sharing ratio, from the following:** [1 mark]

(A) Naman's gain 3/16, Suman's sacrifice 1/16, Mohit's sacrifice 2/16

(B) Naman's sacrifice 3/16, Suman's gain 1/16, Mohit's gain 2/16

(C) Naman's sacrifice 3/16, Suman's gain 2/16, Mohit's gain 1/16

(D) Naman's gain 3/16, Suman's sacrifice 2/16, Mohit's sacrifice 1/16

**Correct Answer:** (B) Naman's sacrifice 3/16, Suman's gain 1/16, Mohit's gain 2/16

**Solution:**

**Concept:**

- For each partner, old share minus new share is the sacrifice; a negative difference indicates a gain.
- Total sacrifice must equal total gain because the combined profit share remains one.

**Step 1:** Compare old and new shares Both ratios total 16. Working Notes:

$$\text{Naman: } \frac{8}{16} - \frac{5}{16} = \frac{3}{16},$$
$$\text{Suman: } \frac{5}{16} - \frac{6}{16} = -\frac{1}{16},$$
$$\text{Mohit: } \frac{3}{16} - \frac{5}{16} = -\frac{2}{16}.$$

Naman therefore sacrifices; Suman and Mohit gain.

**Step 2:** Check the amounts and directions Naman's sacrifice $3/16$ equals Suman's and Mohit's combined gain $1/16 + 2/16$. Options (A) and (D) incorrectly describe Naman as gaining. Option (C) gives the right directions but interchanges Suman's and Mohit's gains.

**Step 3:** Conclusion Naman sacrifices $3/16$, Suman gains $1/16$, and Mohit gains $2/16$. Hence, the correct option is (B).

**Quick Tip to Solve:** When both ratios have the same total, subtract their corresponding numerators and retain the common denominator.

**10. Sujata Ltd. issued 5,000, 7% Debentures of Rs. 100 each at a premium of 10%. According to the terms of issue, 40% of the amount was payable on application and the balance on allotment. The issue was fully subscribed and all amounts were duly received. The amounts received on application and allotment respectively were:** [1 mark]

(A) Rs. 2,50,000 and Rs. 3,00,000

(B) Rs. 2,00,000 and Rs. 3,00,000

(C) Rs. 2,00,000 and Rs. 3,50,000

(D) Rs. 2,00,000 and Rs. 2,50,000

**Correct Answer:** (C) Rs. 2,00,000 and Rs. 3,50,000

**Solution:**

**Concept:**

- Debenture issue proceeds include both nominal value and issue premium; the coupon rate determines interest, not issue proceeds.
- Under the usual instalment convention, the application percentage is applied to nominal value and the issue premium is collected on allotment.

**Step 1:** Find the total issue proceeds Each debenture has nominal value Rs 100 and premium $100 \times 10\% = \text{Rs } 10$, so its issue price is Rs 110. Total proceeds are

$$5,000 \times 110 = \text{Rs } 5,50,000.$$

The 7% interest rate does not change this amount.

**Step 2:** Allocate application and allotment Taking the stated 40% as the application instalment on nominal value, application money is

$$5,000 \times 100 \times \frac{40}{100} = \text{Rs } 2,00,000.$$

Allotment collects the remaining Rs 60 of nominal value and Rs 10 premium per debenture:

$$5,000 \times (60 + 10) = \text{Rs } 3,50,000.$$

Option (A) makes application 50% of nominal value, while (B) and (D) do not collect the full issue price. Applying 40% to the premium-inclusive issue price would instead give Rs 2,20,000 and Rs 3,30,000, a pair absent from the options; the listed answer follows the nominal-value instalment convention.

**Step 3:** Conclusion Application money is Rs 2,00,000 and allotment money is Rs 3,50,000. Hence, the correct option is (C).

**Quick Tip to Solve:** Check that the two instalments total the issue price: Rs 5,00,000 nominal value plus Rs 50,000 premium.

**11. The goodwill of a firm was valued on the basis of 3 years purchase of average profits for the last four years. The profits of last four years ending 31st March were as follows:**

| Year | Profit/Loss (Rs.) |
|---|---|
| 2018-19 | (14,500) |
| 2019-20 | 15,400 |
| 2020-21 | 32,900 |
| 2021-22 | 16,800 |

**The value of goodwill of the firm was:** [1 mark]

(A) Rs. 8,885

(B) Rs. 37,950

(C) Rs. 58,950

(D) Rs. 20,690

**Correct Answer:** (B) Rs. 37,950

**Solution:**

**Concept:**

- Under the average-profit method, goodwill equals average annual profit multiplied by the number of years' purchase.
- A loss shown in brackets is deducted when calculating aggregate profits; every year in the specified period is included in the average.

**Step 1:** Calculate the average profit Treat the 2018–19 amount in brackets as a loss. Working Notes:

$$\begin{aligned} \text{Total profit} &= -14,500 + 15,400 + 32,900 + 16,800 \\ &= \text{Rs } 50,600, \\ \text{Average profit} &= 50,600 \div 4 = \text{Rs } 12,650. \end{aligned}$$

The divisor is four because the average covers four years.

**Step 2:** Apply the years of purchase The firm's goodwill is

$$12,650 \times 3 = \text{Rs } 37,950.$$

Treating the loss as a positive profit would give $79,600 \div 4 \times 3 = \text{Rs } 59,700$, so that approach is incorrect. The values Rs 8,885, Rs 58,950 and Rs 20,690 do not equal the four-year average profit multiplied by three.

**Step 3:** Conclusion Goodwill is Rs 37,950. Hence, the correct option is (B).

**Quick Tip to Solve:** Subtract bracketed losses, divide by the number of past years, then multiply by the years of purchase.

**12. Chavi Ltd. forfeited 5,000 equity shares of Rs. 10 each issued at a premium of Rs. 5 per share for non-payment of first and final call of Rs. 4 per share. On forfeiture, 'Share Forfeiture Account' will be credited by:** [1 mark]

(A) Rs. 20,000

(B) Rs. 30,000

(C) Rs. 50,000

(D) Rs. 55,000

**Correct Answer:** (B) Rs. 30,000

**Solution:**

**Concept:**

- Share Forfeiture Account is credited with capital money already received on the forfeited shares.
- Premium already received remains in Securities Premium Account; it is not included in the forfeiture credit.

**Step 1:** Identify the capital received per share Each share has face value Rs 10. The unpaid first and final call is Rs 4 per share, so capital received per share is

$$10 - 4 = \text{Rs } 6.$$

The issue premium of Rs 5 is separate from share capital and is excluded from this calculation.

**Step 2:** Calculate the forfeiture credit For 5,000 shares, the amount credited to Share Forfeiture Account is

$$5,000 \times 6 = \text{Rs } 30,000.$$

Rs 20,000 is the unpaid call, while Rs 50,000 is the full nominal capital. Rs 55,000 includes the Rs 25,000 premium already received along with Rs 30,000 capital received, so it overstates the forfeiture credit.

**Step 3:** Conclusion Share Forfeiture Account is credited by Rs 30,000. Hence, the correct option is (B).

**Quick Tip to Solve:** For forfeiture, use money received towards face value only; do not add the premium already collected.

**13 and 14.** ***Read the following hypothetical situation and answer questions number 13 and 14 on the basis of the given information:***

**Keshav, Krishna and Murari were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. Their fixed capitals were: Rs. 12,00,000, Rs. 10,00,000 and Rs. 8,00,000 respectively. It was agreed that interest on capital will be allowed at 10% per annum. Partners were entitled to salaries as follows:**

**Keshav Rs. 5,000 per month and Krishna Rs. 3,000 per quarter.**

**Profit of the firm for the year ended 31st March, 2022 was Rs. 6,72,000.**

**13. Amount credited to the Partners' Current Accounts on account of 'interest on capital' and 'salary' was:** [1 mark]

(A) Keshav Rs. 1,20,000, Krishna Rs. 1,00,000 and Murari Rs. 80,000

(B) Keshav Rs. 1,80,000, Krishna Rs. 1,12,000 and Murari Rs. 80,000

(C) Keshav Rs. 60,000, Krishna Rs. 12,000 and Murari Rs. Nil

(D) Keshav Rs. 3,30,000, Krishna Rs. 2,12,000 and Murari Rs. 1,30,000

**Correct Answer:** (B) Keshav Rs. 1,80,000, Krishna Rs. 1,12,000 and Murari Rs. 80,000

**Solution:**

**Concept:**

- Under the fixed capital method, interest on capital and partners' salaries are credited to their Current Accounts; their fixed Capital Accounts remain unchanged.
- Annual interest is capital multiplied by the agreed annual rate. Annual salary equals the periodic salary multiplied by the number of such periods in a year.

**Step 1:** Calculate annual interest and salaries At 10% per annum, interest on capital is Rs 1,20,000 for Keshav, Rs 1,00,000 for Krishna and Rs 80,000 for Murari. Keshav's annual salary is Rs $5,000 \times 12 =$ Rs $60,000$. Krishna's salary is quarterly, so his annual salary is Rs $3,000 \times 4 =$ Rs $12,000$. No salary is provided for Murari.

**Step 2:** Combine the two appropriations for each partner Keshav receives Rs 1,20,000 + Rs 60,000 = Rs 1,80,000; Krishna receives Rs 1,00,000 + Rs 12,000 = Rs 1,12,000; Murari receives Rs 80,000. Option (A) includes interest alone, while option (C) includes salaries alone. Option (D) also adds their shares of residual profit, which are outside the two appropriations asked for here.

**Step 3:** Conclusion The Current Account credits for interest and salary are Keshav Rs 1,80,000, Krishna Rs 1,12,000 and Murari Rs 80,000. Hence, the correct option is (B).

**Quick Tip to Solve:** Convert the monthly salary using 12 and the quarterly salary using 4 before adding each partner's interest on capital.

**14. Amount of profit transferred to Partners' Current Accounts was:** [1 mark]

(A) Keshav Rs. 1,00,000, Krishna Rs. 1,50,000 and Murari Rs. 50,000

(B) Keshav Rs. 50,000, Krishna Rs. 1,50,000 and Murari Rs. 1,00,000

(C) Keshav Rs. 1,50,000, Krishna Rs. 1,00,000 and Murari Rs. 50,000

(D) Keshav Rs. 1,51,500, Krishna Rs. 1,01,000 and Murari Rs. 50,500

**Correct Answer:** (C) Keshav Rs. 1,50,000, Krishna Rs. 1,00,000 and Murari Rs. 50,000

**Solution:**

**Concept:**

- Interest on partners' capitals and partners' salaries are appropriations of profit. Deduct them from the firm's profit before distributing the balance in the agreed profit-sharing ratio.
- With fixed capitals, the partners' shares of residual profit are credited to their Current Accounts. The profit-sharing ratio here is $3:2:1$, whose total is 6 parts.

**Step 1:** Find the profit available for distribution Total interest on capital is $10\% \times$ Rs $30,00,000 =$ Rs $3,00,000$. Annual salaries are Rs 60,000 for Keshav and Rs 12,000 for Krishna, totalling Rs 72,000. Therefore,

$$\text{Residual profit} = \text{Rs } 6,72,000 - \text{Rs } 3,00,000 - \text{Rs } 72,000 = \text{Rs } 3,00,000.$$

**Step 2:** Allocate the residual profit in the agreed ratio One part is Rs $3,00,000 \div 6 =$ Rs $50,000$. Hence Keshav receives three parts, Rs 1,50,000; Krishna receives two parts, Rs 1,00,000; and Murari receives one part, Rs 50,000. Options (A) and (B) assign these shares to the wrong partners. Option (D) totals Rs 3,03,000, exceeding the actual residual profit by Rs 3,000.

**Step 3:** Conclusion Profit transferred to Current Accounts is Keshav Rs 1,50,000, Krishna Rs 1,00,000 and Murari Rs 50,000. Hence, the correct option is (C).

**Quick Tip to Solve:** Deduct both annual interest and annual salaries first; then divide the remaining profit into six parts and allocate 3, 2 and 1 parts.

**15. Niva, Naman and Nityam were partners sharing profits in the ratio of 4:3:2. Niva and Naman each give 1/9 from their share to Nityam on reconstitution of the firm. The new profit sharing ratio among Niva, Naman and Nityam will be:** [1 mark]

(A) 3:4:2

(B) 2:3:4

(C) 4:2:3

(D) 3:2:4

**Correct Answer:** (D) 3:2:4

**Solution:**

**Concept:**

- A partner's new share equals the old share minus the share sacrificed plus the share acquired.

- The stated transfer of $1/9$ is a share of the firm's total profit; Nityam receives it from each of the other two partners.

**Step 1:** Calculate the revised shares The old shares of Niva, Naman and Nityam are $4/9, 3/9, 2/9$. Therefore,

$$\text{Niva} = \frac{4}{9} - \frac{1}{9} = \frac{3}{9},$$
$$\text{Naman} = \frac{3}{9} - \frac{1}{9} = \frac{2}{9},$$
$$\text{Nityam} = \frac{2}{9} + \frac{1}{9} + \frac{1}{9} = \frac{4}{9}.$$

**Step 2:** Check the order and alternatives The revised fractions add to $9/9 = 1$. In the named order, Niva has three parts, Naman two and Nityam four. Option (A) incorrectly increases Naman's share; (B) interchanges Niva and Naman's revised shares; (C) leaves Niva's share unchanged. Only (D) gives all three shares correctly.

**Step 3:** Conclusion The new profit sharing ratio is $\boxed{3:2:4}$. Hence, the correct option is (D).

**Quick Tip to Solve:** Subtract one ninth from each sacrificing partner, and add two ninths to Nityam before writing the ratio.

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**16(i). Anu, Monu and Sonu were partners in a firm sharing profits in the ratio of 5:3:2. Monu died on 1st January, 2022. Anu and Sonu will acquire Monu's share in the ratio of:** [1 mark]

(A) 1:1

(B) 3:2

(C) 5:3

(D) 5:2

**Correct Answer:** (D) 5:2

**Solution:**

**Concept:**

- In the absence of a different agreement, continuing partners acquire a deceased partner's share in their old relative profit sharing ratio.
- Gaining share equals new share minus old share; the gains together equal the deceased partner's share.

**Step 1:** Determine the continuing partners' relative shares Anu and Sonu had old shares $5/10$ and $2/10$. The question gives no different arrangement for acquiring Monu's $3/10$ share, so their relative old ratio is $5:2$.

**Step 2:** Verify the gains and eliminate alternatives Anu's gain is $(3/10)(5/7) = 3/14$, while Sonu's gain is $(3/10)(2/7) = 3/35$. Their gains add to $3/10$ and are in the ratio $5:2$. Equal acquisition, option (A), has no basis. Options (B) and (C) incorrectly use Monu's old ratio component 3; Monu is no longer a continuing partner.

**Step 3:** Conclusion Anu and Sonu acquire Monu's share in $\boxed{5:2}$. Hence, the correct option is (D).

**Quick Tip to Solve:** Delete the deceased partner from the old ratio; absent another agreement, the remaining terms give the gaining ratio.

OR

**16(ii). Vidit, Sumit and Mita were partners in a firm sharing profits in the ratio of 4:3:1. Mita died and her entire share was taken up by Vidit. The new profit sharing ratio of Vidit and Sumit will be:** [1 mark]

(A) 1:1

(B) 5:3

(C) 3:5

(D) 5:2

**Correct Answer:** (B) 5:3

**Solution:**

**Concept:**

- New share equals old share plus the share acquired from the deceased partner.
- Only the partner who acquires the deceased partner's share has an increase; the other continuing partner retains the old fraction.

**Step 1:** Add Mita's share to Vidit The old shares of Vidit, Sumit and Mita are $4/8, 3/8, 1/8$. Since Vidit takes Mita's entire share, Vidit's new share is $4/8 + 1/8 = 5/8$. Sumit's share stays at $3/8$.

**Step 2:** Verify the total and the options The new shares total $5/8 + 3/8 = 1$, giving the ratio $5 : 3$. Option (A) would require equal shares, contrary to the transfer. Option (C) reverses the partners' shares. Option (D) reduces Sumit's ratio component although his share remains three eighths. Option (B) alone respects both the transfer and the specified order.

**Step 3:** Conclusion The new ratio of Vidit and Sumit is $\boxed{5 : 3}$. Hence, the correct option is (B).

**Quick Tip to Solve:** Add Mita's ratio component 1 to Vidit's 4 and retain Sumit's 3; the denominator stays 8.

**17. Rohit and Mohit were partners in a firm sharing profits and losses in the ratio of 3:2. Rahul was admitted into partnership for 1/3 share in profits. Goodwill of the firm was valued at Rs. 30,000. Rahul brought Rs. 40,000 as capital and Rs. 5,000 out of his share of goodwill premium in cash. At the time of Rahul's admission, goodwill was appearing in the books of the firm at Rs. 15,000.**

**Pass necessary journal entries for the above transactions in the books of the firm on Rahul's admission.**

[3 marks]

**Solution:**

**Concept:**

- Existing goodwill is written off among the old partners in their old profit sharing ratio before admission.
- The incoming partner compensates sacrificing partners for goodwill. Where no changed relative share is stated, the old partners sacrifice in their old ratio.
- The unpaid part of goodwill premium is debited to the incoming partner's Current Account; capital brought is credited separately.

**Step 1:** Calculate the goodwill adjustments Old goodwill of Rs 15,000 is written off to Rohit and Mohit in $3:2$: Rs 9,000 and Rs 6,000 respectively. Rahul's goodwill obligation is $30,000 \times 1/3 =$ Rs $10,000$. Cash premium is Rs 5,000, leaving Rs 5,000 unpaid. The whole premium is credited to Rohit and Mohit in their sacrificing ratio $3:2$: Rs 6,000 and Rs 4,000. Cash received is $40,000 + 5,000 =$ Rs $45,000$.

**Step 2:** Record the journal entries Journal of the firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Rohit's Capital A/c Dr.<br>Mohit's Capital A/c Dr.<br>To Goodwill A/c<br>(Being existing goodwill written off in the old ratio of 3:2) | | 9,000<br>6,000 | <br><br>15,000 |
| | Cash/Bank A/c Dr.<br>To Rahul's Capital A/c<br>To Premium for Goodwill A/c<br>(Being capital and part of goodwill premium brought in cash) | | 45,000 | <br>40,000<br>5,000 |
| | Premium for Goodwill A/c Dr.<br>Rahul's Current A/c Dr.<br>To Rohit's Capital A/c<br>To Mohit's Capital A/c<br>(Being full goodwill premium credited in the sacrificing ratio 3:2, including the unpaid amount) | | 5,000<br>5,000 | <br><br>6,000<br>4,000 |

Each entry balances: Rs 15,000, Rs 45,000 and Rs 10,000 respectively. No new goodwill asset is raised.

**Step 3:** Conclusion Write off old goodwill of Rs 15,000, record cash of Rs 45,000 and compensate Rohit and Mohit by Rs 6,000 and Rs 4,000. Rahul's unpaid goodwill is Rs 5,000, debited to his Current Account.

**Quick Tip to Solve:** Separate old goodwill from the incoming partner's premium: write off Rs 15,000 first, then allocate the full Rs 10,000 premium.

**18(a). Monika, Bhoomika and Kamolika are partners sharing profits in the ratio of 6:4:1. Kamolika is guaranteed a minimum amount of Rs. 3,00,000 as her share in profits. The firm earned a net profit of Rs. 22,00,000 for the year ended 31st March 2022.**

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

[3 marks]

**Solution:**

**Concept:**

- First divide profit in the agreed profit sharing ratio; compare the guaranteed partner's normal share with the minimum guarantee.
- When the guarantee is provided by the firm, the other partners bear the deficiency in their relative profit sharing ratio.

**Step 1:** Calculate the normal shares and deficiency Total ratio units are $6 + 4 + 1 = 11$. Out of Rs

22,00,000, the normal shares are:

$$\text{Monika} = 22,00,000 \times \frac{6}{11} = \text{Rs } 12,00,000,$$
$$\text{Bhoomika} = 22,00,000 \times \frac{4}{11} = \text{Rs } 8,00,000,$$
$$\text{Kamolika} = 22,00,000 \times \frac{1}{11} = \text{Rs } 2,00,000.$$

Kamolika's deficiency is $3,00,000 - 2,00,000 = \text{Rs } 1,00,000$. Monika bears $1,00,000 \times 6/10 = \text{Rs } 60,000$ and Bhoomika bears $1,00,000 \times 4/10 = \text{Rs } 40,000$. Thus the guarantee redistributes profit; it does not increase total profit.

**Step 2:** Prepare the appropriation account Profit and Loss Appropriation Account for the year ended 31st March, 2022

| Dr. | Particulars | Amount (Rs) | Particulars | Amount (Rs) | Cr. |
|---|---|---|---|---|---|
| | To Monika's Capital A/c | 11,40,000 | By Profit and Loss A/c | 22,00,000 | |
| | To Bhoomika's Capital A/c | 7,60,000 | (Net profit) | | |
| | To Kamolika's Capital A/c | 3,00,000 | | | |
| | Total | 22,00,000 | Total | 22,00,000 | |

Monika receives $12,00,000 - 60,000 = \text{Rs } 11,40,000$; Bhoomika receives $8,00,000 - 40,000 = \text{Rs } 7,60,000$. Kamolika receives her guaranteed Rs 3,00,000. The entire net profit is appropriated, leaving no balance to carry down.

**Step 3:** Conclusion Final profit shares: Monika Rs 11,40,000, Bhoomika Rs 7,60,000 and Kamolika Rs 3,00,000; total Rs 22,00,000.

**Quick Tip to Solve:** Calculate Kamolika's normal one-eleventh share first, then charge only the Rs 1,00,000 shortfall to the others in 6:4.

OR

**18(b). Ananya, Bhavi and Chandni were partners in a firm with capitals of Rs. 3,00,000, Rs. 2,00,000 and Rs. 1,00,000 respectively.**

**According to the provisions of the partnership deed:**

**(i) Ananya and Chandni were each entitled to a monthly salary of Rs. 1,500.**

**(ii) Bhavi was entitled to a salary of Rs. 4,000 per annum.**

**The profit for the year ended 31st March, 2022, Rs. 80,000 was divided between the partners in their profit sharing ratio of 3:3:2 without providing for the above adjustments.**

**Pass the necessary adjustment entry to rectify the above omissions in the books of the firm. Show your working notes clearly.** [3 marks]

**Solution:**

**Concept:**

- Partners' salaries are appropriations of profit. Deduct them before distributing residual profit in the agreed ratio.

- Compare each partner's correct total credit with the credit already made. Debit an overcredited partner and credit undercredited partners.

**Step 1:** Calculate salaries and correct residual profit Ananya's salary is $1,500 \times 12 =$ Rs $18,000$; Chandni's salary is also Rs 18,000. Bhavi's annual salary is Rs 4,000. Total salary is Rs 40,000 and residual profit is $80,000 - 40,000 =$ Rs $40,000$. Divide this balance in $3:3:2$. The capital amounts do not determine profit shares because the deed's profit sharing ratio is explicitly given.

**Step 2:** Prepare the adjustment working note Working note (all amounts in Rs)

| Particulars | Ananya | Bhavi | Chandni |
|---|---|---|---|
| Salary due | 18,000 | 4,000 | 18,000 |
| Share of residual profit (40,000 in 3:3:2) | 15,000 | 15,000 | 10,000 |
| Correct total credit | 33,000 | 19,000 | 28,000 |
| Profit already credited (80,000 in 3:3:2) | 30,000 | 30,000 | 20,000 |
| Net adjustment | 3,000 Cr. | 11,000 Dr. | 8,000 Cr. |

Correct credits total Rs 80,000. Bhavi has received Rs 11,000 too much, exactly equal to Ananya's and Chandni's short credits of Rs 3,000 and Rs 8,000.

**Step 3:** Pass the single adjustment entry Journal of the firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 31-3-2022 | Bhavi's Capital A/c Dr. | | 11,000 | |
| | To Ananya's Capital A/c | | | 3,000 |
| | To Chandni's Capital A/c | | | 8,000 |
| | (Being omitted salaries and consequent profit allocation corrected through partners' capital accounts) | | | |

The entry transfers the overcredit without changing the firm's total profit or total partners' capital.

**Step 4:** Conclusion Debit Bhavi's Capital Account by Rs 11,000; credit Ananya's Capital Account by Rs 3,000 and Chandni's Capital Account by Rs 8,000.

**Quick Tip to Solve:** Annualise only the monthly salaries. Compare salary plus revised profit share against the original credit before passing one net entry.

**19(a). On 1st April, 2021, Hitesh Ltd. took over assets of Rs. 8,00,000 and liabilities of Rs. 40,000 of Pranjal Ltd. at an agreed value of Rs. 8,30,000. Hitesh Ltd. paid the amount to Pranjal Ltd. as follows:**

**(i) Gave an acceptance payable after 3 months for Rs. 2,00,000, and**

**(ii) Issued 10% Debentures of Rs. 100 each at a discount of 10% to Pranjal Ltd. in satisfaction of the balance amount of purchase consideration.**

**Pass the necessary journal entries to record the above transaction in the books of Hitesh Ltd.** [3 marks]

**Solution:**

**Concept:**

- When a business is purchased, assets and liabilities are recorded at their agreed values. Purchase consideration exceeding net assets is debited to Goodwill Account.

- Debentures issued at a discount discharge the vendor at their issue price. Face value less issue price is debited to Discount on Issue of Debentures Account.

**Step 1:** Calculate goodwill and the debentures issued **Working Notes**

The purchase consideration is Rs 8,30,000, whereas net assets taken over are Rs $8,00,000 - 40,000 = 7,60,000$. Hence goodwill is Rs $8,30,000 - 7,60,000 = 70,000$. After issuing the acceptance, the amount payable through debentures is Rs $8,30,000 - 2,00,000 = 6,30,000$. Each Rs 100 debenture is issued at Rs $100 - 10 = 90$. Therefore,

$$\text{Number of debentures} = \frac{6,30,000}{90} = 7,000.$$

Their nominal value is Rs 7,00,000 and the discount is Rs 70,000. The 10% coupon rate determines subsequent interest; it does not determine the issue price.

**Step 2:** Record the takeover and settlement **Journal of Hitesh Ltd.**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 1.4.2021 | Sundry Assets A/c Dr.<br>Goodwill A/c Dr.<br>To Sundry Liabilities A/c<br>To Pranjal Ltd.<br>(Being assets and liabilities taken over for the agreed purchase consideration) | | 8,00,000<br>70,000 | <br><br>40,000<br>8,30,000 |
| 1.4.2021 | Pranjal Ltd. Dr.<br>Discount on Issue of Debentures A/c Dr.<br>To Bills Payable A/c<br>To 10% Debentures A/c<br>(Being purchase consideration settled by a three-month acceptance and 7,000 debentures issued at 10% discount) | | 8,30,000<br>70,000 | <br><br>2,00,000<br>7,00,000 |

The acceptance creates a bill payable; it is not an immediate bank payment. The settlement entry totals Rs 9,00,000 on each side and clears Pranjal Ltd.'s account.

**Step 3:** Conclusion Goodwill is Rs 70,000. Hitesh Ltd. issues a bill payable for Rs 2,00,000 and 7,000 debentures of Rs 100 each, recording discount of Rs 70,000.

**Quick Tip to Solve:** Subtract the acceptance from purchase consideration first, then divide the balance by Rs 90, the issue price, rather than the Rs 100 face value.

OR

**19(b). Disha Ltd. forfeited 500 shares of Rs. 100 each issued at 10% premium, Rs. 90 called up, on which the shareholders did not pay Rs. 30 per share on allotment (including premium) and first call of Rs. 20 per share. Out of these, 300 shares were reissued for Rs. 80 per share, fully paid up.**

**Pass necessary journal entries for forfeiture and reissue of shares.** [3 marks]

**Solution:**

**Concept:**

- On forfeiture, Share Capital is debited with called-up capital. Unreceived premium is reversed by debiting Securities Premium; only capital money actually received is credited to Share Forfeiture.
- On reissue as fully paid, Share Capital is credited with full face value. Reissue discount is debited to Share Forfeiture, and the surplus relating only to reissued shares is transferred to Capital Reserve.

**Step 1:** Calculate forfeiture and reissue amounts **Working Notes**

The Rs 30 allotment includes premium of Rs 10, so unpaid allotment capital is Rs 20 per share. Unpaid first-call capital is another Rs 20. Capital received per share is therefore Rs $90-20-20=50$. Called-up capital is Rs $500\times 90=45,000$; unpaid premium is Rs $500\times 10=5,000$; and forfeiture credit is Rs $500\times 50=25,000$. Reissue gives cash Rs 24,000 against face value Rs 30,000, a discount of Rs 6,000. Forfeiture attributable to these shares is Rs $300\times 50=15,000$; hence Rs $15,000-6,000=9,000$ is transferred to Capital Reserve. The remaining Rs 10,000 relates to the 200 unreissued shares and stays in Share Forfeiture Account.

**Step 2:** Record forfeiture, reissue and reserve transfer **Journal of Disha Ltd.**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Capital A/c Dr. | | 45,000 | |
| | Securities Premium A/c Dr. | | 5,000 | |
| | To Share Allotment A/c | | | 15,000 |
| | To Share First Call A/c | | | 10,000 |
| | To Share Forfeiture A/c | | | 25,000 |
| | (Being 500 shares forfeited for unpaid allotment, including premium, and first call) | | | |
| | Bank A/c Dr. | | 24,000 | |
| | Share Forfeiture A/c Dr. | | 6,000 | |
| | To Share Capital A/c | | | 30,000 |
| | (Being 300 forfeited shares reissued at Rs 80 each as fully paid) | | | |
| | Share Forfeiture A/c Dr. | | 9,000 | |
| | To Capital Reserve A/c | | | 9,000 |
| | (Being surplus on the 300 reissued shares transferred to Capital Reserve) | | | |

**Step 3:** Conclusion Share Forfeiture is credited with Rs 25,000 on forfeiture. Reissue discount is Rs 6,000, Capital Reserve is Rs 9,000, and Rs 10,000 remains in Share Forfeiture for the 200 unreissued shares.

**Quick Tip to Solve:** Separate the unpaid Rs 10 premium from allotment before finding capital received; transfer profit only for the 300 shares actually reissued.

**20. A, B and C were partners in a firm sharing profits and losses equally. Their respective capitals were Rs. 10,00,000, Rs. 9,00,000 and Rs. 8,00,000. The partnership deed provided for the following:**

**(1) Interest on capital @ 9% per annum.**

**(2) Interest on drawings @ 12% per annum.**

**(3) Interest on partners loan to the firm @ 10% per annum.**

**During the year, B had withdrawn Rs. 20,000 for his personal use. On 30.9.2021, A had given a loan of Rs. 70,000 to the firm.**

**Pass the necessary journal entries in the books of the firm for the following for the year ended 31st March, 2022:**

**(i) Allowing interest on C's Capital.**

**(ii) Providing interest on A's Loan.**

**(iii) Charging interest on B's Drawings.**

**Also give transfer entries in the Profit and Loss Account/Profit and Loss Appropriation Account, as the case may be.** [3 marks]

**Solution:**

**Concept:**

- Interest on capital is an appropriation of profit and interest on drawings is credited to Profit and Loss Appropriation Account. Both adjust the relevant partner's capital account when capitals are fluctuating.
- Interest on a partner's loan is a charge against profit and is transferred to Profit and Loss Account. Use the deed's agreed rate and the period for which the loan was outstanding.

**Step 1:** Allow and transfer interest on C's capital **Working Notes**

Interest on C's capital for the full year is Rs $8,00,000 \times 9/100 = 72,000$. Since no fixed-capital method is specified, the entries below use partners' capital accounts; under the fixed-capital method, current accounts would be used for capital interest and drawings interest.

**Journal of the firm: 31 March 2022**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Interest on Capital A/c Dr.<br>To C's Capital A/c<br>(Being interest on C's capital allowed at 9% per annum) | | 72,000 | 72,000 |
| | Profit and Loss Appropriation A/c Dr.<br>To Interest on Capital A/c<br>(Being interest on capital transferred to Profit and Loss Appropriation Account) | | 72,000 | 72,000 |

**Step 2:** Provide and transfer interest on A's loan **Working Notes**

A's loan was outstanding from 30 September 2021 to 31 March 2022, taken as six months. The partnership deed specifies 10% per annum, so interest is Rs $70,000 \times 10/100 \times 6/12 = 3,500$. It is due to A as a lender and is charged before determining divisible profit.

**Journal of the firm: 31 March 2022**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Interest on A's Loan A/c Dr.<br>To A's Loan A/c<br>(Being six months' interest provided on A's loan at 10% per annum) | | 3,500 | 3,500 |
| | Profit and Loss A/c Dr.<br>To Interest on A's Loan A/c<br>(Being interest on partner's loan transferred to Profit and Loss Account) | | 3,500 | 3,500 |

**Step 3:** Charge and transfer interest on B's drawings **Working Notes**

The dates of B's withdrawals are not specified. Under the usual convention, interest on the total annual drawings is calculated for an average period of six months:

$$\text{Interest on drawings} = 20,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs } 1,200.$$

This is charged to B and increases the amount available for appropriation; it is not revenue of the firm's ordinary business.

**Journal of the firm: 31 March 2022**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | B's Capital A/c Dr.<br>To Interest on Drawings A/c<br>(Being interest charged on B's drawings at 12% per annum for six months) | | 1,200 | 1,200 |
| | Interest on Drawings A/c Dr.<br>To Profit and Loss Appropriation A/c<br>(Being interest on drawings transferred to Profit and Loss Appropriation Account) | | 1,200 | 1,200 |

**Step 4:** Conclusion Interest on C's capital is Rs 72,000, interest on A's loan is Rs 3,500, and interest on B's drawings is Rs 1,200. Capital and drawings interest pass through Profit and Loss Appropriation Account; loan interest passes through Profit and Loss Account.

**Quick Tip to Solve:** Separate the partner's role as owner from the role as lender: capital interest is an appropriation, while loan interest is a charge against profit.

**21. Prakash, Aakash and Vikas were partners in a business sharing profits in the ratio of 2:2:1. Their Balance Sheet as at 31st March, 2022 was as follows:**

**Balance Sheet of Prakash, Aakash and Vikas as at 31st March, 2022**

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|
| Creditors | 2,00,000 | Bank | 40,000 |
| General Reserve | 1,00,000 | Stock | 60,000 |
| Capitals:<br>Prakash 1,20,000<br>Aakash 2,00,000<br>Vikas 80,000 | 4,00,000 | Debtors | 1,60,000 |
| | | Investments | 1,40,000 |
| | | Furniture | 70,000 |
| | | Building | 2,30,000 |
| | 7,00,000 | | 7,00,000 |

**Vikas died on 30th September, 2022. On the death of a partner the partnership deed provided for the following:**

**(i) Deceased partner will be entitled to his share of profit up to the date of death calculated on the basis of previous year's profit.**

**(ii) His share in the Goodwill of the firm, calculated on the basis of 3 years purchase of average profits of last four years. Profits for last four years ended 31st March were as follows:**

**2018-19, Rs. 1,60,000; 2019-20, Rs. 1,00,000; 2020-21, Rs. 80,000 and 2021-22, Rs. 60,000.**

**(iii) Drawings of the deceased partner up to the date of death were Rs. 20,000.**

**(iv) Interest on capital was allowed @ 12% per annum.**

**Prepare Vikas's Capital account to be rendered to his executors.** [4 marks]

**Solution:**

**Concept:**

- A deceased partner's capital account is credited with his opening capital, share of accumulated profits, goodwill, profit up to death and interest on capital, and debited with drawings. The net credit balance is transferred to his executor's account.
- Vikas's profit share is $1/5$. The period from 1st April to 30th September, 2022 is six months, so time-related entitlements use $6/12$ of a year.
- Goodwill equals average past profits multiplied by years' purchase. The deceased partner's share of goodwill is borne by the continuing partners in their gaining ratio.

**Step 1:** Working Notes: Calculate reserve, profit and interest The general reserve belongs to all partners in the old ratio, so Vikas receives:

$$\text{Reserve share} = \text{Rs } 1,00,000 \times \frac{1}{5} = \text{Rs } 20,000.$$

The deed specifically bases profit up to death on the previous year's profit of Rs 60,000, not on the

four-year average used for goodwill:

$$\text{Profit share} = \text{Rs } 60,000 \times \frac{6}{12} \times \frac{1}{5} = \text{Rs } 6,000.$$

This estimated profit is credited through Profit and Loss Suspense Account. Interest is allowed on the opening capital of Rs 80,000 for six months:

$$\text{Interest on capital} = \text{Rs } 80,000 \times \frac{12}{100} \times \frac{6}{12} = \text{Rs } 4,800.$$

**Step 2:** Working Notes: Calculate Vikas's goodwill entitlement Add all four years' profits and divide by four before applying three years' purchase:

$$\begin{aligned} \text{Average profit} &= \frac{1,60,000 + 1,00,000 + 80,000 + 60,000}{4} \\ &= \text{Rs } 1,00,000, \\ \text{Firm's goodwill} &= 1,00,000 \times 3 = \text{Rs } 3,00,000, \\ \text{Vikas's share} &= 3,00,000 \times \frac{1}{5} = \text{Rs } 60,000. \end{aligned}$$

With no changed ratio stated, Prakash and Aakash continue in their relative old ratio $2 : 2 = 1 : 1$; their gains are equal. Their capital accounts are therefore debited by Rs 30,000 each and Vikas's capital is credited by Rs 60,000. Goodwill need not be raised in the firm's books.

**Step 3:** Prepare the deceased partner's capital account **Vikas's Capital Account (up to 30th September, 2022)**

| Dr. | | Cr. | |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Drawings A/c | 20,000 | By Balance b/d | 80,000 |
| To Vikas's Executors' A/c | 1,50,800 | By General Reserve A/c | 20,000 |
| | | By Prakash's Capital A/c | 30,000 |
| | | By Aakash's Capital A/c | 30,000 |
| | | By P&L Suspense A/c | 6,000 |
| | | By Interest on Capital A/c | 4,800 |
| Total | 1,70,800 | Total | 1,70,800 |

Credits total Rs 1,70,800. After deducting drawings of Rs 20,000, the balancing amount is transferred to Vikas's Executors' Account; it is a liability to the executors, not an immediate bank payment.

**Step 4:** Conclusion The amount due to Vikas's executors is $\boxed{\text{Rs } 1,50,800}$. Both sides of Vikas's Capital Account total Rs 1,70,800 after the transfer.

**Quick Tip to Solve:** Use last year's Rs 60,000 only for the six-month profit estimate; use the four-year average only for goodwill. Credit the reserve separately before deducting drawings.

**22. Sunstar Ltd. has an authorised capital of Rs. 20,00,000 divided into equity shares of Rs. 10 each. The company invited applications for issuing 60,000 shares. Applications were received for 58,000 shares.**

**All calls were made and were duly received except the final call of Rs. 3 per share on 2,000 shares. These 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:**

- Schedule III shows Share Capital under Shareholders' Funds within Equity and Liabilities. The supporting note distinguishes authorised, issued, subscribed and paid-up capital.
- Forfeited shares cease to form part of subscribed capital. The amount already paid on them is shown separately as an addition in the share-capital note until reissue.
- Authorised capital is the maximum permitted capital, while issued capital is the face value of shares offered. Subscription below the issue does not reduce the number of shares issued.

**Step 1:** Working Notes: Determine the capital categories The authorised number of equity shares is:

$$20,00,000 \div 10 = 2,00,000 \text{ shares.}$$

The company offered 60,000 shares, so issued capital is $60,000 \times 10 = \text{Rs } 6,00,000$. Applications for only 58,000 shares make this an undersubscribed issue. Of these subscribed shares, 2,000 were later forfeited; therefore the remaining subscribed shares are:

$$58,000 - 2,000 = 56,000 \text{ shares.}$$

All amounts due on these remaining shares were received. Accordingly, subscribed and fully paid-up capital is $56,000 \times 10 = \text{Rs } 5,60,000$. There are no remaining subscribed shares that are not fully paid-up.

**Step 2:** Working Notes: Calculate the amount paid on forfeited shares The unpaid final call was Rs 3 per share, so each forfeited share had already received $10 - 3 = \text{Rs } 7$:

$$\text{Amount paid on forfeited shares} = 2,000 \times 7 = \text{Rs } 14,000.$$

The unpaid call of $2,000 \times 3 = \text{Rs } 6,000$ is cancelled on forfeiture; it is not deducted again from the Rs 5,60,000 relating to fully paid shares. The total displayed as share capital is therefore $5,60,000 + 14,000 = \text{Rs } 5,74,000$. No reissue is stated, so the forfeited amount is retained here and is not transferred to Capital Reserve.

**Step 3:** Present the Balance Sheet extract **Sunstar Ltd. – Balance Sheet (Extract)**

| Particulars | Note No. | Amount (Rs) |
|---|---|---|
| **I. EQUITY AND LIABILITIES** | | |
| **1. Shareholders' Funds** | | |
| (a) Share Capital | 1 | 5,74,000 |

**Step 4:** Prepare the supporting note **Notes to Accounts – Note 1: Share Capital**

| Particulars | Amount (Rs) |
|---|---|
| **Authorised Capital** | |
| 2,00,000 equity shares of Rs 10 each | 20,00,000 |
| **Issued Capital** | |
| 60,000 equity shares of Rs 10 each | 6,00,000 |
| **Subscribed and Fully Paid-up Capital** | |
| 56,000 equity shares of Rs 10 each fully paid-up | 5,60,000 |
| Add: Forfeited shares (amount originally paid-up) | 14,000 |
| **Total Share Capital** | **5,74,000** |

The forfeited amount relates to 2,000 shares on which Rs 7 per share was received. The authorised and issued capital disclosures remain unchanged by forfeiture.

**Step 5:** Conclusion Sunstar Ltd. reports $\boxed{\text{Rs } 5,74,000}$ as Share Capital: Rs 5,60,000 subscribed and fully paid-up capital plus Rs 14,000 received on forfeited shares.

**Quick Tip to Solve:** Remove forfeited shares from the subscribed share count, then add only their amount already received. Do not subtract their unpaid Rs 6,000 call a second time.

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**23. Pass necessary journal entries for issue of 12% debentures in the books of Ghanshyam Ltd. in the following cases:**

**(i) Issued 1,000, 12% debentures of Rs. 100 each at a premium of 10%, redeemable at a premium of 5%.**

**(ii) Issued 5,000, 12% debentures of Rs. 100 each at a premium of 10%, redeemable at par.**

**(iii) Issued 2,000, 12% debentures of Rs. 100 each at a discount of 10%, redeemable at a premium of 5%.** [6 marks]

**Solution:**

**Concept:**

- The 12% Debentures Account is credited with the nominal value of the debentures, irrespective of the issue price or redemption price. The 12% rate is the interest rate; it does not determine the issue proceeds.
- Premium received on issue is credited to Securities Premium Reserve. Premium payable on redemption is credited to Premium on Redemption of Debentures Account when the debentures are issued.
- Loss on Issue of Debentures comprises the discount allowed on issue plus the premium payable on redemption. Bank is debited with the actual proceeds received.

**Step 1:** (i) Record issue at a premium, redeemable at a premium **Working Notes:** Nominal value is $1,000 \times \text{Rs } 100 = \text{Rs } 1,00,000$. Issue premium is $1,00,000 \times 10\% = \text{Rs } 10,000$, so the bank receives Rs 1,10,000. Redemption premium is $1,00,000 \times 5\% = \text{Rs } 5,000$, which is recognised as loss on issue and as a liability for redemption.

**Journal of Ghanshyam Ltd. — Case (i)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 1,10,000 | |
| | Loss on Issue of Debentures A/c Dr. | | 5,000 | |
| | To 12% Debentures A/c | | | 1,00,000 |
| | To Securities Premium Reserve A/c | | | 10,000 |
| | To Premium on Redemption of Debentures A/c | | | 5,000 |
| | (Being 1,000 debentures of Rs 100 each issued at 10% premium, redeemable at 5% premium) | | | |

Total debit and total credit are each Rs 1,15,000. The issue premium and redemption premium are recorded separately because they represent different items.

**Step 2:** (ii) Record issue at a premium, redeemable at par **Working Notes:** Nominal value is $1,000 \times \text{Rs } 100 = \text{Rs } 1,00,000$. Issue premium is $1,00,000 \times 10\% = \text{Rs } 50,000$, giving bank proceeds of Rs 5,50,000. Redemption at par creates no redemption premium and hence no loss on issue in this case.

**Journal of Ghanshyam Ltd. — Case (ii)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 5,50,000 | |
| | To 12% Debentures A/c | | | 5,00,000 |
| | To Securities Premium Reserve A/c | | | 50,000 |
| | (Being 5,000 debentures of Rs 100 each issued at 10% premium, redeemable at par) | | | |

Total debit and total credit are each Rs 5,50,000.

**Step 3:** (iii) Record issue at a discount, redeemable at a premium **Working Notes:** Nominal value is $2,000 \times \text{Rs } 100 = \text{Rs } 2,00,000$. Discount on issue is $2,00,000 \times 10\% = \text{Rs } 20,000$, so bank proceeds are Rs 1,80,000. Redemption premium is $2,00,000 \times 5\% = \text{Rs } 10,000$. Thus loss on issue is $20,000 + 10,000 = \text{Rs } 30,000$.

**Journal of Ghanshyam Ltd. — Case (iii)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 1,80,000 | |
| | Loss on Issue of Debentures A/c Dr. | | 30,000 | |
| | To 12% Debentures A/c | | | 2,00,000 |
| | To Premium on Redemption of Debentures A/c | | | 10,000 |
| | (Being 2,000 debentures of Rs 100 each issued at 10% discount, redeemable at 5% premium) | | | |

Total debit and total credit are each Rs 2,10,000. The debit for loss includes both the shortfall in issue proceeds and the additional amount payable on redemption.

**Step 4:** Conclusion The bank proceeds in cases (i), (ii) and (iii) are respectively Rs 1,10,000, Rs 5,50,000 and Rs 1,80,000. Loss on issue is Rs 5,000 in case (i), nil in case (ii), and Rs 30,000 in case (iii); all three issue entries balance.

**Quick Tip to Solve:** Start each case with number of debentures multiplied by face value. Keep issue premium as a credit, and combine issue discount with redemption premium to find the loss debit.

**24. Pass the necessary journal entries for the following transactions on dissolution of the firm of Varun and Vivek after various assets (other than cash) and outside liabilities were transferred to Realisation Account:**

**(i) Varun paid creditors Rs. 18,500 in full settlement of their claim of Rs. 20,000.**

**(ii) Vivek agreed to pay his wife's loan of Rs. 70,000.**

**(iii) The firm had unrecorded investments of Rs. 2,00,000, which were sold at a loss of 20%.**

**(iv) The firm had stock of Rs. 1,00,000. Varun took over the stock at a discount of 10%.**

**(v) Reema, a debtor whose account for Rs. 2,000 was written off as a bad debt in the previous year, paid 70% of the amount.**

**(vi) Expenses of realisation Rs. 4,900 were paid by partner, Vivek.** [6 marks]

**Solution:**

**Concept:**

- After assets and outside liabilities are transferred to Realisation Account, their subsequent disposal or settlement is recorded through Realisation Account. The original asset and liability accounts are not transferred again.
- A partner paying a firm's liability or meeting its realisation expenses is credited in the partner's Capital Account. A partner taking over an asset is debited in the partner's Capital Account at the agreed value.
- Cash received from unrecorded assets, including recovery of a debt previously written off, is debited to Bank Account and credited to Realisation Account. Only the amount actually received is recorded.

**Step 1:** (i) Record the creditors paid by Varun The creditors have already been transferred to Realisation Account at Rs 20,000. The settlement payment of Rs 18,500 is debited to Realisation Account and credited to Varun's Capital Account because Varun paid it personally. The benefit of Rs 1,500 is automatically reflected in Realisation Account; no separate discount entry is needed.

**Journal of Varun and Vivek — Transaction (i)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Realisation A/c Dr.<br>To Varun's Capital A/c<br>(Being creditors of Rs 20,000 settled by Varun for Rs 18,500) | | 18,500 | 18,500 |

**Step 2:** (ii) Record Vivek's assumption of his wife's loan Vivek's wife's loan is an outside liability of the firm, already transferred to Realisation Account. Vivek's agreement to discharge the Rs 70,000 liability is recorded by debiting Realisation Account and crediting his Capital Account. It is distinct from a loan made by Vivek himself to the firm.

**Journal of Varun and Vivek — Transaction (ii)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Realisation A/c Dr.<br>To Vivek's Capital A/c<br>(Being liability for his wife's loan taken over by Vivek) | | 70,000 | 70,000 |

**Step 3:** (iii) Record sale of the unrecorded investments **Working Notes:** Proceeds from investments are Rs $2,00,000 \times 80\% =$ Rs $1,60,000$. Since the investments were unrecorded, there is no book

balance to transfer. Record only the actual receipt of Rs 1,60,000 in Realisation Account; do not debit a separate loss of Rs 40,000.

**Journal of Varun and Vivek — Transaction (iii)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>To Realisation A/c<br>(Being unrecorded investments sold for Rs 1,60,000) | | 1,60,000 | 1,60,000 |

**Step 4:** (iv) Record stock taken over by Varun **Working Notes:** The agreed takeover value is Rs $1,00,000 \times 90\% =$ Rs $90,000$. Varun receives an asset instead of cash, so his Capital Account is debited at Rs 90,000. Realisation Account is credited for the stock realised through this takeover. No Bank entry arises.

**Journal of Varun and Vivek — Transaction (iv)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Varun's Capital A/c Dr.<br>To Realisation A/c<br>(Being stock taken over by Varun at 10% discount on Rs 1,00,000) | | 90,000 | 90,000 |

**Step 5:** (v) Record recovery of the previously written-off debt **Working Notes:** The amount received from Reema is Rs $2,000 \times 70\% =$ Rs $1,400$. Reema's account was written off in the previous year, so the receipt is a realisation of an unrecorded asset. Credit Realisation Account with the recovered amount; the unrecovered Rs 600 requires no fresh write-off.

**Journal of Varun and Vivek — Transaction (v)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>To Realisation A/c<br>(Being 70% recovered from Reema against a debt of Rs 2,000 previously written off) | | 1,400 | 1,400 |

**Step 6:** (vi) Record realisation expenses paid by Vivek The expenses of Rs 4,900 belong to the firm and are debited to Realisation Account. Vivek merely pays them on its behalf; there is no agreement that he must bear them personally. Therefore his Capital Account is credited with Rs 4,900.

**Journal of Varun and Vivek — Transaction (vi)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Realisation A/c Dr.<br>To Vivek's Capital A/c<br>(Being realisation expenses paid by Vivek on behalf of the firm) | | 4,900 | 4,900 |

**Step 7:** Conclusion The six entries record Rs 18,500 and Rs 70,000 as liabilities settled through partners, Rs 1,60,000 as investment proceeds, Rs 90,000 as stock taken over, Rs 1,400 as debt recovery and Rs 4,900 as expenses paid by Vivek. Every entry has equal debits and credits.

**Quick Tip to Solve:** When a partner pays for the firm, credit that partner's capital; when a partner takes an asset, debit capital. For unrecorded assets, credit Realisation only with the amount actually recovered.

**25(a).** **Bhumi and Chavi were partners in a firm sharing profits and losses in the ratio of 5:3. They admitted Aditi in the firm on 1st April, 2022. On that date their Balance Sheet was as follows:**

**Balance Sheet of Bhumi and Chavi as at 1st April, 2022**

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|
| Capitals:<br>Bhumi 3,20,000<br>Chavi 3,40,000 | 6,60,000 | Machinery | 3,80,000 |
| General Reserve | 80,000 | Furniture | 50,000 |
| Bank loan | 60,000 | Debtors | 2,30,000 |
| Creditors | 60,000 | Stock | 1,50,000 |
| | | Cash | 50,000 |
| | 8,60,000 | | 8,60,000 |

**Aditi was admitted in the firm with 1/3 share in profits on the following terms:**

**(i) Aditi will bring Rs. 3,00,000 as her capital.**

**(ii) Aditi will bring her share of goodwill premium in cash. Goodwill of the firm was valued on the basis of two years purchase of average profits of the last three years. Average profits of the last three years were Rs. 60,000.**

**(iii) Machinery was revalued at Rs. 4,60,000.**

**(iv) The capitals of Bhumi and Chavi were adjusted on the basis of Aditi's capital by opening current accounts.**

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

**Solution:**

**Concept:**

- Revaluation profit and accumulated reserves belong to the old partners and are credited in their old profit-sharing ratio, here Bhumi : Chavi $= 5:3$.
- The incoming partner's premium compensates the sacrificing partners. When no different sacrifice is specified, the old partners surrender their shares in their existing ratio.
- Total agreed capital equals the incoming partner's capital divided by her profit share. Excess adjusted capital of an old partner is transferred to the credit of that partner's current account.

**Step 1:** Determine the new ratio and goodwill premium Aditi receives $1/3$, leaving $2/3$ for Bhumi and Chavi in their existing ratio. Thus

$$\text{Bhumi} = \frac{2}{3}\times\frac{5}{8} = \frac{5}{12}, \quad \text{Chavi} = \frac{2}{3}\times\frac{3}{8} = \frac{3}{12}, \quad \text{Aditi} = \frac{4}{12}.$$

The new ratio is $5:3:4$. Bhumi's sacrifice is $5/8 - 5/12 = 5/24$ and Chavi's is $3/8 - 3/12 = 3/24$; hence the sacrificing ratio is $5:3$.

$$\text{Firm's goodwill} = 60,000 \times 2 = \text{Rs } 1,20,000,$$

$$\text{Aditi's premium} = 1,20,000 \times \frac{1}{3} = \text{Rs } 40,000.$$

Credit the premium to Bhumi by Rs 25,000 and Chavi by Rs 15,000. Aditi separately brings Rs 3,00,000 as capital; the premium is not credited to her capital account.

**Step 2:** Prepare the Revaluation Account Machinery increases by $4,60,000 - 3,80,000 =$ Rs $80,000$. There are no other revaluation adjustments. Transfer this profit to Bhumi and Chavi in $5:3$: Rs 50,000 and Rs 30,000 respectively.

**Revaluation Account as at 1st April, 2022**

| Dr. | | Cr. | |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Bhumi's Capital A/c | 50,000 | By Machinery A/c | 80,000 |
| To Chavi's Capital A/c | 30,000 | | |
| Total | 80,000 | Total | 80,000 |

**Step 3:** Calculate adjusted capitals and transfers to current accounts Distribute the general reserve of Rs 80,000 in the old ratio: Bhumi receives Rs 50,000 and Chavi receives Rs 30,000. Their capitals after reserve, premium and revaluation are

$$\text{Bhumi} = 3,20,000 + 50,000 + 25,000 + 50,000 = \text{Rs } 4,45,000,$$
$$\text{Chavi} = 3,40,000 + 30,000 + 15,000 + 30,000 = \text{Rs } 4,15,000.$$

Since Aditi's Rs 3,00,000 represents one-third of total capital, agreed total capital is $3,00,000 \div (1/3) =$ Rs $9,00,000$. In the new ratio $5:3:4$, Bhumi's required capital is Rs 3,75,000 and Chavi's is Rs 2,25,000. Their excesses are therefore

$$\text{Bhumi's current account credit} = 4,45,000 - 3,75,000 = \text{Rs } 70,000,$$
$$\text{Chavi's current account credit} = 4,15,000 - 2,25,000 = \text{Rs } 1,90,000.$$

These amounts are transferred, rather than paid out in cash, because the question requires adjustment through current accounts.

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

| Dr. | | | | Cr. | | | |
|---|---|---|---|---|---|---|---|
| Particulars | Bhumi Rs | Chavi Rs | Aditi Rs | Particulars | Bhumi Rs | Chavi Rs | Aditi Rs |
| To Current A/c | 70,000 | 1,90,000 | — | By Balance b/d | 3,20,000 | 3,40,000 | — |
| To Balance c/d | 3,75,000 | 2,25,000 | 3,00,000 | By General Reserve | 50,000 | 30,000 | — |
| | | | | By Premium for Goodwill A/c | 25,000 | 15,000 | — |
| | | | | By Revaluation A/c | 50,000 | 30,000 | — |
| | | | | By Cash A/c | — | — | 3,00,000 |
| Total | 4,45,000 | 4,15,000 | 3,00,000 | Total | 4,45,000 | 4,15,000 | 3,00,000 |

Each partner's debit and credit totals agree. The closing capitals total Rs 9,00,000; the two current-account credits preserve the old partners' excess claims without changing the agreed capital ratio.

**Step 5:** Conclusion Revaluation profit is Rs 80,000. Closing capitals are Bhumi Rs 3,75,000, Chavi Rs 2,25,000 and Aditi Rs 3,00,000, in the ratio $5:3:4$. Current accounts are credited with Rs 70,000 for Bhumi and Rs 1,90,000 for Chavi.

**Quick Tip to Solve:** First distribute reserve, revaluation profit and goodwill; only then compare adjusted capitals with Rs 9,00,000 shared in the new ratio.

OR

**25(b). Anna, Bina and Teena were partners sharing profits and losses in the ratio of 5:3:2. Their Balance Sheet on 31st March, 2022 was as follows:**

**Balance Sheet of Anna, Bina and Teena as at 31st March, 2022**

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|
| Creditors | 66,000 | Furniture | 1,12,000 |
| Bills Payable | 59,000 | Stock | 1,77,000 |
| Capitals:<br>Anna 2,00,000<br>Bina 2,00,000<br>Teena 1,00,000 | 5,00,000 | Debtors 2,80,000<br>Less - provision for bad debts 7,000 | 2,73,000 |
| | | Cash | 63,000 |
| | 6,25,000 | | 6,25,000 |

**On the above date, Anna retired on the following terms:**

**(i) Goodwill of the firm was valued at Rs. 60,000 and Anna's share of goodwill was adjusted through the capital accounts of remaining partners.**

**(ii) Furniture was depreciated by Rs. 10,000.**

**(iii) Anna was to be paid through cash brought in by Bina and Teena in such a way as to make their capitals proportionate to their new profit sharing ratio of 1:1.**

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

**Solution:**

**Concept:**

- Revaluation loss is borne by all partners in the old profit-sharing ratio. A retiring partner's share of goodwill is borne by continuing partners in their gaining ratio.
- A partner's gain equals the new profit share less the old profit share. Adjustment of goodwill directly through capital accounts does not require opening a Goodwill Account.
- When continuing partners bring exactly the cash needed to pay the retiring partner, their combined final capital equals their adjusted capitals plus the retiring partner's payment. Allocate that total in the new ratio to determine each cash contribution.

**Step 1:** Calculate the gaining ratio and goodwill adjustment Anna, Bina and Teena's old shares are $5/10, 3/10, 2/10$. After Anna retires, Bina and Teena share equally, so their gains are

$$\text{Bina} = \frac{1}{2} - \frac{3}{10} = \frac{2}{10}, \qquad \text{Teena} = \frac{1}{2} - \frac{2}{10} = \frac{3}{10}.$$

Their gaining ratio is therefore $2 : 3$, even though their new ratio is $1 : 1$. Anna's share of the firm's goodwill is $60,000 \times 5/10 = \text{Rs } 30,000$. Credit Anna's Capital Account by Rs 30,000 and debit Bina's and Teena's Capital Accounts by Rs 12,000 and Rs 18,000 respectively. This directly compensates Anna without raising goodwill in the books.

**Step 2:** Prepare the Revaluation Account Furniture is reduced by Rs 10,000, producing a revaluation

loss. No further change in stock, debtors or the existing provision for bad debts is specified. Allocate the loss in the old ratio $5:3:2$: Anna Rs 5,000, Bina Rs 3,000 and Teena Rs 2,000.

**Revaluation Account as at 31st March, 2022**

| Dr. | | Cr. | |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Furniture A/c | 10,000 | By Anna's Capital A/c | 5,000 |
| | | By Bina's Capital A/c | 3,000 |
| | | By Teena's Capital A/c | 2,000 |
| Total | 10,000 | Total | 10,000 |

**Step 3:** Determine Anna's settlement and cash brought in The adjusted capital balances, after goodwill and revaluation, are

$$\text{Anna} = 2,00,000 + 30,000 - 5,000 = \text{Rs } 2,25,000,$$
$$\text{Bina} = 2,00,000 - 12,000 - 3,000 = \text{Rs } 1,85,000,$$
$$\text{Teena} = 1,00,000 - 18,000 - 2,000 = \text{Rs } 80,000.$$

Anna is paid Rs 2,25,000 entirely from new cash introduced by Bina and Teena, as required. Their combined final capital is

$$1,85,000 + 80,000 + 2,25,000 = \text{Rs } 4,90,000.$$

In the new ratio $1:1$, each partner must have Rs 2,45,000. Therefore Bina brings $2,45,000 - 1,85,000 = \text{Rs } 60,000$, and Teena brings $2,45,000 - 80,000 = \text{Rs } 1,65,000$. These contributions add to Rs 2,25,000, exactly Anna's settlement. The existing cash balance of Rs 63,000 consequently remains unchanged.

**Step 4:** Prepare the Partners' Capital Accounts **Partners' Capital Accounts as at 31st March, 2022**

| Dr. | | | | Cr. | | | |
|---|---|---|---|---|---|---|---|
| Particulars | Anna Rs | Bina Rs | Teena Rs | Particulars | Anna Rs | Bina Rs | Teena Rs |
| To Revaluation A/c | 5,000 | 3,000 | 2,000 | By Balance b/d | 2,00,000 | 2,00,000 | 1,00,000 |
| To Anna's Capital A/c | — | 12,000 | 18,000 | By Bina's Capital A/c | 12,000 | — | — |
| To Cash A/c | 2,25,000 | — | — | By Teena's Capital A/c | 18,000 | — | — |
| To Balance c/d | — | 2,45,000 | 2,45,000 | By Cash A/c | — | 60,000 | 1,65,000 |
| Total | 2,30,000 | 2,60,000 | 2,65,000 | Total | 2,30,000 | 2,60,000 | 2,65,000 |

Anna's account closes on payment. Bina's account balances at Rs 2,45,000 after debits of Rs 15,000, and Teena's account balances at Rs 2,45,000 after debits of Rs 20,000. Thus the remaining capital balances agree with their equal profit shares.

**Step 5:** Conclusion Revaluation loss is Rs 10,000. Anna is paid Rs 2,25,000. Bina brings Rs 60,000 and Teena brings Rs 1,65,000, leaving each with a closing capital of Rs 2,45,000.

**Quick Tip to Solve:** Charge Anna's goodwill in the gaining ratio 2:3; use the new ratio 1:1 only to fix Bina's and Teena's final capitals.

**26(a). Yash Ltd. invited applications for 50,000 equity shares of Rs. 10 each at a premium of 10%. The amount was payable as follows:**

**On application Rs. 3 per share; on allotment (including premium) Rs. 3 per share and on first and final call, the balance amount.**

**Applications were received for 1,20,000 shares and shares were allotted on pro-rata basis to all applicants. The excess money received on application was to be adjusted towards sums due on allotment. Application money in excess of sums due on allotment was refunded. A shareholder who applied for 6,000 shares could not pay the first and final call money and his shares were forfeited. The forfeited shares were reissued for Rs. 60,000 fully paid up.**

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

**Solution:**

**Concept:**

- Pro-rata allotment allocates shares in the ratio of shares issued to shares applied for. Excess application money first meets allotment dues; the remaining excess is refunded.
- Securities Premium is credited separately from Share Capital. On forfeiture, Share Capital is debited with the called-up nominal value and Share Forfeiture is credited with capital already received.
- After all forfeited shares are reissued, their forfeiture balance, less any reissue discount, is transferred to Capital Reserve. Reissue above face value creates Securities Premium.

**Step 1:** Calculate the instalments and pro-rata adjustment **Working Notes**

The premium is $10\% \times$ Rs $10 =$ Rs $1$. Hence the issue price is Rs 11; application is Rs 3, allotment is Rs 3 (Rs 2 capital and Rs 1 premium), and the final call is $11 - 3 - 3 =$ Rs $5$ per share.

$$\text{Allotment ratio} = 50,000 : 1,20,000 = 5 : 12.$$

Application money received is $1,20,000 \times 3 =$ Rs $3,60,000$. Of this, $50,000 \times 3 =$ Rs $1,50,000$ goes to capital. The excess Rs 2,10,000 meets allotment of Rs 1,50,000 and leaves Rs 60,000 refundable. Thus no further cash is collected on allotment.

$$\text{Defaulter's shares} = 6,000 \times \frac{5}{12} = 2,500.$$

His application money is Rs 18,000: Rs 7,500 is application capital, Rs 7,500 meets allotment, and Rs 3,000 is refunded. His unpaid call is $2,500 \times 5 =$ Rs $12,500$. Capital received on these shares is $2,500 \times (3 + 2) =$ Rs $12,500$; the Rs 2,500 issue premium was already received.

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

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>  To Share Application A/c<br>(Being application money received on 1,20,000 shares) | | 3,60,000 | <br>3,60,000 |
| | Share Application A/c Dr.<br>  To Share Capital A/c<br>  To Share Allotment A/c<br>  To Bank A/c<br>(Being application money transferred, excess adjusted and balance refunded) | | 3,60,000 | <br>1,50,000<br>1,50,000<br>60,000 |
| | Share Allotment A/c Dr.<br>  To Share Capital A/c<br>  To Securities Premium A/c<br>(Being allotment including premium due on 50,000 shares) | | 1,50,000 | <br>1,00,000<br>50,000 |

**Step 3:** Record the call and forfeiture Journal of Yash Ltd. (continued)

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

**Step 4:** Record reissue and the capital reserve transfer The reissue price is Rs $60,000 \div 2,500 =$ Rs 24 per share. Its nominal capital is Rs 25,000 and premium is Rs 35,000. There is no reissue discount, so the entire forfeiture balance of Rs 12,500 is a capital profit.

Journal of Yash Ltd. (continued)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>  To Share Capital A/c<br>  To Securities Premium A/c<br>(Being 2,500 forfeited shares reissued fully paid at Rs 24 per share) | | 60,000 | <br>25,000<br>35,000 |
| | Share Forfeiture A/c Dr.<br>  To Capital Reserve A/c<br>(Being profit on reissue transferred to capital reserve) | | 12,500 | <br>12,500 |

**Step 5:** Conclusion The entries record forfeiture of 2,500 shares and their reissue for Rs 60,000. Capital Reserve is Rs 12,500; total Securities Premium is $50,000 + 35,000 =$ Rs $85,000$.

**Quick Tip to Solve:** For the defaulting applicant, multiply 6,000 by 5/12 before computing the call. Keep the reissue premium separate from the forfeiture profit.

OR

**26(b). Ajanta Ltd. issued a prospectus inviting applications for issuing 5,00,000 equity shares of Rs. 10 each issued at a premium of 10%. The amount was payable as follows:**

**On application - Rs. 3 per share**

**On allotment (including premium) - Rs. 5 per share**

**On first and final call - Rs. 3 per share**

**Applications were received for 6,00,000 shares and pro-rata allotment was made to all applicants. Excess money received on application was adjusted towards sums due on allotment. All amounts were duly received except from Sumit, who was the holder of 1,000 shares, and failed to pay the allotment and first and final call. His shares were forfeited.**

**Pass journal entries for the above transactions in the books of Ajanta Ltd. Open calls-in-arrears account wherever necessary.** [6 marks]

**Solution:**

**Concept:**

- Pro-rata excess application money is adjusted against allotment. Calls-in-Arrears records amounts due but not received on allotment and calls.
- On forfeiture, debit Share Capital with called-up nominal value and reverse any Securities Premium that became due but was not received. Credit Share Forfeiture with the capital amount already received.

**Step 1:** Calculate the application adjustment and Sumit's arrears **Working Notes**

The allotment ratio is $5,00,000 : 6,00,000 = 5 : 6$. Total application money received is $6,00,000 \times 3 =$ Rs $18,00,000$. Application capital is Rs 15,00,000, leaving Rs 3,00,000 for allotment. Allotment is Rs 25,00,000, comprising Rs 20,00,000 capital and Rs 5,00,000 premium. Thus fresh allotment cash due is Rs 22,00,000.

$$\text{Sumit's application} = 1,000 \times \frac{6}{5} = 1,200 \text{ shares.}$$

His application money is Rs 3,600, of which Rs 3,000 meets application on allotted shares and Rs 600 is adjusted towards allotment. His allotment arrears are $1,000 \times 5 - 600 =$ Rs $4,400$, and final-call arrears are $1,000 \times 3 =$ Rs $3,000$. Total arrears are Rs 7,400. The excess Rs 600 is applied to allotment capital; the unpaid allotment includes the entire Rs 1,000 premium. Hence capital received is Rs 3,600.

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

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>To Share Application A/c<br>(Being application money received on 6,00,000 shares) | | 18,00,000 | <br>18,00,000 |
| | Share Application A/c Dr.<br>To Share Capital A/c<br>To Share Allotment A/c<br>(Being application transferred and excess adjusted towards allotment) | | 18,00,000 | <br>15,00,000<br>3,00,000 |
| | Share Allotment A/c Dr.<br>To Share Capital A/c<br>To Securities Premium A/c<br>(Being allotment of Rs 5 per share including Rs 1 premium due) | | 25,00,000 | <br>20,00,000<br>5,00,000 |

**Step 3:** Record allotment and call receipts with arrears Allotment cash received is $22,00,000 - 4,400 =$ Rs $21,95,600$. Final-call cash received is $15,00,000 - 3,000 =$ Rs $14,97,000$. The missing amounts are debited to Calls-in-Arrears so that the instalment accounts close.

Journal of Ajanta Ltd. (continued)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>Calls-in-Arrears A/c Dr.<br>To Share Allotment A/c<br>(Being allotment received except the balance due from Sumit) | | 21,95,600<br>4,400 | <br><br>22,00,000 |
| | Share First and Final Call A/c Dr.<br>To Share Capital A/c<br>(Being first and final call of Rs 3 per share due) | | 15,00,000 | <br>15,00,000 |
| | Bank A/c Dr.<br>Calls-in-Arrears A/c Dr.<br>To Share First and Final Call A/c<br>(Being call received except Rs 3,000 due from Sumit) | | 14,97,000<br>3,000 | <br><br>15,00,000 |

**Step 4:** Record forfeiture and close Sumit's arrears The 1,000 shares are fully called, so debit Share Capital with Rs 10,000. Reverse the unpaid premium of Rs 1,000 and credit arrears of Rs 7,400. The balance Rs 3,600 is capital received and is credited to Share Forfeiture. Premium already received from other shareholders is unaffected.

Journal of Ajanta Ltd. (continued)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Capital A/c Dr.<br>Securities Premium A/c Dr.<br>To Calls-in-Arrears A/c<br>To Share Forfeiture A/c<br>(Being Sumit's 1,000 shares forfeited and unpaid premium cancelled) | | 10,000<br>1,000 | <br><br>7,400<br>3,600 |

**Calls-in-Arrears Account**

| Dr. | Particulars | Amount (Rs) | Particulars | Amount (Rs) | Cr. |
|---|---|---|---|---|---|
| | To Share Allotment | 4,400 | By Share Capital | 7,400 | |
| | To Share First and Final Call | 3,000 | | | |
| | | | By Balance c/d | Nil | |
| | Total | 7,400 | Total | 7,400 | |

The Rs 7,400 credit arises from the compound forfeiture entry. The account closes with nil balance; no capital reserve transfer arises because no reissue is stated.

**Step 5:** Conclusion Forfeiture cancels Sumit's Rs 10,000 share capital and Rs 1,000 unpaid premium. Calls-in-Arrears of Rs 7,400 is closed, and Share Forfeiture is credited with Rs 3,600.

**Quick Tip to Solve:** Use shares allotted, 1,000, to find shares applied for, 1,200. Deduct the Rs 600 application excess before calculating allotment arrears; reverse unpaid premium on forfeiture.

## Part B (20 marks)

*OPTION I (Analysis of Financial Statements)*

**27(i). If revenue from operations is Rs. 10,00,000 and gross profit is 25% on cost, cost of revenue from operations will be:** [1 mark]

(A) Rs. 2,50,000

(B) Rs. 12,50,000

(C) Rs. 2,00,000

(D) Rs. 8,50,000

**Correct Answer:** Rs 8,00,000; none of the printed options is correct.

**Solution:**

**Concept:**

- Gross profit equals revenue from operations minus cost of revenue from operations. A profit percentage on cost uses cost as its denominator.
- If gross profit is 25% of cost, revenue equals 125% of cost; therefore cost equals revenue multiplied by $100/125$.

**Step 1:** Express revenue in terms of cost Let $C$ be cost of revenue from operations. Gross profit is $0.25C$, so

$$10,00,000 = C + 0.25C = 1.25C.$$

The phrase "on cost" means the 25% is not calculated on revenue.

**Step 2:** Calculate cost and compare the printed choices

$$C = 10,00,000 \times \frac{100}{125} = \text{Rs } 8,00,000.$$

Gross profit is Rs 2,00,000, which checks as $25\% \times 8,00,000$. Option (A), Rs 2,50,000, incorrectly

takes 25% of revenue; option (B), Rs 12,50,000, exceeds revenue despite a positive gross profit; option (C), Rs 2,00,000, is gross profit, not cost. Option (D), Rs 8,50,000, would leave gross profit of Rs 1,50,000, which is not 25% of that cost. Thus none of the four printed choices matches the required cost.

**Step 3:** Conclusion Cost of revenue from operations is Rs 8,00,000. None of the printed options (A)–(D) is correct.

**Quick Tip to Solve:** When gross profit is 25% on cost, divide revenue by 1.25. Subtracting 25% of revenue would use the wrong percentage base.

OR

**27(ii). If the operating ratio of Aman Ltd. is 60%, its operating profit ratio will be:** [1 mark]

(A) 100%

(B) 60%

(C) 40%

(D) 160%

**Correct Answer:** (C) 40%

**Solution:**

**Concept:**

- Operating ratio measures operating cost as a percentage of revenue from operations: $\text{Operating ratio} = \dfrac{\text{Operating cost}}{\text{Revenue from operations}} \times 100$.
- Operating profit is revenue from operations less operating cost; its ratio therefore complements the operating ratio to $100\%$.

**Step 1:** Use the common revenue base For every Rs 100 of revenue from operations, the given operating ratio means that Rs 60 is consumed by cost of revenue from operations and other operating expenses. The balance is operating profit.

**Step 2:** Calculate and check the alternatives

$$\text{Operating profit ratio} = 100\% - 60\% = 40\%.$$

Option (A) would imply no operating cost; (B) repeats the cost percentage instead of the profit percentage; (D) adds the cost percentage to 100 and cannot represent the residual profit here.

**Step 3:** Conclusion The operating profit ratio is $40\%$. Hence, the correct option is (C).

**Quick Tip to Solve:** When operating cost and operating profit use the same revenue base, subtract the operating ratio from $100\%$.

**28. While preparing Cash Flow Statement, 'Interest received' by a finance company is classified as:** [1 mark]

(A) Financing activity

(B) Operating activity

(C) Investing activity

(D) Cash and cash equivalents

**Correct Answer:** (B) Operating activity

**Solution:**

**Concept:**

- Operating activities are the principal revenue-producing activities of the enterprise.
- For a financial enterprise, lending and financing customers are its ordinary business; interest receipts arise from those operations.

**Step 1:** Identify the nature of the enterprise The company is a finance company. Earning interest on amounts lent is part of its principal revenue-producing activity, so the receipt belongs to cash flows from operating activities.

**Step 2:** Distinguish the other categories Financing activities concern changes in the company's own capital and borrowings. Classification of interest received as investing activity applies to a non-financial enterprise, which is not the case here. Cash and cash equivalents are a class of assets, not the activity classification of this receipt.

**Step 3:** Conclusion Interest received by this finance company is an operating activity. Hence, the correct option is (B).

**Quick Tip to Solve:** Check whether the enterprise is financial before classifying interest receipts: lending income is operating cash flow for a finance company.

**29(i). Which of the following will result in flow of cash?** [1 mark]

(A) Cash withdrawn from the bank Rs. 50,000

(B) Rs. 2,00,000, 9% debentures issued to vendors of machinery

(C) Rs. 30,000 received from debtors

(D) Cheques of Rs. 20,000 deposited in the bank

**Correct Answer:** (C) Rs. 30,000 received from debtors

**Solution:**

**Concept:**

- A cash flow is an inflow or outflow of cash and cash equivalents involving an external transaction.
- Movements between components of cash and cash equivalents and transactions involving no cash are excluded from cash flows.

**Step 1:** Examine the receipt from debtors Receiving Rs 30,000 from debtors converts a trade receivable into cash. Cash and cash equivalents increase by Rs 30,000, so this is an operating cash

inflow.

**Step 2:** Test the remaining transactions Withdrawing Rs 50,000 from the bank merely transfers bank cash to cash in hand. Issuing Rs 2,00,000 of 9% debentures directly to machinery vendors acquires an asset through a non-cash financing transaction. Depositing cheques of Rs 20,000 transfers an existing cash component into the bank. None of these three changes the total of cash and cash equivalents.

**Step 3:** Conclusion Rs 30,000 received from debtors results in a flow of cash. Hence, the correct option is (C).

**Quick Tip to Solve:** Test whether total cash plus bank balances changes; transfers within that total and assets acquired directly for debentures are excluded.

OR

**29(ii). An investment normally qualifies as cash equivalent only when it has a short maturity, of say, _____ from the date of acquisition.** [1 mark]

(A) Three months or more

(B) Six months or less

(C) One year or less

(D) Three months or less

**Correct Answer:** (D) Three months or less

**Solution:**

**Concept:**

- Cash equivalents are short-term, highly liquid investments readily convertible into known amounts of cash and subject to insignificant risk of changes in value.
- The normal short-maturity benchmark is three months or less from the date the enterprise acquires the investment.

**Step 1:** Apply the maturity condition The period is measured from the date of acquisition, not merely from the balance sheet date. An investment normally meets this short-maturity condition only when its maturity from acquisition is three months or less.

**Step 2:** Check all the stated periods Three months or more reverses the upper-limit condition and admits long maturities. Six months or less and one year or less also admit investments beyond the normal three-month limit. Only the fourth alternative states the correct upper limit; liquidity and insignificant value risk must also be satisfied.

**Step 3:** Conclusion The blank is filled by "Three months or less. Hence, the correct option is (D).

**Quick Tip to Solve:** Count maturity from acquisition and treat three months as the normal maximum; a short remaining term at year-end alone is insufficient.

**30. Which of the following is not a Solvency Ratio?** [1 mark]

(A) Return on Investment

(B) Interest Coverage Ratio

(C) Proprietary Ratio

(D) Total Assets to Debt Ratio

**Correct Answer:** (A) Return on Investment

**Solution:**

**Concept:**

- Solvency ratios assess the long-term financial position and the ability to meet long-term obligations.
- Profitability ratios assess the earning capacity of the business relative to revenue, assets or capital employed.

**Step 1:** Classify return on investment Return on investment relates profit before interest and tax to capital employed:

$$\text{ROI} = \frac{\text{Profit before interest and tax}}{\text{Capital employed}} \times 100.$$

It measures the return earned on invested funds and is therefore a profitability ratio.

**Step 2:** Check the other ratios Interest coverage measures the ability of earnings to cover interest commitments. The proprietary ratio measures the proportion of assets financed by shareholders' funds. Total assets to debt measures the asset cover available for long-term debt. These three assess long-term financial strength and are solvency ratios.

**Step 3:** Conclusion Return on Investment is not a solvency ratio. Hence, the correct option is (A).

**Quick Tip to Solve:** Separate earning performance from long-term safety: ROI measures profitability, while coverage, proprietary and assets-to-debt ratios assess solvency.

**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) Patents**

**(ii) Capital work-in-progress**

**(iii) Unpaid dividend** [3 marks]

**Solution:**

**Concept:**

- Schedule III classifies assets as non-current or current, and presents obligations under the appropriate liability heads.
- An intangible asset lacks physical substance but provides economic benefits; an unpaid amount owed to shareholders remains a liability until paid.

**Step 1:** Classify patents and unfinished capital assets Patents are identifiable rights without physical substance, held for use over more than the current operating cycle. They belong under Non-current

assets, within Fixed assets, as Intangible assets. Capital work-in-progress represents expenditure on a fixed asset still under construction; it is separately disclosed under the fixed-assets group of Non-current assets, rather than treated as an operating expense or inventory.

**Step 2:** Classify the dividend payable Unpaid dividend is a declared dividend that has not yet been paid to the shareholders entitled to receive it. The company owes this amount, so it is a Current liability under Other current liabilities; it is not a reserve or part of share capital.

**Step 3:** Present the classification

| Item | Major head | Sub-head / further classification |
|---|---|---|
| Patents | Non-current assets | Fixed assets: Intangible assets |
| Capital work-in-progress | Non-current assets | Fixed assets: Capital work-in-progress |
| Unpaid dividend | Current liabilities | Other current liabilities |

**Step 4:** Conclusion Patents and capital work-in-progress are non-current assets; unpaid dividend is disclosed under current liabilities as other current liabilities.

**Quick Tip to Solve:** For patents ask whether the asset is physical; for construction ask whether it is ready for use; for unpaid dividend identify the amount owed to shareholders.

**32. 'These ratios are calculated for measuring the efficiency of operations of business based on effective utilisation of resources.'**

**(a) Identify the types of ratios being discussed above.**

**(b) Explain any two ratios of the types of ratios identified in (a) above.** [3 marks]

**Solution:**

**Concept:**

- Activity ratios, also called turnover ratios, measure how efficiently business resources are used to generate revenue from operations.
- A turnover ratio normally compares a period's operating flow with the average balance of the related resource; average balance is opening plus closing balance divided by two.

**Step 1:** Identify the category in part (a) The statement describes Activity Ratios, also known as Turnover Ratios. They indicate the speed or efficiency with which resources such as inventory and trade receivables are used in business operations.

**Step 2:** Explain inventory turnover ratio For part (b), the first example is Inventory Turnover Ratio.

$$\text{Inventory turnover ratio} = \frac{\text{Cost of revenue from operations}}{\text{Average inventory}}.$$

Here, average inventory is $(\text{Opening inventory} + \text{Closing inventory})/2$. The ratio shows how many times average inventory is sold or used during the period. A relatively higher ratio generally indicates faster movement of inventory and less money tied up in stock; an excessively high ratio can also suggest inadequate stock.

**Step 3:** Explain trade receivables turnover ratio The second example is Trade Receivables Turnover

Ratio.

$$\text{Trade receivables turnover ratio} = \frac{\text{Net credit revenue from operations}}{\text{Average trade receivables}}.$$

Trade receivables include debtors and bills receivable; their average is the opening and closing total divided by two. This ratio shows how often average trade receivables are collected during the period. A higher ratio generally indicates faster collection and more efficient credit control. Both ratios are expressed in times and should be interpreted against comparable periods or firms.

**Step 4:** Conclusion The ratios are Activity or Turnover Ratios. Inventory turnover evaluates inventory utilisation, and trade receivables turnover evaluates the efficiency of collection from credit customers.

**Quick Tip to Solve:** Match the numerator to the resource: inventory uses cost of revenue, while receivables use net credit revenue; use average balances in both denominators.

**33(i). (a) Y Ltd. has a Current Ratio of 3.5:1 and Quick Ratio of 2:1. If excess of current assets over quick assets represented by inventory is Rs. 48,000, calculate current assets and current liabilities.**

**(b) Calculate Debt to Equity Ratio:**

**Shareholder Funds - Rs. 2,00,000**

**Reserves and Surplus - Rs. 1,00,000**

**Total Debt - Rs. 4,00,000**

**Current Liabilities - Rs. 1,00,000** [4 marks]

**Solution:**

**Concept:**

- Current ratio is current assets divided by current liabilities; quick ratio is quick assets divided by the same current liabilities. Here the difference between current assets and quick assets is entirely inventory.
- Debt to equity ratio compares long-term debt with shareholders' funds. Long-term debt equals total debt less current liabilities. Shareholders' funds already include reserves and surplus, so these must not be added to that total again.

**Step 1:** (a) Express both asset totals using current liabilities Let current liabilities be Rs $x$. Since the current ratio is $3.5 : 1$, current assets are Rs $3.5x$. Since the quick ratio is $2 : 1$, quick assets are Rs $2x$. Both ratios have the same denominator, allowing their numerators to be subtracted:

$$\text{Inventory} = \text{Current assets} - \text{Quick assets}$$
$$48,000 = 3.5x - 2x = 1.5x$$
$$x = \frac{48,000}{1.5} = 32,000.$$

**Step 2:** (a) Calculate current assets and check both ratios Therefore current liabilities are Rs 32,000. Multiplying this amount by the current-ratio numerator gives

$$\text{Current assets} = 3.5 \times 32,000 = \text{Rs } 1,12,000.$$

Quick assets are $2 \times 32,000 = \text{Rs } 64,000$. Thus inventory is $1,12,000 - 64,000 = \text{Rs } 48,000$, agreeing with the question. The ratios also check: $1,12,000/32,000 = 3.5$ and $64,000/32,000 = 2$.

**Step 3:** (b) Separate long-term debt and identify equity The numerator includes long-term debt, not total debt including current liabilities:

$$\text{Long-term debt} = 4,00,000 - 1,00,000 = \text{Rs } 3,00,000.$$

Equity is the given shareholders' funds of Rs 2,00,000. Reserves and surplus of Rs 1,00,000 are a component of those funds; their separate disclosure does not increase equity to Rs 3,00,000. Hence

$$\text{Debt to equity ratio} = \frac{3,00,000}{2,00,000} = 1.5 : 1.$$

**Step 4:** Conclusion (a) Current assets are $\boxed{\text{Rs } 1,12,000}$ and current liabilities are $\boxed{\text{Rs } 32,000}$. (b) The debt to equity ratio is $\boxed{1.5 : 1}$.

**Quick Tip to Solve:** Divide inventory by the difference $3.5 - 2$ to get current liabilities. For debt to equity, remove current liabilities from total debt and do not add reserves twice.

OR

**33(ii). The Current Ratio of a company is 2:1. State giving reasons which of the following transactions would improve, reduce or not change the ratio:**

**(a) Purchase of goods for cash Rs. 60,000**

**(b) Purchase of fixed assets for cash Rs. 2,00,000**

**(c) Sale of goods costing Rs. 20,000 for Rs. 23,000 on credit**

**(d) Issue of shares Rs. 10,00,000** [4 marks]

**Solution:**

**Concept:**

- The current ratio is Current assets/Current liabilities. With an initial ratio of $2 : 1$, let current liabilities be Rs $L$ and current assets be Rs $2L$, where $L > 0$.
- Examine each transaction independently. A transfer between two current assets leaves total current assets unchanged; an increase or decrease in current assets with current liabilities unchanged changes the ratio in the same direction.

**Step 1:** (a) Analyse the purchase of goods for cash Inventory increases by Rs 60,000 while cash decreases by Rs 60,000. Both are current assets, so the increase and decrease cancel. Current liabilities are unaffected. Therefore

$$\text{New current ratio} = \frac{2L + 60,000 - 60,000}{L} = 2 : 1.$$

The ratio does not change. A cash purchase does not create a creditor, so there is no corresponding increase in current liabilities.

**Step 2:** (b) Analyse the purchase of fixed assets for cash Cash, a current asset, decreases by Rs 2,00,000. The acquired fixed asset is a non-current asset and is not included in the numerator of the current ratio. Current liabilities remain unchanged. Thus

$$\text{New current ratio} = \frac{2L - 2,00,000}{L} = 2 - \frac{2,00,000}{L} < 2.$$

The current ratio reduces because current resources are used to acquire a non-current asset.

**Step 3:** (c) Analyse the credit sale of goods at a profit Trade receivables increase by the selling price of Rs 23,000, while inventory decreases by its cost of Rs 20,000. Total current assets therefore increase by Rs 3,000. No current liability changes. Hence

$$\text{New current ratio} = \frac{2L + 23,000 - 20,000}{L} = 2 + \frac{3,000}{L} > 2.$$

The ratio improves. Although cash is not received immediately, the receivable is itself a current asset; the increase is the profit, not the entire selling price.

**Step 4:** (d) Analyse the issue of shares On the issue of shares for cash, cash or bank increases by Rs 10,00,000 and share capital increases by the same amount. Share capital is shareholders' funds, not a current liability. Current liabilities therefore remain unchanged:

$$\text{New current ratio} = \frac{2L + 10,00,000}{L} = 2 + \frac{10,00,000}{L} > 2.$$

The ratio improves because the company obtains additional current assets through equity finance.

**Step 5:** Conclusion (a) No change; (b) reduces; (c) improves; (d) improves. In each case, compare the net change in current assets with the unchanged current liabilities.

**Quick Tip to Solve:** Track both sides of each transaction: inventory for cash cancels, but a profitable credit sale adds only Rs 3,000 to current assets. Share capital is never a current liability.

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

**Madhav is a young entrepreneur. On 1st April, 2019, he formed a partnership firm with two of his friends, Mohan and Sohan. They started their business of exporting dry fruits. Their business was a successful business. Now they wanted to expand the business in many other countries. For meeting the financial requirements, they changed the form of business organisation and formed Madhav Ltd. The Balance Sheet of Madhav Ltd. as at 31.3.2022 was as follows:**

**Balance Sheet of Madhav 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 | | 35,00,000 | 25,00,000 |
| (b) Reserves and Surplus (Statement of P & L) | | 12,50,000 | 10,00,000 |
| 2. Non-Current Liabilities | | | |
| Long-term Borrowings (10% Debentures) | | 12,50,000 | 3,50,000 |
| 3. Current Liabilities | | | |
| (a) Short-term Borrowings (Bank Overdraft) | | 50,000 | 75,000 |
| (b) Trade Payables | | 2,50,000 | 1,50,000 |
| (c) Short-term Provisions | 1 | 1,50,000 | 75,000 |
| Total | | 64,50,000 | 41,50,000 |
| II - Assets: | | | |
| 1. Non-Current Assets | | | |
| Fixed Assets | | | |
| (a) Tangible Assets | 2 | 40,00,000 | 22,50,000 |
| (b) Intangible Assets (Goodwill) | | 3,50,000 | 5,00,000 |
| 2. Current Assets | | | |
| (a) Inventories | | 6,25,000 | 5,00,000 |
| (b) Trade Receivables | | 12,50,000 | 7,50,000 |
| (c) Cash and Cash Equivalents | | 2,25,000 | 1,50,000 |
| Total | | 64,50,000 | 41,50,000 |

Notes to Accounts:

| Note No. | Particulars | 31.3.2022 Amount (Rs.) | 31.3.2021 Amount (Rs.) |
|---|---|---|---|
| 1 | Short term Provisions<br>Provision for Tax | <br>1,50,000 | <br>75,000 |
| 2 | Tangible Assets<br>Plant and Machinery<br>Less Accumulated Depreciation | <br>44,00,000<br>(4,00,000)<br>40,00,000 | <br>25,00,000<br>(2,50,000)<br>22,50,000 |

Additional Information:

(i) A part of the machine costing Rs. 1,25,000 accumulated depreciation thereon being Rs. 50,000 was sold for Rs. 45,000 during the year.

(ii) Interest of Rs. 1,25,000 was paid on Debentures.

Calculate cash flows from 'Investing activities' and 'Financing activities' of Madhav Ltd. from the information provided above. [6 marks]

**Solution:**

**Concept:**

- Investing activities include cash paid to acquire fixed assets and cash received from their sale. Use original cost movements to determine purchases.
- Financing activities change owners' capital and borrowings. For this non-financial company, debenture interest paid is a financing outflow.
- A fall in bank overdraft represents repayment of short-term borrowing. Non-cash charges such as depreciation and goodwill written off are not investing payments.

**Step 1:** Prepare the plant and machinery working note **Working Notes**

The opening and closing plant figures in Note 2 are original costs, not the net balance-sheet values. Restore the original cost of the asset sold when calculating additions:

$$\begin{aligned}\text{Purchases} &= \text{Closing cost} - \text{Opening cost} + \text{Cost sold}\\ &= 44,00,000 - 25,00,000 + 1,25,000\\ &= \text{Rs } 20,25,000.\end{aligned}$$

Plant and Machinery Account (at cost)

| Dr. | | | Cr. |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Balance b/d | 25,00,000 | By Disposal A/c | 1,25,000 |
| To Bank A/c (purchases) | 20,25,000 | By Balance c/d | 44,00,000 |
| Total | 45,25,000 | Total | 45,25,000 |

The additions are treated as cash purchases because no non-cash acquisition is given. The sale proceeds are Rs 45,000, not the asset's cost or carrying amount.

**Step 2:** Calculate cash flow from investing activities Cash Flow Statement of Madhav Ltd. (Extract)
For the year ended 31st March, 2022

| Particulars | Amount (Rs) |
|---|---|
| **A. Cash flow from investing activities** | |
| Proceeds from sale of machinery | 45,000 |
| Purchase of plant and machinery | (20,25,000) |
| **Net cash used in investing activities** | **(19,80,000)** |

The carrying amount of the machine sold was Rs $1,25,000 - 50,000 = 75,000$; its loss on sale was Rs $75,000 - 45,000 = 30,000$. This loss is a non-cash adjustment in operating activities, not an additional investing outflow. Similarly, the reduction in goodwill does not indicate sale proceeds in the absence of information about a sale.

**Step 3:** Determine the financing movements The balance-sheet movements give the following receipts and repayment:

$$\begin{aligned}\text{Share issue proceeds} &= 35,00,000 - 25,00,000 = \text{Rs } 10,00,000,\\ \text{Debenture issue proceeds} &= 12,50,000 - 3,50,000 = \text{Rs } 9,00,000,\\ \text{Overdraft repaid} &= 75,000 - 50,000 = \text{Rs } 25,000.\end{aligned}$$

No non-cash issue or separate redemption is stated, so the net increases are taken as cash proceeds.

Use the expressly given interest paid of Rs 1,25,000 rather than estimating interest from an opening or closing debenture balance. The overdraft is presented as a short-term borrowing and its decrease is a financing cash outflow.

**Step 4:** Prepare the financing activities extract Cash Flow Statement of Madhav Ltd. (Extract, continued)

For the year ended 31st March, 2022

| Particulars | Amount (Rs) |
|---|---|
| **B. Cash flow from financing activities** | |
| Proceeds from issue of share capital | 10,00,000 |
| Proceeds from issue of debentures | 9,00,000 |
| **Total financing receipts** | **19,00,000** |
| Repayment of bank overdraft | (25,000) |
| Interest paid on debentures | (1,25,000) |
| **Net cash from financing activities** | **17,50,000** |

The changes in inventories, trade receivables, trade payables, tax provisions and retained profits concern the operating section or its workings, which the question does not ask us to prepare.

**Step 5:** Conclusion Net cash used in investing activities is Rs 19,80,000, and net cash generated from financing activities is Rs 17,50,000.

**Quick Tip to Solve:** Use gross plant cost to find purchases, add back the cost sold, and treat the overdraft decrease as a financing repayment.

*OPTION II (Computerised Accounting )*

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

(a) Generation of mnemonic codes.

(b) The encryption of data

(c) Securing the accounts, reports, etc.

(d) Easy processing of data and keeping proper records

**Correct Answer:** (d) Easy processing of data and keeping proper records

**Solution:**

**Concept:**

- Codification assigns a short, unique code to an account or data item.
- Codes support identification, classification, retrieval and efficient processing of accounting records.

**Step 1:** Identify the purpose of coding A business uses codes so that related transactions can be identified consistently, entered quickly and grouped into the proper accounts. This makes processing easier and helps maintain systematic records.

**Step 2:** Distinguish coding from security Mnemonic codes are only one possible type of code, so generating them is not the general purpose of codification. Encryption and securing reports protect data against unauthorised access; they are security functions rather than the purpose of accounting

codes.

**Step 3:** Conclusion Easy processing of data and keeping proper records. Hence, the correct option is (d).

**Quick Tip to Solve:** For codification, look for identification and processing; do not confuse an account code with a password.

OR

**27(ii). Where are the amounts owed by customers for credit purchases found in books of accounts?**

[1 mark]

(a) Accounts Receivable Journal

(b) General Ledger

(c) Accounts Receivable Subsidiary Ledger

(d) Sales Journal

**Correct Answer:** (c) Accounts Receivable Subsidiary Ledger

**Solution:**

**Concept:**

- A subsidiary ledger contains the individual accounts supporting a general-ledger control account.
- The accounts receivable subsidiary ledger records each credit customer's transactions and outstanding balance.

**Step 1:** Identify the information required The question asks for the amounts owed by customers, meaning customer-wise outstanding balances. Individual accounts in the accounts receivable subsidiary ledger show credit sales, collections and adjustments for each customer.

**Step 2:** Compare the alternative records The general ledger normally shows the total receivables control balance, rather than the detailed amount due from every customer. The sales journal records credit sales when they occur; it does not by itself show the balance after collections and adjustments. A journal is a book of original entry, not the customer balance ledger.

**Step 3:** Conclusion Accounts Receivable Subsidiary Ledger. Hence, the correct option is (c).

**Quick Tip to Solve:** When the question asks how much each customer owes, choose the subsidiary ledger rather than the sales journal.

**28. Pie Charts do not have more than _____ categories.** [1 mark]

(a) Three

(b) Twenty

(c) Twelve

(d) Seven

**Correct Answer:** (d) Seven

**Solution:**

**Concept:**

- A pie chart displays each category as a proportion of one whole.
- For clear presentation, the standard guideline is to use no more than seven categories in a pie chart.

**Step 1:** Apply the category guideline Each category becomes a separate slice, and the slices together represent the total. Too many slices make their sizes and labels difficult to compare, particularly when several values are small.

**Step 2:** Check the proposed limits The prescribed upper guideline is seven categories. Three is unnecessarily restrictive because a pie chart may clearly show four to seven categories. Twelve and twenty create too many slices for this guideline. This is a presentation recommendation, not a claim that software cannot draw more slices.

**Step 3:** Conclusion Seven categories. Hence, the correct option is (d).

**Quick Tip to Solve:** Remember seven as the pie-chart category guideline; combine small categories under Others when appropriate.

**29. Which of the following statement is not a limitation of computerised accounting system?** [1 mark]

(a) Data is not made available to everyone.

(b) Data may be lost or corrupted due to power interruptions.

(c) Data are prone to hacking.

(d) Unprogrammed and unspecified reports cannot be generated.

**Correct Answer:** (a) Data is not made available to everyone.

**Solution:**

**Concept:**

- Access controls restrict accounting information to authorised users.
- Limitations include threats to data, dependence on power and equipment, and the reporting capabilities built into the system.

**Step 1:** Recognise the access-control benefit Not making data available to everyone protects confidential accounting information. Authorised users receive access according to their responsibilities, so restricted access is a security feature rather than a limitation.

**Step 2:** Eliminate the actual limitations Power interruptions can cause data loss or corruption,

and hacking threatens data security. Reports not programmed or specified cannot be produced without suitable configuration or development. Thus the remaining three statements describe risks or limitations in the context of the question.

**Step 3:** Conclusion Data is not made available to everyone. Hence, the correct option is (a).

**Quick Tip to Solve:** Underline not in this question, then select the access restriction that protects confidential information.

**30(i). To safeguard assets and optimise the use of resources, a business** [1 mark]

(a) Only tries to earn maximum revenue.

(b) Keeps internal controls.

(c) Only ensures accurate accounting records.

(d) Only safeguards assets.

**Correct Answer:** (b) Keeps internal controls.

**Solution:**

**Concept:**

- Internal controls are policies and procedures designed to safeguard assets and support efficient operations.
- They also improve the reliability of accounting records and help ensure resources are used as intended.

**Step 1:** Connect the objectives to controls Authorisation of transactions, separation of duties and physical verification of assets reduce misuse and help a business employ its resources efficiently. Together these are examples of internal controls.

**Step 2:** Compare the narrower alternatives Earning maximum revenue alone does not protect assets or ensure efficient use of resources. Accurate records alone cover only one control objective, and safeguarding assets alone omits efficient resource use. A system of internal controls addresses both objectives stated in the question.

**Step 3:** Conclusion Keeps internal controls. Hence, the correct option is (b).

**Quick Tip to Solve:** When safeguarding assets and efficient resource use appear together, identify the broader system of internal controls.

OR

**30(ii). Correct ##### error appears:** [1 mark]

(A) When a number is divided by zero.

(B) When value is not available.

(C) When column is not wide enough.

(D) When formula is not available.

**Correct Answer:** (C) When column is not wide enough.

**Solution:**

**Concept:**

- A spreadsheet cell displays a series of hash signs when its formatted numerical value cannot fit within the column width.
- A display-width problem is different from a calculation error: the stored value remains available for calculation.

**Step 1:** Identify the display problem When a column is too narrow to display a number or date in its selected format, the spreadsheet can show #####. Widening the column, for example by using AutoFit, allows the value to be displayed. Thus option (C) describes the stated condition.

**Step 2:** Check the other options Division by zero produces #DIV/0!, so (A) does not describe a width problem. An unavailable value is associated with #N/A, ruling out (B). An unavailable formula is not the reason that hash signs appear, so (D) is also incorrect.

**Step 3:** Conclusion The error appears when the column is not wide enough. Hence, the correct option is (C).

**Quick Tip to Solve:** On seeing hash signs, first widen the column or use AutoFit before changing the stored value or formula.

**31. What is meant by 'Memo Voucher', 'Post-dated Voucher' and 'User-defined voucher'?** [3 marks]

**Solution:**

**Concept:**

- A voucher is a document or electronic record used to enter and support a transaction in an accounting system.
- Special voucher types distinguish provisional entries, future-dated entries and entries classified to suit the user's requirements.

**Step 1:** Memo voucher A memo voucher is a non-accounting or memorandum voucher used to record a transaction provisionally, for reference or later consideration. It does not affect the books of accounts or financial statements while it remains a memo voucher. If the transaction is subsequently confirmed, it may be converted into the appropriate accounting voucher. For example, a provisional payment whose final nature is still to be determined may first be recorded as a memo.

**Step 2:** Post-dated voucher A post-dated voucher records a transaction bearing a date later than the

current date, such as a payment through a post-dated cheque. It is entered in advance but is not included in the current accounting results before its effective date. It becomes effective for accounting on the specified future date, as applicable in the accounting package.

**Step 3:** User-defined voucher A user-defined voucher is a voucher type created by the user to meet a particular business requirement, generally using an existing voucher category as its base. Its name and relevant features, such as numbering or use, can be specified by the user. For example, a separate cash-sales voucher may be created under the sales category to identify cash sales distinctly.

**Step 4:** Conclusion Memo vouchers are provisional records; post-dated vouchers take effect on a future date; and user-defined vouchers provide a classification suited to the business's requirements.

**Quick Tip to Solve:** Distinguish the three by purpose: provisional reference, future effective date, and a business-specific voucher type.

**32. Differentiate between 'Generic Software' and 'Tailored Software' on any three basis.** [3 marks]

**Solution:**

**Concept:**

- Generic accounting software is a ready-to-use package designed for the common needs of a large number of users.
- Tailored accounting software is designed and developed specifically for the requirements of a particular organisation.

**Step 1:** Basis 1: Nature and suitability **Generic software:** It provides standard accounting features for many businesses. It is suitable where routine requirements, such as recording purchases and sales and preparing accounts, can be met by the package's existing features.

**Tailored software:** It is developed according to the detailed requirements of one organisation. Its inputs, processing rules and reports can be designed to accommodate that organisation's particular activities and procedures.

**Step 2:** Basis 2: Cost **Generic software:** Its cost is generally lower because development expenditure is spread over a large number of customers purchasing the same package.

**Tailored software:** Its cost is generally higher because the organisation bears the cost of its specific requirements analysis, program development, testing and related support.

**Step 3:** Basis 3: Implementation time **Generic software:** It is already developed and tested as a standard product, so it can normally be installed and put into use relatively quickly after configuration and training.

**Tailored software:** It normally takes longer to implement because the organisation's requirements must first be studied and the system must then be designed, developed, tested and introduced.

**Step 4:** Conclusion Generic software offers standard features at a generally lower cost and with quicker implementation. Tailored software meets organisation-specific needs but generally costs more and takes longer to implement.

**Quick Tip to Solve:** Compare both packages on the same three bases: suitability, cost and implementation time.

**33(a). How can the format of a selected chart element be changed? Explain.** [4 marks]

**Solution:**

**Concept:**

- A chart consists of separate elements, such as the chart title, axes, legend, plot area and data series; each can be selected and formatted.
- Formatting changes the selected element's appearance, such as its fill, border, font or number display, without changing the underlying worksheet data.

**Step 1:** Activate the chart and select the element Click the chart to activate the Chart Tools tabs. Click the particular chart element whose appearance is to be changed, such as the legend, an axis or a data series. Alternatively, on the Format tab, use the Chart Elements list in the Current Selection group to select the required element precisely. Check the selection before applying formatting so that the change affects the intended element.

**Step 2:** Open the formatting controls On the Format tab, in the Current Selection group, click Format Selection. This opens the formatting dialog box or pane for the selected element. The available choices depend on the element selected. The same element-specific controls can also be opened by right-clicking the selected element and choosing the relevant Format command, such as Format Axis or Format Data Series.

**Step 3:** Specify the required appearance Choose the appropriate formatting category and set the desired options. For example, change the fill colour and border of a data series or plot area, adjust the line style, or set the number format displayed on an axis. For a text element such as a chart title or legend, select the text and change its font, size or colour using the text-formatting controls. Use a consistent, readable style so that the chart continues to communicate the data clearly.

**Step 4:** Apply and review the changes Confirm the settings using the dialog's confirmation control, or close the formatting pane after the changes have been applied. Inspect the chart to ensure that the intended element has changed and that titles, labels and values remain readable. If another element needs formatting, select it separately and repeat the procedure. Save the workbook to retain the revised chart format.

**Step 5:** Conclusion Select the chart element, open Format Selection, choose the required formatting options and apply them; then check the revised chart and save the workbook.

**Quick Tip to Solve:** Use the Chart Elements selection list for small or overlapping elements before clicking Format Selection.

OR

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

**Solution:**

**Concept:**

- Accounting software records, classifies and processes financial transactions electronically, using the accounts and rules configured for the business.
- Its uses extend from entering source transactions to preparing statements and providing information for control and decision-making.

**Step 1:** List uses in recording transactions and controlling balances **1. Recording transactions:** It records purchases, sales, receipts, payments and journal vouchers systematically, reducing repetitive manual entry.

**2. Maintaining ledger accounts:** It posts recorded transactions to the relevant accounts and updates their balances, so account-wise information is available when required.

**3. Managing receivables and payables:** It maintains customer and supplier accounts, tracks unpaid invoices and reports amounts due for collection or payment.

**4. Managing inventory:** It maintains records of stock receipts, issues and balances and helps determine the quantity and value of inventory held.

**Step 2:** List uses in checking, reporting and administration **5. Preparing the trial balance:** It compiles ledger balances to help check the arithmetical equality of total debits and total credits.

**6. Preparing financial statements:** It generates the income statement and balance sheet from the recorded accounts, after necessary adjustments have been entered.

**7. Processing payroll:** It calculates employees' earnings, deductions and net pay and maintains salary records for accounting and payment.

**8. Preparing bank reconciliation:** It helps compare cash-book bank entries with the bank statement and identify outstanding cheques, deposits and other differences.

**Step 3:** Conclusion Eight uses are transaction recording, ledger maintenance, receivables and payables management, inventory management, trial balance preparation, financial statement preparation, payroll processing and bank reconciliation.

**Quick Tip to Solve:** Count eight distinct applications; avoid counting faster calculation and time saving as separate accounting tasks.

**34. Name and explain the financial function which will be used to verify the total interest on a loan between any two periods.** [6 marks]

**Solution:**

**Concept:**

- The `CUMIPMT` financial function calculates the cumulative interest paid on a loan between two specified payment periods, including both the starting and ending periods.

- It applies to a loan with a constant interest rate and constant periodic payments. Each payment contains an interest component and a principal repayment component; only the interest components are totalled.

**Step 1:** State the function and its syntax The required function is **CUMIPMT**, meaning cumulative interest payment. Its spreadsheet syntax is:

```
=CUMIPMT(rate,nper,pv,start_period,end_period,type)
```

The function adds the interest portions of the payments in the selected interval. It can therefore be used to check the total interest shown for that interval in a loan repayment schedule. It does not return the total instalments or the principal repaid.

**Step 2:** Explain the loan arguments **rate:** The interest rate for each payment period. If repayments are monthly and the annual rate is quoted, use the annual rate divided by 12.

**nper:** The total number of payment periods over the whole loan term. For a loan lasting five years with monthly payments, nper $= 5 \times 12 = 60$.

**pv:** The present value of the loan, that is, the principal amount borrowed. Enter a positive loan amount. The rate and loan term must use the same time unit as the payment periods.

**Step 3:** Explain the period and timing arguments **start_period:** The first payment period whose interest is to be included. Payment periods are numbered starting from 1.

**end_period:** The last payment period whose interest is to be included. It must be at least the starting period and must not exceed the total number of periods.

**type:** The timing of payments: use $0$ when payments fall due at the end of each period and $1$ when payments fall due at its beginning. This argument is required.

**Step 4:** Apply the function to verify an interest total For illustration, consider a loan of Rs 1,00,000 at an annual rate of $12\%$, repayable monthly over five years, with payments at the end of each month. To verify the interest for the first year, enter:

```
=CUMIPMT(12%/12,5*12,100000,1,12,0)
```

Compare the magnitude of its result with the sum of the interest entries for instalments 1 to 12 in the repayment schedule. With a positive principal, the function returns a negative result because interest payments are cash outflows. To display the interest paid as a positive amount, place a minus sign before the function. Changing the starting and ending periods selects a different interval for verification.

**Step 5:** Conclusion Use **CUMIPMT** with the periodic rate, total loan periods, principal, starting period, ending period and payment timing to verify the cumulative interest paid between any two specified payment periods.

**Quick Tip to Solve:** For monthly loans, divide the annual rate by 12 and multiply years by 12; select the required instalment numbers and check the sign convention.