CBSE Class 12 Accountancy Question Paper 2023 with Solution PDF-Set 67-4-2

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. 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 changes in assets and liabilities when a partnership is reconstituted.
- A rise in a liability increases the firm's obligation and is a loss; losses are debited to Revaluation Account.

Step 1: Evaluate the assertion When a liability increases, that liability account is credited for the increase and Revaluation Account is debited. Thus the assertion correctly describes the accounting treatment.

Step 2: Evaluate the reason An increased liability means that the firm must settle a greater obligation without a corresponding increase in assets. The resulting decrease in net assets is a revaluation loss, so the reason is also correct.

Step 3: Connect the reason to the treatment Revaluation losses are recorded on the debit side. Therefore, the fact that the increase in liability is a loss directly explains the debit stated in the assertion. Options (A), (B) and (D) incorrectly reject one or both true statements.

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

Quick Tip to Solve: For revaluation, an increase in a liability is a loss (debit), while a decrease is a gain (credit).

2 and 3. Read the following hypothetical situation and answer questions number 2 and 3 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.

2. 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 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, partners' salaries and shares of profit are credited to partners' Current Accounts.
- Annual interest on capital equals capital multiplied by the annual interest rate. Convert monthly and quarterly salaries into annual amounts before adding them.

Step 1: Calculate interest on capital Apply the agreed rate of 10% per annum to each partner's fixed capital:

$$\text{Keshav: } 12,00,000 \times 10\% = \text{Rs } 1,20,000,$$
$$\text{Krishna: } 10,00,000 \times 10\% = \text{Rs } 1,00,000,$$
$$\text{Murari: } 8,00,000 \times 10\% = \text{Rs } 80,000.$$

Step 2: Add the annual salaries Keshav's annual salary is $5,000 \times 12 = \text{Rs } 60,000$, while Krishna's is $3,000 \times 4 = \text{Rs } 12,000$. No salary is provided for Murari. The credits for interest and salary together are therefore:

$$\text{Keshav: } 1,20,000 + 60,000 = \text{Rs } 1,80,000,$$
$$\text{Krishna: } 1,00,000 + 12,000 = \text{Rs } 1,12,000,$$
$$\text{Murari: } 80,000 + 0 = \text{Rs } 80,000.$$

Option (A) includes only interest and option (C) only salary. Option (D) additionally includes shares of residual profit, which this question does not ask for.

Step 3: Conclusion The amounts credited for interest on capital 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: Multiply monthly salary by 12 and quarterly salary by 4; then add each salary to that partner's annual interest, excluding the separate share of profit.

3. 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:

- Partners' interest on capital and salaries are appropriations of profit. Deduct these before distributing the remaining profit in the agreed profit-sharing ratio.
- Under the fixed capital method, each partner's share of residual profit is transferred to that partner's Current Account.

Step 1: Calculate the residual profit Total interest on capital at 10% is $1,20,000+1,00,000+80,000 =$ Rs $3,00,000$. Annual salaries are Rs 60,000 for Keshav and Rs 12,000 for Krishna, totalling Rs 72,000. Hence the amount available for sharing is:

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

Step 2: Divide the balance in the agreed ratio The ratio $3:2:1$ has six parts. Allocate the residual profit accordingly:

$$\begin{aligned}\text{Keshav: } 3,00,000 \times \frac{3}{6} &= \text{Rs } 1,50,000, \\ \text{Krishna: } 3,00,000 \times \frac{2}{6} &= \text{Rs } 1,00,000, \\ \text{Murari: } 3,00,000 \times \frac{1}{6} &= \text{Rs } 50,000.\end{aligned}$$

The three shares total Rs 3,00,000. Options (A) and (B) allocate the shares to the wrong partners. Option (D) totals Rs 3,03,000, exceeding the residual profit available for distribution.

Step 3: Conclusion The 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: First deduct the full annual interest and salaries; divide only the remaining Rs 3,00,000 in the ratio 3:2:1, and check that the shares add back to this balance.

4(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:

- Discount on issue is a capital loss equal to the face value of debentures multiplied by the discount rate.
- When both discount on issue and premium on redemption are recorded in Loss on Issue of Debentures Account, their sum is debited to that account.

Step 1: Calculate the two components of loss The total face value is $2,00,000 \times \text{Rs } 100 = \text{Rs } 2,00,00,000$. Discount on issue is $2,00,00,000 \times 5/100 = \text{Rs } 10,00,000$. Premium payable on redemption is also $2,00,00,000 \times 5/100 = \text{Rs } 10,00,000$. The 7% coupon rate determines interest and does not enter this calculation.

Step 2: Determine the debit to the loss account Both components represent capital losses arising from the terms of issue. Therefore,

$$\text{Total loss} = 10,00,000 + 10,00,000 = \text{Rs } 20,00,000.$$

Option (B) includes only one component, while (A) and (D) incorrectly credit a loss. The account must be debited for the full combined 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 issue discount and redemption premium; ignore the coupon rate when finding loss on issue.

OR

4(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 includes both the discount allowed at issue and the premium payable on redemption when these are recorded in one loss account.
- Redemption premium is found by subtracting the issue discount from the total loss; the debenture interest rate does not measure either component.

Step 1: Compute the issue discount The face value of 4,000 debentures of Rs 100 each is Rs 4,00,000. At a discount of 10%, the discount is

$$\text{Discount} = 4,00,000 \times \frac{10}{100} = \text{Rs } 40,000.$$

The stated 9% rate is the annual interest rate and is not used to calculate this loss.

Step 2: Isolate the redemption premium Of the total loss of Rs 60,000, Rs 40,000 is the issue discount. The balance is the premium payable on redemption:

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

Option (A) gives the entire loss, option (B) gives only the discount, and option (D) exceeds the total loss. None represents the required residual component.

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

Quick Tip to Solve: When the total loss is given, deduct the issue discount to isolate the redemption premium.

5. 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:

- Charging interest on drawings and transferring that interest to Profit and Loss Appropriation Account are two distinct accounting stages.
- Interest on Drawings Account initially has a credit balance; transferring its income requires debiting this account and crediting Profit and Loss Appropriation Account.

Step 1: Identify the stage asked for When interest is first charged to a partner, the partner's capital or current account is debited and Interest on Drawings Account is credited. The question instead asks about transferring this accumulated interest to Profit and Loss Appropriation Account.

Step 2: Close the interest account To transfer the credit balance, debit Interest on Drawings Account and credit Profit and Loss Appropriation Account by the same amount. This closes the interest account and increases the profit available for appropriation. Bank Account is unaffected because the transfer is not a cash transaction. Partners' Current and Capital Accounts relate to the initial charge, not this transfer; the 12% rate would determine the amount only if drawings and their dates were given.

Step 3: Conclusion Interest on Drawings Account is debited to make the transfer. Hence, the correct option is (A).

Quick Tip to Solve: Underline the word 'transfer': close Interest on Drawings Account by debiting its credit balance.

6(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; only excess money from the successful applicants is available for adjustment.
- Excess application money first meets allotment due. Any remaining amount applied towards a call not yet due is credited to Calls-in-Advance Account.

Step 1: Calculate the available excess application money Applications retained for pro-rata allotment represent $1,45,000 - 20,000 = 1,25,000$ shares. Their application money is $1,25,000 \times$ Rs $3 =$ Rs $3,75,000$. Application money required on the 50,000 allotted shares is $50,000 \times$ Rs $3 =$ Rs $1,50,000$. Thus, the excess available is Rs 2,25,000. The rejected applicants' Rs 60,000 is refundable and excluded.

Step 2: Adjust allotment and determine the call advance Allotment due is $50,000 \times$ Rs $4 =$ Rs $2,00,000$. After applying the excess towards allotment, the balance is

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

This balance is credited to Calls-in-Advance Account for the first and final call. Option (A) is the excess before allotment adjustment; option (C) is neither that excess nor its balance. Nil is incorrect because some money remains after allotment is fully covered.

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

Quick Tip to Solve: Exclude rejected applications, then subtract application capital and allotment due from retained receipts.

OR

6(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 Memorandum of Association; issued capital is the portion offered for subscription.
- Subscribed capital is the part of issued capital actually taken up by the public. Paid-up capital is the amount of called-up capital actually received.

Step 1: Identify the meaning of subscription Subscription concerns the public's acceptance of shares that the company has offered. Therefore, the defining words are 'part of the issued capital' and 'actually subscribed by the public'. It is not determined merely by the company's authority to issue shares or by how much cash has been collected.

Step 2: Distinguish the other descriptions Option (A) describes authorised capital, which sets the permitted maximum. Option (B) describes issued capital, which may be larger than the part subscribed. Option (D) describes paid-up capital, the amount actually received against calls. Only option (C) correctly identifies the portion of issued capital subscribed by the public.

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

Quick Tip to Solve: Match the key words: permitted means authorised, offered means issued, and taken up means subscribed.

7. 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 subscribed share capital that the company has not yet called upon share-holders to pay.
- Reserve capital is the portion of uncalled capital that is reserved for being called only on the winding up of the company.

Step 1: Apply the winding-up condition The question specifies both that the capital is uncalled and that it can be called only at winding up. This restriction distinguishes reserve capital from the ordinary uncalled capital that may be called during the company's continuing operations.

Step 2: Eliminate the other categories Issued capital means the part of authorised capital offered for subscription and does not imply a winding-up restriction. Paid-up capital has already been received, so it cannot be the amount still to be called. Un-issued capital has not been issued for subscription at all; it is not an outstanding call on shares held by shareholders. Thus only reserve capital matches both conditions in the question.

Step 3: Conclusion The specified part of uncalled share capital is reserve capital. Hence, the correct option is (C).

Quick Tip to Solve: Link 'called only at winding up' directly to reserve capital, not to capital reserve or un-issued capital.

8. 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:

- Only cash or bank proceeds from the sale of an asset are debited to Bank Account.
- An asset taken over by a partner is adjusted through that partner's capital account; its takeover

value does not enter Bank Account.

Step 1: Find the book value of the furniture sold The total furniture is Rs 2,00,000. The partner takes half, leaving the other half for sale. Thus the book value of the furniture sold is

$$\text{Rs } 2,00,000 \times \frac{50}{100} = \text{Rs } 1,00,000.$$

Step 2: Calculate the cash realised The remaining furniture is sold at 20% below its book value, so 80% is received:

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

Rs 1,45,000 incorrectly includes the non-cash takeover of Rs 65,000. Rs 65,000 is the takeover value alone, and Rs 1,85,000 is not the cash sale proceeds.

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

Quick Tip to Solve: Exclude the partner's takeover first; apply the sale discount only to the half actually sold.

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9. 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 the amount already received towards the nominal share capital on the forfeited shares.
- Securities premium received is excluded from forfeiture credit; unpaid calls reduce the capital amount received.

Step 1: Calculate the capital received per share Each share has a nominal value of Rs 10 and its unpaid first and final call is Rs 4. Therefore the capital already received is

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

The Rs 5 premium is separate from share capital.

Step 2: Multiply by the forfeited shares For 5,000 shares, the credit is

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

Rs 20,000 is the unpaid call amount, not the amount received. Rs 50,000 is total nominal capital. Rs 55,000 incorrectly includes the premium received: $5,000 \times (6+5)$.

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

Quick Tip to Solve: Subtract unpaid capital calls from face value, then multiply; never add premium to forfeiture credit.

10. 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, that agreed amount is credited to the partner's capital account.
- Actual expenses paid personally by the partner are not separately reimbursed when the partner has undertaken to bear them.

Step 1: Identify the firm's obligation Naresh has undertaken to bear all realisation expenses in return for a fixed Rs 14,500. The firm therefore charges Realisation Account and credits Naresh's Capital Account with Rs 14,500; the agreement determines this amount.

Step 2: Distinguish the actual expenses Naresh personally pays Rs 11,000. These expenses are his responsibility, so they do not create another credit in his capital account. The difference $14,500 - 11,000 = \text{Rs } 3,500$ is his net benefit, not the agreed credit. Rs 25,500 incorrectly adds the actual expenses to the fixed payment, while Rs 11,000 ignores the agreed amount.

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

Quick Tip to Solve: When the partner bears expenses for a fixed payment, use that payment; do not add actual expenses.

11. 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: No option matches 40% of the full issue price: application Rs 2,20,000 and allotment Rs 3,30,000. Option (C) is intended only if application is based on nominal value and the whole premium is payable on allotment.

Solution:

Concept:

- The issue price of a debenture equals its face value plus the issue premium.
- Under the installment interpretation used by the options, 40% of nominal value is payable on application and the premium is collected with allotment. The 7% rate is an interest rate, not an issue-price adjustment.

Step 1: Calculate application money Face value per debenture is Rs 100. Taking application as 40% of face value gives Rs 40 per debenture. Hence

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

Step 2: Include the premium in allotment The premium is $100 \times 10\% = \text{Rs } 10$ per debenture, making the issue price Rs 110. Allotment therefore collects the remaining Rs 60 of nominal value plus Rs 10 premium:

$$\text{Allotment} = 5,000 \times \text{Rs } 70 = \text{Rs } 3,50,000.$$

Total receipts are Rs 5,50,000. Option (A) misallocates application; (B) omits the premium; (D) understates the total. Literally applying 40% to the full issue price would give Rs 2,20,000 and Rs 3,30,000, which no option lists; the stated installment interpretation is therefore necessary for the intended option.

Step 3: Conclusion As literally worded, application and allotment are Rs 2,20,000 and Rs 3,30,000, so no printed option matches. Option (C), Rs 2,00,000 and Rs 3,50,000, is the intended answer only under the nominal-value application and premium-on-allotment interpretation; that additional condition is not stated.

Quick Tip to Solve: Check that application plus allotment equals Rs 5,50,000, including the full 10% premium.

12(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:

- When the continuing partners' acquisition ratio is not specified, they acquire the deceased partner's share in their existing relative profit-sharing ratio.
- The gaining ratio compares only the partners who continue; the deceased partner is excluded.

Step 1: Identify the continuing partners The old ratio of Anu, Monu and Sonu is $5 : 3 : 2$. Monu dies, leaving Anu and Sonu. Their old shares relative to each other are therefore $5 : 2$, not $5 : 3$ or $3 : 2$, which involve Monu.

Step 2: Check the division of Monu's share Monu's old share is $3/10$. Anu acquires $(3/10)(5/7) = 15/70$, while Sonu acquires $(3/10)(2/7) = 6/70$. Their acquisitions are in the ratio $15 : 6 = 5 : 2$. Equal acquisition, option (A), would require an agreement that is not given.

Step 3: Conclusion Anu and Sonu acquire Monu's share in the ratio 5:2. Hence, the correct option is (D).

Quick Tip to Solve: With no new agreement, delete the deceased partner's number from the old ratio to get the survivors' acquisition ratio.

OR

12(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:

- A continuing partner's new share equals the old share plus the portion acquired from the deceased partner.
- Only the partner who acquires the deceased partner's share gains; the other partner's share stays

unchanged.

Step 1: Add Mita's share to Vidit's share The ratio $4:3:1$ contains eight equal parts. Vidit's old share is $4/8$ and Mita's share is $1/8$. Since Vidit takes her entire share,

$$\text{Vidit's new share} = \frac{4}{8} + \frac{1}{8} = \frac{5}{8}.$$

Step 2: Keep Sumit's share unchanged Sumit acquires none of Mita's share, so his share remains $3/8$. The new shares total $5/8 + 3/8 = 1$, and their ratio is $5:3$. Option (A) wrongly makes the shares equal; (C) reverses the named partners; (D) wrongly reduces Sumit's share.

Step 3: Conclusion The new profit-sharing ratio of Vidit and Sumit is 5:3. Hence, the correct option is (B).

Quick Tip to Solve: Add Mita's one ratio unit only to Vidit's four; keep Sumit's three units unchanged.

13(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 $I = P \times r \times t$, where P is the loan, r the annual rate and t the time in years.

Step 1: Determine the period of the loan The loan is advanced on 1st October, 2020 and interest is required up to 31st March, 2021. It is outstanding for six months, so $t = 6/12$ year. The loan is distinct from partner's capital and earns the stated default interest even without a partnership deed.

Step 2: Apply the annual rate for six months

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

Rs 7,200 is a full year's interest. Rs 12,000 and Rs 6,000 do not use the required 6% annual rate for the six-month period.

Step 3: Conclusion The interest payable to Amit on 31st March, 2021 is Rs 3,600. Hence, the correct option is (A).

Quick Tip to Solve: For six months at 6% per annum, take 3% of the loan: Rs 1,20,000 multiplied by 0.03.

OR

13(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's estimated share of profit up to the date of death is credited to that partner's capital account.
- The corresponding debit is made to Profit and Loss Suspense Account because final profit for the full accounting period is not yet determined.

Step 1: Identify the interim profit adjustment Sanjay dies before the accounts for the full year are finalised. His profit share up to death is already given as Rs 75,000; the old profit ratio need not be applied again. This amount increases the sum due to his estate and is credited to his capital account.

Step 2: Choose the matching debit account The temporary account used for this interim profit credit is Profit and Loss Suspense Account, which is debited by Rs 75,000. Profit and Loss Account determines actual period profit, Profit and Loss Appropriation Account distributes profit, and Profit and Loss Adjustment Account is not the standard suspense account for this death-date estimate.

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

Quick Tip to Solve: For profit credited to a deceased partner before final accounts are prepared, look for Profit and Loss Suspense Account.

14(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:

- A partner's sacrifice is old share minus new share; a negative result represents a gain.
- The gaining partner compensates the sacrificing partner by goodwill multiplied by the share gained: debit the gainer and credit the sacrificer.

Step 1: Calculate the sacrifice and gain Ria's share falls from $3/5$ to $1/2$, so her sacrifice is $3/5 - 1/2 = 1/10$. Surbhi's share rises from $2/5$ to $1/2$, so her gain is $1/2 - 2/5 = 1/10$. These are equal and opposite changes.

Step 2: Value the compensation

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

Surbhi is the gaining partner, so her account is debited; Ria is the sacrificing partner, so her account is credited. Option (B) reverses the adjustment, while (C) and (D) use Rs 3,000 instead of Rs 30,000.

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

Quick Tip to Solve: Compare each old share with one-half; the partner whose share rises pays the other one-tenth of goodwill.

OR

14(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:

- Sacrifice equals old share minus new share. A positive difference is a sacrifice; a negative difference represents a gain of that magnitude.
- The total sacrifice must equal the total gain because the partners together share the whole profit before and after the change.

Step 1: Compare each partner's old and new share Both ratios have a total of 16. Therefore, the changes can be calculated directly using the same denominator:

$$\begin{aligned} \text{Naman: } & \frac{8}{16} - \frac{5}{16} = \frac{3}{16} \quad \text{(sacrifice)}, \\ \text{Suman: } & \frac{5}{16} - \frac{6}{16} = -\frac{1}{16} \quad \text{(gain)}, \\ \text{Mohit: } & \frac{3}{16} - \frac{5}{16} = -\frac{2}{16} \quad \text{(gain)}. \end{aligned}$$

Step 2: Verify the changes and compare the options The gains of Suman and Mohit total $1/16+2/16 = 3/16$, exactly matching Naman's sacrifice. Options (A) and (D) incorrectly show Naman as gaining even though his share falls. Option (C) interchanges the amounts gained by Suman and Mohit.

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: Since both ratios total 16, subtract their numerators partner by partner; a rise in the numerator means a gain.

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 surrendered, or plus the share acquired.
- Shares transferred here are fractions of the firm's total profit. Nityam receives $1/9$ from each of the other two partners.

Step 1: Adjust the three profit shares The old ratio $4 : 3 : 2$ gives shares $4/9, 3/9, 2/9$. Niva and Naman each surrender $1/9$, so Nityam acquires a total of $2/9$.

$$\begin{aligned} \text{Niva's new share} &= 4/9 - 1/9 = 3/9, \\ \text{Naman's new share} &= 3/9 - 1/9 = 2/9, \\ \text{Nityam's new share} &= 2/9 + 1/9 + 1/9 = 4/9. \end{aligned}$$

Step 2: Express the shares in the named order The shares total $(3 + 2 + 4)/9 = 1$. Cancelling their common denominator gives the ratio $3 : 2 : 4$ in the order Niva, Naman and Nityam. Option (A) incorrectly increases Naman's share, option (B) swaps Niva and Naman, and option (C) leaves Niva's share unchanged and understates Nityam's gain.

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 giver and add both ninths to Nityam; retain the order of names when writing the ratio.

16. 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:

- Average profit equals the algebraic total of the profits and losses divided by the number of years. A loss shown in brackets is deducted.
- Under the average-profit method, goodwill equals average annual profit multiplied by the agreed number of years' purchase.

Step 1: Calculate average profit for four years Treat the 2018–19 loss of Rs 14,500 as negative; the other three amounts are profits.

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

Step 2: Apply three years' purchase Multiply the average annual profit by 3, the agreed purchase multiplier:

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

Options (A) and (D) do not equal three times the computed average. Option (C) is also too high; the loss year cannot be excluded or treated as a positive profit. All four years belong in the denominator even though one has a loss.

Step 3: Conclusion The value of goodwill is $\boxed{\text{Rs } 37,950}$. Hence, the correct option is (B).

Quick Tip to Solve: Keep the four-year averaging period separate from the three-year purchase multiplier, and enter the bracketed loss with a minus sign.

17. Niti and Aditi were partners in a firm sharing profits and losses in the ratio of 2:3. They admitted John into partnership for 1/4th share in the profits of the firm, which he acquired equally from Niti and Aditi. John brought Rs. 5,00,000 as his capital and Rs. 1,00,000 as premium for goodwill. One-fourth of the goodwill was withdrawn by the old partners.

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

Solution:

Concept:

- The premium for goodwill brought by an incoming partner compensates the old partners in their sacrificing ratio, rather than automatically in their old profit sharing ratio.
- Capital introduced is credited to the incoming partner's Capital Account. A withdrawal of goodwill credited to old partners is debited to their Capital Accounts and credited to Bank Account.

Step 1: Determine the sacrifice and goodwill adjustment **Working Notes** John acquires his $1/4$ share equally from Niti and Aditi. Each therefore sacrifices $1/8$, giving a sacrificing ratio of $1:1$, although their old ratio was $2:3$.

$$\text{Premium credited to each} = 1,00,000 \times \frac{1}{2} = \text{Rs } 50,000,$$

$$\text{Withdrawal by each} = 50,000 \times \frac{1}{4} = \text{Rs } 12,500,$$

$$\text{Total withdrawal} = 12,500 + 12,500 = \text{Rs } 25,000.$$

The unwithdrawn premium of Rs 37,500 per old partner remains credited to that partner's capital. John's capital and premium are distinct receipts; total money received is Rs 6,00,000.

Step 2: Record the receipt, distribution and withdrawal **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		6,00,000	
	To John's Capital A/c			5,00,000
	To Premium for Goodwill A/c			1,00,000
(Being capital and premium for goodwill brought in by John)				
	Premium for Goodwill A/c Dr.		1,00,000	
	To Niti's Capital A/c			50,000
	To Aditi's Capital A/c			50,000
(Being premium distributed equally to the old partners in their sacrificing ratio)				
	Niti's Capital A/c Dr.		12,500	
	Aditi's Capital A/c Dr.		12,500	
	To Bank A/c			25,000
(Being one-fourth of the premium credited to the old partners withdrawn by them)				

Step 3: Conclusion John's capital is credited with Rs 5,00,000; Niti and Aditi each receive Rs 50,000 goodwill credit and withdraw Rs 12,500. All three entries have equal debits and credits.

Quick Tip to Solve: Use the stated equal acquisition to get a 1:1 sacrificing ratio; apply the one-fourth withdrawal to each partner's Rs 50,000 premium credit.

18(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:

- On purchase of a business, acquired assets are debited and liabilities assumed are credited. Purchase consideration exceeding net assets is debited to Goodwill Account.
- Debentures issued at discount are credited at their face value; the difference between face value and issue value is debited to Discount on Issue of Debentures Account.

Step 1: Calculate goodwill and the number of debentures **Working Notes** The agreed Rs 8,30,000 is the purchase consideration, not the net asset value. Net assets equal Rs $8,00,000 - 40,000 = 7,60,000$. Thus goodwill is Rs $8,30,000 - 7,60,000 = 70,000$.

$$\begin{aligned}\text{Debenture settlement} &= 8,30,000 - 2,00,000 = \text{Rs } 6,30,000,\\ \text{Issue price per debenture} &= 100 - 10 = \text{Rs } 90,\\ \text{Number issued} &= 6,30,000/90 = 7,000,\\ \text{Face value} &= 7,000 \times 100 = \text{Rs } 7,00,000,\\ \text{Discount on issue} &= 7,000 \times 10 = \text{Rs } 70,000.\end{aligned}$$

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1.4.21	Sundry Assets A/c Dr.		8,00,000	
	Goodwill A/c Dr.		70,000	
	To Sundry Liabilities A/c			40,000
	To Pranjal Ltd.			8,30,000
(Being assets and liabilities taken over from Pranjal Ltd. at the agreed consideration)				
1.4.21	Pranjal Ltd. Dr.		2,00,000	
	To Bills Payable A/c			2,00,000
(Being three-month acceptance given towards purchase consideration)				
1.4.21	Pranjal Ltd. Dr.		6,30,000	
	Discount on Issue of Debentures A/c Dr.		70,000	
	To 10% Debentures A/c			7,00,000
(Being 7,000 debentures of Rs 100 each issued at a 10% discount to settle the remaining consideration)				

Step 3: Conclusion Hitesh Ltd. records goodwill of Rs 70,000, a bill payable of Rs 2,00,000 and 7,000 debentures with face value Rs 7,00,000 and discount Rs 70,000. Pranjal Ltd.'s balance is fully settled.

Quick Tip to Solve: Deduct the Rs 2,00,000 acceptance first, then divide the remaining consideration by Rs 90, the issue price rather than the Rs 100 face value.

OR

18(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 Account is debited with called-up capital. Securities Premium Account is debited if premium due was not received, and Share Forfeiture Account is credited only with capital actually received.
- Discount on reissue is debited to Share Forfeiture Account. Only the surplus relating to shares actually reissued is transferred to Capital Reserve Account.

Step 1: Calculate the forfeiture and reissue amounts **Working Notes** Called-up capital is Rs 90 per share and the unpaid premium is Rs 10 per share. Unpaid allotment of Rs 30 therefore includes Rs 20 capital and Rs 10 premium; the unpaid first call is Rs 20 capital. Capital received per share is Rs $90 - 20 - 20 = 50$.

$$\begin{aligned}
\text{Called-up capital forfeited} &= 500 \times 90 = \text{Rs } 45,000,\\
\text{Unpaid premium reversed} &= 500 \times 10 = \text{Rs } 5,000,\\
\text{Forfeiture credit} &= 500 \times 50 = \text{Rs } 25,000,\\
\text{Reissue discount} &= 300 \times (100 - 80) = \text{Rs } 6,000,\\
\text{Capital reserve} &= 300 \times 50 - 6,000 = \text{Rs } 9,000.
\end{aligned}$$

Reissued shares are fully paid, so their capital credit is Rs $300 \times 100 = 30,000$, despite only Rs 90 having been called before forfeiture.

Step 2: Journalise forfeiture, reissue and capital profit **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 non-payment of 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 Rs 100 shares)				
	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 Capital reserve is Rs 9,000. The Share Forfeiture balance of Rs $25,000 - 6,000 - 9,000 = 10,000$ relates to the 200 shares not yet reissued and is retained.

Quick Tip to Solve: Separate the Rs 10 unpaid premium from allotment, and transfer only the forfeiture surplus belonging to the 300 reissued shares.

19(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:

- A partner's guaranteed profit is the minimum share to be credited to that partner. First calculate the normal shares in the agreed profit-sharing ratio.
- If the beneficiary's normal share is below the guarantee, the other partners bear the deficiency in their mutual profit-sharing ratio, unless a different ratio is specified.

Step 1: Working Notes: calculate the normal shares The total of the ratio $6:4:1$ is 11. Distribute the net profit of Rs 22,00,000 before applying the guarantee:

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

Kamolika's normal share falls short of her guaranteed Rs 3,00,000 by Rs 1,00,000. The guarantee changes the allocation of the existing profit; it does not increase the firm's total profit.

Step 2: Allocate the deficiency to the other partners Monika and Bhoomika bear the deficiency in their mutual ratio $6:4 = 3:2$, because no separate guarantee-bearing ratio is given.

$$\text{Monika's sacrifice} = 1,00,000 \times \frac{3}{5} = \text{Rs } 60,000,$$
$$\text{Bhoomika's sacrifice} = 1,00,000 \times \frac{2}{5} = \text{Rs } 40,000.$$

Thus Monika receives Rs 11,40,000, Bhoomika Rs 7,60,000 and Kamolika Rs 3,00,000. These amounts total Rs 22,00,000, so the entire available profit is appropriated.

Step 3: Prepare the Profit and Loss Appropriation Account **Profit and Loss Appropriation Account for the year ended 31st March, 2022**

Dr.			Cr.
Particulars	Amount (Rs)	Particulars	Amount (Rs)
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

The appropriation account closes after the full profit is transferred to the partners' capital accounts; there is no balance to carry forward.

Step 4: Conclusion The final profit shares are Monika Rs 11,40,000, Bhoomika Rs 7,60,000 and Kamolika Rs 3,00,000. Both sides of the Profit and Loss Appropriation Account total Rs 22,00,000.

Quick Tip to Solve: Calculate Kamolika's normal share first, then divide only her Rs 1,00,000 shortfall between Monika and Bhoomika in the ratio 3:2.

OR

19(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. The balance after salaries must be divided in the agreed profit-sharing ratio, here $3:3:2$.
- A single adjustment entry transfers an excess credit from an over-credited partner to under-credited partners. Compare each partner's correct entitlement with the amount already credited.

Step 1: Working Notes: calculate salaries and residual profit Ananya and Chandni each receive an annual salary of $1,500 \times 12 = \text{Rs } 18,000$. Bhavi's salary is Rs 4,000 for the full year, not per month. Total salaries are therefore $18,000 + 4,000 + 18,000 = \text{Rs } 40,000$.

$$\text{Profit after salaries} = 80,000 - 40,000 = \text{Rs } 40,000.$$

The residual Rs 40,000 is divisible in the ratio $3:3:2$. The capitals stated in the question do not determine this ratio, and no interest on capital is provided by the given deed.

Step 2: Compare correct and recorded profit credits Before correction, the entire Rs 80,000 was shared in the ratio $3:3:2$, giving Ananya Rs 30,000, Bhavi Rs 30,000 and Chandni Rs 20,000. The corrected calculation is:

Particulars	Ananya (Rs)	Bhavi (Rs)	Chandni (Rs)
Salary entitlement	18,000	4,000	18,000
Share of residual profit of Rs 40,000	15,000	15,000	10,000
Correct total credit	33,000	19,000	28,000
Amount already credited	30,000	30,000	20,000
Adjustment required	3,000 Cr.	11,000 Dr.	8,000 Cr.

Ananya and Chandni must receive additional credits. Bhavi has received Rs 11,000 too much, which exactly equals their combined shortfall of Rs 3,000 plus Rs 8,000. The adjustment redistributes profit without changing the total profit.

Step 3: Pass the rectifying journal 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 partners' salaries adjusted through capital accounts after correcting the profit distribution)			

Capital accounts are used since the question does not specify fixed capitals. Under the fixed capital method, the same adjustment would be made through the partners' current accounts.

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. Total debit and total credit are both Rs 11,000.

Quick Tip to Solve: For an omitted salary, compare salary plus revised residual profit with the old profit credit; do not simply credit all three salaries again.

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20. Raj, Mehak and Divya were partners in a firm sharing profits and losses in the ratio of 2:2:1. Their respective capitals were: Rs. 6,00,000, Rs. 4,00,000 and Rs. 2,00,000. The partnership deed provided for the following:

(a) Interest on capital @ 8% per annum.

(b) Interest on drawings @ 6% per annum.

(c) Interest on partner's loan to the firm @ 5% per annum.

During the year, Raj had withdrawn Rs. 12,000 on 1st October, 2021, while Mehak withdrew Rs. 60,000 on 1st December, 2021.

On 1st January, 2021, Divya had given a loan of Rs. 1,20,000 to the firm.

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

(i) Allowing interest on Raj's capital.

(ii) Charging interest on Mehak's drawings.

(iii) Providing interest on loan given to the firm by Divya.

Also pass 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 increases the profit available for appropriation. Both are transferred to the Profit and Loss Appropriation Account.
- Interest on a partner's loan is a charge against profit and is transferred to the Profit and Loss Account. Apply the deed's stated interest rate for the time relevant to the accounting year.

Step 1: Working Notes: compute the three amounts (i) Raj's interest on capital for the full year is:

$$6,00,000 \times \frac{8}{100} = \text{Rs } 48,000.$$

Raj's withdrawal is a drawing; it is not a permanent reduction of the capital specified in the question. Its separate interest is not requested here.

(ii) Mehak withdrew Rs 60,000 on 1st December, 2021. The period to 31st March, 2022 is four months:

$$60,000 \times \frac{6}{100} \times \frac{4}{12} = \text{Rs } 1,200.$$

(iii) Divya advanced her loan on 1st January, **2021**, before the beginning of the current accounting year. It remained outstanding throughout 1st April, 2021 to 31st March, 2022. Thus the current year's interest is for twelve months:

$$1,20,000 \times \frac{5}{100} \times \frac{12}{12} = \text{Rs } 6,000.$$

The earlier January–March 2021 period belongs to the preceding accounting year. It is not included in this year's expense. The contractual rate is 5%, so the default rate used when a deed is silent does not apply.

Step 2: Record and transfer Raj's interest on capital **Journal of the firm (entries dated 31st March, 2022)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Interest on Capital A/c Dr. To Raj's Capital A/c (Being interest on Raj's capital allowed at 8% per annum)		48,000	48,000
	Profit and Loss Appropriation A/c Dr. To Interest on Capital A/c (Being interest on capital transferred to Profit and Loss Appropriation Account)		48,000	48,000

Step 3: Record and transfer Mehak's interest on drawings **Journal of the firm (continued; 31st March, 2022)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Mehak's Capital A/c Dr. To Interest on Drawings A/c (Being interest charged on Mehak's drawings for four months at 6% per annum)		1,200	1,200
	Interest on Drawings A/c Dr. To Profit and Loss Appropriation A/c (Being interest on drawings transferred to Profit and Loss Appropriation Account)		1,200	1,200

Step 4: Provide and transfer Divya's loan interest **Journal of the firm (continued; 31st March, 2022)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Interest on Divya's Loan A/c Dr. To Divya's Loan A/c (Being interest provided on Divya's loan for the current year at 5% per annum)		6,000	6,000
	Profit and Loss A/c Dr. To Interest on Divya's Loan A/c (Being loan interest transferred as a charge against profit)		6,000	6,000

The loan account is credited because interest is provided, not paid. Each entry has equal debits and credits; the loan interest does not enter the appropriation account.

Step 5: Conclusion Raj's interest on capital is Rs 48,000, Mehak's interest on drawings is Rs 1,200, and Divya's current-year loan interest is Rs 6,000. The first two are transferred to Profit and Loss Appropriation Account, while loan interest is charged to Profit and Loss Account.

Quick Tip to Solve: Check the year in Divya's loan date: January 2021 makes it outstanding for the whole 2021–22 year. Use four months only for Mehak's December drawings.

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21. 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:

- Authorised capital is the maximum capital permitted; issued capital is the nominal value of shares offered for subscription.
- After forfeiture, subscribed and fully paid-up capital includes only the shares still outstanding. The amount already received on forfeited shares is added separately under Share Capital until their reissue.

Step 1: Determine the capital categories **Working Notes**

The company is authorised to issue $20,00,000 \div 10 = 2,00,000$ equity shares. It actually offered 60,000 shares, so issued capital is $60,000 \times 10 =$ Rs $6,00,000$. Applications for 58,000 shares make the original subscribed capital Rs 5,80,000. The unsubscribed 2,000 shares are part of issued capital but are not subscribed capital.

Step 2: Adjust the subscribed capital for forfeiture The final call of Rs 3 on 2,000 shares was unpaid. These shares were forfeited, leaving $58,000 - 2,000 = 56,000$ fully paid-up shares. Their nominal

value is

$$56,000 \times 10 = \text{Rs } 5,60,000.$$

The amount received on each forfeited share is $10 - 3 = \text{Rs } 7$. Thus the forfeited-shares balance is

$$2,000 \times 7 = \text{Rs } 14,000.$$

The unpaid call of Rs 6,000 is cancelled on forfeiture; it is not deducted again from the remaining fully paid capital. No reissue is stated, so the Rs 14,000 remains under Share Capital.

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	5,60,000
Add: Forfeited shares (amount originally paid up)	14,000
Total Share Capital	**5,74,000**

Step 5: Conclusion Share Capital is shown at **Rs 5,74,000**, comprising fully paid-up capital of Rs 5,60,000 and the amount paid on forfeited shares of Rs 14,000.

Quick Tip to Solve: Remove the forfeited shares from subscribed capital, then add only the money already received on them; do not deduct their unpaid call a second time.

22. 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
			Debtors	1,60,000
Capitals:			Investments	1,40,000
Prakash	1,20,000		Furniture	70,000
Aakash	2,00,000		Building	2,30,000
Vikas	80,000	4,00,000		
		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 is credited with his share of accumulated reserves, goodwill, profit up to death and interest on capital, and debited with drawings. The balance is transferred to his executors.
- Vikas's profit share is $1/5$. Profit to death is estimated using the immediately preceding year's profit and the fraction of the year elapsed; goodwill uses the specified average of four years' profits.

Step 1: Calculate reserve and goodwill entitlements **Working Notes**

Vikas's share of general reserve is

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

The average profit and goodwill of the firm are

$$\begin{aligned} \text{Average profit} &= \frac{1,60,000 + 1,00,000 + 80,000 + 60,000}{4} \\ &= \text{Rs } 1,00,000, \\ \text{Goodwill} &= 1,00,000 \times 3 = \text{Rs } 3,00,000. \end{aligned}$$

Vikas's goodwill entitlement is $3,00,000 \times 1/5 = \text{Rs } 60,000$. In the absence of a changed ratio, Prakash

and Aakash continue in their relative ratio of $2:2=1:1$. Their gains are therefore equal, and each is debited Rs 30,000 to credit Vikas's capital with Rs 60,000, without retaining goodwill in the books.

Step 2: Calculate profit to death and interest on capital The period from 1st April to 30th September, 2022 is six months. Use the previous year's actual profit of Rs 60,000 for profit to death, not the four-year average used for goodwill:

$$\text{Vikas's profit share} = 60,000 \times \frac{6}{12} \times \frac{1}{5} = \text{Rs } 6,000.$$

Interest at 12% per annum on his opening capital of Rs 80,000 for the same period is

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

Drawings of Rs 20,000 are debited separately. No interest on drawings is stipulated, so no additional deduction is made.

Step 3: Prepare Vikas's Capital Account **Vikas's Capital Account**

For the period ended 30th September, 2022

Dr. Particulars	Rs	Particulars Cr.	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 Profit and Loss Suspense A/c	6,000
		By Interest on Capital A/c	4,800
Total	**1,70,800**	**Total**	**1,70,800**

The account is closed by transferring the amount due to the executors. Hence a capital balance is not carried forward in Vikas's name. The amount transferred is checked as

$$80,000 + 20,000 + 60,000 + 6,000 + 4,800 - 20,000 = \text{Rs } 1,50,800.$$

Step 4: Conclusion The amount due to Vikas's executors is **Rs 1,50,800**. Vikas's Capital Account balances at Rs 1,70,800 on each side after this transfer.

Quick Tip to Solve: Keep the two profit bases separate: four-year average for goodwill, but last year's Rs 60,000 for the six-month profit share to death.

23. Pass necessary journal entries for issue of 12% Debentures in the books of Hemant Ltd. in the following cases:

(i) Issued 1,000, 12% Debentures of Rs. 100 each at a discount of 10%, redeemable at a premium of 8%.

(ii) Issued 4,000, 12% Debentures of Rs. 100 each at a premium of 5%, redeemable at a premium of 10%.

(iii) Issued 5,000, 12% Debentures of Rs. 100 each at a premium of 10%, redeemable at par. [6 marks]

Solution:

Concept:

- Debentures are credited at their face value. Bank is debited with the actual issue proceeds; issue premium is credited to Securities Premium Account.
- A premium payable on redemption is recognised at issue by crediting Premium on Redemption of Debentures Account. Loss on Issue of Debentures includes issue discount plus redemption premium.
- The 12% rate is the interest rate. It does not determine the cash received on issue, and no interest entry is required here.

Step 1: Record case (i): issue at discount, redemption at premium **Working Notes:** Face value is $1,000 \times$ Rs $100 =$ Rs $1,00,000$. The discount is $10\% \times$ Rs $1,00,000 =$ Rs $10,000$, so cash received is Rs 90,000. Redemption premium is $8\% \times$ Rs $1,00,000 =$ Rs $8,000$. Thus loss on issue equals Rs 18,000, comprising both the discount and the future redemption premium.

Journal of Hemant Ltd. – Case (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		90,000	
	Loss on Issue of Debentures A/c Dr.		18,000	
	To 12% Debentures A/c			1,00,000
	To Premium on Redemption of Debentures A/c			8,000
	(Being 1,000 debentures of Rs 100 each issued at 10% discount, redeemable at 8% premium)			

Total debit and total credit are each Rs 1,08,000.

Step 2: Record case (ii): issue and redemption both at premium **Working Notes:** Face value is $4,000 \times$ Rs $100 =$ Rs $4,00,000$. Issue premium is $5\% \times$ Rs $4,00,000 =$ Rs $20,000$; hence cash received is Rs 4,20,000. Redemption premium is $10\% \times$ Rs $4,00,000 =$ Rs $40,000$, which is debited as loss on issue. The issue premium and redemption premium are recorded separately; they are not netted in the issue entry.

Journal of Hemant Ltd. – Case (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		4,20,000	
	Loss on Issue of Debentures A/c Dr.		40,000	
	To 12% Debentures A/c			4,00,000
	To Securities Premium A/c			20,000
	To Premium on Redemption of Debentures A/c			40,000
	(Being 4,000 debentures of Rs 100 each issued at 5% premium, redeemable at 10% premium)			

Total debit and total credit are each Rs 4,60,000.

Step 3: Record case (iii): issue at premium, redemption at par **Working Notes:** Face value is $5,000 \times$ Rs $100 =$ Rs $5,00,000$. The issue premium is $10\% \times$ Rs $5,00,000 =$ Rs $50,000$, making cash proceeds Rs 5,50,000. As redemption is at par, there is no redemption premium and no loss on issue.

Journal of Hemant Ltd. – Case (iii)

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 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 4: Conclusion The cash received in cases (i), (ii) and (iii) is Rs 90,000, Rs 4,20,000 and Rs 5,50,000 respectively. Loss on issue is Rs 18,000 in case (i), Rs 40,000 in case (ii), and nil in case (iii). The journal entries above recognise both the issue terms and the redemption obligations.

Quick Tip to Solve: Calculate every percentage on face value: Bank follows the issue price, while loss on issue equals issue discount plus redemption premium. Keep issue premium as a separate credit.

24. Pass the necessary journal entries for the following transactions on dissolution of the firm of Kartik and Karan after various assets (other than cash) and outside liabilities have been transferred to Realisation Account:

(i) Kartik had given a loan of Rs. 12,000 to the firm which was duly paid.

(ii) Profit and Loss Account was showing a debit balance of Rs. 15,000 on the date of dissolution.

(iii) Creditors to whom the firm owed Rs. 24,000 accepted stock of Rs. 23,000 in full settlement.

(iv) A machine which was not recorded in the books of the firm was taken over by Karan at Rs. 31,000.

(v) Kartik agreed to pay his brother's loan of Rs. 16,000.

(vi) Furniture of Rs. 60,000 was sold at a profit of 10%. [6 marks]

Solution:

Concept:

- Once assets and outside liabilities have been transferred to Realisation Account, their subsequent cash realisation or settlement is recorded through that account.
- A partner's loan is settled directly through the partner's loan account. Accumulated losses are transferred to partners' capital accounts in their profit-sharing ratio.
- An asset taken over by a partner debits that partner's capital; an outside liability taken over by a partner credits that partner's capital. The corresponding entry is in Realisation Account.

Step 1: Settle Kartik's loan to the firm The loan of Rs 12,000 is owed to a partner, so it is not an outside liability transferred to Realisation Account. Repayment extinguishes Kartik's Loan Account and reduces Bank.

Journal of Kartik and Karan – (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Kartik's Loan A/c Dr. To Bank A/c (Being Kartik's loan repaid in full)		12,000	 12,000

Step 2: Transfer the accumulated loss to the partners A debit balance of Profit and Loss Account represents an accumulated loss. No profit-sharing ratio is specified, so Kartik and Karan share this loss equally. Each partner's share is Rs $15,000 \div 2 =$ Rs $7,500$. Debit both capital accounts and credit Profit and Loss Account to close its debit balance; this is not a realisation expense.

Journal of Kartik and Karan – (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Kartik's Capital A/c Dr. Karan's Capital A/c Dr. To Profit and Loss A/c (Being accumulated loss transferred equally to the partners' capital accounts)		7,500 7,500	 15,000

Step 3: Treat the stock accepted by creditors **No journal entry is required for (iii).** Both creditors of Rs 24,000 and stock of Rs 23,000 have already been transferred to Realisation Account. When creditors accept that stock in full settlement, no cash is paid and no further entry is passed. The Rs 1,000 difference is already reflected by the credit for the transferred liability and the debit for the transferred asset in Realisation Account; recording it again would double count the effect.

Step 4: Record Karan's takeover of the unrecorded machine Although the machine had no book value recorded, its agreed takeover value of Rs 31,000 is a realisation of an unrecorded asset. Karan receives the asset, so debit his capital account and credit Realisation Account. There is no Bank entry because the consideration is adjusted against his capital.

Journal of Kartik and Karan – (iv)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Karan's Capital A/c Dr. To Realisation A/c (Being unrecorded machine taken over by Karan at Rs 31,000)		31,000	 31,000

Step 5: Record Kartik's assumption of his brother's loan Kartik's brother is an outside creditor of the firm. His loan has therefore already been transferred to Realisation Account. Kartik now undertakes to discharge this Rs 16,000 liability personally: debit Realisation and credit Kartik's capital for the liability assumed. This is distinct from repayment of Kartik's own loan in (i).

Journal of Kartik and Karan – (v)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Kartik's Capital A/c (Being brother's loan taken over by Kartik for payment)		16,000	 16,000

Step 6: Record the sale proceeds of furniture **Working Notes:** Profit on sale is $10\% \times$ Rs $60,000 =$ Rs $6,000$. Thus the proceeds are Rs $60,000 +$ Rs $6,000 =$ Rs $66,000$. Credit the entire receipt to Realisation Account; Furniture Account has already been closed by transfer, so it is not credited again.

Journal of Kartik and Karan – (vi)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Realisation A/c (Being furniture sold for Rs 66,000 at a profit of 10%)		66,000	 66,000

Step 7: Conclusion The five journal entries record (i) loan repayment of Rs 12,000, (ii) loss of Rs 7,500 per partner, (iv) Karan's machine takeover of Rs 31,000, (v) Kartik's liability takeover of Rs 16,000 and (vi) furniture proceeds of Rs 66,000. No further entry is needed for (iii), the stock accepted by creditors in full settlement.

Quick Tip to Solve: After transfer to Realisation, do not reopen asset or outside-liability accounts. An asset taken by a partner debits capital; a liability taken by a partner credits capital.

25(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 divides the available shares among applicants in the ratio of shares offered to shares applied for. Excess application money is adjusted only up to the allotment due; any remaining excess is refunded here.
- Share capital is credited with the face value called up, while the premium is credited separately to Securities Premium. Forfeiture cancels called-up capital and transfers the capital already received to Share Forfeiture.
- Reissue proceeds above the paid-up value are Securities Premium. After all forfeited shares are reissued, the unused forfeiture balance is transferred to Capital Reserve.

Step 1: Calculate the application adjustment and call amount **Working Notes**

The premium is $10\% \times \text{Rs } 10 = \text{Rs } 1$, so the issue price is Rs 11. Application is Rs 3 and allotment is Rs 3, comprising capital Rs 2 and premium Rs 1. Therefore the first and final call is $11 - 3 - 3 = \text{Rs } 5$

per share.

$$\text{Application received} = 1,20,000 \times 3 = \text{Rs } 3,60,000,$$
$$\text{Application capital} = 50,000 \times 3 = \text{Rs } 1,50,000,$$
$$\text{Excess application} = 3,60,000 - 1,50,000 = \text{Rs } 2,10,000,$$
$$\text{Allotment due} = 50,000 \times 3 = \text{Rs } 1,50,000,$$
$$\text{Refund} = 2,10,000 - 1,50,000 = \text{Rs } 60,000.$$

Thus the whole allotment is satisfied by application money; no further allotment receipt is required. No excess remains available for the call because it is expressly refunded.

Step 2: Determine the default and the reissue amounts The allotment ratio is $50,000 : 1,20,000 = 5 : 12$. The applicant for 6,000 shares therefore receives $6,000 \times 5/12 = 2,500$ shares. His Rs 18,000 application money supplies Rs 7,500 application capital and Rs 7,500 allotment, and the remaining Rs 3,000 is refunded.

$$\text{Unpaid call} = 2,500 \times 5 = \text{Rs } 12,500,$$
$$\text{Call receipt} = 50,000 \times 5 - 12,500 = \text{Rs } 2,37,500,$$
$$\text{Capital forfeited} = 2,500 \times 10 = \text{Rs } 25,000,$$
$$\text{Capital already received} = 2,500 \times (3+2) = \text{Rs } 12,500.$$

The issue premium on these shares has already been received and is not reversed. Reissue for Rs 60,000 gives Securities Premium of $60,000 - 25,000 = \text{Rs } 35,000$; there is no reissue discount to absorb forfeiture.

Step 3: Record application and allotment **Journal of Yash Ltd.**

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

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

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

Step 5: Record reissue and transfer of capital profit **Journal of Yash Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being 2,500 forfeited shares reissued fully paid for Rs 60,000)		60,000	 25,000 35,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being forfeiture balance on all reissued shares transferred)		12,500	 12,500

Step 6: Conclusion The company refunds Rs 60,000 application money, forfeits 2,500 shares for unpaid call of Rs 12,500, and transfers Rs 12,500 to Capital Reserve after reissue. The reissue separately adds Rs 35,000 to Securities Premium.

Quick Tip to Solve: Convert the defaulting applicant's 6,000 applications to 2,500 allotted shares first. On reissue, compare Rs 60,000 with face value Rs 25,000; the excess is premium, not a deduction from forfeiture.

OR

25(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:

- Under pro-rata allotment, excess application money reduces the amount still collectible on allotment. Application and the capital component of allotment are credited to Share Capital; premium is credited separately to Securities Premium.
- Calls-in-Arrears records the amount due but not received from a shareholder. On forfeiture, debit the fully called share capital, reverse any premium not received, credit the unpaid balance and transfer capital actually received to Share Forfeiture.
- Excess application money is adjusted first against the capital portion of allotment. The premium is treated as received only when the allotment money available covers the capital amount and then the premium.

Step 1: Calculate the issue-wide allotment adjustment **Working Notes**

The issue premium is Rs 1 per share. Thus the Rs 5 allotment comprises capital of Rs 4 and premium of Rs 1; the total capital called up is $3 + 4 + 3 = \text{Rs } 10$ per share. The pro-rata ratio of allotment to applications is $5,00,000 : 6,00,000 = 5 : 6$.

$$\begin{aligned}\text{Application received} &= 6,00,000 \times 3 = \text{Rs } 18,00,000,\\ \text{Application capital} &= 5,00,000 \times 3 = \text{Rs } 15,00,000,\\ \text{Excess adjusted} &= 18,00,000 - 15,00,000 = \text{Rs } 3,00,000,\\ \text{Allotment due} &= 5,00,000 \times 5 = \text{Rs } 25,00,000.\end{aligned}$$

Therefore the net allotment collectible before Sumit's default is Rs 22,00,000. The first and final call due is $5,00,000 \times 3 = \text{Rs } 15,00,000$.

Step 2: Work out Sumit's arrears and capital received Sumit holds 1,000 allotted shares, so he applied for $1,000 \times 6/5 = 1,200$ shares. His application payment was $1,200 \times 3 = \text{Rs } 3,600$. Of this, Rs 3,000

is application capital and Rs 600 is excess available against allotment.

$$\text{Allotment unpaid} = 1,000 \times 5 - 600 = \text{Rs } 4,400,$$
$$\text{Call unpaid} = 1,000 \times 3 = \text{Rs } 3,000,$$
$$\text{Total arrears} = 4,400 + 3,000 = \text{Rs } 7,400,$$
$$\text{Bank: allotment} = 22,00,000 - 4,400 = \text{Rs } 21,95,600,$$
$$\text{Bank: call} = 15,00,000 - 3,000 = \text{Rs } 14,97,000.$$

His Rs 600 excess is absorbed by the allotment capital of Rs 4,000. The entire premium of Rs 1,000 remains unpaid and must be reversed on forfeiture. Capital actually received is $3,000+600 = \text{Rs } 3,600$.

Step 3: Journalise application and allotment **Journal of Ajanta Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Equity Share Application A/c (Being application money received on 6,00,000 shares)		18,00,000	 18,00,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Being application transferred and excess adjusted on pro-rata allotment)		18,00,000	 15,00,000 3,00,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being allotment of Rs 5 per share due, including premium of Rs 1)		25,00,000	 20,00,000 5,00,000
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Equity Share Allotment A/c (Being balance allotment received except Sumit's arrears)		21,95,600 4,400	 22,00,000

Step 4: Journalise the final call and forfeiture **Journal of Ajanta Ltd. (continued)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Equity Share First and Final Call A/c Dr. To Equity Share Capital A/c (Being first and final call of Rs 3 per share due)		15,00,000	 15,00,000
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Equity Share First and Final Call A/c (Being call received except Rs 3,000 from Sumit)		14,97,000 3,000	 15,00,000
	Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Calls-in-Arrears A/c To Share Forfeiture A/c (Being Sumit's 1,000 shares forfeited and unpaid premium reversed)		10,000 1,000	 7,400 3,600

The forfeiture entry balances at Rs 11,000 on each side. Calls-in-Arrears is cleared by forfeiture. Since

no reissue is stated, the forfeiture amount remains in Share Forfeiture and is not transferred to Capital Reserve.

Step 5: Conclusion Allotment and call receipts are Rs 21,95,600 and Rs 14,97,000 respectively. Forfeiture of Sumit's 1,000 shares clears Rs 7,400 Calls-in-Arrears, reverses unpaid premium of Rs 1,000 and credits Share Forfeiture with Rs 3,600.

Quick Tip to Solve: Sumit's 1,000 shares are allotted shares: work backwards to 1,200 applications. Deduct the Rs 600 excess from his allotment arrears, and include it in capital received on forfeiture.

26(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: Bhumi 3,20,000 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:

- On admission, accumulated reserves and revaluation profit belong to the old partners in their old ratio, here $5:3$.
- Goodwill premium compensates the sacrificing partners. In the absence of a different agreement, the old partners surrender the incoming share in their old ratio.
- Total capital is inferred from the incoming partner's capital and profit share; excess adjusted capital is transferred to the partner's current account when cash adjustment is not required.

Step 1: Working Notes: calculate the ratios and goodwill Aditi receives $1/3$, leaving $2/3$ for Bhumi

and Chavi. Their new shares are

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

Thus the new ratio is $5 : 3 : 4$. Their sacrifices are $5/8 - 5/12 = 5/24$ and $3/8 - 3/12 = 3/24$, giving a sacrificing ratio of $5 : 3$. Firm's goodwill is Rs $60,000 \times 2 =$ Rs $1,20,000$. Aditi brings Rs $1,20,000 \times 1/3 =$ Rs $40,000$ as premium, credited to Bhumi and Chavi as Rs 25,000 and Rs 15,000. The general reserve of Rs 80,000 is credited to them as Rs 50,000 and Rs 30,000.

Step 2: Prepare the Revaluation Account Machinery increases by Rs $4,60,000 -$ Rs $3,80,000 =$ Rs $80,000$. This gain is credited to Revaluation Account and transferred to the old partners in $5 : 3$. There are no other revaluation adjustments.

Revaluation Account

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: Working Notes: determine the capital adjustments Before adjusting capitals, Bhumi has $3,20,000 + 50,000 + 25,000 + 50,000 =$ Rs $4,45,000$; Chavi has $3,40,000 + 30,000 + 15,000 + 30,000 =$ Rs $4,15,000$. Total capital based on Aditi's contribution is Rs $3,00,000 \div (1/3) =$ Rs $9,00,000$. Required capitals in $5 : 3 : 4$ are Bhumi Rs 3,75,000, Chavi Rs 2,25,000 and Aditi Rs 3,00,000. Hence transfer Bhumi's excess $4,45,000 - 3,75,000 =$ Rs $70,000$ and Chavi's excess $4,15,000 - 2,25,000 =$ Rs $1,90,000$ to the credit of their respective current accounts. These transfers debit capital; no cash is withdrawn.

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

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	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. Aditi's Rs 40,000 goodwill contribution passes through the premium account to the old partners and is separate from her Rs 3,00,000 capital.

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. Bhumi's and Chavi's current accounts carry credits of Rs 70,000 and Rs 1,90,000 respectively.

Quick Tip to Solve: First credit reserve, goodwill and revaluation to old capitals; compare those adjusted balances with the capitals implied by Aditi's one-third share.

OR

26(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: Anna 2,00,000 Bina 2,00,000 Teena 1,00,000	5,00,000	Debtors 2,80,000 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 profit or loss on retirement is allocated among all existing partners in their old profit-sharing ratio.
- The retiring partner's goodwill share is credited to her capital and debited to the continuing partners in their gaining ratio; no goodwill asset is raised.
- When the continuing partners bring the full retiring partner's dues, the original cash balance remains available. Their cash contributions also bring their closing capitals into the new ratio.

Step 1: Working Notes: find the gain and goodwill adjustment The old ratio is $5:3:2$ and Bina and Teena's new ratio is $1:1$. Hence

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

The gaining ratio is $2:3$. Anna's share of goodwill is Rs $60,000 \times 5/10 =$ Rs $30,000$. Credit Anna's Capital Account with Rs 30,000, debiting Bina's Capital Account by $30,000 \times 2/5 =$ Rs $12,000$ and Teena's Capital Account by $30,000 \times 3/5 =$ Rs $18,000$.

Step 2: Prepare the Revaluation Account Furniture depreciation of Rs 10,000 is a revaluation loss. Debit Revaluation Account and credit Furniture Account. Distribute the loss among Anna, Bina and Teena in $5:3:2$, namely Rs 5,000, Rs 3,000 and Rs 2,000 respectively. The debtors' provision is unchanged because the question gives no further adjustment.

Revaluation Account

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: Working Notes: determine the cash contributions After goodwill and revaluation, the adjusted capitals are:

$$\text{Anna} = 2,00,000 + 30,000 - 5,000 = \text{Rs } 2,25,000,$$

$$\text{Bina} = 2,00,000 - 12,000 - 3,000 = \text{Rs } 1,85,000,$$

$$\text{Teena} = 1,00,000 - 18,000 - 2,000 = \text{Rs } 80,000.$$

Bina and Teena bring the full Rs 2,25,000 due to Anna. Their combined capital after bringing this cash is $1,85,000+80,000+2,25,000 = \text{Rs } 4,90,000$. As their new ratio is $1:1$, each must have Rs 2,45,000. Bina therefore brings $2,45,000 - 1,85,000 = \text{Rs } 60,000$, and Teena brings $2,45,000 - 80,000 = \text{Rs } 1,65,000$. Their contributions total Rs 2,25,000, exactly Anna's payment; the existing Rs 63,000 cash is retained.

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

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 after payment. The two continuing partners' accounts balance at equal closing capitals, consistent with their new profit-sharing ratio.

Step 5: Conclusion Revaluation loss is Rs 10,000. Anna receives Rs 2,25,000; Bina and Teena bring Rs 60,000 and Rs 1,65,000 respectively, leaving their capitals at Rs 2,45,000 each.

Quick Tip to Solve: Allocate goodwill in the gaining ratio 2:3, but revaluation loss in the old ratio 5:3:2; calculate the cash contribution only after both adjustments.

Part B (20 marks)

OPTION I (Analysis of Financial Statements)

27(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 arising from a transaction with an external party.
- Transfers between components of cash and cash equivalents do not change their combined total; non-cash transactions are also excluded from cash flows.

Step 1: Identify the receipt that increases cash Collection of Rs 30,000 from debtors converts a receivable into cash. Debtors decrease and cash increases by Rs 30,000, so option (c) represents an operating cash inflow. The simultaneous decrease in another current asset does not cancel the cash receipt.

Step 2: Check the other transactions In (a), cash withdrawn from the bank increases cash in hand and decreases the bank balance by the same Rs 50,000; total cash and cash equivalents are unchanged. In (b), debentures issued directly to machinery vendors settle consideration through securities, with no cash paid or received. In (d), depositing cheques of Rs 20,000 merely transfers an amount already held as cash to the bank, without changing total cash and cash equivalents. Thus none of these three is a cash flow.

Step 3: Conclusion Rs 30,000 received from debtors results in a cash inflow. Hence, the correct option is (c).

Quick Tip to Solve: Combine cash in hand and bank balances before checking a transaction: internal transfers disappear, but collections from debtors remain cash inflows.

OR

27(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 an insignificant risk of changes in value.
- The normal maturity test is three months or less, measured from the date of acquisition of the investment.

Step 1: Apply the maturity test An investment acquired with a maturity of three months or less may qualify as a cash equivalent, provided it also satisfies the liquidity and insignificant-risk conditions. The period is measured from acquisition, not merely from the balance sheet date.

Step 2: Compare the options Option (A), three months or more, permits long maturities. Options (B) and (C) permit periods up to six months and one year respectively, which exceed the normal limit. Only option (D) gives the required maximum period.

Step 3: Conclusion The blank is three months or less. Hence, the correct option is (D).

Quick Tip to Solve: Underline "from the date of acquisition" and apply the three-month maximum, not the remaining life at year-end.

28(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: The correct cost is Rs 8,00,000; none of the four printed options gives this amount.

Solution:

Concept:

- Gross profit is revenue from operations less cost of revenue from operations: $G = R - C$, where G is gross profit, R is revenue and C is cost.
- When gross profit is 25% on cost, revenue is 125% of cost, so $R = 1.25C$.

Step 1: Calculate cost using the stated base The percentage is on cost, not on revenue. Therefore,

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

Gross profit is consequently Rs 2,00,000, and cost plus gross profit equals the given revenue of Rs 10,00,000.

Step 2: Test all printed amounts Option (A), Rs 2,50,000, is 25% of revenue, not the required cost. Option (B), Rs 12,50,000, exceeds revenue and is inconsistent with a positive gross profit. Option (C), Rs 2,00,000, is the gross profit. Option (D), Rs 8,50,000, would give gross profit of Rs 1,50,000, which is not 25% of that cost. None is the computed cost.

Step 3: Conclusion Cost of revenue from operations is Rs 8,00,000. None of the printed options is correct.

Quick Tip to Solve: For a profit rate on cost, divide revenue by 100 plus the profit percentage and multiply by 100.

OR

28(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 expresses cost of revenue from operations plus operating expenses as a percentage of revenue from operations.
- Operating profit is the balance of revenue after operating costs; therefore operating profit ratio plus operating ratio equals 100%.

Step 1: Use the complementary relationship Both ratios use revenue from operations as their denominator. Since operating costs consume 60% of that revenue, the remainder represents operating profit.

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

Step 2: Check the alternatives Option (A) ignores the operating costs altogether. Option (B) repeats the operating ratio instead of finding the profit ratio. Option (D) incorrectly adds the cost percentage to 100%; operating profit must be the amount remaining after costs, not their sum.

Step 3: Conclusion Aman Ltd. has an operating profit ratio of 40%. Hence, the correct option is (C).

Quick Tip to Solve: Subtract the operating ratio from 100%; the operating cost and operating profit shares exhaust the same revenue.

29. 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 soundness of a business and its ability to meet long-term debt obligations.
- Profitability ratios assess earnings in relation to revenue, capital or investment; return on investment belongs to this category.

Step 1: Classify return on investment Return on investment compares profit before interest and tax with capital employed. It measures the earning efficiency of the funds invested in the business, so it is classified as a profitability ratio rather than a solvency ratio.

Step 2: Classify the remaining ratios Interest coverage ratio measures how many times earnings cover interest obligations. Proprietary ratio measures the proportion of total assets financed by shareholders. Total assets to debt ratio indicates the asset cover available against long-term debt. Each of these three is a solvency ratio.

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

Quick Tip to Solve: Look for a return or earning measure: ROI measures profitability, while interest cover and debt backing measure solvency.

30. 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 an enterprise and other activities that are neither investing nor financing.
- For a finance company, lending and earning interest form part of ordinary business; interest received is therefore an operating cash inflow.

Step 1: Identify the nature of the enterprise The question specifies a finance company. Its regular

business is providing finance and earning returns such as interest. The cash received as interest consequently arises from its principal revenue-producing activity.

Step 2: Distinguish the other classifications Financing activity concerns changes in owners' capital and borrowings; collecting interest does not raise finance. The investing classification normally used for interest received by a non-financial enterprise does not apply here. Cash and cash equivalents describe a balance of resources, not the activity classification of this receipt.

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

Quick Tip to Solve: First identify whether the enterprise is financial: interest income earned in its ordinary lending business is operating cash flow.

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: [3 marks]

31(i). Loose Tools

Solution:

Concept:

- Classification in the company Balance Sheet follows the nature of the item and the major head and sub-head prescribed by Schedule III.
- Loose tools are included in inventories under current assets in the CBSE classification.

Step 1: Identify the nature of the item Loose tools are small tools held for use in operations. For the prescribed company Balance Sheet classification, they form a category of inventory, even though they are not goods purchased for resale.

Step 2: Locate the Balance Sheet heads The item appears on the Assets side. Its major head is Current Assets and its sub-head is Inventories. Within the inventory note, it is described as loose tools; it is not classified as an intangible asset.

Step 3: Conclusion Loose Tools: Major head — Current Assets; sub-head — Inventories.

Quick Tip to Solve: Remember loose tools as a specific inventory category when classifying company Balance Sheet items.

31(ii). Capital Reserve

Solution:

Concept:

- A reserve forms part of owners' funds when it represents an accumulated capital or revenue surplus.
- Capital Reserve is disclosed within Reserves and Surplus under Shareholders' Funds in the prescribed Schedule III format.

Step 1: Recognise a capital reserve A capital reserve arises from capital profits. It belongs to the

shareholders' interest in the company and is distinct from an amount payable to an outside lender or creditor.

Step 2: Apply the prescribed classification On the Equity and Liabilities side of the Balance Sheet, select Shareholders' Funds as the major head and Reserves and Surplus as its sub-head. Capital Reserve is separately identified within the related note; it is not share capital.

Step 3: Conclusion Capital Reserve: Major head — Shareholders' Funds; sub-head — Reserves and Surplus.

Quick Tip to Solve: First distinguish reserves from external liabilities, then place Capital Reserve under Reserves and Surplus.

31(iii). Mining Rights

Solution:

Concept:

- An asset that provides benefits over several accounting periods is classified as a non-current asset.
- Mining rights confer a legal right to extract minerals and have no physical substance; they are intangible assets.

Step 1: Identify the nature of mining rights The asset is the legal permission or right to extract minerals, rather than the physical mining machinery or the minerals already extracted. Its value lies in that enforceable right, so it is intangible.

Step 2: Locate the prescribed heads Place mining rights on the Assets side under the major head Non-current Assets. Within Fixed Assets, show them under Intangible Assets. The right is not an inventory item merely because the minerals eventually extracted may be sold.

Step 3: Conclusion Mining Rights: Major head — Non-current Assets; sub-head — Fixed Assets (Intangible Assets).

Quick Tip to Solve: Distinguish the mining right from mining equipment: the right is intangible, while equipment is tangible.

32. 'These ratios are calculated to determine the ability of the business to service its debt in the long run.' [3 marks]

32(i). Identify the types of ratios discussed above.

Solution:

Concept:

- Solvency is the ability of a business to meet its long-term financial commitments, including repayment of debt and payment of interest.
- Solvency ratios examine the capital structure or the earnings available to meet the obligations associated with long-term borrowing.

Step 1: Identify the time horizon The description specifically refers to servicing debt in the long run. It therefore concerns the long-term financial soundness of the business and the protection available to providers of borrowed funds.

Step 2: Distinguish the relevant ratio group Liquidity ratios primarily assess the ability to meet short-term obligations, whereas activity ratios assess the efficiency of asset use. The statement instead concerns long-term debt commitments. Debt-equity ratio, total assets to debt ratio, proprietary ratio and interest coverage ratio are examples of the group relevant to this purpose. No numerical data are needed because the question asks for the category, not a calculated value.

Step 3: Conclusion The ratios described are Solvency Ratios, also called long-term solvency ratios.

Quick Tip to Solve: Use the phrase "service its debt in the long run" to identify solvency; short-term payment ability points to liquidity.

32(ii). Explain any two ratios of the types of ratios identified in (i) above

Solution:

Concept:

- Solvency ratios assess the ability to meet long-term debt obligations and the degree of financial risk arising from borrowing.
- Two such ratios are the debt-equity ratio, which compares long-term debt with owners' funds, and the interest coverage ratio, which measures the earnings cover for interest.

Step 1: Explain the debt-equity ratio

$$\text{Debt-equity ratio} = \frac{\text{Long-term debt}}{\text{Shareholders' funds}}.$$

Long-term debt comprises non-current debt obligations. Shareholders' funds comprise share capital and reserves and surplus. The ratio shows the amount of long-term borrowed funds for each rupee of owners' funds. A higher ratio generally indicates greater dependence on borrowing and greater financial risk; a lower ratio provides a larger owners' funds cushion to long-term lenders.

Step 2: Explain the interest coverage ratio

$$\text{Interest coverage ratio} = \frac{\text{Net profit before interest and tax}}{\text{Interest on long-term debt}}.$$

It shows how many times the profit available before interest and tax covers the interest obligation. A higher ratio generally indicates a larger margin of safety for interest payments. A low ratio warns that a fall in earnings may make servicing the debt difficult.

Step 3: Conclusion Debt-equity ratio measures long-term debt relative to owners' funds; interest coverage ratio measures the earnings cover available for interest payments.

Quick Tip to Solve: Use long-term debt in debt-equity ratio, and profit before both interest and tax in interest coverage ratio.

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.

[2 marks]

Solution:

Concept:

- Current ratio equals current assets divided by current liabilities; quick ratio equals quick assets divided by the same current liabilities.
- Here, inventory is the entire difference between current assets and quick assets. Thus, inventory equals the difference between the two ratios multiplied by current liabilities.

Step 1: Express the assets using a common liability base Let current liabilities be Rs x. From the current ratio of $3.5:1$, current assets are Rs $3.5x$. From the quick ratio of $2:1$, quick assets are Rs $2x$. Since both ratios use the same denominator, their difference measures inventory as a multiple of current liabilities.

$$\text{Inventory} = 3.5x - 2x = 1.5x.$$

Step 2: Solve for liabilities and calculate assets Substitute the inventory of Rs 48,000 into the difference equation:

$$1.5x = 48,000, \qquad x = \frac{48,000}{1.5} = 32,000.$$

Hence, current assets equal $3.5 \times 32,000 = 1,12,000$ rupees. As a check, quick assets equal $2 \times 32,000 = 64,000$ rupees, and $1,12,000 - 64,000 = 48,000$ rupees, agreeing with the inventory given.

Step 3: Conclusion Current assets are **Rs 1,12,000** and current liabilities are **Rs 32,000**.

Quick Tip to Solve: Divide inventory by the difference $3.5 - 2 = 1.5$ to obtain current liabilities first; then multiply by 3.5 to obtain current assets.

33(i)(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**

[2 marks]

Solution:

Concept:

- Debt to equity ratio compares long-term debt with shareholders' funds: Debt to Equity Ratio = Long-term Debt/Shareholders' Funds.
- When total debt includes current liabilities, deduct those liabilities to find long-term debt. Shareholders' funds already include reserves and surplus, so these must not be added a second time.

Step 1: Determine the long-term debt Total debt of Rs 4,00,000 includes current liabilities of Rs 1,00,000. The debt to equity ratio uses the long-term component, which is obtained by deducting

current liabilities:

$$\begin{aligned}\text{Long-term Debt} &= \text{Total Debt} - \text{Current Liabilities} \\ &= 4,00,000 - 1,00,000 \\ &= \text{Rs } 3,00,000.\end{aligned}$$

Step 2: Use the shareholders' funds already given Shareholders' funds are explicitly given as Rs 2,00,000. Reserves and surplus of Rs 1,00,000 are a component of this total, not an additional amount to be included in equity. Therefore, the denominator remains Rs 2,00,000.

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

This means there is Rs 1.50 of long-term debt for each rupee of shareholders' funds.

Step 3: Conclusion The **Debt to Equity Ratio is** $1.5 : 1$.

Quick Tip to Solve: Distinguish shareholders' funds from share capital: reserves are added to share capital, but are already included when shareholders' funds are supplied.

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: [4 marks]

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

Solution:

Concept:

- The current ratio is Current Assets/Current Liabilities. Let current liabilities be $L > 0$; the initial current assets are therefore $2L$.
- Judge each transaction independently by its effect on total current assets and total current liabilities.

Step 1: Trace the exchange of current assets Purchasing goods for cash increases inventory by Rs 60,000 and decreases cash by Rs 60,000. Both inventory and cash are current assets, so the increase and decrease exactly offset within current assets.

Step 2: Compare the totals after purchase Current liabilities do not change because payment is made immediately in cash; no amount becomes payable to a supplier.

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

Step 3: Conclusion The current ratio does not change; it remains 2:1 because one current asset replaces another by the same amount.

Quick Tip to Solve: For a cash purchase of goods, track both inventory and cash before deciding whether current assets change.

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

Solution:

Concept:

- The current ratio is Current Assets/Current Liabilities. Let current liabilities be $L > 0$; the initial current assets are therefore $2L$.
- Judge each transaction independently by its effect on total current assets and total current liabilities.

Step 1: Identify the asset categories Cash decreases by Rs 2,00,000, while fixed assets increase by the same amount. Cash belongs to current assets; fixed assets do not. Thus total current assets decrease by Rs 2,00,000, and current liabilities remain unchanged.

Step 2: Compare the revised ratio The fixed asset acquired cannot offset the reduction in cash when computing this particular ratio because it is outside the current-assets numerator.

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

The exact new numerical ratio cannot be calculated without the amount of current liabilities.

Step 3: Conclusion The current ratio reduces because current assets decrease by Rs 2,00,000 while current liabilities remain unchanged.

Quick Tip to Solve: When cash buys a fixed asset, remove the cash from current assets without adding the fixed asset to them.

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

Solution:

Concept:

- The current ratio is Current Assets/Current Liabilities. Let current liabilities be $L > 0$; the initial current assets are therefore $2L$.
- Judge each transaction independently by its effect on total current assets and total current liabilities.

Step 1: Trace inventory and receivables Inventory decreases by its cost of Rs 20,000. Trade receivables increase by the credit selling price of Rs 23,000. Both are current assets; current liabilities are unaffected by this sale.

Step 2: Measure the net current-asset increase The net increase in current assets equals the profit on the sale:

$$\text{Increase} = 23{,}000 - 20{,}000 = \text{Rs } 3{,}000.$$

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

The absence of an immediate cash receipt does not prevent the increase, because the amount receivable is itself a current asset.

Step 3: Conclusion The current ratio improves: current assets increase by the profit of Rs 3,000, while current liabilities remain unchanged.

Quick Tip to Solve: For a credit sale, increase receivables at selling price and reduce inventory at cost; the difference changes current assets.

33(ii)(d). Issue of shares Rs. 10,00,000

Solution:

Concept:

- The current ratio is Current Assets/Current Liabilities. Let current liabilities be $L > 0$; the initial current assets are therefore $2L$.
- Judge each transaction independently by its effect on total current assets and total current liabilities.

Step 1: Identify the effect of the share issue Issue of shares for Rs 10,00,000 brings an equal amount into cash or bank and increases share capital. Cash or bank is a current asset, whereas share capital is part of shareholders' funds rather than current liabilities.

Step 2: Compare the revised numerator and denominator Current assets increase by Rs 10,00,000, and the denominator remains unchanged because the proceeds are equity finance, not a short-term borrowing.

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

The statement is read in the usual sense of an issue for cash; no non-cash consideration is specified.

Step 3: Conclusion The current ratio improves because the cash proceeds increase current assets by Rs 10,00,000 without increasing current liabilities.

Quick Tip to Solve: Share capital is owners' funds, so cash received from a share issue increases the numerator without increasing current liabilities.

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 Provision for Tax	 1,50,000	 75,000
2	Tangible Assets Plant and Machinery Less Accumulated Depreciation	 44,00,000 (4,00,000) 40,00,000	 25,00,000 (2,50,000) 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 buy plant and machinery and cash received from its sale. Purchases must be reconstructed from gross cost, not from net carrying amounts.

- Financing activities change share capital and borrowings. For this non-financial company, debenture interest paid is a financing outflow; repayment of bank overdraft shown as short-term borrowings is also a financing outflow.
- Depreciation, goodwill written off and a loss on sale are non-cash adjustments to operating profit. They are not separate investing cash payments.

Step 1: Calculate the purchase of plant and machinery The note to accounts gives gross plant and machinery of Rs 25,00,000 at the beginning and Rs 44,00,000 at the end. The machine sold must be removed at its original cost, Rs 1,25,000, when reconciling these gross balances. Let purchases during the year be P.

$$\begin{aligned} 25,00,000 + P - 1,25,000 &= 44,00,000, \\ P &= 44,00,000 - 25,00,000 + 1,25,000 \\ &= \text{Rs } 20,25,000. \end{aligned}$$

No credit purchase or non-cash acquisition is specified, so this purchase represents cash paid for machinery. The accumulated depreciation of the asset sold does not change its original cost in this calculation.

Step 2: Prepare the investing activities extract The actual sale proceeds are Rs 45,000. The carrying amount of the machine sold was $1,25,000 - 50,000 = \text{Rs } 75,000$, so the loss on sale was $75,000 - 45,000 = \text{Rs } 30,000$. This loss is not deducted again in investing activities: only the cash receipt is included.

Madhav Ltd.: Cash Flow Statement (Extract)
For the year ended 31st March, 2022

Cash flows from investing activities	**Amount (Rs)**
Proceeds from sale of plant and machinery	45,000
Purchase of plant and machinery	(20,25,000)
Net cash used in investing activities	**(19,80,000)**

Step 3: Determine the financing cash movements Share capital increased from Rs 25,00,000 to Rs 35,00,000; in the absence of any non-cash issue, cash proceeds from issue of shares are Rs 10,00,000. Debentures increased from Rs 3,50,000 to Rs 12,50,000, giving cash proceeds of Rs 9,00,000. The bank overdraft declined from Rs 75,000 to Rs 50,000, so repayment is Rs 25,000. Use the actual interest payment of Rs 1,25,000 supplied in the additional information, rather than estimating interest from a year-end debenture balance.

Madhav Ltd.: Cash Flow Statement (Extract, continued)
For the year ended 31st March, 2022

Cash flows from financing activities	**Amount (Rs)**
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 tax provision and movements in inventory, receivables and trade payables relate to operating activities and are outside the two extracts requested. The fall in goodwill is not itself evidence of cash proceeds from its sale, so no investing receipt is recorded for it.

Step 4: Conclusion Net cash used in investing activities is $\boxed{\text{Rs } 19,80,000}$. Net cash generated from financing activities is $\boxed{\text{Rs } 17,50,000}$.

Quick Tip to Solve: Use gross machinery balances to find purchases; then include only sale proceeds, not the carrying value or loss, in investing cash flow.

OPTION II (Computerised Accounting)

27(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 procedures designed to safeguard assets, support reliable records and promote efficient use of resources.
- An objective such as maximising revenue is different from a control system that helps achieve business objectives.

Step 1: Identify the comprehensive control mechanism A business establishes internal controls such as authorisation of payments, division of duties and checks on records. These procedures protect assets from misuse and help resources be used efficiently. Thus the requirement covers both protection and resource optimisation.

Step 2: Compare the other options Option (a) is limited to earning revenue and does not provide a control mechanism. Option (c) considers only record accuracy, while option (d) merely repeats asset protection and omits resource optimisation. Option (b) states the mechanism that addresses the full requirement.

Step 3: Conclusion The correct option is (b): Keeps internal controls.

Quick Tip to Solve: When a question combines asset protection and efficient resource use, look for the broad control system rather than a single objective.

OR

27(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 display of $\#\#\#\#\#$ usually means that the column is too narrow to show the formatted numeric value.
- A display-width problem can occur even when the stored value and the formula are correct.

Step 1: Identify the display limitation The spreadsheet displays hash symbols when the available column width cannot accommodate the number or formatted date. Increasing the column width allows the existing value to appear. Therefore the printed situation corresponds to option (c).

Step 2: Distinguish calculation errors Dividing a number by zero produces $\#\text{DIV}/0!$, not a row of hashes. An unavailable value is commonly indicated by $\#\text{N}/\text{A}$. A missing formula is not the stated cause of this width display. Thus options (a), (b) and (d) do not explain this error in the question.

Step 3: Conclusion The correct option is (c): When column is not wide enough.

Quick Tip to Solve: For a row of hash symbols, widen the column first; do not change a valid formula merely to correct the display.

28. Correct #DIV/0! Error appears when [1 mark]

(a) column is not wide enough.

(b) number is divided by zero.

(c) value is not available.

(d) (a) and (c) both

Correct Answer: (b) number is divided by zero.

Solution:

Concept:

- The spreadsheet error $\#\text{DIV}/0!$ indicates that a formula attempts division by zero.
- A divisor cell that is empty can also be interpreted as zero during a division calculation.

Step 1: Identify the arithmetic cause A formula such as $= 10/0$ cannot return a defined numeric quotient because its denominator is zero. The spreadsheet therefore reports $\#\text{DIV}/0!$. This is exactly the circumstance described by option (b).

Step 2: Eliminate the alternatives A column that is too narrow generally displays hash symbols;

widening it addresses that display issue. An unavailable value is associated with #N/A, not division by zero. Therefore neither (a) nor (c) is the correct cause, and their combination in (d) is also incorrect.

Step 3: Conclusion The correct option is (b): number is divided by zero.

Quick Tip to Solve: Check the denominator and any referenced divisor cell when you see DIV/0; changing column width will not repair the calculation.

29(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 systematic symbols or numbers to accounts and other data items for identification and classification.
- Standard codes make data entry, sorting, retrieval and processing more efficient and consistent.

Step 1: Connect coding with record processing For example, assigning a distinct code to each customer or ledger account lets transactions be posted consistently to the correct record. The essential purpose is easy processing of data and maintenance of proper records, as stated in option (d).

Step 2: Separate the purpose from other functions Mnemonic codes in option (a) are one possible type of code, not the overall need for codification. Encryption in (b) transforms data for confidentiality. Securing reports in (c) concerns access and security controls. Neither is the primary purpose of accounting codification.

Step 3: Conclusion The correct option is (d): Easy processing of data and keeping proper records.

Quick Tip to Solve: Distinguish the purpose of codification, efficient identification and processing, from a code type such as mnemonic coding.

OR

29(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:

- An accounts receivable subsidiary ledger maintains a separate account for each credit customer, showing transactions and the amount due.
- The receivables control account in the general ledger summarises the total of these individual customer balances.

Step 1: Identify the record of individual customer dues Credit sales increase the relevant customer account, while receipts, sales returns and allowances reduce it. The resulting balance shows what that particular customer owes. These individual balances are maintained in the Accounts Receivable Subsidiary Ledger.

Step 2: Distinguish journals and the general ledger A sales journal records credit sales as transactions occur, but does not by itself show each customer's updated outstanding balance after receipts and adjustments. The general ledger usually holds the combined receivables control balance. An accounts receivable journal is not the subsidiary record of individual balances. Hence (a), (b) and (d) do not best answer the question.

Step 3: Conclusion The correct option is (c): Accounts Receivable Subsidiary Ledger.

Quick Tip to Solve: Use the subsidiary ledger for what each customer owes; use the general-ledger control account to check the combined receivables total.

30. Which of the following is not a feature of Computerised Accounting System? [1 mark]

(A) Simple and Integrated

(B) Accurate and Speed

(C) Data audit not required

(D) Reliability

Correct Answer: (C) Data audit not required

Solution:

Concept:

- A computerised accounting system records and processes accounting data through software and produces integrated accounting reports.
- Computerisation improves processing speed and consistency, but does not remove the need to verify input data, controls and output.

Step 1: Check the positive features Simple and integrated operation is a feature because one transaction can update the related accounts and reports. Accuracy and speed are features because correctly entered data are processed rapidly according to programmed rules. Reliability is also a feature because the system performs repeated tasks consistently under proper controls. Thus options (A), (B) and (D) describe genuine features.

Step 2: Test the claim about data audit Incorrect entries, unauthorised alterations or faulty processing rules can still produce incorrect information. Data and system controls therefore require checking and audit even when accounting is computerised. The statement that data audit is not required is false.

Step 3: Conclusion Data audit not required is not a feature of a Computerised Accounting System. Hence, the correct option is (C).

Quick Tip to Solve: For a negative feature question, distinguish faster processing from the continuing need to audit the data and controls.

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

Solution:

Concept:

- Generic software is a ready-to-use package developed to meet common accounting requirements of a wide range of users.
- Tailored software is specifically designed and developed to meet the accounting requirements of a particular organisation.

Step 1: Compare the purpose and design **Basis 1: Nature of requirements.** Generic software provides standard features for routine accounting needs shared by many businesses. The organisation selects a suitable available package and works within its facilities. Tailored software is prepared after studying the particular organisation's procedures, controls and reporting needs, so its design closely matches those individual requirements.

Step 2: Compare the cost **Basis 2: Cost.** Generic software is relatively inexpensive because the development cost is spread over many purchasers of the same package. Tailored software is relatively expensive because analysis, development, testing and implementation are undertaken specifically for one organisation. The cost of this individual development is borne by that organisation.

Step 3: Compare the scope for changes **Basis 3: Flexibility.** Generic software has limited scope for changes beyond its built-in options; unusual requirements may not be met. Tailored software offers greater scope for incorporating organisation-specific features and for making changes through its developers when requirements change. For example, a special internal report can be designed as part of a tailored package instead of depending only on standard reports.

Step 4: Conclusion Generic software serves common needs at a relatively low cost with limited flexibility; tailored software serves specific organisational needs at a higher cost with greater flexibility.

Quick Tip to Solve: Use the same three bases for both types: common versus specific needs, lower versus higher cost, and limited versus greater flexibility.

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

Solution:

Concept:

- An accounting voucher is the record used to enter a transaction in accounting software; different voucher types serve different recording purposes.
- The purpose and status of a voucher determine whether it immediately affects the books, takes effect on a future date or follows a special user-created format.

Step 1: Explain a memo voucher A **Memo Voucher** is a memorandum or provisional voucher used to record a transaction temporarily without affecting the books of account. It can be used where a transaction is incomplete or its details need confirmation. When the transaction is finalised, the memo voucher can be converted into the appropriate regular accounting voucher. Its key feature is that merely recording the memo does not post the transaction to the regular accounts.

Step 2: Explain a post-dated voucher A **Post-dated Voucher** is entered in advance with a date later than the date of entry. It is used for a transaction intended to take effect on that future date, such as a payment through a post-dated cheque. It is kept as post-dated and does not affect the current books before its specified date; the accounting effect belongs to the date on which it becomes due.

Step 3: Explain a user-defined voucher A **User-defined Voucher** is a voucher type created by the user to suit the particular requirements of the business, usually on the basis of an existing standard voucher type. The user may provide a separate name, numbering series and other suitable settings. For example, a separate bank-payment voucher type may be created under payment vouchers to identify and control that class of transactions.

Step 4: Conclusion A memo voucher is provisional and does not affect the regular books, a post-dated voucher takes effect on its future date, and a user-defined voucher is created to meet a user's specific recording requirements.

Quick Tip to Solve: Link the names to their distinguishing feature: memo means provisional, post-dated means future, and user-defined means specially configured.

33(a). State any three advantages and any one limitation of Computerised Accounting System.

[4 marks]

Solution:

Concept:

- A computerised accounting system uses accounting software and a database to record transactions, process them and generate financial information.
- Its advantages arise from rapid automated processing and consistent application of programmed rules; its usefulness also depends on sound input and proper operation.

Step 1: State the advantage of speed **Speed:** A computerised accounting system processes a large volume of transactions much faster than manual accounting. Once the transaction data are entered, calculations, posting and preparation of related reports can be performed rapidly. This saves time in routine work and allows the organisation to obtain accounting information promptly when it is needed.

Step 2: State the advantage of accuracy **Accuracy:** The software performs arithmetic calculations and posting according to programmed rules, reducing errors that can occur in repeated manual calculations and transfers. Totals and balances are computed automatically. Accuracy nevertheless depends on correct input and a correctly configured system: computerisation does not make an incorrectly entered amount correct.

Step 3: State the advantage of reliability **Reliability:** The system applies the same processing rules consistently to similar transactions. It can carry out repetitive work without the fatigue associated with manual work, giving consistent results when the input, software and controls are sound. This supports dependable maintenance of accounting records and preparation of reports.

Step 4: State one limitation **Cost of training:** Employees must learn how to enter transactions, use the accounting package and generate reports correctly. Training involves expenditure as well as time away from normal work. Changes to the software or procedures may require further training, making this a continuing cost particularly significant for a small organisation with limited resources.

Step 5: Conclusion Three advantages are speed, accuracy and reliability. One limitation is the cost of training employees to operate and update their knowledge of the system.

Quick Tip to Solve: State three distinct benefits with their effects, then explain one limitation; qualify accuracy by noting that correct input remains essential.

OR

33(b). Explain any four heads from the account group 'Profit and Loss'. [4 marks]

Solution:

Concept:

- The account group 'Profit and Loss' contains revenue and expense heads used to ascertain the profit or loss of a business for an accounting period.

- Grouping ledger accounts under suitable heads enables accounting software to classify transactions and prepare the Trading and Profit and Loss Account correctly.

Step 1: Explain Sales Accounts This head includes accounts recording revenue from the sale of goods in which the business deals. Separate sales ledgers may be maintained for different products or categories of sales. Sales returns reduce the related sales revenue. For example, a furniture dealer's sales of furniture are classified here. Sale of a fixed asset is not an ordinary sale of trading goods and is not classified as sales revenue under this head.

Step 2: Explain Purchase Accounts This head includes accounts recording purchases of goods for resale and materials used in producing the goods sold by the business. Purchase returns reduce the related purchases. For example, a trader's purchases of merchandise belong here. Purchase of office furniture for use in the business is a fixed-asset transaction and does not belong to this expense head.

Step 3: Explain Direct Expenses Direct expenses are costs directly connected with purchasing goods or bringing them into a saleable condition, or with their production. Examples include carriage inward and productive wages. These expenses form part of the cost of goods and are taken into account in determining gross profit in the Trading Account.

Step 4: Explain Indirect Expenses Indirect expenses are costs of running, administering, selling and financing the business that are not treated as direct costs of goods. Examples include office salaries, advertisement, office rent and carriage outward. They are charged against gross profit and other incomes in determining the net profit or loss in the Profit and Loss Account.

Step 5: Conclusion Four heads of the account group 'Profit and Loss' are Sales Accounts, Purchase Accounts, Direct Expenses and Indirect Expenses. Correct grouping separates trading results from the expenses of running the business.

Quick Tip to Solve: Distinguish carriage inward from carriage outward: inward is a direct expense, while outward is an indirect selling expense.

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 spreadsheet function `CUMIPMT` calculates the cumulative interest paid on a loan between a specified starting period and ending period, including both periods.
- It applies to a loan repaid through constant periodic payments at a constant interest rate. Interest is calculated on the outstanding loan balance, which reduces as principal is repaid.
- All time-related arguments must use the same period. For monthly instalments, use a monthly interest rate and the total number of monthly payments.

Step 1: Name the function and state its syntax The required function is `CUMIPMT`, meaning cumulative interest payment. Its syntax is

```
=CUMIPMT(rate, nper, pv,
```

`start_period, end_period, type)`

It returns the sum of the interest components of the instalments in the selected interval, rather than the total instalments or the principal repaid. This permits comparison with the interest total in a loan repayment schedule.

Step 2: Explain rate, nper and pv `rate` is the interest rate per payment period. Thus, for a loan with monthly payments and a nominal annual rate of 12%, enter $12\%/12$.

`nper` is the total number of payment periods over the entire loan term, not merely the number of periods being checked. A two-year loan with monthly payments has $2 \times 12 = 24$ periods.

`pv` is the present value, or original principal amount of the loan. For this function, it is entered as a positive amount. The interest rate, total number of periods and present value must be positive.

Step 3: Explain the interval and payment timing `start_period` is the first payment period for which interest is to be included; periods are numbered from 1. `end_period` is the last payment period to be included. The interval must satisfy

$$1 \leq \text{start_period} \leq \text{end_period} \leq \text{nper}.$$

`type` specifies when payments are made: enter 0 for payments at the end of each period and 1 for payments at the beginning. Select the value matching the loan agreement, because payment timing affects interest.

Step 4: Apply the function to verify a schedule For illustration, consider a loan of Rs 1,00,000 at a nominal annual rate of 12%, repayable monthly over two years, with payments at each month-end. To check the interest for the first year, enter

```
=CUMIPMT(12%/12, 24, 100000, 1, 12, 0)
```

This sums interest for instalments 1 through 12. With positive loan principal, the result is negative under the spreadsheet cash-flow convention because interest paid is an outflow. Compare its absolute value with the sum of the interest column for these same instalments in the repayment schedule. Using `-CUMIPMT(...)` displays that interest payment as a positive amount. The principal components of the instalments are excluded from this comparison.

Step 5: Conclusion Use `CUMIPMT(rate, nper, pv, start_period, end_period, type)` to verify the total interest paid on a loan between any two specified periods, with consistent rate and period units and the correct payment timing.

Quick Tip to Solve: For monthly loans, divide the annual rate by 12 and multiply the loan term in years by 12; keep nper equal to the full loan term even when checking only one year's interest.