CBSE Class 12 Accountancy Question Paper 2023 with Solution PDF-Set 67-4-3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

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

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

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

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

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

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

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

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

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

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

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

Solution:

Concept:

- An issue at a premium brings in face value plus premium; the issue price is Rs 110 per debenture.
- Under the standard issue-instalment treatment, the application percentage is applied to nominal value and the premium is collected on allotment.

Step 1: Find application receipts The nominal debenture amount is $5,000 \times 100 = \text{Rs } 5,00,000$. Application money is 40% of nominal value, namely $5,00,000 \times 40\% = \text{Rs } 2,00,000$. The 7% coupon determines annual interest, not the issue instalments.

Step 2: Find the balance due on allotment Total issue proceeds including premium are $5,000 \times 110 = \text{Rs } 5,50,000$. Allotment receives the balance nominal value of Rs 3,00,000 plus premium of Rs 50,000, totalling Rs 3,50,000. Option (A) has the wrong split; (B) omits the premium, and (D) gives an incorrect total. Option (C) includes the premium on allotment and agrees with both instalments.

Step 3: Conclusion Application: Rs 2,00,000; allotment: Rs 3,50,000. The correct option is (C).

Quick Tip to Solve: Calculate the stated application percentage on nominal value, then include the full premium in the allotment balance.

2(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:

- Sacrifice equals old share minus new share; a negative result represents gain.
- The gaining partner compensates the sacrificing partner for goodwill by a capital or current account adjustment.

Step 1: Identify the gain and sacrifice Ria's old share is $3/5$, while her new share is $1/2$. Her sacrifice is $3/5 - 1/2 = 1/10$. Surbhi's share rises from $2/5$ to $1/2$, so her gain is $1/10$.

Step 2: Compute the goodwill adjustment The compensation is Rs $3,00,000 \times 1/10 =$ Rs $30,000$. Surbhi is debited because she gains and Ria is credited because she sacrifices. Option (B) reverses the partners; options (C) and (D) use Rs 3,000, which is only one-hundredth of goodwill, and (D) also reverses the direction.

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

Quick Tip to Solve: Compute old share minus new share first: the positive partner receives the goodwill adjustment.

OR

2(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:

- Compare old and new shares using a common denominator.

- A decrease in share is a sacrifice; an increase is a gain, and total sacrifices equal total gains.

Step 1: Compare the partners' shares Both ratios total 16. Naman changes from $8/16$ to $5/16$, giving a sacrifice of $3/16$. Suman changes from $5/16$ to $6/16$, giving a gain of $1/16$.

Step 2: Check Mohit and the alternatives Mohit changes from $3/16$ to $5/16$, giving a gain of $2/16$. The gains total $1/16 + 2/16 = 3/16$, equal to Naman's sacrifice. Option (A) reverses all directions. Option (C) swaps Suman's and Mohit's gains, and (D) reverses the directions as well as assigning the wrong amounts.

Step 3: Conclusion Naman sacrifices 3/16; Suman gains 1/16; Mohit gains 2/16. The correct option is (B).

Quick Tip to Solve: When both ratio totals are equal, compare the numerators directly before naming gain or sacrifice.

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

(A) Issued capital

(B) Paid-up capital

(C) Reserve capital

(D) Un-issued capital

Correct Answer: (C) Reserve capital

Solution:

Concept:

- Uncalled capital is the portion of subscribed share capital not yet demanded from shareholders.
- Reserve capital is that part of uncalled capital reserved for a call only upon winding up.

Step 1: Apply the defining condition The question restricts the call to the time of winding up. This restriction identifies reserve capital: it is available to meet obligations on liquidation and cannot be called during the company's ordinary operations.

Step 2: Distinguish the other categories Issued capital is capital offered for subscription, so it does not express a winding-up restriction. Paid-up capital is money already received on shares, whereas the question refers to money still uncalled. Un-issued capital is capital not offered to the public, rather than a reserved portion of subscribed capital.

Step 3: Conclusion The amount is reserve capital. The correct option is (C).

Quick Tip to Solve: Link the words "called only at winding up" directly with reserve capital; paid-up capital is already received.

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

(A) Rs. 1,45,000

(B) Rs. 80,000

(C) Rs. 65,000

(D) Rs. 1,85,000

Correct Answer: (B) Rs. 80,000

Solution:

Concept:

- Bank Account is debited only for cash actually received from the sale of assets.
- An asset taken over by a partner is adjusted through that partner's capital account and does not bring cash into the bank.

Step 1: Find the book value of furniture sold Total furniture has a book value of Rs 2,00,000. Half is taken over by a partner; therefore the book value of the half sold is $2,00,000 \times 50\% = \text{Rs } 1,00,000$.

Step 2: Calculate the bank receipt The sale is at 20% below book value, so the receipt is $1,00,000 \times 80\% = \text{Rs } 80,000$. The partner's Rs 65,000 takeover is a non-cash settlement. Option (A) wrongly adds it to the sale proceeds; (C) uses only the takeover amount, and (D) is inconsistent with the stated sale value.

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

Quick Tip to Solve: Separate assets sold for cash from assets taken over by partners before calculating the bank debit.

5. 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 share capital amount actually received on the forfeited shares.
- Securities premium already received remains in Securities Premium Account; it is not transferred to Share Forfeiture Account.

Step 1: Determine paid-up capital per share The face value is Rs 10 and the unpaid first and final call is Rs 4 per share. Thus the capital amount received is $10 - 4 =$ Rs 6 per share. The Rs 5 premium is separate from share capital.

Step 2: Compute the forfeiture credit For 5,000 shares, the credit is $5,000 \times 6 =$ Rs $30,000$. Option (A), Rs 20,000, is the unpaid call rather than capital received. Option (C), Rs 50,000, is the full face value, while (D), Rs 55,000, incorrectly includes premium already received along with paid capital.

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

Quick Tip to Solve: For the forfeiture credit, multiply shares by face value less unpaid capital calls; exclude securities premium.

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6. 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.

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

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

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

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

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

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

Solution:

Concept:

- With fixed capitals, interest on capital and partners' salaries are credited to current accounts.
- Annual interest equals fixed capital times the annual rate; salaries must first be converted to annual amounts.

Step 1: Calculate interest on capital At 10% per annum, interest for Keshav, Krishna and Murari is respectively Rs $1,20,000$, Rs $1,00,000$ and Rs $80,000$. The profit is sufficient for the stated appropriations.

Step 2: Add annual salaries Keshav's salary is $5,000 \times 12 =$ Rs $60,000$; Krishna's is $3,000 \times 4 =$ Rs $12,000$; Murari has no salary. The combined credits are therefore Rs 1,80,000, Rs 1,12,000 and Rs 80,000. Option (A) includes interest only; (C) includes salaries only; (D) also includes the residual profit shares, which are not asked here.

Step 3: Conclusion Keshav: Rs 1,80,000; Krishna: Rs 1,12,000; Murari: Rs 80,000. The correct option is (B).

Quick Tip to Solve: Use 12 months for monthly salary and four quarters for quarterly salary, then add each partner's interest.

7. 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.

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:

- Residual profit is the profit left after charging interest on capital and partners' salaries as appropriations.
- The residual amount is distributed in the agreed profit sharing ratio, here 3:2:1.

Step 1: Find the residual profit Total interest is $1,20,000 + 1,00,000 + 80,000 =$ Rs $3,00,000$. Annual salaries are $5,000 \times 12 + 3,000 \times 4 =$ Rs $72,000$. Hence distributable profit is $6,72,000 - 3,00,000 - 72,000 =$ Rs $3,00,000$.

Step 2: Distribute in the agreed ratio The ratio has six parts. Keshav receives $3,00,000 \times 3/6 =$ Rs $1,50,000$; Krishna receives $3,00,000 \times 2/6 =$ Rs $1,00,000$; Murari receives $3,00,000 \times 1/6 =$ Rs $50,000$. Options (A) and (B) assign these amounts to the wrong partners. Option (D) totals Rs 3,03,000 instead of the available Rs 3,00,000.

Step 3: Conclusion Profit credits: Keshav Rs 1,50,000, Krishna Rs 1,00,000 and Murari Rs 50,000. The correct option is (C).

Quick Tip to Solve: Deduct all partner appropriations first; distribute only the remaining profit in 3:2:1.

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

(A) 1:1

(B) 3:2

(C) 5:3

(D) 5:2

Correct Answer: (D) 5:2

Solution:

Concept:

- In the absence of a different agreement, continuing partners acquire a deceased partner's share in their old relative ratio.
- The gaining ratio compares only the continuing partners; the deceased partner's ratio component is excluded.

Step 1: Identify the continuing partners' ratio The original ratio of Anu, Monu and Sonu is $5 : 3 : 2$. Monu dies, leaving Anu and Sonu. As no different acquisition arrangement is given, their relative ratio remains $5 : 2$.

Step 2: Check the acquisition shares Monu's share is $3/10$. Anu acquires $(3/10)(5/7) = 3/14$, while Sonu acquires $(3/10)(2/7) = 3/35$. These gains are in the ratio $5 : 2$. Option (A) assumes equal acquisition without an agreement; (B) uses the wrong pair of components, and (C) includes Monu's component rather than Sonu's.

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

Quick Tip to Solve: With no new arrangement, remove the deceased partner from the old ratio and retain the survivors' relative shares.

OR

8(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 surviving partner gains the share expressly acquired from the deceased partner; a partner who acquires nothing retains the old share.

- The new share equals the old share plus the share acquired. All fractions must use the same denominator.

Step 1: Write the old shares The ratio $4 : 3 : 1$ has a total of 8 parts. Hence Vidit, Sumit and Mita have shares $4/8$, $3/8$ and $1/8$, respectively.

Step 2: Add Mita's share to Vidit Vidit takes the entire $1/8$, so his new share is $4/8 + 1/8 = 5/8$. Sumit remains at $3/8$. Thus their ratio is $5 : 3$. Equal sharing, the reversed ratio $3 : 5$, and $5 : 2$ do not preserve these individual shares.

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: Give the deceased partner's share only to the partner named as acquiring it.

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

(A) Interest on Drawings Account

(B) Bank Account

(C) Partners' Current Account

(D) Partners' Capital Account

Correct Answer: (A) Interest on Drawings Account

Solution:

Concept:

- Interest on drawings is an income of the firm and is transferred to the credit of Profit and Loss Appropriation Account.
- Closing an income account requires debiting that income account for its balance.

Step 1: Distinguish charging from transferring When interest is charged to a partner, the partner's Capital or Current Account is debited and Interest on Drawings Account is credited. That is the charging stage, whereas the question asks about the subsequent transfer.

Step 2: Close the interest account To transfer the accumulated interest, debit Interest on Drawings Account and credit Profit and Loss Appropriation Account. Bank Account is not involved because this transfer does not record a cash transaction. Capital and Current Accounts therefore are not the accounts debited at this stage.

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

Quick Tip to Solve: Separate the entry that charges a partner from the entry that closes the interest account.

10(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:

- Excess application money of successful applicants first meets allotment dues; any balance for a future call is calls in advance.
- Rejected applications are refunded and are excluded from the pro-rata adjustment.

Step 1: Calculate excess application money Applications retained are $1,45,000 - 20,000 = 1,25,000$ shares. Money received from these applicants is $1,25,000 \times 3 =$ Rs $3,75,000$. Application money required on allotted shares is $50,000 \times 3 =$ Rs $1,50,000$. Excess application money is therefore Rs 2,25,000.

Step 2: Adjust allotment before the future call Allotment due is $50,000 \times 4 =$ Rs $2,00,000$. After adjusting it, the balance is $2,25,000 - 2,00,000 =$ Rs $25,000$, credited to Calls-in-Advance Account. Rs 2,25,000 is the whole excess, not the advance; Rs 1,75,000 and nil do not follow from the adjustment.

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

Quick Tip to Solve: Refund rejected applications first, then deduct allotment dues from the remaining excess.

OR

10(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.
- Subscribed capital is the portion of issued capital taken up by the public; paid-up capital is the called amount actually received.

Step 1: Identify the stage described The company first has an authorised limit, then offers an issued portion for subscription. When the public actually subscribes to that issue, the amount taken up constitutes subscribed capital. Thus subscription refers to acceptance of the issue, rather than receipt of every instalment.

Step 2: Compare the alternatives Option (A) defines authorised capital, while option (B) defines issued capital. Option (C) identifies the part of issued capital actually subscribed by the public. Option (D) describes paid-up capital, since it refers to called-up money actually received.

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

Quick Tip to Solve: Match the word subscribed with shares taken up, and paid-up with money actually received.

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

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

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

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

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

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

Solution:

Concept:

- Loss on issue includes both the discount allowed at issue and the premium payable on redemption.

- A loss is debited; the debenture interest rate does not determine this issue loss.

Step 1: Calculate the two components Total face value is $2,00,000 \times 100 =$ Rs $2,00,00,000$. Discount at 5% is Rs 10,00,000. Redemption premium at 5% on the same face value is also Rs 10,00,000.

Step 2: Determine amount and side Total loss is $10,00,000 + 10,00,000 =$ Rs $20,00,000$, recorded as a debit to Loss on Issue of Debentures Account. Rs 10,00,000 includes only one component. Both credit alternatives have the wrong accounting side; the 7% coupon relates to interest, not this calculation.

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, each calculated on the face value.

OR

11(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 equals discount on issue plus premium on redemption.
- Discount on issue is calculated on the total nominal value, not the net cash proceeds.

Step 1: Find discount on issue The nominal value of $4,000$ debentures of Rs 100 each is $4,000 \times 100 =$ Rs $4,00,000$. At 10%, discount on issue is $4,00,000 \times 10/100 =$ Rs $40,000$.

Step 2: Separate premium from total loss The combined loss is Rs 60,000. Therefore premium on redemption is $60,000 - 40,000 =$ Rs $20,000$. Rs 60,000 is the combined loss and Rs 40,000 is the discount alone. Rs 80,000 would exceed the stated combined loss. The 9% coupon does not affect this separation.

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

Quick Tip to Solve: Subtract the issue discount from the combined loss to isolate the redemption premium.

12. 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 remuneration, the firm credits that agreed amount to the partner.
- Actual expenses paid personally by that partner are borne by him and do not create a further claim on the firm.

Step 1: Apply the fixed agreement Naresh is entitled to Rs 14,500 for bearing all realisation expenses. Therefore Realisation Account is debited and Naresh's Capital Account is credited with the agreed Rs 14,500. This credit records the firm's obligation under the arrangement.

Step 2: Exclude Naresh's personal expenditure Naresh himself pays the actual Rs 11,000, which he has agreed to bear. No additional firm entry is made for that payment. Rs 3,500 is merely the difference between remuneration and expenses, not the capital credit. Rs 11,000 records only actual expenditure, and Rs 25,500 wrongly adds a reimbursement to 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: Check who agreed to bear the expenses before adding actual payments to remuneration.

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, a partner's loan to the firm carries interest at 6% per annum.
- Simple interest is $I = P \times r \times t/100$, where P is principal, r is annual percentage rate and t is time in years.

Step 1: Identify rate and period The loan is separate from capital, so its interest is a charge against profit rather than interest on capital. With no partnership deed specifying another rate, use 6% per annum. From 1 October 2020 to 31 March 2021 the loan remains outstanding for six months, so the time fraction is $6/12$.

Step 2: Calculate the interest

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

Rs 7,200 would charge a full year of interest. Rs 12,000 and Rs 6,000 do not apply the statutory annual rate to the stated six-month period.

Step 3: Conclusion Interest payable on 31 March 2021 is Rs 3,600. Hence, the correct option is (A).

Quick Tip to Solve: For a partner's loan without an agreed rate, use six percent and then adjust for time.

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 is entitled to his share of profit earned up to the date of death.
- Estimated interim profit is debited to Profit and Loss Suspense Account and credited to the deceased partner's Capital Account.

Step 1: Identify the interim profit adjustment Sanjay's share up to 28 August 2021 has already been determined as Rs 75,000. The question asks which account is debited, so the amount need not be multiplied again by his profit-sharing fraction. His Capital Account receives the corresponding credit.

Step 2: Select the debit account The debit is to Profit and Loss Suspense Account for Rs 75,000 because this is the interim profit adjustment at death. Profit and Loss Account records the final business result; Profit and Loss Appropriation Account distributes the result, and Profit and Loss Adjustment Account is not the prescribed debit for this estimated share.

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

Quick Tip to Solve: When the deceased partner's profit share is already given, record it directly without applying the ratio again.

14. 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 changes in assets and liabilities at reconstitution.
- An increase in a liability is a loss and is debited to Revaluation Account.

Step 1: Judge the assertion When a liability increases, the firm has to discharge a larger obligation. The entry is: Revaluation A/c Dr.; To the concerned Liability A/c. Therefore, Assertion (A) is correct.

Step 2: Judge the reason The additional obligation reduces the net assets available to partners. Consequently, the increase is a revaluation loss, so Reason (R) is correct.

Step 3: Connect the two statements Revaluation losses are debited to Revaluation Account. Thus, the loss described in the reason directly explains the debit stated in the assertion. Options (A), (B) and (D) incorrectly classify at least one statement.

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 a liability, an increase creates a loss; for an asset, an increase creates a gain.

15. 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 profits and losses divided by the number of years.
- Goodwill equals average profit multiplied by the agreed number of years of purchase.

Step 1: Calculate average profit The bracketed figure for 2018-19 is a loss, so subtract it from the other profits:

$$\text{Total profit} = -14,500 + 15,400 + 32,900 + 16,800 = \text{Rs } 50,600.$$

Therefore, average profit is $50,600/4 = \text{Rs } 12,650$.

Step 2: Apply three years of purchase

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

Treating the loss as a positive profit would instead give Rs 59,700, which is incorrect. None of options (A), (C) and (D) equals the correctly calculated four-year average multiplied by three.

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

Quick Tip to Solve: Convert a bracketed loss into a negative figure before averaging all four years.

16. 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:

- New share equals old share minus share sacrificed, or old share plus share gained.
- The shares of all partners must add to one after reconstitution.

Step 1: Deduct the sacrifices The old shares of Niva, Naman and Nityam are $4/9, 3/9, 2/9$. Each of the first two transfers $1/9$ of the total profit to Nityam. Thus Niva retains $4/9 - 1/9 = 3/9$, and Naman retains $3/9 - 1/9 = 2/9$.

Step 2: Add Nityam's gain and check Nityam receives both sacrifices, so his new share is $2/9 + 1/9 + 1/9 = 4/9$. The shares total $(3 + 2 + 4)/9 = 1$. Their numerators give the ratio in the stated order. Option (A) raises Namanś share, option (B) leaves it unchanged, and option (C) leaves Nivaś share unchanged; none reflects both transfers.

Step 3: Conclusion The new ratio of Niva, Naman and Nityam is $3 : 2 : 4$. Hence, the correct option is (D).

Quick Tip to Solve: Keep the names in their printed order and transfer both sacrifices to the gaining partner.

17. Mahesh and Suresh were partners in a firm sharing profits and losses in the ratio of 2:1. They decided to admit Nita into partnership with 1/4th share in the profits. Nita brought Rs. 2,00,000 for her capital and the requisite amount of goodwill premium in cash. The goodwill of the firm is valued at Rs. 12,00,000. The new profit sharing ratio of the partners is 2:1:1. Mahesh and Suresh withdraw their share of goodwill.

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

Solution:

Concept:

- The incoming partner pays her share of the firmś goodwill as premium.
- Goodwill premium is credited to sacrificing partners in their sacrificing ratio, not automatically in the new ratio.

Step 1: Calculate premium and sacrifice Nitaś premium is $12,00,000 \times 1/4 =$ Rs $3,00,000$. Mahesh sacrifices $2/3 - 2/4 = 1/6$, while Suresh sacrifices $1/3 - 1/4 = 1/12$. Their sacrificing ratio is $1/6 : 1/12 = 2 : 1$. Hence, Mahesh receives Rs 2,00,000 and Suresh receives Rs 1,00,000. Nitaś capital

contribution is separately credited to her capital account; it is not goodwill income.

Step 2: Record receipt, distribution and withdrawal

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Cash A/c Dr.		5,00,000	
	To Nita's Capital A/c			2,00,000
	To Premium for Goodwill A/c			3,00,000
	(Being capital and goodwill brought in cash)			
	Premium for Goodwill A/c Dr.		3,00,000	
	To Mahesh's Capital A/c			2,00,000
	To Suresh's Capital A/c			1,00,000
	(Being premium distributed in sacrificing ratio)			
	Mahesh's Capital A/c Dr.		2,00,000	
	Suresh's Capital A/c Dr.		1,00,000	
	To Cash A/c			3,00,000
	(Being goodwill shares withdrawn in cash)			

Step 3: Conclusion Nita brings Rs 5,00,000 in all; the goodwill premium of Rs 3,00,000 is distributed to Mahesh and Suresh in $2:1$ and withdrawn by them.

Quick Tip to Solve: Calculate the sacrificing ratio first; keep the incoming partnerś capital separate from premium.

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:

- Goodwill on acquisition equals purchase consideration less the net identifiable assets acquired.
- Debentures issued at a discount settle consideration at issue price, while the debenture account is credited with nominal value.

Step 1: Calculate goodwill and debentures Net assets acquired are $8,00,000 - 40,000 =$ Rs $7,60,000$. The agreed purchase consideration is Rs 8,30,000, so goodwill is $8,30,000 - 7,60,000 =$ Rs $70,000$. After the acceptance of Rs 2,00,000, the balance payable is Rs 6,30,000. Issue price per debenture is $100 - 10 =$ Rs 90. Thus $6,30,000/90 = 7,000$ debentures are required, with nominal value Rs 7,00,000 and discount Rs 70,000.

Step 2: Pass acquisition and settlement entries

Journal of Hitesh Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2021	Business Purchase A/c Dr. To Pranjal Ltd. (Being business purchased at agreed consideration)		8,30,000	 8,30,000
1-4-2021	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Business Purchase A/c (Being assets and liabilities taken over)		8,00,000 70,000	 40,000 8,30,000
1-4-2021	Pranjal Ltd. Dr. Discount on Issue of Debentures A/c Dr. To Bills Payable A/c To 10% Debentures A/c (Being consideration settled by acceptance and debentures)		8,30,000 70,000	 2,00,000 7,00,000

Step 3: Conclusion Goodwill is Rs 70,000; Hitesh Ltd. issues 7,000 debentures and records bills payable of Rs 2,00,000.

Quick Tip to Solve: Divide the balance consideration by Rs 90, the issue price, to find the number of debentures.

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, debit Share Capital with called-up capital and reverse securities premium when the premium remains unpaid.
- Reissue discount is debited to Share Forfeiture; the surplus attributable only to reissued shares goes to Capital Reserve.

Step 1: Calculate amounts forfeited Called-up capital is $500 \times 90 = \text{Rs } 45,000$. Unpaid allotment is $500 \times 30 = \text{Rs } 15,000$, including premium of $500 \times 10 = \text{Rs } 5,000$. The unpaid first call is $500 \times 20 = \text{Rs } 10,000$. Capital received per share is $90 - (30 - 10) - 20 = \text{Rs } 50$, so Share Forfeiture is credited with Rs 25,000. Unpaid premium must be reversed, since it was credited when allotment became due.

Step 2: Record forfeiture, reissue and reserve transfer

Journal of Disha Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		45,000	
	Securities Premium A/c Dr.		5,000	
	To Share Allotment A/c			15,000
	To Share First Call A/c			10,000
	To Share Forfeiture A/c			25,000
	(Being 500 shares forfeited for non-payment)			
	Bank A/c Dr.		24,000	
	Share Forfeiture A/c Dr.		6,000	
	To Share Capital A/c			30,000
	(Being 300 shares reissued fully paid at Rs 80)			
	Share Forfeiture A/c Dr.		9,000	
	To Capital Reserve A/c			9,000
	(Being surplus on reissued shares transferred)			

For the 300 reissued shares, forfeiture available is $300 \times 50 = \text{Rs } 15,000$. Reissue discount is $300 \times 20 = \text{Rs } 6,000$, leaving Rs 9,000 for Capital Reserve. The remaining Rs 10,000 relates to 200 unreissued shares and stays in Share Forfeiture.

Step 3: Conclusion Credit Share Forfeiture with Rs 25,000 on forfeiture and transfer Rs 9,000 to Capital Reserve after reissue.

Quick Tip to Solve: Allocate forfeiture to the 300 reissued shares before deducting their reissue discount.

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 minimum-profit guarantee is met by transferring the deficiency from the other partners to the guaranteed partner. The total profit distributed remains unchanged.
- Normal shares follow $6 : 4 : 1$. Since no separate bearing ratio is specified, Monika and Bhoomika bear Kamolika's deficiency in their mutual ratio $6 : 4 = 3 : 2$.

Step 1: Calculate the normal shares The sum of the ratio terms is $6 + 4 + 1 = 11$. Out of the net profit of Rs 22,00,000, the normal shares are: Monika $22,00,000 \times 6/11 = \text{Rs } 12,00,000$, Bhoomika $22,00,000 \times 4/11 = \text{Rs } 8,00,000$, and Kamolika $22,00,000 \times 1/11 = \text{Rs } 2,00,000$. These shares total Rs 22,00,000 before implementing the guarantee.

Step 2: Provide the guaranteed minimum Kamolika must receive Rs 3,00,000, so her deficiency is $3,00,000 - 2,00,000 = \text{Rs } 1,00,000$. Monika bears $1,00,000 \times 3/5 = \text{Rs } 60,000$; Bhoomika bears $1,00,000 \times 2/5 = \text{Rs } 40,000$. Their final shares are consequently Rs 11,40,000 and Rs 7,60,000. The

guarantee redistributes profit; it is not an additional expense of the firm.

Step 3: Prepare the 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		
To Kamolika's Capital A/c	3,00,000		
Total	22,00,000	Total	22,00,000

All profit is appropriated, so no balance is carried down.

Step 4: Conclusion Monika receives Rs 11,40,000, Bhoomika Rs 7,60,000 and Kamolika her guaranteed Rs 3,00,000. Total appropriations equal Rs 22,00,000.

Quick Tip to Solve: First find the guaranteed partner's normal share; distribute only the deficiency between the other partners.

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:

- Partner salaries are appropriations of profit. The omitted annual salaries must be credited, while the resulting reduction in divisible profit is debited in the profit-sharing ratio.
- Compare each partner's correct entitlement with the amount already credited. A net excess is debited and a net shortfall is credited through one adjustment entry.

Step 1: Calculate salaries and revised profit shares Ananya and Chandni are each entitled to $1,500 \times 12 = \text{Rs } 18,000$. Bhavi is entitled to Rs 4,000 for the year. Total salaries are $18,000 + 4,000 + 18,000 = \text{Rs } 40,000$. The residual profit is therefore $80,000 - 40,000 = \text{Rs } 40,000$, shared in $3 : 3 : 2$. It gives Ananya Rs 15,000, Bhavi Rs 15,000 and Chandni Rs 10,000.

Step 2: Compare correct and recorded entitlements Working notes (amounts in Rs):

Particulars	Ananya	Bhavi	Chandni
Salary due	18,000	4,000	18,000
Share of residual profit	15,000	15,000	10,000
Correct total entitlement	33,000	19,000	28,000
Already credited from Rs 80,000	30,000	30,000	20,000
Adjustment required	3,000 Cr.	11,000 Dr.	8,000 Cr.

The original distribution was Rs 80,000 multiplied by $3/8, 3/8, 2/8$. Bhavi received Rs 11,000 too much, while Ananya and Chandni received Rs 3,000 and Rs 8,000 too little. The given capital amounts do not change the salary or profit-sharing calculations.

Step 3: Pass the adjustment entry Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2022	Bhavi's Capital A/c Dr.		11,000	
	To Ananya's Capital A/c			3,000
	To Chandni's Capital A/c			8,000
	(Being omitted partners' salaries adjusted through capitals)			

Total debit equals total credits; the adjustment only reallocates the already distributed profit.

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

Quick Tip to Solve: Convert monthly salaries to annual amounts before comparing correct and previously credited profit shares.

20. Aditi, Bobby and Krish were partners in a firm sharing profits and losses in the ratio of 5:3:2. Their capitals were Rs. 5,00,000, Rs. 4,00,000 and Rs. 2,00,000 respectively. The partnership deed provided for the following:

(a) Interest on capital @ 10% per annum.

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

(c) Interest on partner's loan to the firm @ 9% per annum.

During the year, Aditi had withdrawn Rs. 60,000 and Bobby Rs. 50,000. On 1st September, 2021, Krish had given a loan of Rs. 40,000 to the firm.

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

(i) Allowing interest on Bobby's capital.

(ii) Charging interest on Aditi's drawings.

(iii) Providing interest on Krish's loan to the firm.

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 and drawings is 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.
- Interest is principal $\times$ annual rate $\times$ time in years. Where drawings dates are unspecified, use an average period of six months.

Step 1: Calculate the three amounts Bobby's interest on capital is $4,00,000 \times 10/100 = \text{Rs } 40,000$. Aditi's drawings have no specified dates, so interest is calculated for the average period of six months:

$$60,000 \times \frac{6}{100} \times \frac{6}{12} = \text{Rs } 1,800.$$

Krish's loan runs from 1st September, 2021 to 31st March, 2022, i.e. seven months. The deed's loan rate of 9% applies:

$$40,000 \times \frac{9}{100} \times \frac{7}{12} = \text{Rs } 2,100.$$

Only the three specified transactions are required; Bobby's drawings and the other partners' capital amounts are not used for these entries.

Step 2: Record the journal and transfer entries Journal of the firm (all entries dated 31st March, 2022)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Interest on Capital A/c Dr.		40,000	
	To Bobby's Capital A/c			40,000
	(Being interest on Bobby's capital allowed at 10% p.a.)			
	Profit and Loss Appropriation A/c Dr.		40,000	
	To Interest on Capital A/c			40,000
	(Being interest on capital transferred to appropriation)			
	Aditi's Capital A/c Dr.		1,800	
	To Interest on Drawings A/c			1,800
	(Being interest on Aditi's drawings charged at 6% p.a.)			
	Interest on Drawings A/c Dr.		1,800	
	To Profit and Loss Appropriation A/c			1,800
	(Being interest on drawings transferred to appropriation)			
	Interest on Partner's Loan A/c Dr.		2,100	
	To Krish's Loan A/c			2,100
	(Being seven months' interest on Krish's loan provided)			
	Profit and Loss A/c Dr.		2,100	
	To Interest on Partner's Loan A/c			2,100
	(Being loan interest transferred as a charge against profit)			

Capital interest reduces distributable profit and drawings interest increases it. Loan interest reduces

net profit before appropriation.

Step 3: Conclusion Bobby's capital interest is Rs 40,000; Aditi's drawings interest is Rs 1,800; Krish's loan interest is Rs 2,100. The first two enter appropriation, while loan interest enters Profit and Loss.

Quick Tip to Solve: Count seven months for the dated September loan; use six months only for the undated annual drawings.

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

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

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

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

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

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

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

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

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

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

Solution:

Concept:

- A deceased partner is credited with opening capital, his share of accumulated reserves, goodwill, profit up to death and interest on capital. Drawings reduce the amount due to his estate.
- Vikas's profit share is $1/5$. The period from 1st April to 30th September, 2022 is six months; time-based profit and interest therefore use $6/12$.

Step 1: Calculate reserve and profit shares General Reserve is an accumulated profit belonging to the

partners in their old ratio $2:2:1$. Vikas's share is

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

The previous year's profit is Rs 60,000. The estimated profit credited up to death is therefore

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

This is credited through Profit and Loss Suspense Account because the current year's actual profit has not yet been ascertained.

Step 2: Calculate goodwill and interest on capital The average profit of the four completed years is

$$\frac{1,60,000 + 1,00,000 + 80,000 + 60,000}{4} = \text{Rs } 1,00,000.$$

The firm's goodwill is $1,00,000 \times 3 = \text{Rs } 3,00,000$, so Vikas's share is $3,00,000 \times 1/5 = \text{Rs } 60,000$. Prakash and Aakash continue in their existing relative ratio $1:1$; they bear this adjustment equally, Rs 30,000 each. Interest is allowed on Vikas's opening capital for six months:

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

Step 3: Prepare the capital account Vikas's Capital Account as at 30th September, 2022

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Drawings A/c	20,000	By Balance b/d	80,000
To Vikas's Executors' A/c	1,50,800	By General Reserve A/c	20,000
		By Prakash's Capital A/c	30,000
		By Aakash's Capital A/c	30,000
		By 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 credit balance before transfer is $80,000+20,000+60,000+6,000+4,800-20,000$. It is transferred to the executors' account; no cash settlement is assumed.

Step 4: Conclusion The amount due to Vikas's executors is $\boxed{\text{Rs } 1,50,800}$.

Quick Tip to Solve: Use six months for both estimated profit and interest, but transfer the entire one-fifth share of reserve and goodwill.

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

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

Present the 'Share Capital' in the Balance Sheet of the Company as per Schedule III, Part I of the Companies Act, 2013. Also prepare 'Notes to Accounts' for the same. [4 marks]

Solution:

Concept:

- Authorised capital is the maximum nominal capital; issued capital is the portion offered for subscription. Subscribed capital includes only shares actually subscribed.
- After forfeiture, the forfeited shares cease to form part of subscribed share capital. The amount already received on them is added separately under Share Capital until reissue.

Step 1: Determine the different capital amounts The authorised capital is Rs 20,00,000, consisting of $20,00,000/10 = 2,00,000$ equity shares of Rs 10 each. The company offered 60,000 shares, so issued capital is $60,000 \times 10 =$ Rs $6,00,000$. Only 58,000 shares were subscribed. After forfeiture of 2,000 shares, the remaining $58,000 - 2,000 = 56,000$ shares are fully paid. Their nominal amount is $56,000 \times 10 =$ Rs $5,60,000$. The 2,000 shares for which no applications were received are not included in subscribed capital.

Step 2: Calculate the forfeited amount Each forfeited share had received Rs $10 - 3 = 7$. The amount standing in Share Forfeiture Account is therefore $2,000 \times 7 =$ Rs $14,000$. The unpaid final call of Rs $2,000 \times 3 = 6,000$ is cancelled on forfeiture, so no calls in arrears remain against these shares in the final share capital note. The amount presented under Share Capital is $5,60,000 + 14,000 =$ Rs $5,74,000$.

Step 3: Present the Balance Sheet extract and note Sunstar Ltd.

Balance Sheet (Extract)

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

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

There is no subscribed but not fully paid-up capital after the forfeiture. The note keeps authorised and issued amounts distinct from the amount carried into the Balance Sheet.

Step 4: Conclusion Share Capital in the Balance Sheet is $\boxed{\text{Rs } 5,74,000}$, comprising fully paid shares

of Rs 5,60,000 and forfeited amount of Rs 14,000.

Quick Tip to Solve: First remove forfeited shares from subscribed capital, then add only the cash already received on those shares.

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

(i) Realisation expenses of the firm amounting to Rs. 2,600 were paid by partner, Aman.

(ii) A creditor of Rs. 4,500 took over stock valued at Rs. 5,200 in full settlement.

(iii) An unrecorded asset realised Rs. 3,500.

(iv) Remaining creditors amounting to Rs. 20,000 were paid at a discount of 5%.

(v) Remaining stock of Rs. 30,000 was taken over by Bimal, a partner, at a discount of 20%.

(vi) Investment whose face value was Rs. 10,000 was realised at 40%. [6 marks]

Solution:

Concept:

- After assets and outside liabilities are transferred, Realisation Account records receipts, payments and partner takeovers.
- Expenses paid personally by a partner are credited to that partner's Capital Account; assets taken over are debited to the partner's Capital Account.
- A creditor accepting an already transferred asset in settlement requires no further entry.

Step 1: (i) Expenses paid by Aman Realisation expenses are borne by the firm. Since Aman paid them personally, the firm owes Aman Rs 2,600; Bank Account is not credited.

Journal of the firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr.		2,600	
	To Aman's Capital A/c			2,600
	(Being realisation expenses paid by Aman on behalf of the firm)			

Step 2: (ii) Creditor takes stock in full settlement No journal entry is passed. Both the creditor of Rs 4,500 and stock of Rs 5,200 have already been transferred to Realisation Account. Settlement by direct transfer of this stock to that creditor involves neither the bank nor a partner. The difference of Rs 700 is already reflected through the amounts transferred to Realisation Account; recording it separately would duplicate the result.

Step 3: (iii) Unrecorded asset realised An unrecorded asset has no book value to transfer. Its entire cash realisation is credited to Realisation Account.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		3,500	
	To Realisation A/c			3,500
	(Being cash received from sale of an unrecorded asset)			

Step 4: (iv) Creditors paid at a discount The payment is $20,000 \times 95/100 = \text{Rs } 19,000$. The creditors have already been transferred, so debit Realisation Account with the actual payment, without a

separate discount entry.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr.		19,000	
	To Bank A/c			19,000
	(Being remaining creditors settled at a discount of 5 percent)			

Step 5: (v) Stock taken over by Bimal The agreed takeover value is $30,000 \times 80/100 = \text{Rs } 24,000$. Debit Bimal because taking the stock reduces the capital payable to him; credit Realisation with the agreed value.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bimal's Capital A/c Dr.		24,000	
	To Realisation A/c			24,000
	(Being stock taken over by Bimal at 20 percent discount)			

Step 6: (vi) Investment realised The sale proceeds are $10,000 \times 40/100 = \text{Rs } 4,000$. Record actual proceeds, since the investment has already been transferred to Realisation Account.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		4,000	
	To Realisation A/c			4,000
	(Being investment realised at 40 percent of its face value)			

Step 7: Conclusion The six treatments are shown above: expenses Rs 2,600; no entry for the creditor taking stock; asset proceeds Rs 3,500; creditors paid Rs 19,000; Bimal's takeover Rs 24,000; investment proceeds Rs 4,000.

Quick Tip to Solve: Once both an asset and its creditor have gone to Realisation, their direct settlement needs no second entry.

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24. Pass the necessary journal entries for the issue of debentures in the books of Amrit Ltd. for the following transactions:

(i) Issued Rs. 10,00,000, 9% Debentures of Rs. 100 each at a discount of 10%, redeemable at a premium of 5% after three years.

(ii) Issued Rs. 30,00,000, 8% Debentures of Rs. 100 each at par, redeemable at a premium of 5%.

(iii) Issued 6,000, 9% Debentures of Rs. 100 each at a premium of 10%, redeemable at a premium of 5%. [6 marks]

Solution:

Concept:

- Credit Debentures Account with nominal value; debit Bank with the actual issue proceeds.
- Loss on issue equals issue discount plus redemption premium. Credit the redemption premium to Premium on Redemption of Debentures Account.
- Premium charged on issue is credited separately to Securities Premium Reserve. Coupon rates determine interest, not the issue proceeds.

Step 1: (i) Debentures issued at discount, redeemable at premium Face value is Rs 10,00,000. Issue discount is $10,00,000 \times 10\% = \text{Rs } 1,00,000$, so bank receives Rs 9,00,000. Redemption premium is

$10,00,000 \times 5\% =$ Rs $50,000$. The total loss on issue is Rs 1,50,000. The three-year term does not change the issue entry.

Journal of Amrit Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		9,00,000	
	Loss on Issue of Debentures A/c Dr.		1,50,000	
	To 9% Debentures A/c			10,00,000
	To Premium on Redemption of Debentures A/c			50,000
	(Being 10,000 debentures issued at 10 percent discount, redeemable at 5 percent premium)			

Step 2: (ii) Debentures issued at par, redeemable at premium Bank receives the full face value of Rs 30,00,000. There is no issue discount or securities premium. The redemption premium is $30,00,000 \times 5\% =$ Rs $1,50,000$, recognised as loss on issue and a liability at the date of issue.

Journal of Amrit Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		30,00,000	
	Loss on Issue of Debentures A/c Dr.		1,50,000	
	To 8% Debentures A/c			30,00,000
	To Premium on Redemption of Debentures A/c			1,50,000
	(Being 30,000 debentures issued at par, redeemable at 5 percent premium)			

Step 3: (iii) Debentures issued at premium, redeemable at premium The nominal value is $6,000 \times 100 =$ Rs $6,00,000$. Issue premium is Rs 60,000, so bank receives Rs 6,60,000. Redemption premium is Rs 30,000. The issue premium is separately credited to Securities Premium Reserve; it is not netted against the loss on issue in this entry.

Journal of Amrit Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		6,60,000	
	Loss on Issue of Debentures A/c Dr.		30,000	
	To 9% Debentures A/c			6,00,000
	To Securities Premium Reserve A/c			60,000
	To Premium on Redemption of Debentures A/c			30,000
	(Being 6,000 debentures issued at 10 percent premium, redeemable at 5 percent premium)			

Step 4: Conclusion Bank receipts are Rs 9,00,000, Rs 30,00,000 and Rs 6,60,000 respectively. Losses on issue are Rs 1,50,000, Rs 1,50,000 and Rs 30,000 respectively; each issue entry balances.

Quick Tip to Solve: Compute nominal value first, then keep issue premium and redemption premium in separate accounts.

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

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

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals: 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:

- Accumulated reserves and revaluation profit belong to the old partners in their old ratio, here $5:3$. A new partner receives no share of profits earned before admission.
- Goodwill premium compensates sacrificing partners. When no different sacrifice is specified, the old partners retain their relative ratio in the remaining share.
- Capital based on the new partner is total capital = new capital divided by new profit share. Transfer excess adjusted capital to current accounts when cash is not to be withdrawn.

Step 1: Find the ratios and goodwill premium Aditi receives $1/3$; Bhumi and Chavi retain $2/3$ in the ratio $5:3$. Thus their new shares are $5/12$ and $3/12$, and the new ratio is $5:3:4$. Their sacrifices are $5/24$ and $3/24$, giving sacrificing ratio $5:3$. Firm goodwill is $60,000 \times 2 = \text{Rs } 1,20,000$. Aditi brings $1,20,000/3 = \text{Rs } 40,000$, credited to Bhumi and Chavi as Rs 25,000 and Rs 15,000 respectively. This premium is separate from her capital.

Step 2: Record the revaluation and distribute the reserve Machinery increases by $4,60,000 - 3,80,000 = \text{Rs } 80,000$. There is no other revaluation adjustment, so this is the revaluation profit. Credit Bhumi with Rs 50,000 and Chavi with Rs 30,000. Similarly, distribute the existing general reserve of Rs 80,000 in the old ratio: Rs 50,000 and Rs 30,000.

Revaluation Account (Rs)

Dr. Particulars	Amount (Rs)	Cr. Particulars	Amount (Rs)
To Bhumi capital	50,000	By Machinery	80,000
To Chavi capital	30,000		
Total	80,000	Total	80,000

Step 3: Determine required capitals and current-account transfers Total capital based on Aditi is $3,00,000 \div (1/3) =$ Rs $9,00,000$. Required capitals in $5:3:4$ are Rs 3,75,000, Rs 2,25,000 and Rs 3,00,000. Bhumi adjusted capital is $3,20,000 + 50,000 + 50,000 + 25,000 =$ Rs $4,45,000$; Chavi adjusted capital is $3,40,000 + 30,000 + 30,000 + 15,000 =$ Rs $4,15,000$. Transfer the excesses Rs 70,000 and Rs 1,90,000 to their respective current accounts, crediting those accounts and debiting capitals.

Partners' Capital Accounts (Rs)

Dr. Particulars	Bhumi	Chavi	Aditi	Cr. Particulars	Bhumi	Chavi	Aditi
To Current accounts	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 Revaluation	50,000	30,000	—
				By Premium for goodwill	25,000	15,000	—
				By Cash	—	—	3,00,000
Total	4,45,000	4,15,000	3,00,000	Total	4,45,000	4,15,000	3,00,000

Step 4: Conclusion Revaluation profit is Rs 80,000. Closing capitals: Bhumi Rs 3,75,000, Chavi Rs 2,25,000 and Aditi Rs 3,00,000. Current-account credit balances are Rs 70,000 and Rs 1,90,000 respectively.

Quick Tip to Solve: Calculate the new total capital from Aditi first; transfer each old partner excess to current account only after reserve, revaluation and goodwill credits.

OR

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

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

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	66,000	Furniture	1,12,000
Bills Payable	59,000	Stock	1,77,000
Capitals: 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 loss is borne by all partners in their old profit-sharing ratio, here $5 : 3 : 2$, because it relates to the period before retirement.
- The continuing partners compensate the retiring partner for goodwill in their gaining ratio, obtained by subtracting their old shares from their new shares.
- Cash introduced to pay the retiring partner increases the continuing partners total capital by that payment when existing cash is retained. Equal new profit shares require equal closing capitals.

Step 1: Calculate gains and adjust goodwill Bina gains $1/2 - 3/10 = 2/10$; Teena gains $1/2 - 2/10 = 3/10$. Their gaining ratio is therefore $2 : 3$. Anna goodwill entitlement is $60,000 \times 5/10 =$ Rs $30,000$. Debit Bina capital by Rs 12,000 and Teena capital by Rs 18,000, and credit Anna capital by Rs 30,000. No goodwill asset is raised, since the question requires adjustment through continuing partners capital accounts.

Step 2: Prepare the Revaluation Account The furniture depreciation of Rs 10,000 is the sole revaluation adjustment. Debit Revaluation and credit Furniture. The resulting loss is transferred to Anna, Bina and Teena in $5 : 3 : 2$, namely Rs 5,000, Rs 3,000 and Rs 2,000. The existing provision for bad debts stays unchanged because no change to it is requested.

Revaluation Account (Rs)

Dr. Particulars	Amount (Rs)	Cr. Particulars	Amount (Rs)
To Furniture	10,000	By Anna capital	5,000
		By Bina capital	3,000
		By Teena capital	2,000
Total	10,000	Total	10,000

Step 3: Find Anna payment and cash to be introduced Anna adjusted balance is $2,00,000 + 30,000 - 5,000 =$ Rs $2,25,000$. Bina has $2,00,000 - 12,000 - 3,000 =$ Rs $1,85,000$; Teena has $1,00,000 - 18,000 - 2,000 =$ Rs $80,000$. Bina and Teena bring the entire Rs 2,25,000 needed for Anna. Their combined final capital is therefore $1,85,000 + 80,000 + 2,25,000 =$ Rs $4,90,000$. Each must have Rs 2,45,000 under the new equal ratio. Bina brings $2,45,000 - 1,85,000 =$ Rs $60,000$, and Teena brings $2,45,000 - 80,000 =$ Rs $1,65,000$. Their contributions total exactly the amount paid to Anna, leaving the existing cash unaffected.

Step 4: Prepare the capital accounts Credit the cash introduced to the respective continuing partners and debit the payment to Anna capital. Anna account closes after payment. Carry forward equal balances for Bina and Teena; each side of every account must have the same total.

Partners' Capital Accounts (Rs)

Dr. Particulars	Anna	Bina	Teena	Cr. Particulars	Anna	Bina	Teena
To Revaluation	5,000	3,000	2,000	By Balance b/d	2,00,000	2,00,000	1,00,000
To Anna capital	—	12,000	18,000	By Bina capital	12,000	—	—
To Cash	2,25,000	—	—	By Teena capital	18,000	—	—
To Balance c/d	—	2,45,000	2,45,000	By Cash	—	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

Step 5: Conclusion Anna receives Rs 2,25,000. Bina brings Rs 60,000 and Teena Rs 1,65,000. Their closing capitals are Rs 2,45,000 each; the revaluation loss is Rs 10,000.

Quick Tip to Solve: Use gains of 2/10 and 3/10 for goodwill, but use the old 5:3:2 ratio for furniture loss; these ratios serve different purposes.

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

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

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

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

Solution:

Concept:

- The issue price is Rs 11: face value Rs 10 plus securities premium Rs 1. Application and allotment together collect Rs 6; the final call is therefore Rs 5.
- Excess application money is adjusted only up to allotment due; the remaining excess is refunded. Forfeiture credits only the capital actually received, excluding premium.

Step 1: Compute pro-rata allotment and application adjustment Allotment ratio is $50,000 : 1,20,000 = 5 : 12$. Application receipts are $1,20,000 \times 3 =$ Rs $3,60,000$. Application capital is Rs 1,50,000, leaving Rs 2,10,000 excess. Allotment due is Rs 1,50,000, so adjust this amount and refund Rs 60,000. No further bank receipt is required on allotment.

Step 2: Calculate default, forfeiture and reissue The applicant for 6,000 shares receives $6,000 \times 5/12 = 2,500$ shares. His unpaid final call is $2,500 \times 5 =$ Rs $12,500$; call receipts are Rs 2,37,500. Capital received on those shares is $2,500 \times (3+2) =$ Rs $12,500$, since Rs 1 per share of allotment is premium. Reissue for Rs 60,000 credits share capital Rs 25,000 and premium Rs 35,000. There is no reissue discount, so the full forfeiture balance becomes capital reserve.

Step 3: Record issue transactions Journal of Yash Ltd. (issue)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		3,60,000	
	To Share Application A/c			3,60,000
	(Being application money received on 1,20,000 shares at Rs 3 each)			
	Share Application A/c Dr.		3,60,000	
	To Share Capital A/c			1,50,000
	To Share Allotment A/c			1,50,000
	To Bank A/c			60,000
	(Being application adjusted and surplus refunded)			
	Share Allotment A/c Dr.		1,50,000	
	To Share Capital A/c			1,00,000
	To Securities Premium A/c			50,000
	(Being allotment of Rs 3 per share due)			
	Share First and Final Call A/c Dr.		2,50,000	
	To Share Capital A/c			2,50,000
	(Being call of Rs 5 per share due on 50,000 shares)			

Step 4: Record forfeiture and reissue Journal of Yash Ltd. (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		2,37,500	
	To Share First and Final Call A/c			2,37,500
	(Being call money received except on 2,500 shares)			
	Share Capital A/c Dr.		25,000	
	To Share First and Final Call A/c			12,500
	To Share Forfeiture A/c			12,500
	(Being 2,500 fully called shares forfeited)			
	Bank A/c Dr.		60,000	
	To Share Capital A/c			25,000
	To Securities Premium A/c			35,000
	(Being forfeited shares reissued fully paid at Rs 24 each)			
	Share Forfeiture A/c Dr.		12,500	
	To Capital Reserve A/c			12,500
	(Being profit on all forfeited shares transferred to capital reserve)			

Step 5: Conclusion 2,500 shares are forfeited and reissued; the transfer to Capital Reserve is Rs 12,500. Securities Premium is credited by Rs 50,000 on issue and Rs 35,000 on reissue.

Quick Tip to Solve: Separate the Rs 1 premium from allotment before finding the capital received on forfeited shares.

OR

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

On application - Rs. 3 per share

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

On first and final call - Rs. 3 per share

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

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

Solution:

Concept:

- Pro-rata allotment in the ratio $5:6$ converts an application for 1,200 shares into an allotment of 1,000 shares. Excess application money reduces the allotment still payable.
- Calls-in-arrears records unpaid allotment and calls. On forfeiture, fully called capital is debited and unpaid securities premium is reversed; capital already received is credited to Share Forfeiture.

Step 1: Calculate application adjustment and allotment receipts Application receipts are $6,00,000 \times 3 =$ Rs $18,00,000$. Transfer Rs 15,00,000 to capital and Rs 3,00,000 to allotment. Allotment due is $5,00,000 \times 5 =$ Rs $25,00,000$; the balance payable in cash is Rs 22,00,000. Sumit applied for $1,000 \times 6/5 = 1,200$ shares and paid Rs 3,600 on application. His application capital is Rs 3,000 and the excess Rs 600 is adjusted against allotment. Hence his allotment arrears are $5,000-600 =$ Rs $4,400$, making bank receipts Rs 21,95,600.

Step 2: Calculate call arrears and forfeiture The final call is $5,00,000 \times 3 =$ Rs $15,00,000$. Sumit owes Rs 3,000, so receipts are Rs 14,97,000. Total calls-in-arrears are $4,400 + 3,000 =$ Rs $7,400$. The Rs 600 application excess is adjusted against the capital portion of allotment; the unpaid premium is Rs 1,000. Thus debit capital Rs 10,000 and premium Rs 1,000; credit arrears Rs 7,400 and forfeiture Rs 3,600. This also checks as capital received: application Rs 3,000 plus adjusted excess Rs 600.

Step 3: Record application and allotment Journal of Ajanta Ltd. (issue)

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

Step 4: Record call and forfeiture Journal of Ajanta Ltd. (continued)

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

Step 5: Conclusion Sumit's 1,000 shares are forfeited. Calls-in-Arrears of Rs 7,400 is cleared, unpaid Securities Premium of Rs 1,000 is reversed, and Share Forfeiture is credited by Rs 3,600.

Quick Tip to Solve: Find Sumit's original application first; its excess reduces the allotment arrears from Rs 5,000 to Rs 4,400.

Part B (20 marks)

OPTION – I (Analysis of Financial Statements)
OPTION – II (Computerised Accounting)

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 changes the total of cash and cash equivalents. Transfers between cash in hand and bank balances do not change that total.
- A non-cash acquisition of an asset is excluded from the cash flow statement; collection from debtors increases cash while reducing receivables.

Step 1: Identify the cash receipt Receiving Rs 30,000 from debtors increases cash or bank by Rs 30,000 and decreases trade receivables by the same amount. Receivables are not cash equivalents, so this is an inflow from operating activities.

Step 2: Check the other alternatives Withdrawing Rs 50,000 from bank merely converts bank cash into cash in hand. Depositing cheques of Rs 20,000 transfers cash between its forms. Neither changes total cash and cash equivalents. Issuing debentures directly to machinery vendors acquires machinery against a liability without any cash payment, so it is a non-cash transaction.

Step 3: Conclusion Hence, the correct option is (C): Rs 30,000 received from debtors.

Quick Tip to Solve: Ask whether total cash plus cash equivalents changes, rather than whether the bank balance alone changes.

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 short maturity criterion is normally three months or less from the date the investment is acquired.

Step 1: Apply the maturity criterion The period is measured from the date of acquisition, rather than simply from the reporting date. An investment acquired with a maturity of three months or less normally meets this duration condition.

Step 2: Check the alternatives Three months or more allows long maturities, so (A) reverses the limit. Six months or less and one year or less in (B) and (C) exceed the normal cash-equivalent maturity limit. Only (D) states the correct upper limit.

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

Quick Tip to Solve: Measure the three-month limit from acquisition, not from the balance sheet date.

28. 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 ability of a business to meet its long-term obligations.
- Profitability ratios assess earnings in relation to sales, investment or capital employed.

Step 1: Classify return on investment Return on Investment measures the earning capacity of the funds employed in the business. Since it relates profit to investment, it belongs to profitability ratios.

Step 2: Check the remaining ratios Interest Coverage Ratio measures the coverage of interest by earnings. Proprietary Ratio measures the proportion of assets financed by shareholders. Total Assets

to Debt Ratio measures asset coverage of long-term debt. Each 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: For a negative classification question, identify the purpose of each ratio before choosing.

29. 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.
- For a finance company, lending and the interest earned on lending form part of its ordinary business operations.

Step 1: Identify the nature of the enterprise The recipient is a finance company. Interest received is therefore revenue from its main business, and the receipt is classified as an operating cash inflow.

Step 2: Reject the other classifications Financing activities concern changes in owners' capital and borrowings. Investing classification of interest received applies to a non-financial enterprise in the usual CBSE treatment. Cash and cash equivalents describe liquid resources, not the activity classification of this receipt.

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

Quick Tip to Solve: Always check whether the enterprise is financial before classifying an interest receipt.

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

(A) Rs. 2,50,000

(B) Rs. 12,50,000

(C) Rs. 2,00,000

(D) Rs. 8,50,000

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

Solution:

Concept:

- Gross profit on cost means Gross Profit $= 25\% \times$ Cost.
- Revenue from operations equals cost of revenue from operations plus gross profit.

Step 1: Express revenue in terms of cost Let cost of revenue from operations be C. Since gross profit is 25% on cost, revenue is $C + 0.25C = 1.25C$. The percentage is on cost, so it cannot be directly deducted as 25% of revenue.

Step 2: Calculate and check the printed choices

$$C = \frac{10,00,000}{1.25} = \text{Rs } 8,00,000.$$

Gross profit is therefore Rs 2,00,000, and their sum is Rs 10,00,000. Options (A) and (C) are not the cost; (B) exceeds revenue despite positive gross profit; (D), Rs 8,50,000, does not produce gross profit of 25% on cost.

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

Quick Tip to Solve: For profit of 25% on cost, treat cost as 100 and sales as 125.

OR

30(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 operating cost as a percentage of revenue from operations.
- Operating Profit Ratio $= 100\% -$ Operating Ratio.

Step 1: Use the complementary relationship Operating cost and operating profit together equal revenue from operations. With a common revenue denominator, their percentages therefore total 100%.

Step 2: Substitute and compare

$$\text{Operating Profit Ratio} = 100\% - 60\% = 40\%.$$

The 60% option repeats the cost percentage, 100% ignores operating costs, and 160% adds rather than subtracts the operating ratio. Thus only 40% represents the balance available as operating profit.

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

Quick Tip to Solve: Operating ratio and operating profit ratio add to 100% when both use revenue from operations.

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

(i) Prepaid Rent

(ii) Mortgage Loan

(iii) Computer Software [3 marks]

Solution:

Concept:

- Schedule III classifies assets and liabilities into current and non-current groups, with the appropriate sub-head under each major head.
- Prepaid expenses represent benefits receivable; a mortgage loan is a secured borrowing, while computer software is an intangible asset.

Step 1: Classify prepaid rent Prepaid rent is rent paid in advance for a benefit to be received in the following accounting period. It is shown on the assets side under Current Assets, sub-head Other Current Assets. It is not a cash balance or a trade receivable.

Step 2: Classify mortgage loan A mortgage loan is a borrowing secured against property. In the standard classification of this item, it is shown on the liabilities side under Non-current Liabilities, sub-head Long-term Borrowings. The security does not convert the liability into an asset.

Step 3: Classify computer software Computer software is a separately identifiable non-physical resource used by the business. It appears under Non-current Assets, sub-head Fixed Assets – Intangible Assets. The classifications are summarised below.

Item	Major head	Sub-head
Prepaid Rent	Current Assets	Other Current Assets
Mortgage Loan	Non-current Liabilities	Long-term Borrowings
Computer Software	Non-current Assets	Fixed Assets – Intangible Assets

Step 4: Conclusion Prepaid rent: Other Current Assets; mortgage loan: Long-term Borrowings; computer software: Intangible Assets, under their respective major heads stated above.

Quick Tip to Solve: Classify the nature of the item first, then decide current or non-current and the sub-head.

32. 'These ratios are calculated to analyse the earning capacity of the business which is the outcome of utilisation of resources employed in the business.'

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

(ii) Explain any two ratios of the type of ratios identified in (i) above. [3 marks]

Solution:

Concept:

- Profitability ratios measure earning capacity and the efficiency with which resources are used to earn profit.
- A profitability ratio relates a specified measure of profit to revenue from operations or to the resources employed.

Step 1: Identify the type of ratios (i) The ratios described are Profitability Ratios. They indicate the ability of the business to earn profits and help assess the result of using its resources. Profitability differs from liquidity, which concerns short-term payment ability, and solvency, which concerns long-term financial obligations.

Step 2: Explain Gross Profit Ratio (ii) Gross Profit Ratio expresses gross profit as a percentage of revenue from operations:

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Revenue from Operations}} \times 100.$$

Here gross profit is revenue from operations less cost of revenue from operations. The ratio measures the margin available from trading operations before indirect expenses. A higher ratio generally indicates a better trading margin, subject to consistent accounting policies and comparable business conditions.

Step 3: Explain Net Profit Ratio Net Profit Ratio expresses net profit as a percentage of revenue from operations:

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Revenue from Operations}} \times 100.$$

It measures overall profitability after the relevant expenses have been charged. It shows how much net profit is earned per Rs 100 of revenue from operations; a higher ratio generally indicates better overall expense control and earning performance.

Step 4: Conclusion The type is Profitability Ratios. Gross Profit Ratio measures the trading margin, while Net Profit Ratio measures the net earning margin on revenue from operations.

Quick Tip to Solve: For each profitability ratio, state the profit measure, its denominator and what the resulting percentage shows.

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

(b) Calculate Debt to Equity Ratio:

Shareholder Funds - Rs. 2,00,000

Reserves and Surplus - Rs. 1,00,000

Total Debt - Rs. 4,00,000

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

Solution:

Concept:

- Current ratio equals current assets divided by current liabilities. Quick ratio uses quick assets in the numerator and the same current liabilities in the denominator.
- Debt to equity ratio compares long-term debt with shareholders' funds. Reserves and surplus are already included in shareholders' funds.

Step 1: (a) Use the difference between the ratios Let current liabilities be Rs x. Current assets are then Rs $3.5x$ and quick assets are Rs $2x$. Inventory is the entire excess of current assets over quick assets in this question. Since the denominators of the two ratios are identical, subtracting the ratios directly gives inventory per rupee of current liabilities:

$$\begin{aligned} 3.5x - 2x &= 48,000, \\ 1.5x &= 48,000, \\ x &= 48,000/1.5 = 32,000. \end{aligned}$$

Thus the common denominator has been determined without assuming any extra current asset or liability.

Step 2: (a) Calculate current assets and verify the data

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

Quick assets are $2 \times 32,000 = \text{Rs } 64,000$. Their difference, $1,12,000 - 64,000 = 48,000$, equals the inventory stated. Dividing current assets and quick assets separately by Rs 32,000 reproduces the given ratios of $3.5 : 1$ and $2 : 1$, respectively.

Step 3: (b) Separate long-term debt from total debt The debt to equity ratio uses long-term debt, so current liabilities must be removed from total debt:

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

Shareholders' funds are given directly as Rs 2,00,000. The separately mentioned reserves and surplus of Rs 1,00,000 are a constituent of shareholders' funds and must not be counted twice. In particular, the printed heading is shareholders' funds, not share capital.

Step 4: (b) Substitute in the ratio

$$\text{Debt to equity ratio} = \frac{\text{Long-term debt}}{\text{Shareholders' funds}} = \frac{3,00,000}{2,00,000} = 1.5 : 1.$$

There is therefore Rs 1.50 of long-term debt for each rupee of shareholders' funds. Using total debt without deducting current liabilities would incorrectly include short-term obligations in the numerator.

Step 5: Conclusion (a) Current assets = Rs 1,12,000 and current liabilities = Rs 32,000. (b) Debt to equity ratio = $1.5 : 1$.

Quick Tip to Solve: Subtract quick ratio from current ratio to isolate inventory per rupee of current liabilities; do not add reserves again to shareholders' funds.

OR

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

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

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

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

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

Solution:

Concept:

- Current ratio is Current assets/Current liabilities. Begin with current assets $2L$ and current liabilities L, where $L > 0$.
- A transfer between two current assets leaves the total unchanged. A change in total current assets changes the ratio in the same direction when current liabilities remain constant.

Step 1: (a) Purchase of goods for cash: no change Inventory, a current asset, increases by Rs 60,000, while cash, another current asset, decreases by Rs 60,000. The two effects cancel, so total current assets remain $2L$. No current liability is created because payment is immediate. Hence,

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

The composition of current assets changes, but the numerator and denominator of the current ratio do not change.

Step 2: (b) Purchase of fixed assets for cash: reduces Cash decreases by Rs 2,00,000. The fixed asset received is non-current, so it does not replace the cash within current assets. Current liabilities are unaffected because the asset is purchased for cash. Consequently,

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

Thus the ratio declines: fewer current assets remain available to cover the same current liabilities.

Step 3: (c) Credit sale of goods at a profit: improves Inventory falls by its cost of Rs 20,000 and trade receivables rise by the selling price of Rs 23,000. Both are current assets. Their net increase is Rs $23,000 - 20,000 = 3,000$, the profit on the sale. Current liabilities remain unchanged. Therefore,

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

Although cash has not yet been collected, the receivable is included in current assets; the profit therefore improves the ratio.

Step 4: (d) Issue of shares: improves The issue brings cash of Rs 10,00,000 into the company and increases shareholders' funds. Cash is a current asset, while share capital is equity and does not enter current liabilities. Thus,

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

The increase in current assets is supported by long-term owners' funds, leaving the denominator unchanged and increasing the current ratio.

Step 5: Conclusion (a) No change, remaining $2 : 1$; (b) reduces; (c) improves; (d) improves.

Quick Tip to Solve: Track the net change in total current assets: exchanging cash for inventory is neutral, while profit on credit sales raises current assets.

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	44,00,000	25,00,000
	Less Accumulated Depreciation	(4,00,000)	(2,50,000)
		40,00,000	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 cash flows include cash paid to acquire machinery and cash received on its sale; use gross asset cost to determine purchases.

- Financing cash flows include proceeds from share capital and debenture issues, repayment of bank borrowing, and interest paid by a non-financial enterprise.
- Depreciation, goodwill written off and loss on sale are non-cash adjustments and are not investing cash payments.

Step 1: Calculate machinery purchased Gross plant and machinery increased from Rs 25,00,000 to Rs 44,00,000, while machinery costing Rs 1,25,000 was sold. Hence:

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

The accumulated depreciation on the machine sold is used to find its book value, not to reduce its original cost in this reconciliation. No non-cash asset acquisition is specified; the purchase is therefore treated as a cash payment.

Step 2: Prepare cash flow from investing activities Madhav Ltd.: Cash Flow from Investing Activities for the year ended 31st March, 2022

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

The sale proceeds of Rs 45,000 are the actual cash inflow. The sold asset's book value is Rs $1,25,000 - 50,000 = 75,000$, giving a loss of Rs $75,000 - 45,000 = 30,000$. This loss is not deducted again from investing cash flow. The fall in goodwill does not represent sale proceeds because no sale of goodwill is stated.

Step 3: Calculate financing movements Share capital rose by Rs $35,00,000 - 25,00,000 = 10,00,000$, and debentures rose by Rs $12,50,000 - 3,50,000 = 9,00,000$. These increases represent cash raised because no non-cash issue is specified. The bank overdraft fell by Rs $75,000 - 50,000 = 25,000$, representing repayment of a short-term borrowing. It is separately shown as a borrowing, and cash and cash equivalents are separately given in the balance sheet. Debenture interest actually paid, Rs 1,25,000, is a financing outflow; use this stated payment rather than calculating interest on the opening or closing balance.

Step 4: Prepare cash flow from financing activities Madhav Ltd.: Cash Flow from Financing Activities for the year ended 31st March, 2022

Particulars	Amount (Rs)
Proceeds from issue of shares	10,00,000
Proceeds from issue of debentures	9,00,000
Repayment of bank overdraft	(25,000)
Interest paid on debentures	(1,25,000)
Net cash from financing activities	17,50,000

Changes in trade payables, inventory, receivables and tax provisions concern operating cash flow and do not enter these two sections. The increase in the statement of profit and loss is likewise not an independent financing receipt.

Step 5: Conclusion Net cash used in investing activities is Rs $19,80,000$; net cash generated from

financing activities is Rs $17,50,000$.

Quick Tip to Solve: Reconcile machinery at gross cost; include overdraft repayment and the actual interest paid in financing.

OPTION II (Computerised Accounting)

27. Which type of software package is suitable for an organization where the volume of transactions is very low and adaptability is very high? [1 mark]

(A) Generic

(B) Specific

(C) Tailored

(D) (b) and (c) both

Correct Answer: (A) Generic

Solution:

Concept:

- Generic packages are ready-made accounting software suitable for small organisations with a low volume of transactions.
- Adaptability here concerns the ease of learning and adopting the package; it differs from extensive customisation to special business needs.

Step 1: Identify the organisational requirement The organisation has very few transactions and requires a package that can be adopted easily. A generic package provides standard accounting functions without commissioning a specially developed system.

Step 2: Compare the alternatives Specific and tailored packages address specialised requirements and involve greater development or customisation effort. Therefore neither specific software nor the combined choice of specific and tailored packages matches the stated low-volume, high-adaptability category.

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

Quick Tip to Solve: For low transaction volume and easy adoption, choose the ready-made generic package.

28(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 concise, systematic identifiers to accounts and other data.
- A consistent code supports classification, sorting, retrieval and processing of accounting records.

Step 1: Identify the purpose of codes Codes let a computer identify an account or transaction consistently, rather than relying on long names that may be entered in different forms. This makes processing easier and helps maintain orderly records.

Step 2: Reject narrower or unrelated choices Mnemonic codes are only one possible form of coding, not its general purpose. Encryption protects the readability of data, while access controls secure accounts and reports. Neither encryption nor security is the primary need for accounting codification.

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

Quick Tip to Solve: Distinguish a code used to identify records from encryption used to conceal data.

OR

28(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:

- Accounts receivable are amounts owed to the business by customers for credit sales.
- A subsidiary ledger maintains a separate account and outstanding balance for each customer.

Step 1: Locate individual customer balances The accounts receivable subsidiary ledger records each customer's credit purchases, subsequent payments, returns and other adjustments. Its balance therefore shows the amount that the particular customer owes.

Step 2: Compare journals and the general ledger The sales journal records credit-sale transactions as they occur, whereas the subsidiary ledger groups their effects by customer. The general ledger

normally contains a control account giving total receivables. A journal is not the place to obtain each customer's continuing outstanding balance.

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

Quick Tip to Solve: For what an individual customer owes, inspect that customer's subsidiary ledger account.

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

(A) Only tries to earn maximum revenue.

(B) Keeps internal controls.

(C) Only ensures accurate accounting records.

(D) Only safeguards assets.

Correct Answer: (B) Keeps internal controls.

Solution:

Concept:

- Internal controls are policies and procedures for protecting assets and ensuring reliable, efficient operations.
- Authorisation, segregation of duties and checks help prevent misuse and improve resource utilisation.

Step 1: Connect the objectives to the system Safeguarding assets and optimising the use of resources require coordinated procedures throughout the business. Internal controls include custody arrangements, approval limits and independent checks, supporting both protection and efficiency.

Step 2: Assess the other statements Earning maximum revenue alone does not prevent theft or waste. Accurate accounting records alone do not guarantee efficient use or physical protection of assets. Merely safeguarding assets addresses only one part of the stated objective. Internal controls cover the wider requirement.

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

Quick Tip to Solve: When a question combines asset protection with efficient operations, identify internal controls.

OR

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

(A) When a number is divided by zero.

(B) When value is not available.

(C) When column is not wide enough.

(D) When formula is not available.

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

Solution:

Concept:

- A spreadsheet may display a row of hash signs when the column is too narrow to show its numeric contents.
- Display-width problems differ from formula errors such as division by zero or an unavailable value.

Step 1: Interpret the hash display The cell can contain a valid number or date even though its formatted representation will not fit within the current column width. The spreadsheet then displays hash signs in place of the complete value.

Step 2: Distinguish the alternatives Dividing by zero produces a division error rather than the width indicator. An unavailable value has its own error message; an unavailable or invalid formula is also a different issue. Widening the column, or reducing the displayed number of decimal places, normally reveals the stored value.

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

Quick Tip to Solve: Widen the column first when hash signs replace a numeric cell display.

30. A 'value' or 'function' or an 'arithmetic expression' is recorded in _____. [1 mark]

(A) Row

(B) Column

(C) Cell

(D) Range

Correct Answer: (C) Cell

Solution:

Concept:

- A cell is the intersection of a row and a column and is the basic unit for entering spreadsheet data.
- A cell may contain a constant value or a formula, including a function or an arithmetic expression.

Step 1: Identify the storage unit A spreadsheet records an individual entry in a cell. For example, cell A1 can contain the value 25, the arithmetic formula $=5+20$, or a function such as $=SUM(B1:B3)$. Each entry belongs to that particular cell.

Step 2: Check the alternatives A row is a horizontal collection of cells; a column is a vertical collection of cells. A range is a selected group of cells. These describe collections or arrangements of cells,

whereas the individual value or formula is entered into a cell.

Step 3: Conclusion A value, function or arithmetic expression is recorded in a cell. Hence, the correct option is (C).

Quick Tip to Solve: Look for the smallest spreadsheet unit that accepts a single entry: the cell.

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

Solution:

Concept:

- An accounting voucher records the particulars of a transaction in a computerised accounting system.
- Voucher types distinguish temporary records, future-dated transactions and formats designed for a business.

Step 1: Memo voucher A memo voucher is a temporary or non-accounting voucher used to record information about a transaction that is not to affect the books of account immediately. For example, an advance given for expenses may be recorded provisionally until the expense details are available. It does not affect the ledger balances or financial statements until it is converted into an appropriate regular accounting voucher.

Step 2: Post-dated voucher A post-dated voucher records a transaction with a date later than the date on which the voucher is entered. It is kept for future accounting and does not affect the current books before its specified date. For example, a payment to be recognised on a future date may be entered in advance; its accounting effect is taken on that date.

Step 3: User-defined voucher A user-defined voucher is a voucher type created or customised by the user to suit the specific requirements of an organisation. It is normally based on an existing voucher type, with an appropriate name, numbering method and other settings. For example, an organisation may create a separate Cash Sales voucher under the sales voucher type to identify and control such transactions.

Step 4: Conclusion A memo voucher is provisional, a post-dated voucher takes effect on a future date, and a user-defined voucher provides an organisation-specific voucher type.

Quick Tip to Solve: Distinguish vouchers by their purpose: temporary record, future date, or customised transaction format.

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

Solution:

Concept:

- Generic software is a ready-made package intended to serve the common requirements of many users.

- Tailored software is developed or specifically adapted to meet the requirements of a particular organisation.

Step 1: Basis 1: suitability and flexibility Generic software provides standard features for a wide group of users. A business generally adjusts its procedures to the available features, although settings may allow limited configuration. Tailored software is designed around the particular organisation's accounting procedures, controls and reporting needs, so it offers a closer fit to those requirements.

Step 2: Basis 2: cost Generic software generally has a lower purchase cost because its development cost is spread over many customers. Tailored software generally costs more because requirements analysis, design, development and testing are carried out specifically for one organisation. Later alterations may also require additional development expenditure.

Step 3: Basis 3: implementation time Generic software is readily available and can usually be installed and used after configuration and staff training. Tailored software requires time to study the organisation's needs, develop or modify the program, test it and implement it. Consequently, its initial implementation normally takes longer than that of a ready-made generic package.

Step 4: Conclusion The three bases of distinction are suitability and flexibility, cost, and implementation time. Generic software serves common needs; tailored software serves the specific needs of an organisation.

Quick Tip to Solve: Compare both packages on the same basis in each point, such as fit, cost and implementation time.

33(a). Explain account group 'Current Assets'. [4 marks]

Solution:

Concept:

- An account group brings together ledgers having a similar nature so that they can be classified and presented correctly in financial reports.
- Current assets are expected to be realised, sold or consumed in the normal operating cycle, or held mainly for trading, or realised within twelve months; unrestricted cash and cash equivalents are also current assets.

Step 1: Meaning and classification The Current Assets group contains the ledgers representing short-term resources used in the day-to-day operations of a business. These resources are expected to become cash, be sold or be consumed in the operating cycle. They support working capital and are presented on the assets side of the balance sheet under Current Assets. A resource used for a long-term productive purpose, such as machinery, belongs to a non-current asset group instead.

Step 2: Cash, bank balances and receivables Cash-in-hand and eligible bank balances represent funds available to meet current obligations. Sundry debtors or trade receivables represent amounts due from customers for credit sales. These ledger balances are grouped as current assets because they represent cash already available or amounts expected to be collected during the operating cycle. For example, a customer owing Rs 20,000 for goods purchased on credit is shown under trade receivables.

Step 3: Inventory and other current resources Stock-in-hand or inventories include raw materials, work-in-progress and finished goods intended for consumption or sale during the operating cycle. Other examples include prepaid expenses, accrued income and short-term advances recoverable in the ordinary course of business. Prepaid insurance is an asset because a future service remains available; accrued income is an asset because income earned remains receivable.

Step 4: Purpose of grouping Placing each ledger in the proper current-asset group enables the accounting software to collect similar balances and produce meaningful balance sheet totals. It helps users assess short-term financial resources and working capital. The classification depends on the nature and expected realisation of the balance, so a long-term loan given should not automatically be treated as a current asset merely because it is an advance.

Step 5: Conclusion The Current Assets group classifies operating-cycle and other short-term assets, including inventory, trade receivables, cash, eligible bank balances and other current recoverable or prepaid amounts, for correct balance sheet presentation.

Quick Tip to Solve: Ask whether the resource is available now or will be realised or consumed in the operating cycle before choosing its group.

OR

33(b). Give the meaning of 'labels' and 'values' as used in spreadsheet. [4 marks]

Solution:

Concept:

- A spreadsheet stores different kinds of cell entries. Labels identify and describe information, while values supply the numeric data on which calculations are performed.
- The meaning of an entry depends on its data type: digits stored as text are labels, whereas numbers stored as numeric data are values.

Step 1: Meaning and use of labels Labels are text entries in spreadsheet cells that describe or identify the contents of a worksheet. They include headings, names and descriptive captions, such as Account Name, Sales, Purchases or January. A label may contain letters, digits, spaces or other characters, but it is treated as text rather than as a number for arithmetic. Thus an account code stored as text is a label even when all its characters are digits. Labels make a worksheet understandable by explaining what the figures in a row or column represent. By default, ordinary text labels are generally aligned to the left of a cell.

Step 2: Meaning and use of values Values are numeric entries in spreadsheet cells which can be used in calculations. They represent quantities or amounts, such as sales of Rs 25,000, a quantity of 50 units, or an interest rate of 10 percent. Values may be whole numbers, decimals, positive or negative numbers; dates and times can also be stored internally as numeric values. For example, if B2 contains the numeric entry 25000 and B3 contains 5000, a formula adding these cells gives 30000. The headings Sales and Expenses describe these entries and are labels; the amounts themselves are values. Numeric values are generally right aligned by default, although alignment can be changed and does not determine the data type.

Step 3: Conclusion Labels are descriptive text entries used to identify worksheet information; values are numeric entries used for arithmetic and other numerical processing.

Quick Tip to Solve: Ask whether the cell describes an amount or supplies an amount: Sales is a label, while the numeric entry 25000 is a value.

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

Solution:

Concept:

- The CUMIPMT financial function returns the cumulative interest paid on a loan between two specified payment periods. It applies to a loan with a constant interest rate and constant periodic payments.
- The rate and number of periods must use the same time unit. For monthly instalments, use the annual rate divided by 12 and the loan duration in months.

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

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

It calculates the sum of the interest components of the periodic loan repayments from the starting period through the ending period, including both specified periods. It therefore verifies the interest paid over the selected interval rather than the total instalments or the principal repaid.

Step 2: Explain the arguments The arguments have the following meanings:

- `rate`: the interest rate per payment period.
- `nper`: the total number of payment periods over the entire loan term.
- `pv`: the present value, or original principal amount of the loan.
- `start_period`: the first payment period for which interest is to be included; periods are numbered beginning with 1.
- `end_period`: the last payment period for which interest is to be included.
- `type`: the timing of payments; 0 means payment at the end of each period and 1 means payment at the beginning.

The start period must be at least 1 and cannot exceed the end period; the end period cannot exceed `nper`. The rate, total number of periods and principal must be positive for this function.

Step 3: Illustrate verification of a loan's interest Suppose a loan of Rs 1,00,000 carries interest at 12 percent per annum, is repaid in 24 equal monthly instalments, and payments fall at the end of each month. To verify the interest for the first 12 instalments, enter

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

Here the monthly rate is 1 percent, the full loan term is 24 periods, and periods 1 to 12 are selected.

With a positive loan principal, the function returns a negative amount because interest paid is a cash outflow. Its magnitude is the total interest paid during those 12 periods. If interest is to be displayed as a positive expense amount, place a minus sign before the function. Compare this amount with the sum of the interest column for the same instalments in the loan repayment schedule.

Step 4: Conclusion Use CUMIPMT to verify cumulative interest on a loan between any two specified payment periods, supplying the periodic rate, total term, principal, period limits and payment timing.

Quick Tip to Solve: For a monthly loan, divide the annual rate by 12 and count periods in months; use the entire loan term for nper, not just the selected interval.