# CBSE Class 12 Accountancy Question Paper 2023 with Solution PDF-Set 67-5-3

## 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. (I) Analysis of Financial Statements and (II) Computerised Accounting. Candidates must attempt only **one** of the given options as per the subject opted.

(v) Question Nos. **1 to 16** and **27 to 30** carries **1** mark each.

(vi) Question Nos. **17 to 20, 31** and **32** carries **3** marks each.

(vii) Question Nos. **21, 22**, and **33** carries **4** marks each.

(viii) Question Nos. **23 to 26** and **34** carries **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(a). Nita and Samar are partners in a firm sharing profits in the ratio of 3:2. Their fixed capitals were Rs. 90,000 and Rs. 2,10,000 respectively. They admitted Mitali on April 1, 2022 as a new partner for 1/5th share in future profits. Mitali brought Rs. 1,50,000 as her capital. The value of goodwill of the firm on Mitali's admission was:** [1 mark]

(A) Rs. 3,00,000

(B) Rs. 7,50,000

(C) Rs. 1,50,000

(D) Rs. 30,000

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

**Solution:**

**Concept:**

- Capital contributed by a new partner implies total capital equal to the contribution divided by the new partner's profit share.
- Hidden goodwill is the implied total capital less the combined actual capitals of all partners, including the incoming partner.

**Step 1:** Infer the capitalised value Mitali brings Rs 1,50,000 for a $1/5$ share. Hence the implied capitalised value of the firm is

$$\frac{1,50,000}{1/5} = \text{Rs } 7,50,000.$$

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

**Step 2:** Deduct the actual combined capitals The actual capitals after admission total

$$90,000 + 2,10,000 + 1,50,000 = \text{Rs } 4,50,000.$$

The difference is $7,50,000 - 4,50,000 = \text{Rs } 3,00,000$. Option (B) gives the implied total value, (C) merely repeats Mitali's capital and (D) does not equal the difference.

**Step 3:** Conclusion The goodwill of the firm is $\boxed{\text{Rs } 3,00,000}$. Hence, the correct option is (A).

**Quick Tip to Solve:** Include the incoming partner's capital in actual total capital before subtracting it from the implied value.

OR

**1(b). Bina and Ria are partners sharing profits in the ratio of 5:3. They admitted Siya as a new partner for 3/8th share which she acquired 2/8th from Bina and 1/8th from Ria. The new profit sharing ratio of Bina, Ria and Siya will be:** [1 mark]

(A) 3:2:3

(B) 2:3:3

(C) 5:5:6

(D) 9:1:6

**Correct Answer:** (A) 3:2:3

**Solution:**

**Concept:**

- Each old partner's new profit share equals the old share less the share specifically sacrificed.
- Use a common denominator for all final shares, and check that their sum is one.

**Step 1:** Calculate the retained shares Bina's old share is $5/8$ and her sacrifice is $2/8$, so her new share is $5/8 - 2/8 = 3/8$. Ria's new share is $3/8 - 1/8 = 2/8$. The sacrifice ratio is $2:1$, which differs from the new profit-sharing ratio.

**Step 2:** Include Siya and check the alternatives Siya acquires $2/8 + 1/8 = 3/8$. Therefore the shares, in the stated order Bina, Ria and Siya, are $3/8, 2/8, 3/8$; they add to one. Option (B) interchanges the retained shares of Bina and Ria. In (C) and (D), Siya has $6/16 = 3/8$, but the old partners' shares do not reflect the specified sacrifices.

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

**Quick Tip to Solve:** Subtract each named sacrifice from that partner's own old share before forming the new ratio.

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**2. Nita, Suman and Harish were partners in a firm sharing profits in the ratio of 3:2:1. Suman retired from the firm. On the date of Suman's retirement, Rs. 30,000 was due to her. The remaining partners decided to pay her in three yearly instalments starting from the end of the first year. Rs. 30,000 will be transferred to which of the following account:** [1 mark]

(A) Suman's Loan Account

(B) Suman's Executor's Accounts

(C) Suman's Bank Account

(D) Suman's Current Account

**Correct Answer:** (A) Suman's Loan Account

**Solution:**

**Concept:**

- An amount due to a retiring partner that remains unpaid becomes a liability of the firm.
- When settlement is deferred, transfer the balance payable from the retiring partner's capital account

to that partner's loan account.

**Step 1:** Identify the deferred liability Suman retires with Rs 30,000 due to her, but the firm will pay in three yearly instalments starting at the end of the first year. No part is stated to be paid immediately. The whole Rs 30,000 therefore remains outstanding as a loan liability.

**Step 2:** Identify the appropriate account Suman's Loan Account records the amount owed pending payment. An executor's account concerns a deceased partner, whereas Suman has retired. A bank account records an actual banking transaction; no payment occurs at this point. A current account records adjustments for a continuing partner under fixed capitals and does not replace the retirement loan liability.

**Step 3:** Conclusion Transfer Rs 30,000 to Suman's Loan Account. Hence, the correct option is (A).

**Quick Tip to Solve:** When a retired partner is paid later, treat the unpaid settlement as that partner's loan to the firm.

**3. Assertion (A): Partnership is the relation between persons who have agreed to share the profits of the business carried on by all or any of them acting for all.**

**Reason (R): If a partner carries on any business of the same nature and competing with that of the firm, he/she shall account for and pay to the firm all profit made by him/her in that business.**

**Choose the correct option from the following:** [1 mark]

(A) Both (A) and (R) are correct.

(B) Both (A) and (R) are incorrect.

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

(D) Both (A) and (R) are correct and (R) is not the correct explanation of (A).

**Correct Answer:** (D) Both (A) and (R) are correct and (R) is not the correct explanation of (A).

**Solution:**

**Concept:**

- Partnership rests on an agreement to share business profits and mutual agency: the business may be conducted by all partners or any acting for all.
- A partner must account to the firm for profits made from a business of the same nature competing with the firm.

**Step 1:** Assess the assertion The assertion correctly gives the definition of partnership. The words *acting for all* express mutual agency, under which a partner can act on behalf of the firm and bind the other partners in its business. Assertion (A) is therefore true.

**Step 2:** Assess the reason The reason correctly states the obligation relating to profits from a competing business. The partner must account for and pay those profits to the firm. Reason (R) is therefore true.

**Step 3:** Test the explanatory link The rule about competing business is a duty arising within a partnership. It does not explain the definition of partnership or establish mutual agency. Thus (B) is false and (C) incorrectly claims an explanation. Option (A) states only the truth of both propositions;

option (D) is the complete assertion–reason classification because it also specifies their relationship.

**Step 4:** Conclusion Both the assertion and the reason are correct, but the reason does not explain the assertion. Hence, the correct option is (D).

**Quick Tip to Solve:** After checking both statements, test whether the reason explains the assertion or merely states a separate rule.

**4. Khushi, Namita and Manvi were partners in a firm sharing profits and losses in the ratio of 5:2:3. On 30th June, 2022, Khushi died. The partnership deed provided that on the death of a partner, her share of profit till the date of death was to be calculated on the basis of average profit of last three years less Rs. 10,000.**

**Profits for the last three years were:**

| Year ended | Profits/Loss (Rs.) |
|---|---|
| 31st March, 2020 | 1,20,000 |
| 31st March, 2021 | (50,000) |
| 31st March, 2022 | 1,70,000 |

**Khushi's share of profit till the date of her death was:** [1 mark]

(A) Rs. 35,000

(B) Rs. 9,583

(C) Rs. 28,750

(D) Rs. 8,750

**Correct Answer:** (D) Rs. 8,750

**Solution:**

**Concept:**

- Treat a loss as a negative amount when calculating average annual profit.
- Apply the deed's adjustment to the annual average, then multiply by the fraction of the year elapsed and the deceased partner's profit share.

**Step 1:** Find the adjusted annual profit The loss for the year ended 31st March, 2021 is Rs 50,000. Hence

$$\text{Average profit} = \frac{1,20,000 - 50,000 + 1,70,000}{3} = \text{Rs } 80,000.$$

Under the deed, the annual basis becomes $80,000 - 10,000 = \text{Rs } 70,000$.

**Step 2:** Apply time and profit share Khushi's share is $5/(5+2+3) = 1/2$. From 1st April to 30th June is three months, so the amount is

$$70,000 \times \frac{3}{12} \times \frac{5}{10} = \text{Rs } 8,750.$$

Option (A), Rs 35,000, is her full-year share and omits time apportionment. Options (B) and (C) do not follow the adjusted annual basis of Rs 70,000 and the required three-month period.

**Step 3:** Conclusion Khushi's share of profit till death is $\boxed{\text{Rs } 8,750}$. Hence, the correct option is (D).

**Quick Tip to Solve:** First deduct Rs 10,000 from the annual average; then apply both 3/12 for time and 5/10 for Khushi's share.

**5. An equity share of Rs. 10 fully called up on which Rs. 6 has been paid was forfeited for the non-payment of the balance amount. At which of the following minimum price can it be reissued?**

[1 mark]

(A) Rs. 4

(B) Rs. 10

(C) Rs. 16

(D) Rs. 6

**Correct Answer:** (A) Rs. 4

**Solution:**

**Concept:**

- The discount on reissue of a forfeited share cannot exceed the amount forfeited on that share.
- For reissue as fully paid, minimum reissue price equals face value less the amount already received and forfeited.

**Step 1:** Determine the maximum permitted discount The share has face value Rs 10 and Rs 6 has already been received. Since it was issued without any stated premium, the available forfeited amount is Rs 6 per share. This is the maximum discount that can be allowed on reissue.

**Step 2:** Calculate and compare reissue prices The minimum price is

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

At this price, the Rs 6 discount is fully covered by the forfeited amount. Rs 6, Rs 10 and Rs 16 can also be reissue prices, but each exceeds Rs 4 and therefore none is the minimum. The unpaid Rs 4 is not the maximum discount: the discount is limited by the Rs 6 already forfeited.

**Step 3:** Conclusion The minimum reissue price is $\boxed{\text{Rs } 4}$ per share. Hence, the correct option is (A).

**Quick Tip to Solve:** For a fully paid reissue, subtract the forfeited amount received from face value, not the unpaid amount.

**6. 200 equity shares of Rs. 10 each issued at par were forfeited for non-payment of first call of Rs. 3 per share. Final call of Rs. 2 per share was not yet called. By which amount the share capital will be debited on forfeiture?** [1 mark]

(A) Rs. 2,000

(B) Rs. 1,600

(C) Rs. 1,000

(D) Rs. 2,200

**Correct Answer:** (B) Rs. 1,600

**Solution:**

**Concept:**

- On forfeiture, Share Capital Account is debited with the called-up capital on the forfeited shares.
- Uncalled capital is excluded even though it forms part of the face value; unpaid called capital is still included in the debit.

**Step 1:** Calculate called-up capital per share The face value is Rs 10 but the final call of Rs 2 has not yet been made. Thus called-up capital is $10 - 2 = \text{Rs } 8$ per share. The unpaid first call of Rs 3 is part of this called-up amount and must not be deducted from it.

**Step 2:** Multiply by the forfeited shares For 200 shares, the debit to Share Capital Account is

$$200 \times \text{Rs } 8 = \text{Rs } 1,600.$$

Option (A), Rs 2,000, wrongly includes the uncalled final call. Option (C), Rs 1,000, gives the amount received, $200(8 - 3)$, rather than called-up capital. Option (D), Rs 2,200, even exceeds the total face value of these shares.

**Step 3:** Conclusion Share Capital Account is debited by $\boxed{\text{Rs } 1,600}$. Hence, the correct option is (B).

**Quick Tip to Solve:** For the share capital debit, take face value minus uncalled amount; do not subtract the unpaid call.

**7. Indu, Vijay and Pawan were partners in a firm sharing profits in the ratio of 4:3:3. They admitted Subhash into partnership with effect from 1st April, 2022. New profit sharing ratio among Indu, Vijay, Pawan and Subhash will be 3:3:2:2. An extract of their Balance Sheet as at 31st March, 2022 is given below:**

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|
| Investment Fluctuation Reserve | 80,000 | Investments (Market Value Rs. 80,000) | 90,000 |

**Which of the following is the correct accounting treatment of 'investment fluctuation reserve' at the time of Subhash's admission?** [1 mark]

(A) Investment Fluctuation Reserve A/c Dr. 10,000
To Revaluation A/c 10,000
(B) Investment Fluctuation Reserve A/c Dr. 80,000
To Indu's Capital A/c 32,000
To Vijay's Capital A/c 24,000
To Pawan's Capital A/c 24,000
(C) Revaluation A/c Dr. 10,000
To Investment Fluctuation Reserve 10,000
(D) Investment Fluctuation Reserve A/c Dr. 80,000
To Investments A/c 10,000
To Indu's Capital A/c 28,000
To Vijay's Capital A/c 21,000
To Pawan's Capital A/c 21,000

**Correct Answer:** (D) Investment Fluctuation Reserve A/c Dr. 80,000
To Investments A/c 10,000
To Indu's Capital A/c 28,000
To Vijay's Capital A/c 21,000
To Pawan's Capital A/c 21,000

**Solution:**

**Concept:**

- Use the investment fluctuation reserve first to absorb a fall in the value of investments.
- Distribute any surplus reserve to the old partners in their old profit-sharing ratio because it arose before admission.

**Step 1:** Find the fall in investments and surplus Investments fall from book value Rs 90,000 to market value Rs 80,000, a loss of Rs 10,000. The reserve of Rs 80,000 covers this loss, leaving $80,000 - 10,000 = \text{Rs } 70,000$ for the old partners.

**Step 2:** Distribute the balance and record the adjustment The old ratio is $4:3:3$, so Indu receives $70,000 \times 4/10 = \text{Rs } 28,000$, and Vijay and Pawan receive Rs 21,000 each. The new ratio is not used for a pre-admission reserve.

Journal of the Firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Investment Fluctuation Reserve A/c Dr. | | 80,000 | |
| | To Investments A/c | | | 10,000 |
| | To Indu's Capital A/c | | | 28,000 |
| | To Vijay's Capital A/c | | | 21,000 |
| | To Pawan's Capital A/c | | | 21,000 |
| | (Being fall in investments adjusted and surplus reserve distributed in the old ratio) | | | |

Debits and credits each total Rs 80,000. Option (A) does not complete the adjustment, (B) distributes the entire reserve without absorbing the fall, and (C) increases the reserve rather than using it.

**Step 3:** Conclusion The adjustment uses Rs 10,000 against investments and credits Rs 28,000, Rs 21,000 and Rs 21,000 to the old partners. Hence, the correct option is (D).

**Quick Tip to Solve:** Use the reserve for the investment loss first, then divide only its surplus among the old partners in 4:3:3.

**8(a). Amit, Sumit and Kiara are partners sharing profits and losses in the ratio 2:2:1. Sumit is entitled to a commission of 15% on the net profit after charging such commission. The net profit before charging commission is Rs. 9,20,000. The amount of commission payable to Sumit will be:** [1 mark]

(A) Rs. 1,20,000

(B) Rs. 1,38,000

(C) Rs. 48,000

(D) Rs. 55,200

**Correct Answer:** (A) Rs. 1,20,000

**Solution:**

**Concept:**

- When commission is a percentage of profit after charging that commission, it must be deducted from the stated profit before the percentage is applied.
- If profit before commission is $P$ and the rate is $r\%$, commission is $P \times r/(100 + r)$.

**Step 1:** Form the commission equation Let Sumit's commission be $C$. Profit after commission is $9,20,000 - C$, so

$$C = \frac{15}{100}(9,20,000 - C), \qquad 115C = 15 \times 9,20,000.$$

The partnership profit-sharing ratio is irrelevant to calculating this commission.

**Step 2:** Calculate and check the base Thus

$$C = 9,20,000 \times \frac{15}{115} = \text{Rs } 1,20,000.$$

After commission, profit is Rs 8,00,000 and 15% of this is Rs 1,20,000, confirming the calculation. Option (B), Rs 1,38,000, applies 15% to profit before commission. Options (C) and (D) incorrectly

reduce commission by Sumit's $2/5$ profit share; commission itself is not apportioned in the profit-sharing ratio.

**Step 3:** Conclusion Sumit's commission is $\boxed{\text{Rs } 1,20,000}$. Hence, the correct option is (A).

**Quick Tip to Solve:** The phrase *after charging such commission* changes the fraction to 15/115; the 2:2:1 ratio is not used.

OR

**8(b). P, Q and R are partners in a firm sharing profits and losses in the ratio of 2:2:1. For the year ended 31st March, 2022, interest on capital was credited to them @ 10% p.a. instead of 5% p.a. Their fixed capitals were Rs. 2,00,000; Rs. 1,00,000; Rs. 50,000 respectively. The necessary adjustment entry to rectify the error will be:** [1 mark]

(A) P's Current A/c Dr. 2,000
To Q's Current A/c 1,000
To R's Current A/c 1,000
(B) P's Current A/c Dr. 3,000
To Q's Current A/c 2,000
To R's Current A/c 1,000
(C) P's Capital A/c Dr. 2,000
To Q's Capital A/c 1,000
To R's Capital A/c 1,000
(D) P's Capital A/c Dr. 3,000
To Q's Capital A/c 2,000
To R's Capital A/c 1,000

**Correct Answer:** (B) P's Current A/c Dr. 3,000
To Q's Current A/c 2,000
To R's Current A/c 1,000

**Solution:**

**Concept:**

- Excess interest on capital must be withdrawn from partners, while the resulting increase in divisible profit is credited in the profit-sharing ratio.
- Under the fixed-capital method, adjustments for interest and profit are made through Current Accounts; fixed Capital Accounts remain unchanged.

**Step 1:** Calculate excess interest The excess rate is $10\% - 5\% = 5\%$. Excess credits to P, Q and R are respectively Rs 10,000, Rs 5,000 and Rs 2,500. Their total is Rs 17,500. These amounts must first be debited back to the partners.

**Step 2:** Redistribute profit and determine the net adjustment The Rs 17,500 restored to divisible profit is credited in the ratio $2:2:1$: P receives Rs 7,000, Q Rs 7,000 and R Rs 3,500. Thus P has a

net debit of $10,000 - 7,000 = 3,000$, Q a net credit of $7,000 - 5,000 = 2,000$, and R a net credit of $3,500 - 2,500 = 1,000$. Option (A) has incorrect amounts; (C) and (D) wrongly use Capital Accounts.

**Step 3:** Record the rectification

Adjustment Journal

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | P's Current A/c Dr. | | 3,000 | |
| | To Q's Current A/c | | | 2,000 |
| | To R's Current A/c | | | 1,000 |
| | (Being excess interest and the consequent profit distribution rectified) | | | |

**Step 4:** Conclusion Debit P's Current Account Rs 3,000; credit Q's Current Account Rs 2,000 and R's Current Account Rs 1,000. Hence, the correct option is (B).

**Quick Tip to Solve:** Compute each net adjustment as excess interest debited minus additional profit credited; use Current Accounts for fixed capitals.

**9. Nitya, Shreya and Ishita are partners in a firm. They share profits in the ratio of 5:3:2. Their fixed capitals are Rs. 1,80,000; Rs. 1,60,000 and Rs. 2,00,000 respectively. For the year ending 31st March, 2022, Nitya withdrew Rs. 7,500 at the end of every quarter.**

**The partnership deed provided that interest on capital will be allowed @ 10% p.a. The amount of interest on Ishita's capital will be:** [1 mark]

(A) Rs. 18,000

(B) Rs. 16,000

(C) Rs. 20,000

(D) Rs. 10,000

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

**Solution:**

**Concept:**

- Interest on capital is calculated on the individual partner's capital at the rate specified in the partnership deed.
- For capital employed throughout the year, interest equals capital multiplied by the annual rate; the profit-sharing ratio does not change this calculation.

**Step 1:** Identify Ishita's capital and rate Ishita has fixed capital of Rs 2,00,000 and the deed allows interest at $10\%$ per annum. No change in her capital during the year is given, so the full-year amount is used. Nitya's quarterly drawings do not reduce Ishita's capital.

**Step 2:** Calculate and compare the options

$$\text{Interest on Ishita's capital} = 2,00,000 \times \frac{10}{100} = \text{Rs } 20,000.$$

Rs 18,000 and Rs 16,000 are the corresponding annual amounts on Nitya's and Shreya's capitals. Rs 10,000 would incorrectly halve Ishita's annual entitlement. The $5:3:2$ profit-sharing ratio is

irrelevant to this interest computation.

**Step 3:** Conclusion Ishita's interest on capital is Rs 20,000. Hence, the correct option is (C).

**Quick Tip to Solve:** Match the named partner to her own capital before applying the rate; do not use the profit-sharing ratio.

**10. Nitya, Shreya and Ishita are partners in a firm. They share profits in the ratio of 5:3:2. Their fixed capitals are Rs. 1,80,000; Rs. 1,60,000 and Rs. 2,00,000 respectively. For the year ending 31st March, 2022, Nitya withdrew Rs. 7,500 at the end of every quarter. The average number of months for which interest on drawings will be calculated, will be:** [1 mark]

(A) $3\frac{1}{2}$ months

(B) $4\frac{1}{2}$ months

(C) $7\frac{1}{2}$ months

(D) 6 months

**Correct Answer:** (B) $4\frac{1}{2}$ months

**Solution:**

**Concept:**

- For equal drawings at regular intervals, the average period is the arithmetic mean of the months each drawing remains outstanding.
- For equal quarterly drawings at quarter-end, average period equals half the sum of the first and last outstanding periods.

**Step 1:** List the outstanding periods For a year ending 31st March, the quarter-end withdrawals occur on 30th June, 30th September, 31st December and 31st March. The corresponding periods to the year-end are 9, 6, 3 and 0 months. The final drawing bears no interest for the year because it is made on the closing date.

**Step 2:** Find the average and reject the distractors Each drawing is Rs 7,500, so all four periods have equal weight. Thus

$$\text{Average period} = \frac{9+6+3+0}{4} = \frac{18}{4} = 4\frac{1}{2} \text{ months.}$$

Equivalently, $(9+0)/2 = 4.5$ months. An average of $7.5$ months applies to quarter-beginning drawings, and 6 months to quarter-middle drawings. The $3.5$-month option does not follow from the four stated dates.

**Step 3:** Conclusion The average period is $4\frac{1}{2}$ months. Hence, the correct option is (B).

**Quick Tip to Solve:** At the end of each quarter, start with 9 months and finish with 0 months; average the two endpoints.

**11(a). Aysha Ltd. forfeited 1,10,000 shares of Rs. 10 each issued at 20% premium for the non-payment of first call of Rs. 2 per share and final call of Rs. 3 per share. Share Forfeited Account will be credited with:** [1 mark]

(A) Rs. 5,50,000

(B) Rs. 7,70,000

(C) Rs. 2,20,000

(D) Rs. 5,00,000

**Correct Answer:** (A) Rs. 5,50,000

**Solution:**

**Concept:**

- Share Forfeiture Account is credited with the amount already received towards the nominal value of forfeited shares.
- Securities premium is distinct from share capital and is not included in the amount credited to Share Forfeiture Account.

**Step 1:** Find capital received per share The nominal value is Rs 10 per share. The unpaid first and final calls total $2 + 3 =$ Rs $5$ per share. Hence, capital already received is $10 - 5 =$ Rs $5$ per share. The issue premium is $10 \times 20\% =$ Rs $2$ per share, but it does not form part of the forfeited capital balance.

**Step 2:** Calculate the credit and examine alternatives

$$\text{Share Forfeiture credit} = 1,10,000 \times 5 = \text{Rs } 5,50,000.$$

Rs 7,70,000 incorrectly includes the Rs 2 premium per share; Rs 2,20,000 represents only that premium. Rs 5,00,000 does not correspond to Rs 5 received on the stated 1,10,000 shares. The credit must use the actual number of shares forfeited.

**Step 3:** Conclusion Share Forfeiture Account is credited with Rs 5,50,000. Hence, the correct option is (A).

**Quick Tip to Solve:** Exclude premium: forfeiture credit equals number of shares times nominal capital actually received.

OR

**11(b). Which of the following statements is true?** [1 mark]

(A) The shares of a public limited company are not freely transferable.

(B) Paid up capital is that part of the subscribed capital which has been called up.

(C) The company cannot raise more capital than the amount of capital as specified in the Memorandum of Association.

(D) The part of the uncalled capital which is called only in the event of winding up of the company is called Capital Reserve.

**Correct Answer:** (C) The company cannot raise more capital than the amount of capital as specified in the Memorandum of Association.

**Solution:**

**Concept:**

- Authorised capital is the maximum share capital permitted by the capital clause of the company's Memorandum of Association as it stands.
- Called-up capital is the portion demanded from subscribers; paid-up capital is the portion of called-up capital actually paid.

**Step 1:** Test the statements about transfer and payment Option (A) is false: shares of a public limited company are generally freely transferable. Option (B) describes called-up capital, not paid-up capital. If a shareholder fails to pay an amount called, called-up capital and paid-up capital differ by the calls in arrears.

**Step 2:** Test the authorised-capital limit and reserve terminology Option (C) states the authorised-capital restriction: the company cannot issue share capital beyond the amount specified in its Memorandum as it stands. An increase in that limit would first require the appropriate alteration. Option (D) is false because uncalled capital reserved for a call only on winding up is Reserve Capital. Capital Reserve instead arises from capital profits; the two terms are not interchangeable.

**Step 3:** Conclusion The true statement is the restriction imposed by authorised capital in the Memorandum of Association. Hence, the correct option is (C).

**Quick Tip to Solve:** Read the pairs carefully: called-up differs from paid-up, and Reserve Capital differs from Capital Reserve.

**12(a). L, M and N are partners sharing profits in the ratio of 5:3:2. They decided to share profits equally with effect from 1st April, 2022. On that date, there was a balance of Rs. 2,00,000 in General Reserve and a credit balance of Rs. 4,00,000 in the Profit and Loss Account. The Journal Entry for the above on account of change in profit sharing ratio will be:** [1 mark]

(A) General Reserve A/c Dr. 2,00,000
To Profit and Loss A/c 2,00,000
(B) M's Capital A/c Dr. 80,000
N's Capital A/c Dr. 20,000
To L's Capital A/c 1,00,000
(C) General Reserve A/c Dr. 2,00,000
Profit and Loss A/c Dr. 4,00,000
To L's Capital A/c 2,00,000
To M's Capital A/c 2,00,000
To N's Capital A/c 2,00,000
(D) General Reserve A/c Dr. 2,00,000
Profit and Loss A/c Dr. 4,00,000
To L's Capital A/c 3,00,000
To M's Capital A/c 1,80,000
To N's Capital A/c 1,20,000

**Correct Answer:** (D) General Reserve A/c Dr. 2,00,000
Profit and Loss A/c Dr. 4,00,000
To L's Capital A/c 3,00,000
To M's Capital A/c 1,80,000
To N's Capital A/c 1,20,000

**Solution:**

**Concept:**

- Accumulated profits and general reserves earned before a change in the profit-sharing ratio belong to partners in their old ratio.
- To distribute credit balances, debit the General Reserve and Profit and Loss Accounts and credit the partners' Capital Accounts.

**Step 1:** Allocate accumulated profits in the old ratio The total accumulated credit balance is $2,00,000 + 4,00,000 =$ Rs $6,00,000$. The old ratio is $5 : 3 : 2$, so L receives $6,00,000 \times 5/10 =$ Rs $3,00,000$, M receives Rs 1,80,000 and N receives Rs 1,20,000. The new equal ratio applies to future profits and does not determine these past entitlements.

**Step 2:** Record the distribution

Journal of the Partnership

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | General Reserve A/c Dr. | | 2,00,000 | |
| | Profit and Loss A/c Dr. | | 4,00,000 | |
| | To L's Capital A/c | | | 3,00,000 |
| | To M's Capital A/c | | | 1,80,000 |
| | To N's Capital A/c | | | 1,20,000 |
| | (Being accumulated profits distributed in the old ratio) | | | |

Option (A) merely transfers one reserve into another account. Option (C) incorrectly uses the new ratio. Option (B) neither distributes the reserves nor gives the correct compensating amounts if reserves were retained: M and N would then be debited Rs 20,000 and Rs 80,000 respectively.

**Step 3:** Conclusion Credit L, M and N with Rs 3,00,000, Rs 1,80,000 and Rs 1,20,000 respectively against the two reserve debits. Hence, the correct option is (D).

**Quick Tip to Solve:** Write OLD beside accumulated profits: the new sharing ratio applies only after the reconstitution date.

OR

**12(b). X, Y and Z are partners sharing profits and losses in the ratio of 2:3:1. They decided to share future profits in the ratio of 3:2:1 with effect from 1st April, 2022. At the time of change of profit sharing ratio, unrecorded furniture will be recorded in the books of Accounts by:** [1 mark]

(A) Debiting it to Partners' Capital Account

(B) Debiting it to Revaluation Account

(C) Crediting it to Revaluation Account

(D) Crediting it to Partners' Capital Account

**Correct Answer:** (C) Crediting it to Revaluation Account

**Solution:**

**Concept:**

- Recording an unrecorded asset increases the assets of the firm and creates a revaluation gain.
- The asset account is debited and Revaluation Account is credited; the resulting net revaluation profit is later transferred in the old ratio.

**Step 1:** Determine the nature of the adjustment The furniture exists but is absent from the books. Bringing it into account requires a debit to Furniture Account because an asset is being recognised. The matching credit is a gain in Revaluation Account. This is not a loss or reduction in an existing asset.

**Step 2:** Identify the correct account and side The entry is Furniture Account debited and Revaluation Account credited with the recognised value of the furniture. Hence option (B), a debit to Revaluation Account, reverses the required treatment. Options (A) and (D) wrongly use partners' Capital Accounts

for the initial recognition. Any net revaluation gain is subsequently credited to X, Y and Z in their old ratio $2:3:1$, because it arose before the change to $3:2:1$.

**Step 3:** Conclusion Unrecorded furniture is recorded by crediting Revaluation Account, with a corresponding debit to Furniture Account. Hence, the correct option is (C).

**Quick Tip to Solve:** An unrecorded asset is a gain: debit the asset and credit Revaluation before allocating the net gain.

**13. Aditya, Abhinav and Ankit were partners in a firm sharing profits in the ratio of 4:3:3. On 31st March, 2022, the firm was dissolved. Aditya was appointed to complete the dissolution process for which he was allowed a remuneration of Rs. 42,000. Aditya also agreed to bear dissolution expenses. Actual expenses on dissolution amounted to Rs. 33,000 which were paid by Aditya. Aditya's Capital Account will be credited by:** [1 mark]

(A) Rs. 42,000

(B) Rs. 33,000

(C) Rs. 9,000

(D) Rs. 18,000

**Correct Answer:** (A) Rs. 42,000

**Solution:**

**Concept:**

- Remuneration payable to a partner for completing dissolution is debited to Realisation Account and credited to that partner's Capital Account.
- When the same partner agrees to bear expenses and pays them personally, those expenses are not reimbursed by the firm and require no separate entry in its books.

**Step 1:** Recognise the agreed remuneration Aditya is entitled to the agreed remuneration of Rs 42,000 for completing the dissolution. The firm records the full remuneration as a realisation expense and credits his Capital Account by that amount. It is not reduced by his personal expenditure under the agreement.

**Step 2:** Assess the actual expenses and the options Aditya agreed to bear dissolution expenses and himself paid Rs 33,000. Therefore, there is no additional credit for expense reimbursement. The difference $42,000 - 33,000 = \text{Rs } 9,000$ is his net personal benefit, not the amount credited in the firm's Capital Account. Rs 33,000 is the expense he bears; Rs 18,000 also does not represent the contractual remuneration. The profit-sharing ratio does not alter this credit.

**Step 3:** Conclusion Aditya's Capital Account will be credited by Rs 42,000. Hence, the correct option is (A).

**Quick Tip to Solve:** Separate the agreed remuneration from expenses borne personally: the capital credit is the full remuneration.

**14. On dissolution of the partnership firm of A, B and C, the accumulated profits of Rs. 40,000 will be transferred to which of the following account?** [1 mark]

(A) Revaluation Account

(B) Realisation Account

(C) Partners' Capital Accounts

(D) Bank Account

**Correct Answer:** (C) Partners' Capital Accounts

**Solution:**

**Concept:**

- Accumulated profits represent profits earned before dissolution which have not yet been transferred to partners.
- On dissolution, accumulated profits are credited directly to partners' Capital Accounts in their profit-sharing ratio.

**Step 1:** Identify the destination of the balance The accumulated profit of Rs 40,000 belongs to A, B and C. Its credit balance is closed by debiting the accumulated profit account and crediting their Capital Accounts in the applicable profit-sharing ratio. The question asks for the destination account, so individual allocations are not needed.

**Step 2:** Distinguish the other accounts Realisation Account records the gain or loss from realising assets and settling liabilities; accumulated profits are a pre-existing ownership balance and are not a realisation gain. Revaluation Account is used for reconstitution adjustments, rather than distributing past profits on dissolution. Bank Account records actual cash flows, whereas this transfer is a non-cash adjustment between equity accounts.

**Step 3:** Conclusion The accumulated profits of Rs 40,000 are transferred to Partners' Capital Accounts. Hence, the correct option is (C).

**Quick Tip to Solve:** Keep past accumulated profits separate from the new realisation result; both ultimately reach Capital Accounts.

**15(a). The debentures which are payable on the expiry of a specified period either in lump-sum or in instalments during the life time of the company are known as:** [1 mark]

(A) Secured debentures

(B) Specific coupon rate debentures

(C) Redeemable debentures

(D) Convertible debentures

**Correct Answer:** (C) Redeemable debentures

**Solution:**

**Concept:**

- Redeemable debentures are repayable at a specified time, either in one lump sum or by instalments.

- Security, coupon rate and convertibility describe different features of a debenture; they do not define its repayment schedule.

**Step 1:** Identify the decisive feature The question specifies repayment on expiry of a stated period or in instalments during the company's lifetime. This is precisely the repayment condition of redeemable debentures.

**Step 2:** Check the other classifications Secured debentures are backed by a charge on assets. Specific coupon rate debentures carry a stated interest rate. Convertible debentures can be converted into shares under the terms of issue. Thus (A), (B) and (D) describe other features and do not name the repayment classification asked here.

**Step 3:** Conclusion These are redeemable debentures. Hence, the correct option is (C).

**Quick Tip to Solve:** Look for a stated repayment date or instalment schedule: these identify redeemable debentures.

OR

**15(b). Which of the following statement is incorrect with respect to debentures?** [1 mark]

(A) Debentures can be issued for cash.

(B) Debenture cannot be issued at discount.

(C) Debentures can be issued as collateral security.

(D) Debentures can be issued at premium.

**Correct Answer:** (B) Debenture cannot be issued at discount.

**Solution:**

**Concept:**

- Debentures may be issued at par, at a premium or at a discount. Discount means that the issue price is below the face value.
- An issue may be for cash or as collateral security; the basis of issue is separate from its price.

**Step 1:** Examine the statement about discount Statement (B) says that debentures cannot be issued at discount. This is false: a company may issue debentures at a price lower than their nominal value, with the difference recorded as discount on issue.

**Step 2:** Verify the remaining statements Statement (A) is correct because debentures can be issued to raise cash. Statement (C) is correct because they may be given as secondary security for a loan. Statement (D) is correct because debentures may also be issued above face value, that is, at a premium. None of these three is the incorrect statement requested.

**Step 3:** Conclusion The incorrect statement is "Debenture cannot be issued at discount." Hence, the correct option is (B).

**Quick Tip to Solve:** The question asks for the incorrect statement: debentures can be issued below, at or above face value.

**16. Premier Auto Ltd. purchased assets of the value of Rs. 3,60,000 from Anand Ltd. and made the payment of purchase consideration by issuing 11% Debentures of Rs. 100 each at a discount of 10%. The number of debentures issued by Premier Auto Ltd. were:** [1 mark]

(A) 3,600

(B) 36,000

(C) 40,000

(D) 4,000

**Correct Answer:** (D) 4,000

**Solution:**

**Concept:**

- Number of debentures issued equals purchase consideration divided by the issue price of one debenture.
- For a discount issue, issue price equals face value less discount. The coupon rate of $11\%$ governs interest, not the issue price.

**Step 1:** Calculate the issue price Each debenture has face value Rs 100 and is issued at a discount of $10\%$. Therefore

$$\text{Issue price} = 100 - \frac{10}{100} \times 100 = \text{Rs } 90.$$

**Step 2:** Calculate and check the number The assets are acquired for Rs 3,60,000, settled through debentures valued at their issue price. Thus

$$\text{Number} = \frac{3,60,000}{90} = 4,000.$$

As a check, $4,000 \times 90 = \text{Rs } 3,60,000$. Option (A), 3,600, incorrectly divides by face value; options (B) and (C), 36,000 and 40,000, would settle Rs 32,40,000 and Rs 36,00,000 respectively, far above the consideration.

**Step 3:** Conclusion Premier Auto Ltd. issued 4,000 debentures. Hence, the correct option is (D).

**Quick Tip to Solve:** Divide the consideration by Rs 90, the discounted issue price; the 11 percent coupon does not affect the number.

**17(a). Tarun, Abhishek, Kamal and Vivek were partners in a firm sharing profits in the ratio of 5:3:2:2. Kamal retired on 31st March, 2022. Tarun, Abhishek and Vivek decided to share future profits equally. On Kamal's retirement goodwill of the firm was valued at Rs. 9,00,000.**

**Showing your working clearly, pass the necessary journal entry for treatment of goodwill on Kamal's retirement. It was decided not to show goodwill in the books of the firm.** [3 marks]

**Solution:**

**Concept:**

- When goodwill is not retained in the books, gaining partners compensate the retiring partner and any continuing partner who sacrifices, directly through their capital accounts.
- Gain in profit share equals new share minus old share. A negative result represents sacrifice and gives rise to a credit for goodwill.

**Step 1:** Find each change in share The old shares of Tarun, Abhishek, Kamal and Vivek are $5/12, 3/12, 2/12, 2/12$. Each continuing partner now receives $1/3 = 4/12$. Therefore

$$\text{Tarun: } 4/12 - 5/12 = -1/12,$$
$$\text{Abhishek: } 4/12 - 3/12 = 1/12,$$
$$\text{Vivek: } 4/12 - 2/12 = 2/12.$$

Tarun sacrifices $1/12$, although he remains in the firm. Kamal gives up his entire $2/12$ share on retirement. Abhishek and Vivek gain in the ratio $1 : 2$.

**Step 2:** Calculate the goodwill adjustments Apply the firm's goodwill of Rs 9,00,000 to each change in share. Abhishek is debited $9,00,000 \times 1/12 =$ Rs $75,000$ and Vivek is debited $9,00,000 \times 2/12 =$ Rs $1,50,000$. Tarun is credited Rs 75,000 for his sacrifice and Kamal is credited Rs 1,50,000 for his retiring share. Total debits and credits each equal Rs 2,25,000.

**Step 3:** Record the adjustment without raising goodwill Journal of the Firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| 31-3-2022 | Abhishek's Capital A/c Dr. | | 75,000 | |
| | Vivek's Capital A/c Dr. | | 1,50,000 | |
| | To Tarun's Capital A/c | | | 75,000 |
| | To Kamal's Capital A/c | | | 1,50,000 |
| | (Being goodwill adjusted for the changes in profit shares on Kamal's retirement, without raising Goodwill A/c) | | | |

No Goodwill Account is opened, because the partners have decided not to show goodwill in the books.

**Step 4:** Conclusion Debit Abhishek's Capital A/c Rs 75,000 and Vivek's Capital A/c Rs 1,50,000; credit Tarun's Capital A/c Rs 75,000 and Kamal's Capital A/c Rs 1,50,000.

**Quick Tip to Solve:** Calculate every continuing partner's new share minus old share: Tarun also sacrifices and must receive goodwill compensation.

OR

**17(b). Atul and Geeta were partners sharing profits in the ratio 3:2. Ira was admitted into the firm for 1/4th share of profits. Ira brought Rs. 40,000 as her capital. The capitals of Atul and Geeta after all adjustments relating to goodwill, revaluation of assets and liabilities etc. are Rs. 60,000 and Rs. 40,000 respectively. It is agreed that capitals should be according to the new profit sharing ratio. Calculate the amount of actual cash to be paid off or brought in by the old partners. Pass the necessary journal entry/entries for the same.** [3 marks]

**Solution:**

**Concept:**

- The incoming partner's capital and profit share determine the total capital: total capital equals incoming capital divided by incoming share.
- Each partner's required capital equals total capital multiplied by the new profit share. A shortfall is brought in as cash; only an excess is paid back.

**Step 1:** Find the new profit-sharing ratio No different sacrificing ratio is specified, so Atul and Geeta retain their old relative ratio $3:2$ in the remaining $3/4$ share. Thus

$$\text{Atul} = \frac{3}{5} \times \frac{3}{4} = \frac{9}{20}, \quad \text{Geeta} = \frac{2}{5} \times \frac{3}{4} = \frac{6}{20}, \quad \text{Ira} = \frac{5}{20}.$$

The new ratio is $9:6:5$.

**Step 2:** Determine the required capitals and cash Ira contributes Rs 40,000 for a $1/4$ share; hence total capital is $40,000 \div (1/4) =$ Rs $1,60,000$. Atul requires $1,60,000 \times 9/20 =$ Rs $72,000$, and Geeta requires $1,60,000 \times 6/20 =$ Rs $48,000$. After all other adjustments their capitals are Rs 60,000 and Rs 40,000. Atul must therefore bring $72,000 - 60,000 =$ Rs $12,000$; Geeta must bring $48,000 - 40,000 =$ Rs $8,000$. Neither receives a cash payment.

**Step 3:** Record the cash brought by the old partners Journal of the Firm

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Cash/Bank A/c Dr. | | 20,000 | |
| | To Atul's Capital A/c | | | 12,000 |
| | To Geeta's Capital A/c | | | 8,000 |
| | (Being cash brought in by the old partners to adjust their capitals to the new profit-sharing ratio) | | | |

The resulting capitals are Rs 72,000, Rs 48,000 and Rs 40,000. Their total is Rs 1,60,000 and their ratio is $9:6:5$, confirming the adjustment.

**Step 4:** Conclusion Atul brings in Rs 12,000 and Geeta brings in Rs 8,000. Debit Cash/Bank Rs 20,000 and credit their Capital Accounts by these respective amounts.

**Quick Tip to Solve:** Use Ira's Rs 40,000 for a one-fourth share to fix total capital before comparing the old partners' adjusted balances.

**18. Aayush and Aarushi are partners sharing profits and losses in the ratio of 3:2. They admitted Naveen into partnership for 1/4th share. Goodwill of the firm was to be valued at three years' purchase of super profits. Average net profit of the firm was Rs. 20,000. Capital investment in the business was Rs. 50,000 and Normal Rate of Return was 10%. Calculate the amount of Goodwill premium brought by Naveen.** [3 marks]

**Solution:**

**Concept:**

- Normal profit is the return ordinarily expected on capital employed: capital investment multiplied by the normal rate of return.
- Super profit is average profit less normal profit. Under the super-profit method, goodwill equals super profit multiplied by the agreed number of years' purchase.
- The incoming partner brings premium equal to the firm's goodwill multiplied by the share of profit acquired.

**Step 1:** Calculate normal profit The capital investment is Rs 50,000 and the normal rate of return is $10\%$. Thus

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

This is the profit a comparable business would normally earn on the same investment; it is not the goodwill itself.

**Step 2:** Calculate super profit and the goodwill of the firm The average net profit is Rs 20,000. The excess over normal profit is

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

Goodwill is valued at three years' purchase of this excess:

$$\text{Goodwill} = 15,000 \times 3 = \text{Rs } 45,000.$$

Applying the multiple directly to average profit would incorrectly include the normal return as well.

**Step 3:** Find the premium for the incoming share Naveen acquires a $1/4$ share of future profits, so he compensates the old partners for that fraction of goodwill:

$$\text{Premium brought} = 45,000 \times \frac{1}{4} = \text{Rs } 11,250.$$

The old partners' $3:2$ ratio concerns distribution of the premium between them; it does not change the total amount Naveen brings. The required premium is a payment for goodwill, separate from any capital contribution.

**Step 4:** Conclusion Naveen must bring goodwill premium of Rs 11,250.

**Quick Tip to Solve:** First deduct the normal return of Rs 5,000, multiply the excess by three, then take Naveen's one-fourth share.

**19(a).** **Asha, Disha and Raghav were partners in a firm sharing profits in the ratio of 2:3:1. According to the partnership agreement, Raghav was guaranteed an amount of Rs. 40,000 as his share of profits. The net profit for the year ended 31st March, 2022 amounted to Rs. 1,20,000.**

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

[3 marks]

**Solution:**

**Concept:**

- A guaranteed partner receives at least the promised share of profit. First calculate the ordinary shares in the agreed profit-sharing ratio.
- In the absence of a separate guarantee-bearing agreement, the other partners bear the deficiency in their mutual profit-sharing ratio. The total distributed profit remains unchanged.

**Step 1:** Calculate the ordinary shares and deficiency **Working Notes**

The ratio is Asha : Disha : Raghav $= 2:3:1$, with total parts $6$. On the profit of Rs 1,20,000, the ordinary shares are:

$$\text{Asha} = 1,20,000 \times \frac{2}{6} = \text{Rs } 40,000,$$
$$\text{Disha} = 1,20,000 \times \frac{3}{6} = \text{Rs } 60,000,$$
$$\text{Raghav} = 1,20,000 \times \frac{1}{6} = \text{Rs } 20,000.$$

Raghav's guaranteed amount is Rs 40,000, so the deficiency is $40,000 - 20,000 = \text{Rs } 20,000$.

**Step 2:** Apportion the deficiency between the other partners Asha and Disha bear the deficiency in their mutual ratio $2:3$. Asha bears $20,000 \times 2/5 = \text{Rs } 8,000$ and Disha bears $20,000 \times 3/5 = \text{Rs } 12,000$. Thus their adjusted profit shares are Rs $40,000 - 8,000 = 32,000$ and Rs $60,000 - 12,000 = 48,000$, respectively. Raghav receives Rs $20,000 + 20,000 = 40,000$. The shares total Rs 1,20,000, equal to the available profit.

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

| Dr. | Particulars | Amount (Rs) | Particulars | Amount (Rs) | Cr. |
|---|---|---|---|---|---|
| | To Asha's Capital A/c | 32,000 | By Profit and Loss A/c | 1,20,000 | |
| | To Disha's Capital A/c | 48,000 | (Net profit) | | |
| | To Raghav's Capital A/c | 40,000 | | | |
| | Total | 1,20,000 | Total | 1,20,000 | |

The entire profit is appropriated, so there is no balance to carry forward.

**Step 4:** Conclusion Asha, Disha and Raghav receive Rs 32,000, Rs 48,000 and Rs 40,000 respectively. Both sides of the Profit and Loss Appropriation Account total Rs 1,20,000.

**Quick Tip to Solve:** Calculate Raghav's ordinary one-sixth share first; divide only his Rs 20,000 deficiency between Asha and Disha in 2:3.

OR

**19(b). Akhil and Nikhil were partners sharing profits and losses in the ratio of 3:2. Their fixed capitals were Rs. 1,00,000 and Rs. 80,000 respectively. Interest on capital was agreed @ 6% p.a. Nikhil was to be allowed an annual salary of Rs. 9,200. During the year 2021-22, the net profit prior to the calculation of interest on capital but after charging Nikhil's salary amounted to Rs. 1,20,000. Prepare Profit and Loss Appropriation Account of the firm for the year ending 31st March, 2022.**

[3 marks]

**Solution:**

**Concept:**

- Interest on partners' capitals and partners' salaries are appropriations of profit. A salary already charged while finding net profit must be added back before preparing the Profit and Loss Appropriation Account.
- With fixed capitals, interest, salary and the partners' shares of residual profit are credited to their current accounts. Residual profit is shared in the agreed ratio of $3:2$.

**Step 1:** Restore the profit before appropriations **Working Notes**

The stated net profit of Rs 1,20,000 is after charging Nikhil's salary but before interest on capital. Add back the salary of Rs 9,200 so that it can be shown as an appropriation once:

$$\text{Profit before appropriations} = 1,20,000 + 9,200 = \text{Rs } 1,29,200.$$

No interest is added back because it has not yet been deducted from the stated profit.

**Step 2:** Compute interest and divide the residual profit The fixed capitals earn interest for the year at $6\%$:

$$\begin{aligned}\text{Akhil's interest} &= 1,00,000 \times 6\% = \text{Rs } 6,000,\\ \text{Nikhil's interest} &= 80,000 \times 6\% = \text{Rs } 4,800,\\ \text{Residual profit} &= 1,29,200 - 6,000 - 4,800 - 9,200\\ &= \text{Rs } 1,09,200.\end{aligned}$$

Akhil's residual share is $1,09,200 \times 3/5 = \text{Rs } 65,520$. Nikhil's share is $1,09,200 \times 2/5 = \text{Rs } 43,680$. These shares together equal Rs 1,09,200.

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

| Dr. | Particulars | Amount (Rs) | Particulars | Amount (Rs) | Cr. |
|---|---|---|---|---|---|
| | To Interest on Capital: | | By Profit and Loss A/c | 1,29,200 | |
| | Akhil's Current A/c | 6,000 | (Adjusted net profit) | | |
| | Nikhil's Current A/c | 4,800 | | | |
| | To Nikhil's Salary | 9,200 | | | |
| | To Profit transferred to: | | | | |
| | Akhil's Current A/c | 65,520 | | | |
| | Nikhil's Current A/c | 43,680 | | | |
| | Total | 1,29,200 | Total | 1,29,200 | |

Nikhil's salary is credited to his current account. The account closes with all available profit appropriated and no balance carried forward.

**Step 4:** Conclusion The residual profit is Rs 1,09,200, shared by Akhil and Nikhil as Rs 65,520 and Rs 43,680. Including interest and salary, their total current-account credits are Rs 71,520 and Rs 57,680 respectively; the appropriation account totals Rs 1,29,200.

**Quick Tip to Solve:** Underline "after charging salary": add Rs 9,200 back before showing salary on the debit side, avoiding a double deduction.

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**20. Neon Ltd. purchased assets worth Rs. 18,00,000 and took over liabilities of Rs. 2,00,000 of Zenith Ltd. for a purchase consideration of Rs. 15,00,000. Neon Ltd. paid the amount by accepting a bill of exchange of Rs. 3,00,000 and the balance was settled by issuing 10% debentures of Rs. 100 each at a premium of 20%. Pass necessary journal entries for the above transactions in the books of Neon Ltd.** [3 marks]

**Solution:**

**Concept:**

- Assets acquired are debited and liabilities taken over are credited. When net assets exceed the agreed purchase consideration, the difference is credited to Capital Reserve.
- Debentures issued at a premium are credited to Debentures Account at face value and to Securities Premium Reserve for the premium. The vendor's balance is discharged at the total issue price.

**Step 1:** Calculate net assets and capital reserve **Working Notes**

The net assets acquired from Zenith Ltd. equal assets less liabilities taken over:

$$\text{Net assets} = 18,00,000 - 2,00,000 = \text{Rs } 16,00,000,$$
$$\text{Capital reserve} = 16,00,000 - 15,00,000 = \text{Rs } 1,00,000.$$

The agreed purchase consideration is Rs 15,00,000; the excess of net assets over that consideration is a capital gain, not goodwill.

**Step 2:** Determine the debentures issued The bill of exchange settles Rs 3,00,000, leaving Rs $15,00,000 - 3,00,000 = 12,00,000$ payable to Zenith Ltd. Each Rs 100 debenture is issued for Rs $100 + 20 = 120$.

$$\text{Number of debentures} = \frac{12,00,000}{120} = 10,000,$$
$$\text{Face value issued} = 10,000 \times 100 = \text{Rs } 10,00,000,$$
$$\text{Securities premium} = 10,000 \times 20 = \text{Rs } 2,00,000.$$

The stated $10\%$ is the interest rate on the debentures; it does not alter their issue price or the purchase consideration.

**Step 3:** Record acquisition and settlement **Journal of Neon Ltd.**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Sundry Assets A/c Dr. | | 18,00,000 | |
| | To Sundry Liabilities A/c | | | 2,00,000 |
| | To Zenith Ltd. | | | 15,00,000 |
| | To Capital Reserve A/c | | | 1,00,000 |
| | (Being assets and liabilities taken over for an agreed purchase consideration of Rs 15,00,000) | | | |
| | Zenith Ltd. Dr. | | 15,00,000 | |
| | To Bills Payable A/c | | | 3,00,000 |
| | To 10% Debentures A/c | | | 10,00,000 |
| | To Securities Premium Reserve A/c | | | 2,00,000 |
| | (Being purchase consideration discharged by accepting a bill and issuing 10,000 debentures of Rs 100 each at 20% premium) | | | |

The acquisition entry balances at Rs 18,00,000; the settlement entry balances at Rs 15,00,000. Zenith Ltd.'s credit and debit of Rs 15,00,000 cancel, confirming full settlement.

**Step 4:** Conclusion Neon Ltd. records a Capital Reserve of Rs 1,00,000 and settles Zenith Ltd.'s claim with Bills Payable of Rs 3,00,000 and 10,000 debentures: face value Rs 10,00,000 plus Securities Premium Reserve of Rs 2,00,000.

**Quick Tip to Solve:** Subtract the bill first, then divide Rs 12,00,000 by the issue price Rs 120, not the face value Rs 100.

**21. Shiv Ltd. was registered with an authorised capital of Rs. 9,00,000 divided into equity shares of Rs. 10 each. The company issued a prospectus inviting applications for issuing 80,000 equity shares. The company received applications for 79,000 equity shares. All calls were made and duly received except the second and final call of Rs. 3 per share on 4,000 shares held by Anu. These shares were forfeited.**

**(a) Present the 'Share capital' in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013.**

**(b) Also prepare 'Notes to Accounts' for the same.** [4 marks]

**Solution:**

**Concept:**

- Authorised capital is the maximum nominal capital permitted; issued capital is the part offered for subscription. Subscribed capital is based on shares actually subscribed for and outstanding.
- After forfeiture, the forfeited shares are excluded from subscribed capital. The amount already received on them remains in Share Forfeiture Account and is added under share capital until reissue.

**Step 1:** Calculate the outstanding share capital and forfeited amount **Working Notes**

Authorised shares $= 9,00,000/10 = 90,000$, whereas the company offered 80,000 shares. Thus issued capital is $80,000 \times 10 =$ Rs $8,00,000$. Only 79,000 shares were subscribed for; the unsubscribed 1,000

shares do not form part of subscribed capital.

$$\text{Fully paid shares after forfeiture} = 79,000 - 4,000 = 75,000,$$
$$\text{Subscribed and fully paid capital} = 75,000 \times 10 = \text{Rs } 7,50,000,$$
$$\text{Amount received per forfeited share} = 10 - 3 = \text{Rs } 7,$$
$$\text{Share forfeiture balance} = 4,000 \times 7 = \text{Rs } 28,000.$$

The unpaid final call of Rs 12,000 is cancelled on forfeiture; it is not shown as calls in arrears after these shares have been forfeited. All remaining shares are fully paid.

**Step 2:** Present the Balance Sheet extract **(a) Balance Sheet of Shiv Ltd. (extract)**

| Particulars | Note No. | Amount (Rs) |
|---|---|---|
| I. EQUITY AND LIABILITIES | | |
| 1. Shareholders' funds | | |
| (a) Share capital | 1 | 7,78,000 |

**Step 3:** Prepare the supporting note to accounts **(b) Notes to Accounts: Note 1 — Share Capital**

| Particulars | Amount (Rs) |
|---|---|
| **Authorised capital** | |
| 90,000 equity shares of Rs 10 each | 9,00,000 |
| **Issued capital** | |
| 80,000 equity shares of Rs 10 each | 8,00,000 |
| **Subscribed and fully paid-up capital** | |
| 75,000 equity shares of Rs 10 each, fully paid | 7,50,000 |
| Add: Forfeited shares (amount originally paid up) | 28,000 |
| **Total share capital** | **7,78,000** |

The forfeited amount is disclosed separately in the note; it does not represent outstanding fully paid shares.

**Step 4:** Conclusion Share capital in the Balance Sheet is Rs $7,78,000$, comprising fully paid capital of Rs 7,50,000 and the forfeited amount of Rs 28,000.

**Quick Tip to Solve:** Subtract Anu's 4,000 shares from the subscribed count, then add only the Rs 7 per share already received as share forfeiture.

**22. P, Q and R were partners in a water dispenser manufacturing firm. They were sharing profits and losses in the ratio of 2:2:1. On 31st March, 2022, their Balance Sheet was as follows:**

**Balance Sheet of P, Q and R as on 31st March, 2022**

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|
| Capitals: | | Plant and Machinery | 1,25,000 |
| P 50,000 | | Land and Building | 1,50,000 |
| Q 1,25,000 | | Debtors | 40,000 |
| R 1,00,000 | 2,75,000 | Stock | 35,000 |
| General Reserve | 1,25,000 | Cash at Bank | 75,000 |
| Sundry Creditors | 25,000 | | |
| Total | 4,25,000 | Total | 4,25,000 |

**Q died on 30th June, 2022. According to the partnership deed, his legal representatives were entitled to:**

**(i) Interest on capital @ 12% p.a.**

**(ii) Rs. 12,000 for his share of Goodwill.**

**(iii) His share of profit till the date of death was to be calculated on the basis of sales. The sales from 1st April, 2022 to 30th June, 2022 were Rs. 62,500. The sales and profits of the firm for the year ending 31st March, 2022 was Rs. 5,00,000 and Rs. 1,25,000 respectively.**

**Prepare Q's Capital Account to be rendered to his legal representatives.** [4 marks]

**Solution:**

**Concept:**

- A deceased partner's capital is credited with the opening balance, share of accumulated reserves, interest on capital, goodwill entitlement and profit earned up to death. The amount due is transferred to the executor's account.
- When interim profit is estimated from sales, apply the previous year's profit-to-sales percentage to current sales, then multiply by the deceased partner's profit-sharing fraction. Interest on capital is time-apportioned separately.

**Step 1:** Calculate Q's reserve share and interest on capital **Working Notes**

The old profit-sharing ratio is $2:2:1$; hence Q's share is $2/5$. General Reserve belongs to all the old partners and Q receives his share on death:

$$\text{Q's share of General Reserve} = 1,25,000 \times \frac{2}{5} = \text{Rs } 50,000.$$

Q's opening capital is Rs 1,25,000. Interest is due for the three months from 1st April to 30th June, 2022:

$$\text{Interest on capital} = 1,25,000 \times \frac{12}{100} \times \frac{3}{12} = \text{Rs } 3,750.$$

The deed directly specifies Q's goodwill entitlement as Rs 12,000; this is already his share and is not multiplied by $2/5$ again.

**Step 2:** Estimate Q's profit up to the date of death Last year's profit-to-sales ratio is applied to sales in

the current period:

$$\text{Profit rate} = \frac{1,25,000}{5,00,000} \times 100 = 25\%,$$

$$\text{Estimated firm profit up to death} = 62,500 \times \frac{25}{100} = \text{Rs } 15,625,$$

$$\text{Q's share of profit} = 15,625 \times \frac{2}{5} = \text{Rs } 6,250.$$

The sales figure already covers the period up to death, so no further multiplication by $3/12$ is needed. Q's share is credited through Profit and Loss Suspense Account pending ascertainment of the year's actual profit. With no change specified between P and R, the goodwill adjustment is borne by them in their continuing ratio $2:1$: Rs 8,000 by P and Rs 4,000 by R.

**Step 3:** Prepare Q's Capital Account and transfer the balance **Q's Capital Account (up to 30th June, 2022)**

| Dr. | | | Cr. |
|---|---|---|---|
| Particulars | Amount (Rs) | Particulars | Amount (Rs) |
| To Q's Executor's A/c | 1,97,000 | By Balance b/d | 1,25,000 |
| | | By General Reserve A/c | 50,000 |
| | | By Interest on Capital A/c | 3,750 |
| | | By P's Capital A/c (goodwill) | 8,000 |
| | | By R's Capital A/c (goodwill) | 4,000 |
| | | By Profit and Loss Suspense A/c | 6,250 |
| **Total** | **1,97,000** | **Total** | **1,97,000** |

The transfer closes Q's Capital Account. No payment to the legal representatives is stated, so the liability is transferred to the executor rather than recording a cash or bank payment.

**Step 4:** Conclusion The amount due to Q's legal representatives is Rs $1,97,000$, transferred to Q's Executor's Account. Both sides of Q's Capital Account total Rs 1,97,000.

**Quick Tip to Solve:** Apply 25% to the interim sales, then Q's 2/5 share; apply the three-month fraction only to interest, not to the sales-based profit again.

**23(a). Vani Limited invited applications for issuing 1,00,000 equity shares of Rs. 10 each at a premium of 10%. The amounts were payable as under: On Application and Allotment Rs. 4 per share (including premium Rs. 1); On first call Rs. 4 per share; On second and final call Rs. 3 per share.**

**Applications for 1,50,000 shares were received and pro-rata allotment was made to all the applicants. Excess application money was adjusted towards sums due on calls. Parth, a shareholder who had applied for 600 shares did not pay the first call. His shares were forfeited. The second and final call was not yet made. Half of the forfeited shares were reissued at Rs. 8 per share fully paid up.**

**Journalise the above transactions in the books of Vani Limited by opening calls in arrears and calls in advance account wherever necessary.** [6 marks]

**Solution:**

**Concept:**

- Pro-rata allotment distributes available shares in the ratio of shares allotted to shares applied for. Application money exceeding the application and allotment amount due is credited to Calls in Advance and adjusted when the call becomes due.
- On forfeiture, Share Capital is debited with called-up capital; unpaid calls are credited to Calls in Arrears. Share Forfeiture receives only the capital already paid, excluding securities premium.
- On reissue as fully paid, Share Capital is credited with face value. Reissue discount is debited to Share Forfeiture, and only the surplus relating to shares actually reissued is transferred to Capital Reserve.

**Step 1:** Compute allotment and the first-call arrears The allotment ratio is $1,00,000 : 1,50,000 = 2 : 3$. Total money received on application and allotment is $1,50,000 \times 4 =$ Rs $6,00,000$. Of this, Rs 3,00,000 is share capital and Rs 1,00,000 is securities premium; the remaining Rs 2,00,000 is Calls in Advance.

$$\text{Parth's allotted shares} = 600 \times \frac{2}{3} = 400,$$

$$\text{His excess application money} = 600 \times 4 - 400 \times 4 = \text{Rs } 800,$$

$$\text{His gross first call} = 400 \times 4 = \text{Rs } 1,600,$$

$$\text{His unpaid balance} = 1,600 - 800 = \text{Rs } 800.$$

The first call on all allotted shares is Rs 4,00,000. After applying Calls in Advance of Rs 2,00,000 and recognising Parth's arrears of Rs 800, the bank receipt is Rs 1,99,200. The final call is not made, so no entry for that call is passed.

**Step 2:** Record application, allotment and the first call  Journal of Vani Limited

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr.<br>  To Share Application and Allotment A/c<br>(Being application money received for 1,50,000 shares) | | 6,00,000 | <br>6,00,000 |
| | Share Application and Allotment A/c Dr.<br>  To Share Capital A/c<br>  To Securities Premium A/c<br>  To Calls in Advance A/c<br>(Being allotment of 1,00,000 shares and transfer of excess money to Calls in Advance) | | 6,00,000 | <br>3,00,000<br>1,00,000<br>2,00,000 |
| | Share First Call A/c Dr.<br>  To Share Capital A/c<br>(Being first call of Rs 4 per share due) | | 4,00,000 | <br>4,00,000 |
| | Bank A/c Dr.<br>Calls in Advance A/c Dr.<br>Calls in Arrears A/c Dr.<br>  To Share First Call A/c<br>(Being first call settled after adjustment of advances and recognition of Parth's arrears) | | 1,99,200<br>2,00,000<br>800 | <br><br><br>4,00,000 |

**Step 3:** Calculate forfeiture and the reissue surplus  At forfeiture, capital called up is Rs 7 per share (Rs 3 on application and allotment plus Rs 4 first call). Share Capital is debited by $400 \times 7 = \text{Rs } 2,800$. Capital received is Rs 1,200 initially plus the Rs 800 advance, so Share Forfeiture is credited by Rs 2,000. The premium received is not reversed.

For the 200 shares reissued, Bank receives $200 \times 8 = \text{Rs } 1,600$, while fully paid capital is $200 \times 10 = \text{Rs } 2,000$: discount is Rs 400. Their forfeiture credit is $2,000 \times 200/400 = \text{Rs } 1,000$. The surplus is $1,000 - 400 = \text{Rs } 600$; Rs 1,000 remains for the 200 unreissued shares.

**Step 4:** Record forfeiture, reissue and transfer  Journal of Vani Limited (continued)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Capital A/c Dr.<br>  To Calls in Arrears A/c<br>  To Share Forfeiture A/c<br>(Being Parth's 400 shares forfeited for non-payment of first-call balance) | | 2,800 | <br>800<br>2,000 |
| | Bank A/c Dr.<br>Share Forfeiture A/c Dr.<br>  To Share Capital A/c<br>(Being 200 forfeited shares reissued at Rs 8 each as fully paid) | | 1,600<br>400 | <br><br>2,000 |
| | Share Forfeiture A/c Dr.<br>  To Capital Reserve A/c<br>(Being surplus on the 200 reissued shares transferred to Capital Reserve) | | 600 | <br>600 |

**Step 5:** Conclusion  Parth's 400 shares have arrears of Rs 800. Reissue of 200 shares transfers Rs 600 to Capital Reserve and leaves Rs 1,000 in Share Forfeiture.

**Quick Tip to Solve:** First adjust Parth's Rs 800 excess application money against his first call; transfer only half the forfeiture credit, less reissue discount, to Capital Reserve.

OR

**23(b)(i). Pass necessary journal entries for forfeiture and reissue of forfeited shares in the following cases:**

**Vipin Ltd. forfeited 10,000 shares of Rs. 10 each issued at a premium of Rs. 1 per share, for non-payment of second and final call of Rs. 2 per share. Out of these, 60% of the shares were reissued at Rs. 7 per share fully paid up.** [3 marks]

**Solution:**

**Concept:**

- Forfeiture reverses the called-up share capital and cancels the unpaid call. Money received towards capital is credited to Share Forfeiture; premium already received is not reversed.
- The discount on reissue cannot exceed the forfeiture amount attributable to the shares reissued. The remaining surplus on those shares alone becomes Capital Reserve.

**Step 1:** Compute the forfeiture credit and reissue profit All Rs 10 per share was called up. The unpaid amount is the second and final call of Rs 2 per share, so capital already received is Rs 8 per share. Share Capital is debited by $10,000 \times 10 =$ Rs $1,00,000$, the unpaid call is credited by Rs 20,000 and Share Forfeiture by Rs 80,000. The Rs 1 premium was received earlier; its account remains unchanged.

The shares reissued are $10,000 \times 60\% = 6,000$. Reissue cash is $6,000 \times 7 =$ Rs $42,000$ and the fully paid capital is Rs 60,000, giving a discount of Rs 18,000. The related forfeiture credit is $6,000 \times 8 =$ Rs $48,000$; hence the surplus available for transfer is $48,000 - 18,000 =$ Rs $30,000$. The forfeiture credit for the 4,000 unreissued shares, Rs 32,000, is retained.

**Step 2:** Pass the journal entries Journal of Vipin Ltd.

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Capital A/c Dr.<br>  To Share Second and Final Call A/c<br>  To Share Forfeiture A/c<br>(Being 10,000 shares forfeited for non-payment of the final call of Rs 2 per share) | | 1,00,000 | <br>20,000<br>80,000 |
| | Bank A/c Dr.<br>Share Forfeiture A/c Dr.<br>  To Share Capital A/c<br>(Being 6,000 forfeited shares reissued at Rs 7 each as fully paid) | | 42,000<br>18,000 | <br><br>60,000 |
| | Share Forfeiture A/c Dr.<br>  To Capital Reserve A/c<br>(Being surplus on reissued shares transferred to Capital Reserve) | | 30,000 | <br>30,000 |

**Step 3:** Conclusion The forfeiture credit is Rs 80,000. Reissue of 6,000 shares produces Capital Reserve of Rs 30,000, leaving Rs 32,000 in Share Forfeiture for the unreissued shares.

**Quick Tip to Solve:** Use only 60% of the Rs 80,000 forfeiture credit when computing the reserve, then deduct the Rs 18,000 reissue discount.

**23(b)(ii). Pass necessary journal entries for forfeiture and reissue of forfeited shares in the following cases:**

**Deepak Ltd. forfeited 800 shares of Rs. 10 each, Rs. 8 per share called up, for non-payment of first call of Rs. 3 per share. All the forfeited shares were reissued for Rs. 12 per share fully paid.** [3 marks]

**Solution:**

**Concept:**

- On forfeiture of partly called shares, debit Share Capital with the called-up amount, not the face value. Credit Share Forfeiture with the capital already received.
- When forfeited shares are reissued as fully paid, credit Share Capital with their full face value. Any excess of reissue price over face value is credited to Securities Premium.

**Step 1:** Calculate the amounts for forfeiture and reissue Deepak Ltd. had called up Rs 8 per share, of which the Rs 3 first call remained unpaid. Therefore Rs 5 per share had been received towards capital. For 800 shares, called-up capital is $800 \times 8 = \text{Rs } 6,400$, unpaid first call is $800 \times 3 = \text{Rs } 2,400$, and capital forfeited is $800 \times 5 = \text{Rs } 4,000$.

All 800 shares are reissued for Rs 12 each as fully paid, so Bank is debited by $800 \times 12 = \text{Rs } 9,600$. Share Capital is credited with face value, $800 \times 10 = \text{Rs } 8,000$, and Securities Premium is credited with $800 \times 2 = \text{Rs } 1,600$. The difference between the reissue price and the previously called-up Rs 8 is not all premium: full paid-up capital is now Rs 10 per share. Since there is no reissue discount and all forfeited shares are reissued, the entire Rs 4,000 forfeiture balance is available for transfer to Capital Reserve.

**Step 2:** Pass the journal entries Journal of Deepak Ltd.

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Share Capital A/c Dr.<br>  To Share First Call A/c<br>  To Share Forfeiture A/c<br>(Being 800 shares, Rs 8 called up, forfeited for non-payment of the first call) | | 6,400 | <br>2,400<br>4,000 |
| | Bank A/c Dr.<br>  To Share Capital A/c<br>  To Securities Premium A/c<br>(Being 800 forfeited shares reissued at Rs 12 each as fully paid) | | 9,600 | <br>8,000<br>1,600 |
| | Share Forfeiture A/c Dr.<br>  To Capital Reserve A/c<br>(Being the full forfeiture surplus transferred to Capital Reserve after reissue of all shares) | | 4,000 | <br>4,000 |

**Step 3:** Conclusion Forfeiture credits Share Forfeiture by Rs 4,000. Reissue credits Securities Premium by Rs 1,600, and the full forfeiture surplus of Rs 4,000 is transferred to Capital Reserve.

**Quick Tip to Solve:** Debit forfeiture capital at Rs 8 per share, but credit reissued fully paid capital at Rs 10; only the extra Rs 2 is securities premium.

**24(a). Kamal, Rahul and Neeraj were partners in a firm sharing profits and losses in the ratio of 5:3:2. On 31st March, 2022, their Balance Sheet was as under:**

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|
| Capitals:<br>Kamal 1,20,000<br>Rahul 1,20,000<br>Neeraj 1,20,000 | 3,60,000 | Land and Building | 1,70,000 |
| General Reserve | 1,20,000 | Plant and Machinery | 2,60,000 |
| Sundry Creditors | 1,80,000 | Stock | 1,00,000 |
| | | Debtors | 80,000 |
| | | Cash | 50,000 |
| Total | 6,60,000 | Total | 6,60,000 |

**On the above date, Rahul retired and following terms were agreed upon:**

**(i) Goodwill of the firm was valued at Rs. 3,50,000.**

**(ii) An item of Rs. 10,000 included in Sundry creditors is not likely to be claimed and hence written off. Stock was valued at Rs. 90,000.**

**(iii) Capital of the new firm was fixed at Rs. 2,10,000 and the same will be adjusted in the profit sharing ratio of the remaining partners. For this purpose the required cash will be brought in or paid off as the case may be.**

**(iv) Amount payable to Rahul will be transferred to his loan account.**

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

**Solution:**

**Concept:**

- On retirement, accumulated reserves belong to all partners in their old profit-sharing ratio. Revaluation profit or loss is also shared in that ratio.
- The continuing partners compensate the retiring partner for his share of goodwill in their gaining ratio. With no different new ratio given, Kamal and Neeraj continue in their relative old ratio, $5:2$.
- After all adjustments, the retiring partner's balance is transferred to his loan account. Continuing partners bring in or withdraw cash to make their capitals equal to the agreed total capital in the new ratio.

**Step 1:** Working Notes: calculate gain and goodwill The old ratio is $5:3:2$. Kamal and Neeraj's new shares are $5/7$ and $2/7$, respectively.

$$\text{Kamal's gain} = \frac{5}{7} - \frac{5}{10} = \frac{3}{14},$$
$$\text{Neeraj's gain} = \frac{2}{7} - \frac{2}{10} = \frac{3}{35}.$$

Thus the gaining ratio is $5:2$. Rahul's goodwill share is Rs $3,50,000 \times 3/10 =$ Rs $1,05,000$. Debit Kamal's capital by Rs $1,05,000 \times 5/7 =$ Rs $75,000$, debit Neeraj's capital by Rs 30,000 and credit Rahul's capital by Rs 1,05,000. Goodwill is adjusted through capitals and is not raised as an asset.

**Step 2:** Prepare the Revaluation Account Stock falls from Rs 1,00,000 to Rs 90,000, producing a loss of Rs 10,000. Writing off an unclaimed creditor reduces the liability and gives a revaluation gain of

Rs 10,000. These amounts cancel, so no revaluation profit or loss is transferred to the partners.

**Revaluation Account**

| Dr. Particulars | Amount (Rs) | Particulars | Amount (Rs) Cr. |
|---|---|---|---|
| To Stock A/c | 10,000 | By Sundry Creditors A/c | 10,000 |
| **Total** | **10,000** | **Total** | **10,000** |

**Step 3:** Distribute the reserve and determine the cash adjustments General reserve of Rs 1,20,000 is credited in the old ratio: Kamal Rs 60,000, Rahul Rs 36,000 and Neeraj Rs 24,000. After the reserve and goodwill adjustments, the capitals are:

$$\text{Kamal} = 1,20,000 + 60,000 - 75,000 = \text{Rs } 1,05,000,$$
$$\text{Rahul} = 1,20,000 + 36,000 + 1,05,000 = \text{Rs } 2,61,000,$$
$$\text{Neeraj} = 1,20,000 + 24,000 - 30,000 = \text{Rs } 1,14,000.$$

Required capitals out of Rs 2,10,000 are Rs 1,50,000 for Kamal and Rs 60,000 for Neeraj, using $5:2$. Therefore Kamal brings in Rs 45,000 and Neeraj withdraws Rs 54,000. Rahul's entire Rs 2,61,000 becomes a loan, with no immediate cash payment to him.

**Step 4:** Prepare the Partners' Capital Accounts The following combined account shows all three partners separately. The amounts in each partner's debit and credit columns balance.

**Partners' Capital Accounts**

| Dr. Particulars | Kamal Rs | Rahul Rs | Neeraj Rs | Particulars | Kamal Rs | Rahul Rs | Neeraj Cr. Rs |
|---|---|---|---|---|---|---|---|
| To Rahul's Capital | 75,000 | – | 30,000 | By Balance b/d | 1,20,000 | 1,20,000 | 1,20,000 |
| To Rahul's Loan | – | 2,61,000 | – | By General Reserve | 60,000 | 36,000 | 24,000 |
| To Cash | – | – | 54,000 | By Kamal's Capital | – | 75,000 | – |
| To Balance c/d | 1,50,000 | – | 60,000 | By Neeraj's Capital | – | 30,000 | – |
| | | | | By Cash | 45,000 | – | – |
| **Total** | 2,25,000 | 2,61,000 | 1,44,000 | **Total** | 2,25,000 | 2,61,000 | 1,44,000 |

**Step 5:** Conclusion Revaluation profit or loss is nil. Rahul's Loan Account is credited with Rs 2,61,000. Kamal brings in Rs 45,000 and Neeraj withdraws Rs 54,000, leaving their capitals at Rs 1,50,000 and Rs 60,000 respectively.

**Quick Tip to Solve:** Complete reserve and goodwill adjustments before comparing the continuing partners' capitals with Rs 2,10,000 split in the ratio 5:2.

OR

**24(b). Ashish and Vishesh were partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet as at 31st March, 2022 was as under:**

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|
| Creditors | 30,000 | Cash at Bank | 50,000 |
| Outstanding electricity bill | 20,000 | Debtors 80,000<br>Less: Provision for bad debts 2,000 | 78,000 |
| Capitals:<br>Ashish 3,00,000<br>Vishesh 2,00,000 | 5,00,000 | Stock | 1,12,000 |
| | | Machinery | 3,00,000 |
| | | Profit and Loss A/c | 10,000 |
| Total | 5,50,000 | Total | 5,50,000 |

**On 1st April, 2022, Manya was admitted into the firm with 1/4th share in the profits on the following terms:**

**(i) Manya will bring Rs. 1,00,000 as her capital and Rs. 50,000 as her share of goodwill premium in cash.**

**(ii) Outstanding electricity bill will be paid off.**

**(iii) Stock was found over valued by Rs. 12,000.**

**Pass the necessary journal entries in the books of the firm on Manya's admission.** [6 marks]

**Solution:**

**Concept:**

- A debit balance in Profit and Loss Account is an accumulated loss and is written off against the old partners' capitals in their old ratio.
- Cash premium for goodwill is credited to the sacrificing partners. As no different sacrifice is specified, Ashish and Vishesh sacrifice in their existing ratio of $3 : 2$.
- A fall in stock value is debited to Revaluation Account and borne by the old partners. Paying an existing outstanding bill settles a liability without a fresh expense or revaluation loss.

**Step 1:** Working Notes: calculate amounts shared by the old partners Manya receives $1/4$ of the profits. Ashish and Vishesh retain the remaining $3/4$ in their old ratio $3 : 2$; their new shares are $9/20$ and $6/20$, while Manya's share is $5/20$. Their sacrifices are $3/20$ and $2/20$, so the sacrificing ratio is $3 : 2$.

The existing loss of Rs 10,000 is charged to Ashish Rs 6,000 and Vishesh Rs 4,000. The goodwill premium of Rs 50,000 is credited to Ashish Rs 30,000 and Vishesh Rs 20,000. Stock is overvalued by Rs 12,000, so its revised value is $1,12,000 - 12,000 =$ Rs $1,00,000$. This revaluation loss is charged to Ashish Rs 7,200 and Vishesh Rs 4,800.

**Step 2:** Record the accumulated loss, cash received and goodwill premium All entries below are dated 1st April, 2022; the Date and L.F. columns may remain blank. Cash received and paid is recorded through Bank Account. No withdrawal of goodwill premium by the old partners is specified, so it remains in the firm.

**Journal of Ashish, Vishesh and Manya**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Ashish's Capital A/c Dr.<br>Vishesh's Capital A/c Dr.<br>  To Profit and Loss A/c<br>(Being accumulated loss written off in the old ratio 3:2) | | 6,000<br>4,000 | <br><br>10,000 |
| | Bank A/c Dr.<br>  To Manya's Capital A/c<br>  To Premium for Goodwill A/c<br>(Being capital and goodwill premium brought in by Manya) | | 1,50,000 | <br>1,00,000<br>50,000 |
| | Premium for Goodwill A/c Dr.<br>  To Ashish's Capital A/c<br>  To Vishesh's Capital A/c<br>(Being goodwill premium credited in the sacrificing ratio 3:2) | | 50,000 | <br>30,000<br>20,000 |

**Step 3:** Record the bill payment and stock revaluation The Rs 20,000 electricity bill is already a liability in the opening Balance Sheet. Debit that liability on payment; do not debit Electricity Expense or Revaluation Account again. The stock correction alone produces the revaluation loss on admission.

**Journal (continued)**

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Outstanding Electricity Bill A/c Dr.<br>  To Bank A/c<br>(Being the outstanding electricity bill paid off) | | 20,000 | <br>20,000 |
| | Revaluation A/c Dr.<br>  To Stock A/c<br>(Being stock reduced by the amount of overvaluation) | | 12,000 | <br>12,000 |
| | Ashish's Capital A/c Dr.<br>Vishesh's Capital A/c Dr.<br>  To Revaluation A/c<br>(Being revaluation loss transferred to the old partners in the ratio 3:2) | | 7,200<br>4,800 | <br><br>12,000 |

Each entry has equal debits and credits. As a cross-check, the closing capitals are Ashish $3,00,000 - 6,000 + 30,000 - 7,200 =$ Rs $3,16,800$, Vishesh $2,00,000 - 4,000 + 20,000 - 4,800 =$ Rs $2,11,200$, and Manya Rs 1,00,000.

**Step 4:** Conclusion The six entries record the old loss, Manya's Rs 1,50,000 contribution, goodwill distribution of Rs 30,000 and Rs 20,000, bill payment of Rs 20,000 and the Rs 12,000 stock revaluation loss shared as Rs 7,200 and Rs 4,800.

**Quick Tip to Solve:** Charge both the old Profit and Loss debit balance and the stock loss only to Ashish and Vishesh; Manya shares neither pre-admission loss.

**25. Pass necessary Journal Entries for the following transactions, on the dissolution of a partnership firm of Kavita and Suman on 31st March, 2022, after the various assets (other than cash) and third party liabilities have been transferred to Realisation Account.**

**(a) Kavita took over stock amounting to Rs. 1,00,000 at Rs. 90,000.**

**(b) Creditors of Rs. 2,00,000 took over Plant and Machinery of Rs. 3,00,000 in full settlement of their claim.**

**(c) There was an unrecorded asset of Rs. 23,000 which was taken over by Suman at Rs. 17,000.**

**(d) Realisation expenses Rs. 2,000 were paid by Kavita.**

**(e) Bank loan Rs. 21,000 was paid off.**

**(f) Loss on dissolution amounted to Rs. 7,000.** [6 marks]

**Solution:**

**Concept:**

- After assets and outside liabilities are transferred, receipts, partner takeovers, payments and expenses are recorded through Realisation Account.
- An asset taken over by a partner is debited to that partner's capital at its agreed value; an expense paid personally by a partner is credited to the partner's capital.
- Realisation profit or loss is transferred to partners in their profit-sharing ratio; in the absence of a specified ratio, it is shared equally.

**Step 1:** Record stock taken over by Kavita The stock has already been transferred to Realisation Account at its book value. Kavita is charged only the agreed takeover value of Rs 90,000, not the book value of Rs 1,00,000. Debit her capital account and credit Realisation Account; no separate stock account is used now.

Journal of Kavita and Suman (31st March, 2022)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Kavita's Capital A/c Dr. | | 90,000 | |
| | To Realisation A/c | | | 90,000 |
| | (Being stock taken over by Kavita at the agreed value) | | | |

**Step 2:** Account for creditors taking over machinery No journal entry is required for transaction (b). Both creditors of Rs 2,00,000 and machinery of Rs 3,00,000 have already been transferred to Realisation Account. The creditors accept the machinery in full settlement and no cash or partner capital is involved. Their direct settlement therefore requires no further entry. The difference between the book values is already reflected in Realisation Account through the earlier transfers.

**Step 3:** Record the unrecorded asset taken over by Suman The unrecorded asset was never present in the books, so it has no book value to transfer. Its stated value of Rs 23,000 is not the takeover consideration. Record only the agreed Rs 17,000 by debiting Suman's capital and crediting Realisation.

Journal: unrecorded asset

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Suman's Capital A/c Dr. | | 17,000 | |
| | To Realisation A/c | | | 17,000 |
| | (Being unrecorded asset taken over by Suman for Rs 17,000) | | | |

**Step 4:** Record expenses paid by Kavita The realisation expenses are a cost of dissolving the firm. As Kavita paid them on behalf of the firm, debit Realisation Account and credit her capital account. There is no credit to the firm's Bank Account because the payment was made personally by Kavita.

Journal: realisation expenses

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Realisation A/c Dr. | | 2,000 | |
| | To Kavita's Capital A/c | | | 2,000 |
| | (Being realisation expenses paid by Kavita on behalf of the firm) | | | |

**Step 5:** Record the payment of bank loan The bank loan is a third-party liability and, as stated in the question, has already been transferred to Realisation Account. Its payment is therefore debited to Realisation Account, not to Bank Loan Account again. The payment reduces the bank balance.

Journal: settlement of bank loan

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Realisation A/c Dr. | | 21,000 | |
| | To Bank A/c | | | 21,000 |
| | (Being bank loan paid off) | | | |

**Step 6:** Transfer the loss on dissolution **Working Note:** No profit-sharing ratio is specified. The partners therefore share the loss equally. Each partner bears Rs $7,000 \div 2 =$ Rs $3,500$. A loss reduces their capital balances, so both capital accounts are debited and Realisation Account is credited to close its debit balance.

Journal: transfer of realisation loss

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Kavita's Capital A/c Dr. | | 3,500 | |
| | Suman's Capital A/c Dr. | | 3,500 | |
| | To Realisation A/c | | | 7,000 |
| | (Being realisation loss transferred equally to the partners) | | | |

**Step 7:** Conclusion The required entries are recorded above. No further entry is passed for creditors taking over machinery in full settlement. The Rs 7,000 loss is borne equally: Kavita Rs 3,500 and Suman Rs 3,500.

**Quick Tip to Solve:** First check whether assets and liabilities have already been transferred: use Realisation for subsequent settlements, and use the agreed value for assets taken over by partners.

**26. Chiranjeevi Limited issued 2,000, 10% debentures of Rs. 100 each. Pass the necessary Journal entries for the issue of debentures in the following cases:**

**(a) When debentures were issued at 10% premium, redeemable at 5% premium.**

**(b) When debentures were issued at 5% discount, redeemable at 10% premium.**

**(c) When debentures were issued at par, redeemable at a premium of 10%.** [6 marks]

**Solution:**

**Concept:**

- Debentures Account is credited with face value: number of debentures multiplied by face value per debenture.
- Bank is debited with the issue proceeds. Issue premium is credited separately to Securities Premium Account.
- Loss on issue comprises issue discount, if any, plus premium payable on redemption. Redemption premium is credited to Premium on Redemption of Debentures Account.

**Step 1:** Compute the common face value **Working Notes:** The face value of the issue is $2,000 \times$ Rs $100 =$ Rs $2,00,000$. Therefore, 5% of the face value is Rs 10,000 and 10% is Rs 20,000. The stated 10% debenture rate is the interest rate; it does not change the amount credited to Debentures Account or the issue-price calculation. Each case below is an independent issue, and the entries combine receipt and allotment.

**Step 2:** Record case (a): issue at premium Issue premium is $10\% \times$ Rs $2,00,000 =$ Rs $20,000$, so bank receives Rs 2,20,000. Redemption premium is $5\% \times$ Rs $2,00,000 =$ Rs $10,000$. The redemption premium creates a loss at issue and a liability payable on redemption; the issue premium is separately credited to Securities Premium Account.

Journal of Chiranjeevi Limited: case (a)

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

Total debit and total credit are each Rs 2,30,000.

**Step 3:** Record case (b): issue at discount Discount on issue is $5\% \times$ Rs $2,00,000 =$ Rs $10,000$, reducing bank proceeds to Rs 1,90,000. Redemption premium is $10\% \times$ Rs $2,00,000 =$ Rs $20,000$. Loss on issue includes both the discount and redemption premium, so the debit is Rs $10,000 +$ Rs $20,000 =$ Rs $30,000$.

Journal of Chiranjeevi Limited: case (b)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 1,90,000 | |
| | Loss on Issue of Debentures A/c Dr. | | 30,000 | |
| | To 10% Debentures A/c | | | 2,00,000 |
| | To Premium on Redemption of Debentures A/c | | | 20,000 |
| | (Being 2,000, 10% debentures issued at 5% discount, redeemable at 10% premium) | | | |

Total debit and total credit are each Rs 2,20,000.

**Step 4:** Record case (c): issue at par At par, bank receives the full face value of Rs 2,00,000. There is neither an issue discount nor an issue premium. The 10% redemption premium is Rs 20,000 and is the entire loss on issue. Recognise this loss and the corresponding liability when debentures are issued, even though redemption will occur later.

Journal of Chiranjeevi Limited: case (c)

| Date | Particulars | L.F. | Dr. (Rs) | Cr. (Rs) |
|---|---|---|---|---|
| | Bank A/c Dr. | | 2,00,000 | |
| | Loss on Issue of Debentures A/c Dr. | | 20,000 | |
| | To 10% Debentures A/c | | | 2,00,000 |
| | To Premium on Redemption of Debentures A/c | | | 20,000 |
| | (Being 2,000, 10% debentures issued at par, redeemable at 10% premium) | | | |

Total debit and total credit are each Rs 2,20,000.

**Step 5:** Conclusion The three entries record bank receipts of Rs 2,20,000, Rs 1,90,000 and Rs 2,00,000, respectively. The corresponding losses on issue are Rs 10,000, Rs 30,000 and Rs 20,000; every case credits 10% Debentures Account with Rs 2,00,000.

**Quick Tip to Solve:** Calculate issue terms and redemption terms separately on Rs 2,00,000: issue terms determine bank proceeds, while redemption premium is always recognised as a liability at issue.

## Part B (20 marks)

*OPTION - I (Analysis of Financial Statements)*

**27. The current assets of X Ltd. are Rs. 2,00,000 and its current liabilities are Rs. 1,50,000. If, its working capital turnover ratio is 6 times, its revenue from operations will be:** [1 mark]

(A) Rs. 2,00,000

(B) Rs. 3,00,000

(C) Rs. 2,50,000

(D) Rs. 1,50,000

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

**Solution:**

**Concept:**

- Working capital is current assets less current liabilities.
- Working capital turnover ratio equals revenue from operations divided by working capital.

**Step 1:** Calculate working capital Subtract the current liabilities from current assets to find the net funds employed in current operations:

$$\text{Working capital} = \text{Rs } 2,00,000 - \text{Rs } 1,50,000 = \text{Rs } 50,000.$$

The turnover ratio uses this difference, not either current assets or current liabilities alone.

**Step 2:** Apply the turnover ratio Rearranging the ratio formula gives

$$\text{Revenue from operations} = 6 \times \text{Rs } 50,000 = \text{Rs } 3,00,000.$$

Options (A), (C) and (D) would imply turnover ratios of 4, 5 and 3 times, respectively; none agrees with the given 6 times.

**Step 3:** Conclusion Revenue from operations is $\boxed{\text{Rs } 3,00,000}$. Hence, the correct option is (B).

**Quick Tip to Solve:** Subtract current liabilities before multiplying by 6; multiplying current assets alone would use the wrong denominator.

**28(a). Which of the following are not tools of Financial Analysis?**

**(i) Cash Flow Statement**

**(ii) Income Statement**

**(iii) Balance Sheet**

**(iv) Ratio Analysis** [1 mark]

(A) (i) and (ii)

(B) (ii) and (iv)

(C) (ii) and (iii)

(D) (iii) and (iv)

**Correct Answer:** (C) (ii) and (iii)

**Solution:**

**Concept:**

- Financial statements supply financial data; tools of analysis process that data to make meaningful comparisons and interpretations.
- Ratio analysis and cash flow analysis are tools used to assess financial performance and position.

**Step 1:** Distinguish the statements from the tools The income statement reports income, expenses and profit or loss. The balance sheet reports assets, liabilities and equity at a particular date. Thus (ii) and (iii) are the basic statements that provide information for analysis.

**Step 2:** Check the proposed pairs A cash flow statement analyses cash inflows and outflows, and ratio analysis establishes relationships between financial figures. Hence (i) and (iv) are tools. Options (A), (B) and (D) each include at least one of these tools and therefore cannot identify the required pair.

**Step 3:** Conclusion Income Statement and Balance Sheet, (ii) and (iii), are not tools of financial analysis. Hence, the correct option is (C).

**Quick Tip to Solve:** First separate the source statements from the techniques used to analyse them; this directly isolates (ii) and (iii).

OR

**28(b). Which one of the following statement is incorrect?** [1 mark]

(A) Liquidity ratios are calculated to measure the short term solvency of the business.

(B) Current ratio is also known as Acid Test Ratio.

(C) Solvency ratios are calculated to determine the ability of the business to service its debt in the long run.

(D) Proprietary ratio expresses the relationship of proprietor's funds to net assets / total assets.

**Correct Answer:** (B) Current ratio is also known as Acid Test Ratio.

**Solution:**

**Concept:**

- Liquidity ratios assess short-term solvency; solvency ratios assess the capacity to meet long-term obligations.
- The current ratio is Current Assets/Current Liabilities; the acid test ratio is the quick or liquid ratio.

**Step 1:** Identify the incorrect terminology The acid test ratio uses quick assets, which exclude inventories and prepaid expenses from current assets. The current ratio includes those current assets. Therefore the current ratio and acid test ratio are distinct measures, making statement (B) incorrect.

**Step 2:** Verify the remaining statements Statement (A) correctly describes liquidity ratios. Statement (C) correctly describes long-term solvency. Statement (D) correctly identifies the proprietary ratio as relating proprietors' funds to total assets (net of fictitious assets). None of these three statements contains the incorrect naming found in (B).

**Step 3:** Conclusion The current ratio is not also known as the acid test ratio; the quick ratio is. Hence, the correct option is (B).

**Quick Tip to Solve:** Remember that an acid test is stricter: use quick assets, excluding inventories and prepaid expenses.

**29. Which of the following activities are operating activities for the purpose of preparing 'Cash flow statement'?**

**(i) Dividend and Interest received on securities.**

**(ii) Payment of employee benefit expenses.**

**(iii) Cash receipts from royalties and fees.**

**(iv) Issue of shares against purchase of machinery.** [1 mark]

(A) (i), (ii) and (iii)

(B) (ii), (iii) and (iv)

(C) (i), (ii) and (iv)

(D) (ii) and (iii)

**Correct Answer:** (D) (ii) and (iii)

**Solution:**

**Concept:**

- Operating activities are the principal revenue-producing activities and other activities that are neither investing nor financing.
- For a non-financial enterprise, dividend and interest received on investments are investing cash inflows. Transactions without cash movement are excluded from the cash flow statement.

**Step 1:** Classify the cash receipts and payments Payment of employee benefit expenses, (ii), is an operating cash outflow because it relates to conducting the business. Cash receipts from royalties and fees, (iii), are operating inflows arising from revenue-producing activities.

**Step 2:** Eliminate the other activities Dividend and interest received on securities, (i), are investing receipts under the usual non-financial enterprise classification. Issue of shares against machinery, (iv), is a non-cash transaction. Thus (A) includes an investing item, (B) includes a non-cash item, and (C) includes both; none is an all-operating set.

**Step 3:** Conclusion Only (ii) and (iii) are operating activities. Hence, the correct option is (D).

**Quick Tip to Solve:** Before assigning an activity category, exclude share-for-asset exchanges because no cash changes hands.

**30(a). Which of the following transaction will result in no flow of cash?** [1 mark]

(A) Purchase of machinery

(B) Sale of investments

(C) Acquisition of machinery by issue of equity shares

(D) Redemption of debentures

**Correct Answer:** (C) Acquisition of machinery by issue of equity shares

**Solution:**

**Concept:**

- A cash flow requires an inflow or outflow of cash or cash equivalents.

- An asset acquired directly in exchange for shares is a non-cash investing and financing transaction.

**Step 1:** Trace the consideration for the machinery When machinery is acquired by issuing equity shares directly to the vendor, machinery increases and share capital increases. The vendor receives shares, so neither the bank balance nor cash changes as a result of this exchange.

**Step 2:** Compare the other choices Purchase of machinery for cash is an investing outflow; sale of investments brings an investing inflow; redemption of debentures involves a financing outflow. These normal cash transactions differ from the expressly stated share-for-machinery exchange in option (C).

**Step 3:** Conclusion Acquisition of machinery by issue of equity shares results in no flow of cash. Hence, the correct option is (C).

**Quick Tip to Solve:** Look for how the asset is paid for: direct issue of shares means the transaction bypasses cash entirely.

OR

**30(b). Match the transactions given in Column-II with their correct category given in Column-I for the purpose of preparation of 'Cash Flow Statement'.**

| Column-I | Column-II |
|---|---|
| (a) Investing Activity | (i) Interest paid |
| (b) Financing Activity | (ii) Purchase of Goodwill |
| (c) Operating Activity | (iii) Cash receipts from sale of goods |

[1 mark]

(A) (a)-(iii), (b)-(i), (c)-(ii)

(B) (a)-(ii), (b)-(i), (c)-(iii)

(C) (a)-(i), (b)-(iii), (c)-(ii)

(D) (a)-(ii), (b)-(iii), (c)-(i)

**Correct Answer:** (B) (a)-(ii), (b)-(i), (c)-(iii)

**Solution:**

**Concept:**

- Investing activities include acquisition and disposal of long-term assets, including intangible assets such as goodwill.
- For a non-financial enterprise, interest paid is a financing outflow; cash sales receipts are operating inflows.

**Step 1:** Match each category to its transaction Purchase of goodwill, (ii), acquires a long-term intangible asset and belongs to investing activity (a). Interest paid, (i), is the cost of borrowed funds and belongs to financing activity (b). Cash receipts from sale of goods, (iii), arise from the main revenue-producing activity and belong to operating activity (c).

**Step 2:** Test the option combinations Option (A) wrongly assigns sale receipts to investing and goodwill purchase to operating. Option (C) wrongly assigns interest paid to investing and sale receipts

to financing. Option (D) has the goodwill match right but interchanges the financing and operating matches. Only option (B) preserves all three classifications.

**Step 3:** Conclusion Investing matches (ii), financing matches (i), and operating matches (iii). Hence, the correct option is (B).

**Quick Tip to Solve:** Match the obvious sale-of-goods receipt to operating first, then distinguish goodwill acquisition from the cost of borrowing.

**31. Under which heads and sub-heads the following items will appear in the Balance Sheet of Company as per Schedule III, Part-I of the Companies Act, 2013:**

**(a) Loose tools**

**(b) Calls-in-Advance**

**(c) Capital Reserve** [3 marks]

**Solution:**

**Concept:**

- Schedule III classifies balance-sheet items under prescribed major heads and sub-heads according to their nature.
- Inventories form part of current assets, while amounts received before calls become due are liabilities rather than called-up share capital.

**Step 1:** Classify loose tools Loose tools are consumable or small tools held for use in the business and are included in inventories in the prescribed company balance-sheet classification. Their major head is Current Assets and their sub-head is Inventories. They should not be grouped with fixed plant and machinery merely because they are called tools.

**Step 2:** Classify calls-in-advance Calls-in-advance are amounts received from shareholders before the corresponding calls have become due. Until the calls become due, these amounts are an obligation of the company and do not form part of called-up share capital. They appear under Current Liabilities, sub-head Other Current Liabilities.

**Step 3:** Classify capital reserve Capital reserve is a reserve arising from capital profits. It belongs to the owners' funds, rather than an amount payable to outside creditors. Its major head is Shareholders' Funds and its sub-head is Reserves and Surplus. The word capital does not make it part of the Share Capital sub-head.

**Step 4:** Present the required classification

| Item | Major head | Sub-head |
|---|---|---|
| Loose tools | Current Assets | Inventories |
| Calls-in-Advance | Current Liabilities | Other Current Liabilities |
| Capital Reserve | Shareholders' Funds | Reserves and Surplus |

**Step 5:** Conclusion Loose tools are inventories; calls-in-advance are other current liabilities; capital reserve is included in reserves and surplus under shareholders' funds.

**Quick Tip to Solve:** Classify by nature: small tools are stock, advance calls are an obligation, and capital reserve is part of owners' funds.

**32. 'It is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the various items of the balance sheet and the statement of profit and loss'. Identify the process highlighted in the above statement and state its any two objectives.**

[3 marks]

**Solution:**

**Concept:**

- Analysis of financial statements establishes meaningful relationships between figures in the balance sheet and statement of profit and loss.
- Its purpose is to interpret financial performance and financial position so that users can assess strengths, weaknesses and trends.

**Step 1:** Identify the process The process described is Analysis of Financial Statements, also called financial statement analysis. Merely preparing a balance sheet and a statement of profit and loss reports figures; analysing them examines relationships between these figures to determine what they reveal about the firm.

**Step 2:** State the objective of assessing profitability One objective is to assess the earning capacity and profitability of the business. Analysis relates profit to revenue, capital employed or other relevant figures, and may compare results over time. It helps users judge whether the business earns an adequate return and whether profitability is improving or deteriorating.

**Step 3:** State the objective of assessing financial strength A second objective is to assess the financial position and ability to meet obligations. Relationships between current assets and current liabilities help judge short-term liquidity; the relationship between debt, owners' funds and earnings helps assess long-term solvency. This allows users to evaluate whether the firm can meet amounts due to creditors and service its borrowings.

**Step 4:** Conclusion The process is Analysis of Financial Statements. Two objectives are to assess profitability and earning capacity, and to assess financial strength, including liquidity and solvency.

**Quick Tip to Solve:** For two distinct objectives, choose one about performance (profitability) and one about position (ability to meet obligations).

**33(a). From the following information, calculate the value of opening and closing inventory:**

**Inventory Turnover Ratio - 4 times**

**Gross Profit = 20% on Revenue from operations**

**Revenue from operations = Rs. 10,00,000**

**Opening inventory is 25% of the inventory at the end.**

[4 marks]

**Solution:**

**Concept:**

- Gross profit is revenue from operations less cost of revenue from operations (cost of goods sold). A gross profit rate on sales must therefore be applied to revenue, not to cost.
- Inventory turnover ratio equals cost of goods sold divided by average inventory. Average inventory

is half the sum of opening and closing inventory.

- Opening inventory is $25\%$ of closing inventory. Thus, if closing inventory is $C$, opening inventory is $0.25C$; their sum is $1.25C$.

**Step 1:** Calculate gross profit and cost of goods sold Revenue from operations is Rs 10,00,000. The question gives gross profit as $20\%$ of this revenue. Hence,

$$\text{Gross profit} = 10,00,000 \times \frac{20}{100} = \text{Rs } 2,00,000.$$

Deduct gross profit from revenue to obtain the cost that belongs in the numerator of the inventory turnover ratio:

$$\text{Cost of goods sold} = 10,00,000 - 2,00,000 = \text{Rs } 8,00,000.$$

**Step 2:** Determine average inventory The inventory turnover ratio is 4 times. Rearranging its formula gives

$$\text{Average inventory} = \frac{\text{Cost of goods sold}}{4} = \frac{8,00,000}{4} = \text{Rs } 2,00,000.$$

This is the arithmetic mean of the opening and closing inventories, so their combined amount is $2 \times 2,00,000 = \text{Rs } 4,00,000$.

**Step 3:** Apply the relationship between the two inventories Let closing inventory be Rs $C$. Opening inventory is then Rs $0.25C$, as specified in the question. Therefore,

$$\begin{aligned} \frac{0.25C + C}{2} &= 2,00,000, \\ 1.25C &= 4,00,000, \\ C &= \frac{4,00,000}{1.25} = 3,20,000. \end{aligned}$$

The corresponding opening inventory is $0.25 \times 3,20,000 = \text{Rs } 80,000$.

**Step 4:** Verify both conditions The average of Rs 80,000 and Rs 3,20,000 is Rs 2,00,000, giving turnover of $8,00,000/2,00,000 = 4$ times. Also, $80,000/3,20,000 \times 100 = 25\%$, so the stated relationship is satisfied.

**Step 5:** Conclusion Opening inventory is $\boxed{\text{Rs } 80,000}$, and closing inventory is $\boxed{\text{Rs } 3,20,000}$.

**Quick Tip to Solve:** First convert sales into cost of goods sold. Then use opening : closing inventory = 1 : 4 to divide twice the average inventory into five equal parts.

OR

**33(b). Debt-Equity Ratio of Z Ltd. is 2:1. State with reason whether the following transactions will improve, decline or will not change the debt-equity ratio:**

**(i) Conversion of Rs. 3,00,000, 9% debentures into equity shares.**

**(ii) Cash received from debtors Rs. 1,00,000.**

**(iii) Redemption of Rs. 10,00,000, 11% debentures.**

**(iv) Purchase of goods on credit Rs. 4,00,000.** [4 marks]

**Solution:**

**Concept:**

- Debt-equity ratio is $\dfrac{\text{Long-term debt}}{\text{Shareholders' funds}}$. Shareholders' funds include equity share capital and reserves and surplus; trade payables are current liabilities and are excluded from long-term debt.
- Each transaction is considered independently against the original ratio of $2:1$. Let original long-term debt be $D$ and shareholders' funds be $E$, so $D = 2E$.
- Here, an improvement means a decrease in the debt-equity ratio: long-term debt becomes smaller relative to shareholders' funds, improving the protection available to long-term lenders.

**Step 1:** Analyse conversion of debentures into equity shares (i) Conversion of Rs 3,00,000 of 9% debentures reduces long-term debt by Rs 3,00,000 and increases equity share capital, and hence shareholders' funds, by the same amount. The new ratio is

$$\frac{D - 3,00,000}{E + 3,00,000} = \frac{2E - 3,00,000}{E + 3,00,000} < 2.$$

Both changes reduce the ratio, so the debt-equity ratio improves.

**Step 2:** Analyse collection from debtors (ii) Receipt of Rs 1,00,000 from debtors increases cash by Rs 1,00,000 and decreases trade receivables by Rs 1,00,000. It merely changes the composition of current assets. Neither long-term debt nor shareholders' funds changes, so $D/E = 2:1$ remains unchanged.

**Step 3:** Analyse redemption of debentures (iii) Redemption of Rs 10,00,000 of 11% debentures reduces long-term debt by Rs 10,00,000. Payment reduces cash or bank balance, while shareholders' funds remain unchanged. Therefore, the new ratio is

$$\frac{D - 10,00,000}{E} = \frac{2E - 10,00,000}{E} < 2.$$

The debt-equity ratio decreases and improves.

**Step 4:** Analyse purchase of goods on credit (iv) A credit purchase of goods for Rs 4,00,000 increases inventory and trade payables by Rs 4,00,000. Trade payables are current liabilities, not long-term debt. The purchase itself does not change shareholders' funds. Consequently, both components of the debt-equity ratio remain unchanged and the ratio stays at $2:1$.

**Step 5:** Conclusion (i) Improves (ratio decreases); (ii) no change; (iii) improves (ratio decreases); (iv) no change.

**Quick Tip to Solve:** For each transaction, track only long-term debt and shareholders' funds. Changes confined to inventory, debtors, cash and trade payables leave this ratio unchanged.

**34. Read the following hypothetical text and answer the questions given below on the basis of the same:**

**Aditi, initiated her start-up 'Fizz Ltd.' in 2019. 'Fizz Ltd' is an organic juice extracting unit. Its profits are increasing year-after-year because of the increasing awareness towards health.**

**Following information has been extracted from the Balance Sheet of 'Fizz Ltd.' for the year ended 31st March, 2022:**

| Particulars | 31.3.2022 (Rs.) | 31.3.2021 (Rs.) |
|---|---|---|
| Equity Share Capital | 90,00,000 | 60,00,000 |
| 11% Debentures | 30,00,000 | 50,00,000 |
| Machinery (at cost) | 28,00,000 | 20,00,000 |
| Accumulated Depreciation on Machinery | 90,000 | 60,000 |

**Additional Information:**

**(i) During the year, a machine costing Rs. 4,00,000 was sold at a gain of Rs. 30,000.**

**(ii) Depreciation charged on machinery during the year was Rs. 50,000.**

**(iii) Interest paid on 11% debentures amounted to Rs. 5,50,000.**

**(iv) Dividend of Rs. 3,00,000 was paid on equity shares.**

**(v) Debentures were redeemed at a premium of 10% on 31st March, 2022.**

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

**Solution:**

**Concept:**

- For a non-financial enterprise, purchases and sales of fixed assets are investing activities. Share issues, redemption of debentures, interest paid and dividend paid are financing activities.
- Cash received on sale of machinery equals its carrying amount plus the gain on sale. Carrying amount equals original cost less accumulated depreciation relating to the machine sold.
- Accumulated depreciation and machinery-at-cost movements identify depreciation on the disposed asset and the cost of machinery purchased. Depreciation itself is a non-cash expense.

**Step 1:** Calculate depreciation on the machine sold **Working Notes**

The accumulated depreciation balance increases by the year's charge and decreases by depreciation removed on disposal. Thus,

$$\begin{aligned}\text{Depreciation on machine sold} &= 60,000 + 50,000 - 90,000 \\ &= \text{Rs } 20,000.\end{aligned}$$

The charge of Rs 50,000 is not a cash payment. Only Rs 20,000 of accumulated depreciation relates to the disposed machine.

**Step 2:** Calculate sale proceeds and machinery purchased The sold machine's cost is Rs 4,00,000. Deduct its accumulated depreciation before adding the gain:

$$\begin{aligned}\text{Carrying amount sold} &= 4,00,000 - 20,000 = \text{Rs } 3,80,000, \\ \text{Sale proceeds} &= 3,80,000 + 30,000 = \text{Rs } 4,10,000.\end{aligned}$$

Machinery balances are given at cost, so the disposal reduces this account by its original cost, not its sale proceeds. Therefore,

$$\begin{aligned}\text{Purchases} &= \text{Closing cost} - \text{Opening cost} + \text{Cost sold}\\ &= 28,00,000 - 20,00,000 + 4,00,000\\ &= \text{Rs } 12,00,000.\end{aligned}$$

No non-cash acquisition is stated, so these purchases are treated as cash purchases.

**Step 3:** Calculate financing receipts and payments The increase in equity share capital represents cash proceeds from issue of shares:

$$90,00,000 - 60,00,000 = \text{Rs } 30,00,000.$$

The face value of debentures redeemed and premium paid are:

$$\begin{aligned}\text{Face value redeemed} &= 50,00,000 - 30,00,000 = \text{Rs } 20,00,000,\\ \text{Premium} &= 20,00,000 \times 10\% = \text{Rs } 2,00,000,\\ \text{Redemption payment} &= 20,00,000 + 2,00,000 = \text{Rs } 22,00,000.\end{aligned}$$

Use the expressly stated interest payment of Rs 5,50,000. Redemption occurred at the year end, so applying 11% to the closing debenture balance would understate the payment. Dividend paid of Rs 3,00,000 is also a financing outflow.

**Step 4:** Prepare the cash flow statement extracts **Fizz Ltd.**
**Cash Flow Statement (Extract)**
**For the year ended 31st March, 2022**

| **Particulars** | **Amount (Rs)** |
|---|---|
| **A. Cash flows from Investing Activities** | |
| Proceeds from sale of machinery | 4,10,000 |
| Purchase of machinery | (12,00,000) |
| **Net cash used in Investing Activities** | **(7,90,000)** |
| **B. Cash flows from Financing Activities** | |
| Proceeds from issue of equity shares | 30,00,000 |
| Redemption of debentures (including premium) | (22,00,000) |
| Interest paid on debentures | (5,50,000) |
| Dividend paid on equity shares | (3,00,000) |
| **Net cash used in Financing Activities** | **(50,000)** |

Parentheses denote cash outflows. The gain on sale is included in sale proceeds; it must not be added a second time in investing activities.

**Step 5:** Conclusion Net cash flow from Investing Activities is $\boxed{-\text{Rs } 7,90,000}$, and net cash flow from Financing Activities is $\boxed{-\text{Rs } 50,000}$. Both activities show net cash used.

**Quick Tip to Solve:** First recover depreciation on the machine sold from the accumulated depreciation balances. Then add the gain to its carrying amount, and include the redemption premium in financing cash paid.

*OPTION - II (Computerised Accounting)*

**27(a). Which of these is not a argument of the IF function?** [1 mark]

(A) Value-if-true

(B) Value-when-false

(C) Value-if-false

(D) Logical test

**Correct Answer:** (B) Value-when-false

**Solution:**

**Concept:**

- The IF function tests a condition and returns one of two possible results according to whether the condition is true or false.
- Its three argument names are logical_test, value_if_true and value_if_false.

**Step 1:** Identify the valid arguments Logical test is the condition to be evaluated, Value-if-true gives the result when that condition is satisfied, and Value-if-false gives the result when it is not satisfied. Thus options (D), (A) and (C), respectively, identify actual arguments.

**Step 2:** Compare the remaining name The function uses the argument name Value-if-false, not Value-when-false. Although the latter sounds like a description of the same purpose, it is not the prescribed argument name. The question asks which name is not an argument, so the wording of the name is decisive.

**Step 3:** Conclusion Value-when-false is not an argument name of the IF function. Hence, the correct option is (B).

**Quick Tip to Solve:** Recall IF as condition, result if true, result if false; both result arguments use the word "if".

OR

**27(b). How many blank worksheets are shown when a new workbook is created?** [1 mark]

(A) Three

(B) Four

(C) One

(D) Two

**Correct Answer:** (A) Three

**Solution:**

**Concept:**

- A workbook is the spreadsheet file; its worksheets are the separate tabbed sheets within that file.
- In the Excel setup used in the prescribed computerised accounting course, a newly created workbook contains three blank worksheets by default.

**Step 1:** Recall the default workbook contents On creating a new workbook in the course's standard

Excel setup, the blank sheets are initially named Sheet1, Sheet2 and Sheet3. These are three worksheets inside one workbook, rather than three separate workbook files.

**Step 2:** Distinguish the alternatives Four and two are not the initial worksheet count in this setup. One may be the default in newer versions of Excel, but the curriculum convention tested by this question is the three-sheet workbook. The number can also be changed in settings or by adding and deleting sheets; that does not change the default asked here.

**Step 3:** Conclusion The new workbook shows three blank worksheets. Hence, the correct option is (A).

**Quick Tip to Solve:** For this course's default workbook, remember the three starting tabs: Sheet1, Sheet2 and Sheet3.

**28(a). Maximum number of characters that can be used to write a field name in MS Access is:** [1 mark]

(A) 28

(B) 32

(C) 64

(D) 104

**Correct Answer:** (C) 64

**Solution:**

**Concept:**

- A field name identifies a column in an MS Access table, such as AccountName or InvoiceDate.
- MS Access permits a field name to contain a maximum of 64 characters. This limit concerns the name, not the size of the data stored in the field.

**Step 1:** Identify what is being limited The question asks about characters used to write the field name. It does not ask about the field size of a text field, the number of records in a table, or the length of an individual stored value. These are separate database properties.

**Step 2:** Compare the options with the naming limit The naming limit is 64 characters. Names of 28 or 32 characters can fit within that limit, but neither is the maximum allowed. A name of 104 characters exceeds the permitted maximum and therefore cannot establish the limit.

**Step 3:** Conclusion The maximum field-name length is 64 characters. Hence, the correct option is (C).

**Quick Tip to Solve:** Separate a field's name from its contents: the Access field-name limit is 64 characters.

OR

**28(b). Which of the following command reverses the last action performed in the worksheet?** [1 mark]

(A) Undo

(B) Cut

(C) Paste

(D) Redo

**Correct Answer:** (A) Undo

**Solution:**

**Concept:**

- Undo reverses the most recent action that can be undone in a worksheet.
- Redo restores an action that was previously undone; it therefore has the opposite role to Undo.

**Step 1:** Match the command to the required action The requirement is to reverse the last action already performed. For example, if an accidental entry has just replaced a cell value, Undo restores the preceding state for that action. Its usual keyboard shortcut is Ctrl+Z.

**Step 2:** Eliminate the other commands Cut places selected content on the clipboard for moving it, and Paste inserts clipboard content at the destination. Neither is the general command for reversing the previous action. Redo reapplies an action after Undo, so choosing it confuses the two opposite operations.

**Step 3:** Conclusion Undo reverses the last action performed in the worksheet. Hence, the correct option is (A).

**Quick Tip to Solve:** Use Ctrl+Z to undo a recent mistake; Redo is for restoring something you have just undone.

**29. Codes comprising of alphabets or abbreviation are known as _____.** [1 mark]

(A) Sequential codes

(B) Block codes

(C) Number codes

(D) Mnemonic codes

**Correct Answer:** (D) Mnemonic codes

**Solution:**

**Concept:**

- A mnemonic code uses meaningful letters or abbreviations to help a user remember and identify an account or item.
- Sequential codes assign successive identifiers, while block codes reserve groups or ranges of identifiers for categories.

**Step 1:** Identify the defining feature The words "alphabets or abbreviation" point to a code with a

memory aid built into its letters. For example, a meaningful abbreviation can indicate the account it represents, making the code easier to recall than an unrelated number.

**Step 2:** Check the remaining options Sequential codes are identified by their serial order, not by meaningful abbreviations. Block codes are identified by reserved ranges or groups. Number codes use numerical identifiers. None of these descriptions specifically identifies the letter-based memory aid asked for in the question.

**Step 3:** Conclusion Codes comprising alphabets or abbreviations are mnemonic codes. Hence, the correct option is (D).

**Quick Tip to Solve:** Link "mnemonic" with memory: a meaningful alphabetic abbreviation helps you remember the account.

**30. Which of the following is not the advantage of Pivot table?** [1 mark]

(A) Filtering of data

(B) User-friendly

(C) Moving rows to columns and columns to rows

(D) Cannot summarise large amount of data

**Correct Answer:** (D) Cannot summarise large amount of data

**Solution:**

**Concept:**

- A Pivot table summarises and analyses a large data set by grouping its records and calculating totals, counts or averages.
- Pivoting rearranges the fields between rows and columns without changing the underlying source data.

**Step 1:** Check the stated advantages Filtering lets the user display selected records, so (A) is an advantage. The interactive arrangement of fields makes a Pivot table user-friendly, so (B) is also an advantage. Moving rows to columns and columns to rows is its pivoting facility, so (C) is an advantage as well.

**Step 2:** Identify the statement that contradicts its purpose A Pivot table can summarise large amounts of data into a compact report. Therefore, the claim in (D), that it cannot do so, does not describe an advantage. It contradicts one of the principal uses of a Pivot table.

**Step 3:** Conclusion "Cannot summarise large amount of data" is not an advantage of a Pivot table. Hence, the correct option is (D).

**Quick Tip to Solve:** For a negative Pivot-table question, remember its core functions: filter, rearrange and summarise data.

**31. Explain the following sub-systems of Accounting Information System:**

**(a) Purchase and Accounts payable sub-system**

**(b) Costing sub-system.** [3 marks]

**Solution:**

**Concept:**

- An Accounting Information System collects, processes and reports financial information through related sub-systems.
- Each sub-system deals with a particular activity and supplies relevant accounting information for recording, control and decision-making.

**Step 1:** Explain the purchase and accounts payable sub-system This sub-system records purchases of goods and services and the amounts payable to suppliers. It processes purchase orders, records goods received and supplier invoices, and maintains each supplier's account. It also records purchase returns, allowances and payments so that the balance owed to each supplier can be determined. Information about outstanding invoices and their due dates helps the enterprise schedule payments, take available cash discounts and avoid overdue balances. Purchase data also supplies the relevant inventory and general-ledger records.

**Step 2:** Explain the costing sub-system This sub-system collects and classifies cost information relating to materials, labour and overheads. It assigns costs to products, jobs, processes or services, as appropriate, and determines their total and per-unit costs. Its reports assist management in pricing, valuing work-in-progress and finished goods, and assessing profitability. Comparison of actual costs with budgets or standards helps identify deviations and control unnecessary expenditure. Thus, it converts detailed cost records into information useful for planning and cost control.

**Step 3:** Conclusion The purchase and accounts payable sub-system manages purchase records and supplier liabilities; the costing sub-system determines and analyses costs for planning, pricing and control.

**Quick Tip to Solve:** Link purchase and accounts payable to "suppliers and dues", and costing to "materials, labour, overheads and unit cost".

**32. Give the meaning of 'Cell reference'. Differentiate between 'Relative Cell reference' and 'Absolute cell reference.'** [3 marks]

**Solution:**

**Concept:**

- A cell reference identifies the location of a cell in a worksheet by its column letter and row number; for example, B4 identifies column B, row 4.
- References let formulas use the values stored in cells. Relative references adjust when a formula is copied, whereas absolute references remain fixed.

**Step 1:** State the meaning of cell reference A cell reference is the address used to identify a cell and refer to its contents in a spreadsheet formula. For example, the formula `=B4*C4` multiplies the values

in cells B4 and C4. If either value changes, the spreadsheet recalculates the formula using the current cell contents.

**Step 2:** Distinguish relative and absolute references **Relative cell reference:** The reference changes according to the displacement of a copied formula. It has no dollar signs, for example `B4`. Copying `=B4*C4` from D4 to D5 changes it to `=B5*C5`. Both row numbers increase by one because the formula moves down one row. Such references are useful for repeating the same calculation for successive records.

**Absolute cell reference:** Both the column and row are fixed by placing a dollar sign before each, for example `$B$4`. Copying a formula to another location does not change this reference. If F1 contains a common rate, copying `=B4*$F$1` down one row gives `=B5*$F$1`. The amount reference changes but the rate remains linked to F1. Absolute references are useful when all calculations must use one fixed input.

**Step 3:** Conclusion A cell reference is a cell's address. A relative reference changes on copying a formula, while an absolute reference, such as `$B$4`, keeps both its row and column fixed.

**Quick Tip to Solve:** To lock a complete cell address when copying a formula, place a dollar sign before both the column and row: `$B$4`.

**33(a). Define Accounting cycle and state the phases involved in an Accounting cycle.** [4 marks]

**Solution:**

**Concept:**

- The accounting cycle is the recurring sequence of accounting procedures through which an entity records transactions and prepares financial statements for an accounting period.
- Its phases progress from identifying transactions to recording, classifying, summarising and reporting them; closing prepares the records for the next period.

**Step 1:** Define the accounting cycle The accounting cycle is the complete, systematic process of identifying and recording the financial transactions of a business, processing them into accounts, and preparing its financial statements. It is called a cycle because the same sequence is repeated for each accounting period. Source documents provide the evidence on which the process begins.

**Step 2:** State the identification, recording and classification phases **1. Identify and analyse transactions:** Examine invoices, receipts and other source documents to recognise transactions measurable in money and determine the accounts affected.

**2. Record transactions:** Enter transactions chronologically in the journal or appropriate subsidiary books, applying the rules of debit and credit.

**3. Post to the ledger:** Transfer entries to their respective ledger accounts and balance those accounts. This classifies transactions account-wise.

**Step 3:** State the summarising, adjustment and reporting phases **4. Prepare a trial balance:** List ledger balances and compare total debit and credit balances to check arithmetical agreement.

**5. Make period-end adjustments:** Record items such as accrued expenses, prepaid expenses and depreciation, and obtain adjusted account balances.

**6. Prepare financial statements:** Use the adjusted balances to prepare the Trading and Profit and Loss Account and Balance Sheet, as applicable, showing the period's performance and financial position.

**7. Close the books:** Close nominal accounts, transfer profit or loss to the appropriate capital account, and carry forward permanent account balances for the next period. A post-closing trial balance may be prepared to check those balances.

**Step 4:** Conclusion The accounting cycle converts supported transactions into financial statements through identification, recording, ledger posting, trial balance, adjustments, statement preparation and closing, and then repeats for the next accounting period.

**Quick Tip to Solve:** Recall the sequence as documents, journal, ledger, trial balance, adjustments, financial statements and closing.

OR

**33(b). Explain the meaning of 'Password Security' and 'Data Audit' as security features of Computerised Accounting System.**

[4 marks]

**Solution:**

**Concept:**

- Security in a Computerised Accounting System (CAS) protects accounting records against unauthorised access, alteration and misuse.
- Password security controls access to the system, whereas data audit provides a record through which changes to accounting data can be examined.

**Step 1:** Explain password security Password security means allowing access to the accounting system or its data only after the user supplies the correct confidential password. A password is a secret sequence of characters associated with an authorised user or with protected data. The system checks the password before allowing access; an incorrect password prevents entry.

User-based password protection also allows users to be given access according to their assigned authority. For example, a person authorised to enter vouchers need not be permitted to alter system settings or access confidential reports. Passwords should be kept confidential and changed when necessary so that another person cannot use an authorised user's identity. Thus password security helps prevent unauthorised viewing and alteration of accounting information.

**Step 2:** Explain data audit Data audit is a security feature that maintains an audit trail of transactions and changes made to the accounting data. The record enables an auditor or authorised person to trace entries and subsequent modifications, including who made a change and when it was made.

For example, if the amount of a previously entered voucher is altered, the audit trail helps identify the alteration and the user responsible. The change can then be checked against the supporting document and the user's authority. This helps detect unauthorised changes or errors, fixes responsibility and supports the reliability of accounting records. Data audit therefore provides traceability and accountability; it does not itself guarantee that every entry is correct.

**Step 3:** Conclusion Password security restricts access to authorised users, while data audit records and helps examine changes to accounting data. Together they protect confidentiality and support the integrity and accountability of a CAS.

**Quick Tip to Solve:** Remember the distinction: password security checks who may enter; data audit helps trace who changed the data and when.

**34. Name the error which appears when the cell reference is not valid. State how this error can be corrected.** [6 marks]

**Solution:**

**Concept:**

- A cell reference identifies the cell or range whose value a spreadsheet formula uses, such as `A1` or `B2:B5`.
- The error `#REF!` means that a formula contains an invalid cell reference. Restoring or replacing the invalid reference allows the formula to calculate again.

**Step 1:** Identify the error and its cause The error is `#REF!`, called the reference error. It appears when a formula refers to a cell or range that is no longer valid. For example, deleting a row or column containing a cell referred to by a formula can destroy that reference. A broken reference to a deleted worksheet can also cause the error.

Deleting a referenced cell or its row or column is different from merely clearing the value in an existing cell. An empty but existing cell still has a valid address. The error therefore concerns the reference itself, rather than simply the absence of a number in the cell.

**Step 2:** Restore an accidentally deleted reference If the error has just appeared after deleting cells, a row or a column, use **Undo** to reverse the deletion. Restoring the original cells restores the references used by the formula. Check that the restored data are the intended source values and that the formula calculates correctly.

For example, suppose a formula `=A1+B1` needs the values in those two cells. If deletion of a referenced column causes part of the formula to be replaced by `#REF!`, undoing that deletion restores the original relationship between the formula and its source cells.

**Step 3:** Correct the formula when restoration is unsuitable Select the cell displaying the error and examine its formula in the formula bar. Find the invalid reference, often shown as `#REF!` within the formula. Determine which existing cell or range now holds the data that the calculation should use, and replace the invalid part with that correct reference. If the required data were deleted permanently, restore those data in an appropriate location and then refer to that location.

For instance, if an erroneous formula is `=A1+#REF!` and the intended second value is now in `C1`, edit the formula to `=A1+C1`. The choice of `C1` must follow the intended calculation; an arbitrary cell address is not a correction merely because it removes the displayed error.

**Step 4:** Recalculate and verify the correction Press Enter after editing the formula, and check the result against the intended source cells. Inspect any linked formulas that had also displayed the reference error. Restoring the correct reference should remove the error and produce the intended

calculation. Replacing the error with zero or hiding it does not repair the broken reference.

**Step 5:** Conclusion An invalid cell reference produces the `#REF!` **error**. Correct it by undoing the deletion that broke the reference or by editing the formula to use the correct valid cell or range, then verify the calculated result.

**Quick Tip to Solve:** For `#REF!`, inspect the formula's cell addresses first. Undo a recent deletion or replace the broken reference with the actual intended source cell.