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

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

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

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

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

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

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

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

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1(a). In a partnership firm, which of the following statements is true in respect of liability of a partner ? [1 mark]

(A) It is limited to the extent of his capital contribution.

(B) It is limited to the extent of debit balance in his capital account, if any.

(C) It is unlimited only for the acts done by her/him as a partner.

(D) It is unlimited jointly and severally for all the acts of the firm done while he is a partner.

Correct Answer: (D) It is unlimited jointly and severally for all the acts of the firm done while he is a partner.

Solution:

Concept:

- In an ordinary partnership, the liability of every partner for the debts and obligations of the firm is unlimited.
- Partners are jointly and severally liable for acts of the firm done while they are partners. Joint liability is collective; several liability permits recovery from an individual partner.

Step 1: Apply unlimited liability A partner's liability is not restricted to the amount invested as capital. If the assets of the firm are insufficient to settle its debts, personal assets of partners may also be used. Therefore, neither the capital contribution in option (A) nor a debit capital balance in option (B) fixes the limit of liability.

Step 2: Distinguish personal acts from acts of the firm Mutual agency makes a partner answerable for the firm's obligations, including authorised acts of other partners on behalf of the firm. Option (C) incorrectly confines liability to acts personally performed by that partner. Option (D) correctly includes all acts of the firm during the period of partnership.

Step 3: Conclusion A partner has unlimited liability, jointly and severally, for all acts of the firm done while he is a partner. Hence, the correct option is (D).

Quick Tip to Solve: Reject any option that limits ordinary partnership liability to capital or to only the partner's own acts.

OR

1(b). 'The business of a partnership concern may be carried on by all the partners, or any of them acting for all.' The above statement highlights which of the following features of partnership ?

[1 mark]

(A) Mutual Agency

(B) Agreement

(C) Sharing of profit

(D) Business

Correct Answer: (A) Mutual Agency

Solution:

Concept:

- Mutual agency means that each partner is both an agent of the firm and a principal in relation to the other partners.
- Business may be conducted by all partners together or by one or more partners acting on behalf of all; their authorised business acts bind the firm.

Step 1: Identify the decisive words The expression "any of them acting for all" describes the representative capacity of a partner. Every partner need not personally manage the business, because a partner carrying on its business acts as an agent for the others.

Step 2: Compare the other features An agreement creates the partnership and sharing of profit describes how its earnings are distributed. The existence of a business is another essential feature, but none of these by itself explains why one partner may act for all. Therefore options (B), (C) and (D) do not identify the specific feature highlighted here.

Step 3: Conclusion The statement highlights mutual agency. Hence, the correct option is (A).

Quick Tip to Solve: Underline "acting for all": this phrase identifies mutual agency even when only one partner conducts the business.

2. After doing the adjustments regarding drawings Rs. 40,000, share of profit Rs. 24,000 and the additional capital introduced Rs. 32,000, the capital of Ashok, a partner, as on 31.03.2022 was Rs. 5,00,000. His capital as on 01.04.2021 was : [1 mark]

(A) Rs. 4,84,000

(B) Rs. 5,16,000

(C) Rs. 4,46,000

(D) Rs. 5,96,000

Correct Answer: (A) Rs. 4,84,000

Solution:

Concept:

- Under the fluctuating capital method, profit and additional capital increase capital, while drawings reduce it.
- Opening capital is found by reversing the changes already included in closing capital: add back drawings and deduct profit and fresh capital.

Step 1: Reverse the capital adjustments Let opening capital be C. The closing capital includes all three stated adjustments, so

$$C + 24,000 + 32,000 - 40,000 = 5,00,000.$$

Moving the adjustments to the other side gives

$$C = 5,00,000 + 40,000 - 24,000 - 32,000.$$

Step 2: Check the opening balance The net increase during the year is $24,000 + 32,000 - 40,000 = 16,000$. Therefore the opening balance must be Rs 16,000 below the closing balance. Rs 4,84,000 plus this increase gives exactly Rs 5,00,000. Options (B), (C) and (D) do not satisfy this reconciliation; option (B) incorrectly adds the net increase when working backwards.

Step 3: Conclusion Ashok's opening capital on 01.04.2021 was Rs 4,84,000. Hence, the correct option is (A).

Quick Tip to Solve: When closing capital is given, reverse each adjustment: add drawings, subtract profits and additional capital.

3. Josh and Jeevan were partners in a firm. During the year ended 31.03.2022 Jeevan withdrew Rs. 5,000 per month starting from 30.06.2021. The partnership deed provided that interest on drawings will be charged @ 12% per annum. The average number of months for which interest on Jeevan's total drawings will be charged is : [1 mark]

(A) 6 months

(B) 6 1/2 months

(C) 4 1/2 months

(D) 5 months

Correct Answer: (C) 4 1/2 months

Solution:

Concept:

- For equal monthly drawings made at regular intervals, the average period is the arithmetic mean of the periods of the first and last drawings.
- Interest on drawings is charged for the time from each withdrawal to the accounting year end. The interest rate does not change the average period.

Step 1: Identify the first and last periods The first withdrawal is at the end of June 2021, so it remains outstanding for nine months up to 31 March 2022. The last withdrawal is at the end of March 2022 and carries zero months of interest in this year. There are ten equal withdrawals, with periods of $9, 8, 7, 6, 5, 4, 3, 2, 1, 0$ months.

Step 2: Calculate the average period For these equally spaced periods,

$$\text{Average period} = \frac{9+0}{2} = 4.5 \text{ months.}$$

Equivalently, their total of 45 months divided by ten withdrawals gives 4.5 months. Six or six-and-a-half months would apply to different full-year drawing schedules. Five months does not match this end-of-month schedule beginning in June.

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

Quick Tip to Solve: Count interest from the first actual withdrawal to year end; do not use a full-year monthly-drawings shortcut for a part-year schedule.

4. X and Z were partners in a firm with capitals of Rs. 45,000 each. They admitted Y as a new partner for 1/3rd share in the profits of the firm. Y brought Rs. 60,000 as his capital. Based on Y's share in the profits of the firm and his capital contribution, the goodwill of the firm will be : [1 mark]

(A) Rs. 1,80,000

(B) Rs. 1,50,000

(C) Rs. 30,000

(D) Rs. 90,000

Correct Answer: (C) Rs. 30,000

Solution:

Concept:

- When a new partner brings capital for a stated share, the implied capitalised value of the firm equals that contribution divided by the share.
- Hidden goodwill equals the implied value of the firm less the combined actual capitals of all partners after the admission.

Step 1: Infer the value of the whole firm Y contributes Rs 60,000 for a one-third share. Thus the capitalised value represented by all the shares is

$$\text{Implied total value} = 60,000 \div \frac{1}{3} = \text{Rs } 1,80,000.$$

This is the value of the entire firm, not goodwill alone, so option (A) cannot be taken directly.

Step 2: Deduct the actual combined capital The actual capitals after admission include those of X, Z and Y:

$$45,000 + 45,000 + 60,000 = \text{Rs } 1,50,000.$$

The excess implied value is therefore

$$1,80,000 - 1,50,000 = \text{Rs } 30,000.$$

Option (B) is merely total actual capital, while Rs 90,000 in option (D) is the combined capital of the old partners. Neither is the excess value identified as goodwill.

Step 3: Conclusion The goodwill of the firm is Rs 30,000. Hence, the correct option is (C).

Quick Tip to Solve: After dividing the incoming capital by the new share, subtract every partner's actual capital, including the incoming partner's contribution.

5. C, D and E were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. They admitted F as a new partner for 1/4 share in the profits which was sacrificed by C, D and E in the ratio of 2 : 1 : 2. C's new share in the profits will be : [1 mark]

(A) 2/5

(B) 3/5

(C) 3/10

(D) 4/20

Correct Answer: (A) 2/5

Solution:

Concept:

- An old partner's new share equals the old share minus the share sacrificed in favour of the incoming partner.
- The incoming partner's share is divided among the old partners in the stated sacrificing ratio, which may differ from the old profit-sharing ratio.

Step 1: Find the share sacrificed by C C has an old share of $5/(5+3+2) = 1/2$. F receives $1/4$, and C supplies two out of the five parts in the sacrificing ratio $2 : 1 : 2$. Thus

$$\text{C's sacrifice} = \frac{1}{4} \times \frac{2}{5} = \frac{1}{10}.$$

Step 2: Subtract the sacrifice from the old share The remaining share of C is obtained by subtraction:

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

Option (B) would add the sacrifice instead. The fractions $3/10$ and $4/20 = 1/5$ in options (C) and (D) do not result from subtracting the required $1/10$ from C's original $1/2$. The old profit ratio must not replace the expressly stated sacrificing ratio.

Step 3: Conclusion C's new share is $2/5$. Hence, the correct option is (A).

Quick Tip to Solve: First multiply F's share by C's fraction of the sacrificing ratio, then deduct that sacrifice from C's old share.

6(i). K.C. Ltd. took over office furniture of Rs. 90,000, office equipment of Rs. 1,80,000 from J.C. Ltd. and its liabilities of Rs. 20,000 for a purchase consideration of Rs. 3,60,000. The payment to J.C. Ltd. was made by issue of 9% debentures of Rs. 50 each at a discount of 10%. The amount to be debited to 'Discount on Issue of Debentures Account' will be : [1 mark]

(A) Rs. 36,000

(B) Rs. 40,000

(C) Rs. 27,000

(D) Rs. 90,000

Correct Answer: (B) Rs. 40,000

Solution:

Concept:

- A debenture issued at a discount settles the purchase consideration at its issue price, which is face value minus discount.
- The total discount on issue is the number of debentures issued multiplied by the discount per debenture. The coupon rate determines interest, not the issue price.

Step 1: Determine the issue price and number The face value of each debenture is Rs 50, and its discount is $50 \times 10\% = \text{Rs } 5$. Hence each debenture settles Rs 45 of the agreed purchase consideration.

$$\text{Number issued} = \frac{3,60,000}{45} = 8,000.$$

The net value of the assets taken over does not replace the expressly stated purchase consideration.

Step 2: Calculate the total discount The discount attached to these 8,000 debentures is

$$8,000 \times 5 = \text{Rs } 40,000.$$

As a check, their total face value is Rs 4,00,000, exceeding the Rs 3,60,000 consideration by Rs 40,000. Rs 36,000 incorrectly takes 10% of the issue proceeds instead of face value. Rs 27,000 uses the assets as a base, and Rs 90,000 is the furniture amount; neither measures the issue discount.

Step 3: Conclusion Discount on Issue of Debentures Account is debited with Rs 40,000. Hence, the correct option is (B).

Quick Tip to Solve: At a 10% discount, the consideration is 90% of face value: multiply it by $10/90$ to find the discount directly.

OR

6(ii). Raja Ltd. purchased machinery for Rs. 25,00,000 from Sharma Ltd. The payment to Sharma Ltd. was made by issue of equity shares of Rs. 10 each at a premium of 25%. The amount to be credited to the 'Securities Premium Reserve Account' on issue of equity shares will be : [1 mark]

(A) Rs. 25,000

(B) Rs. 50,000

(C) Rs. 62,500

(D) Rs. 5,00,000

Correct Answer: (D) Rs. 5,00,000

Solution:

Concept:

- A share issued at a premium has an issue price equal to face value plus premium. The premium percentage is applied to face value.
- Securities Premium Reserve is credited with the number of shares issued multiplied by the premium per share; share capital receives only the face value.

Step 1: Find the issue price per share For a face value of Rs 10, the premium per share is

$$10 \times \frac{25}{100} = \text{Rs } 2.50.$$

Therefore the issue price is Rs 12.50. Since the shares settle machinery costing Rs 25,00,000, the number of shares is

$$\frac{25,00,000}{12.50} = 2,00,000.$$

Step 2: Separate the capital and premium components The premium reserve receives

$$2,00,000 \times 2.50 = \text{Rs } 5,00,000.$$

The face value credited as share capital is Rs 20,00,000; together the two credits settle Rs 25,00,000. Options (A), (B) and (C) are too small to represent Rs 2.50 premium on each of 2,00,000 shares. Applying 25% directly to the purchase price also uses the wrong base, because that price already includes the premium.

Step 3: Conclusion Securities Premium Reserve Account is credited with Rs 5,00,000. Hence, the correct option is (D).

Quick Tip to Solve: For a 25% premium on face value, premium is $25/125$, or one-fifth, of the total issue consideration.

7. ***Assertion (A) :*** **Interest on bearer debentures is paid to a person who produces the interest coupon attached to such debentures.**

Reason (R) : **Bearer debentures are debentures which can be transferred by way of delivery and the company does not keep any record of the debenture holders.**

Select the correct answer from the following : [1 mark]

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

(B) Both Assertion (A) and Reason (R) are correct, but Reason (R) is **not** the correct explanation of Assertion (A).

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

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

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

Solution:

Concept:

- Bearer debentures are transferable by mere delivery. The company does not maintain a register identifying their holders.
- Interest coupons attached to bearer debentures establish the right to receive the corresponding interest payment when presented.

Step 1: Evaluate the assertion Assertion (A) is correct. Interest on a bearer debenture is paid to the person presenting the appropriate interest coupon attached to it. The holder proves entitlement through presentation of the coupon, rather than through an entry in a register of named holders.

Step 2: Evaluate the reason Reason (R) is also correct. Bearer debentures pass from one holder to another by delivery, and the company does not keep a record of those holders. This distinguishes bearer debentures from registered debentures.

Step 3: Check the explanatory connection Because the company has no holder register from which to identify the recipient of interest, it relies on presentation of the coupon. Thus the reason explains the payment method stated in the assertion. Options (A) and (D) wrongly treat at least one true statement as false; option (B) overlooks this explanatory link.

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

Quick Tip to Solve: For bearer debentures, connect "no holder register" with "pay the coupon presenter" to test the explanation, after checking both statements.

8. On the dissolution of a partnership firm there existed a balance of Rs. 45,000 in Sundry Debtors Account and a balance of Rs. 8,000 in Provision for Bad Debts Account in the books of the firm. The amount by which 'Realisation Account' will be debited for closing Sundry Debtors Account will be : [1 mark]

(A) Rs. 45,000

(B) Rs. 37,000

(C) Rs. 8,000

(D) Rs. 53,000

Correct Answer: (A) Rs. 45,000

Solution:

Concept:

- On dissolution, the debit balance of an asset is transferred to Realisation Account at its gross book value.
- A provision against that asset is a separate credit balance; it is transferred separately to the credit of Realisation Account.

Step 1: Identify the balance being closed The question asks for the debit to Realisation Account made specifically to close Sundry Debtors Account. The debtors ledger has a debit balance of Rs 45,000, so the transfer of this asset uses that entire balance.

Step 2: Distinguish gross transfer from net effect The separate provision of Rs 8,000 produces a credit to Realisation Account. Thus the net effect of both transfers is Rs $45,000 - 8,000 = 37,000$, but that is not the debit for closing debtors. Rs 8,000 represents only the provision, while Rs 53,000 incorrectly adds the provision to the asset.

Step 3: Conclusion Realisation Account is debited by $\boxed{\text{Rs } 45,000}$. Hence, the correct option is (A).

Quick Tip to Solve: For the transfer of an asset on dissolution, use its gross ledger balance; transfer its provision separately.

9. S and T were partners in a firm sharing profits and losses in the ratio of 3 : 2. They admitted U as a new partner in the firm. On U's admission there existed a provision for bad and doubtful debts of Rs. 7,000. It was decided to write off Rs. 3,000 as bad debts. The remaining debtors were considered as good. The amount to be debited/credited to Revaluation Account on account of the above treatment will be : [1 mark]

(A) Debit Rs. 3,000

(B) Credit Rs. 4,000

(C) Debit Rs. 7,000

(D) Debit Rs. 4,000

Correct Answer: (B) Credit Rs. 4,000

Solution:

Concept:

- An existing provision for doubtful debts absorbs the bad debts written off against it.
- When the remaining debtors are all good, no closing provision is required; the unused provision becomes a revaluation gain.

Step 1: Use the provision for the bad debts The provision already available is Rs 7,000. Writing off bad debts of Rs 3,000 uses part of this provision, leaving Rs $7,000 - 3,000 = 4,000$. The write-off does not create a further loss beyond the existing provision.

Step 2: Release the unused balance No provision is needed for the remaining debtors because they are considered good. The unused Rs 4,000 is therefore credited to Revaluation Account. A debit of Rs 3,000 ignores the available provision; debits of Rs 7,000 or Rs 4,000 wrongly treat a release of provision as a loss. The old profit-sharing ratio is relevant to distributing the revaluation result, not to measuring this credit.

Step 3: Conclusion Revaluation Account is credited by $\boxed{\text{Rs } 4,000}$. Hence, the correct option is (B).

Quick Tip to Solve: Use the existing provision first, then compare the unused balance with the provision still required.

10(i). **C and D were partners in a firm. E was admitted as a new partner for 1/6 share. E acquired 1/3rd of his share from C and the remaining from D.**

The sacrificing ratio of C and D was : [1 mark]

(A) 1 : 2

(B) 1 : 1

(C) 16 : 9

(D) 2 : 1

Correct Answer: (A) 1 : 2

Solution:

Concept:

- Sacrifice is the fraction of the total firm profit given up by an old partner to the incoming partner.
- The sacrificing ratio compares the shares given up by the old partners, in their stated order.

Step 1: Calculate each sacrifice E receives $1/6$ of the firm's profits. C gives one-third of E's share, so C's sacrifice is $\frac{1}{3} \times \frac{1}{6} = \frac{1}{18}$. D gives the remaining two-thirds, so D's sacrifice is $\frac{2}{3} \times \frac{1}{6} = \frac{1}{9}$.

Step 2: Compare the sacrifices The required ratio is C : D, namely $\frac{1}{18} : \frac{1}{9} = 1 : 2$. Equal sacrifice would require both to give half of E's share, which is not stated. The ratio $2 : 1$ reverses C and D, and $16 : 9$ does not represent the given fractions. The sacrifices also add to $1/18 + 2/18 = 1/6$, matching E's entire share.

Step 3: Conclusion The sacrificing ratio is $\boxed{1 : 2}$. Hence, the correct option is (A).

Quick Tip to Solve: Compare one-third with the remaining two-thirds directly; the common factor of E's total share cancels.

OR

10(ii). **A, B and C were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. With effect from 01.04.2023, they agreed to share profits and losses equally. Due to change in the profit sharing ratio, B's gain or sacrifice will be :** [1 mark]

(A) Gain 1/30

(B) Sacrifice 1/30

(C) Gain 5/30

(D) Sacrifice 4/30

Correct Answer: (A) Gain 1/30

Solution:

Concept:

- A partner gains when the new share exceeds the old share: gain equals new share minus old share.
- For three partners sharing equally, each new share is one-third of the total profit.

Step 1: Identify B's two shares The old ratio is $5 : 3 : 2$, whose total is 10. B's old share is therefore

$3/10$. Under the new equal-sharing agreement, B's share becomes $1/3$.

Step 2: Calculate and interpret the difference B's change in share is

$$\frac{1}{3} - \frac{3}{10} = \frac{10-9}{30} = \frac{1}{30}.$$

The difference is positive, so B gains. A sacrifice of $1/30$ has the wrong direction. A gain of $5/30$ and a sacrifice of $4/30$ both fail the calculation using B's own old and new shares.

Step 3: Conclusion B gains $\boxed{\frac{1}{30}}$. Hence, the correct option is (A).

Quick Tip to Solve: Write new share minus old share for B alone; a positive result means gain and a negative result means sacrifice.

11(i). A and B were partners in a firm. They admitted C as a new partner for 1/3rd share in the profits of the firm which he acquired from A. A's new share in the profit will be : [1 mark]

(A) 1/2

(B) 1/4

(C) 1/3

(D) 1/6

Correct Answer: (D) 1/6

Solution:

Concept:

- Where no profit-sharing ratio is specified, partners share profits equally.
- When the incoming partner takes the entire share from one old partner, only that old partner's share decreases.

Step 1: Establish A's old share No unequal ratio is given for A and B, so each initially has $1/2$ of the profits. C acquires $1/3$ of the firm's total profits entirely from A. It is not one-third of A's old share.

Step 2: Deduct the share transferred A's new share is

$$\frac{1}{2} - \frac{1}{3} = \frac{3-2}{6} = \frac{1}{6}.$$

B retains $1/2$, and C receives $1/3$; these shares sum to 1. The option $1/2$ ignores A's sacrifice, $1/3$ confuses A's share with C's, and $1/4$ is not obtained by deducting the stated transfer.

Step 3: Conclusion A's new share is $\boxed{\frac{1}{6}}$. Hence, the correct option is (D).

Quick Tip to Solve: If the entire incoming share comes from A, subtract it only from A; B's existing share remains unchanged.

OR

11(ii). P, Q and R were partners in a firm. On 31.03.2022, R died. R's share was taken over by P. P's new share in the profits of the firm will be : [1 mark]

(A) 2/3

(B) 1/3

(C) 1/2

(D) 3/4

Correct Answer: (A) 2/3

Solution:

Concept:

- In the absence of a specified ratio, three partners share profits equally, so each holds one-third.
- A continuing partner's new share equals the old share plus the retiring or deceased partner's share acquired.

Step 1: Identify the shares before death No unequal profit-sharing ratio is stated for P, Q and R. Therefore each has an old share of $1/3$. The question states that P takes over R's share in full; Q takes none of it.

Step 2: Add the acquired share to P's share P's new share is

$$\frac{1}{3}+\frac{1}{3}=\frac{2}{3}.$$

Q retains $1/3$, so the continuing partners' shares sum to 1. The option $1/3$ ignores P's gain; $1/2$ would apply if both survivors acquired equal parts of R's share, and $3/4$ has no basis in the given shares.

Step 3: Conclusion P's new share is $\boxed{\frac{2}{3}}$. Hence, the correct option is (A).

Quick Tip to Solve: Add the deceased partner's entire share to the named acquirer, keeping the other continuing partner's share unchanged.

12(i). B and D were partners. According to the provisions of partnership deed, interest on B's capital for the year ended 31.03.2022 was calculated at Rs. 4,000.

The necessary journal entry for transferring interest on B's capital to Profit and Loss Appropriation Account will be : [1 mark]

(A) Profit and Loss Appropriation A/c Dr. Rs. 4,000

To B's Capital A/c Rs. 4,000

(B) Profit and Loss Appropriation A/c Dr Rs. 4,000

To Interest on B's Capital A/c Rs. 4,000

(C) Interest on B's Capital A/c Dr. Rs. 4,000

To Profit and Loss Appropriation A/c Rs. 4,000

(D) Profit and Loss Appropriation A/c Dr. Rs. 4,000

To B's Current A/c Rs. 4,000

Correct Answer: (B) Profit and Loss Appropriation A/c Dr Rs. 4,000

To Interest on B's Capital A/c Rs. 4,000

Solution:

Concept:

- Interest on capital allowed under the deed is an appropriation of profit.
- The transfer entry closes the debit balance in Interest on Capital Account by crediting it and debiting Profit and Loss Appropriation Account.

Step 1: Distinguish allowance from transfer The question asks for transferring the already calculated interest to Profit and Loss Appropriation Account. Therefore the credit must close Interest on B's Capital Account, rather than directly crediting B's Capital or Current Account as in options (A) and (D). Option (C) reverses the required debit and credit.

Step 2: Record the transfer Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.03.2022	Profit and Loss Appropriation A/c Dr. To Interest on B's Capital A/c (Being interest on B's capital transferred to Profit and Loss Appropriation Account)		4,000	 4,000

The debit and credit are both Rs 4,000, and the interest account is closed.

Step 3: Conclusion Debit Profit and Loss Appropriation A/c and credit Interest on B's Capital A/c by Rs 4,000. Hence, the correct option is (B).

Quick Tip to Solve: For a transfer of interest on capital, credit the interest account itself; distinguish this from first allowing interest to the partner.

OR

12(ii). K and L were partners in a firm. Their partnership deed provided that interest on partner's drawings will be charged @ 12% per annum. Interest on L's drawings for the year ended 31.03.2022 was calculated at Rs. 900.

The necessary journal entry for charging interest on L's drawings will be : [1 mark]

(A) Profit and Loss Appropriation A/c Dr. Rs. 900

To Interest on Drawings A/c Rs. 900

(B) Interest on Drawings A/c Dr. Rs. 900

To Profit and Loss Appropriation A/c Rs. 900

(C) L's Capital/Current A/c Dr. Rs. 900

To Interest on Drawings A/c Rs. 900

(D) Interest on Drawings A/c Dr. Rs. 900

To Partner's Capital/Current A/c Rs. 900

Correct Answer: (C) L's Capital/Current A/c Dr. Rs. 900

To Interest on Drawings A/c Rs. 900

Solution:

Concept:

- Interest on drawings is charged to the partner who withdrew funds; it reduces that partner's capital or current account balance.
- Interest on Drawings Account is credited when the charge is recorded, and is subsequently transferred to Profit and Loss Appropriation Account.

Step 1: Identify the transaction requested The charge of Rs 900 is already calculated, so the annual rate need not be used again. Charging L requires debiting L's Capital/Current Account and crediting Interest on Drawings Account. Option (B) is the later transfer entry, option (A) reverses that transfer, and option (D) incorrectly credits the partner.

Step 2: Record the charge to L Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.03.2022	L's Capital/Current A/c Dr. To Interest on Drawings A/c (Being interest on L's drawings charged for the year)		900	 900

Both sides of the entry are Rs 900. Use the current account where capitals are fixed and the capital account where capitals fluctuate.

Step 3: Conclusion Debit L's Capital/Current A/c and credit Interest on Drawings A/c by Rs 900. Hence, the correct option is (C).

Quick Tip to Solve: The word charging points to the partner's account: debit L for the interest, then credit Interest on Drawings Account.

13. In which of the following conditions is a partnership firm dissolved by 'Agreement' ? [1 mark]

(A) In accordance with a contract between the partners

(B) When a partner becomes insane

(C) When the business of the firm becomes illegal

(D) If any one of the partners gives a notice in writing to the other partners

Correct Answer: (A) In accordance with a contract between the partners

Solution:

Concept:

- Dissolution by agreement occurs by the consent of all partners or in accordance with a contract between them.
- Dissolution by court, compulsory dissolution and dissolution by notice are distinct modes of ending a firm.

Step 1: Apply the agreement criterion Option (A) expressly refers to dissolution in accordance with the contract between the partners. Since the contract records their agreed terms, dissolution under it belongs to dissolution by agreement.

Step 2: Classify the other conditions A partner becoming insane is a ground on which the court may order dissolution; it is not itself dissolution by agreement. The business becoming illegal leads to compulsory dissolution. Written notice by a partner to the others is the mode used to dissolve a partnership at will by notice. Thus options (B), (C) and (D) describe other modes, not the contractual mode asked here.

Step 3: Conclusion The firm is dissolved by agreement when dissolution is in accordance with a contract between the partners. Hence, the correct option is (A).

Quick Tip to Solve: Match the trigger to the mode: contract means agreement, illegality means compulsory dissolution, and notice applies to a firm at will.

14. On 1st April, 2022, Zaira Ltd. issued 5000, 8% Debentures of Rs. 100 each at 5% premium, redeemable at a premium of 10% after 3 years.

'Loss on Issue of Debentures Account' will be debited by which of the following amount ? [1 mark]

(A) Rs. 75,000

(B) Rs. 40,000

(C) Rs. 50,000

(D) Rs. 25,000

Correct Answer: (C) Rs. 50,000

Solution:

Concept:

- Loss on issue comprises discount on issue plus premium payable on redemption; both are measured on the face value of debentures.

- Premium received on issue is credited separately to Securities Premium Account. It is not netted against the initial debit to Loss on Issue of Debentures Account.

Step 1: Calculate the face value and redemption premium The total face value is $5,000 \times$ Rs $100 =$ Rs $5,00,000$. Redemption premium is Rs $5,00,000 \times 10\% =$ Rs $50,000$. The company undertakes this additional repayment obligation when it issues the debentures.

Step 2: Distinguish the issue premium from the loss Issue at a premium means that there is no discount on issue. The premium received is Rs $5,00,000 \times 5\% =$ Rs $25,000$, credited separately to Securities Premium Account. Hence the loss debit equals the redemption premium alone. Rs 75,000 incorrectly adds the issue premium; Rs 25,000 incorrectly nets it off; Rs 40,000 is the annual coupon interest, not the loss on issue.

Step 3: Conclusion Loss on Issue of Debentures Account is debited by $\boxed{\text{Rs } 50,000}$. The correct option is (C).

Quick Tip to Solve: Calculate redemption premium on face value; do not deduct the premium received when finding the initial loss debit.

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15. On 1st April, 2022, Zaira Ltd. issued 5000, 8% Debentures of Rs. 100 each at 5% premium, redeemable at a premium of 10% after 3 years.

The total interest due on debentures for the year ending 31st March, 2023 will be : [1 mark]

(A) Rs. 40,000

(B) Rs. 25,000

(C) Rs. 50,000

(D) Rs. 75,000

Correct Answer: (A) Rs. 40,000

Solution:

Concept:

- Debenture interest is calculated at the stated coupon rate on nominal (face) value, irrespective of issue or redemption premium.
- For a period of t years, interest equals nominal value multiplied by annual rate multiplied by t.

Step 1: Identify the interest-bearing principal and period The nominal value of 5,000 debentures of Rs 100 each is $5,000 \times$ Rs $100 =$ Rs $5,00,000$. The debentures were issued on 1st April, 2022, and remained outstanding to 31st March, 2023, covering the complete accounting year. Therefore the time factor is one year.

Step 2: Apply the coupon rate and test the alternatives The interest due is

$$\text{Rs } 5,00,000 \times \frac{8}{100} \times 1 = \text{Rs } 40,000.$$

The 5% issue premium does not increase the interest-bearing principal, and the 10% redemption premium does not affect annual interest. Rs 25,000 equals the issue premium, Rs 50,000 equals the

redemption premium, and Rs 75,000 adds those premiums; none is the annual coupon interest.

Step 3: Conclusion Total interest due for the year is $\boxed{\text{Rs } 40,000}$. The correct option is (A).

Quick Tip to Solve: For the annual coupon, multiply 5,000 by Rs 100 by 8%; ignore both issue and redemption premiums.

16. BB Ltd. forfeited 4000 shares of Rs. 10 each for non-payment of final call of Rs. 5 per share. The forfeited amount was Rs. 20,000. The minimum amount per share at which these shares can be re-issued will be : [1 mark]

(A) Rs. 6

(B) Rs. 7

(C) Rs. 5

(D) Rs. 4

Correct Answer: (C) Rs. 5

Solution:

Concept:

- The discount allowed on reissue of forfeited shares must not exceed the amount forfeited on those shares.
- For reissue as fully paid, minimum cash price per share equals face value less forfeited amount per share.

Step 1: Calculate the maximum permissible discount The amount forfeited on 4,000 shares is Rs 20,000. Thus the amount available for discount per share is

$$\frac{\text{Rs } 20,000}{4,000} = \text{Rs } 5.$$

This also agrees with Rs 10 face value less the unpaid final call of Rs 5. The amount already received remains available to cover a reissue discount.

Step 2: Calculate and compare reissue prices The minimum reissue price is Rs $10 -$ Rs $5 =$ Rs 5 per share. At Rs 5, the total discount is $4,000 \times$ Rs $5 =$ Rs $20,000$, exactly the forfeited amount. Rs 6 and Rs 7 are permissible prices but are not the minimum. Rs 4 entails a discount of Rs 6 per share, or Rs 24,000 in total, exceeding the available forfeiture credit.

Step 3: Conclusion The minimum reissue price is $\boxed{\text{Rs } 5 \text{ per share}}$. The correct option is (C).

Quick Tip to Solve: Divide the forfeiture credit by the number of shares before subtracting it from face value to find the minimum price.

17. P and Q were partners in a firm sharing profits and losses in the ratio of 2 : 1. On 01.04.2022, they admitted R as a new partner for 1/10th share of profits with a guaranteed minimum of Rs. 50,000. P and Q continued to share profits as before but agreed to share any deficiency on account of guarantee to R in the ratio of 3 : 2. The net profit of the firm for the year ended 31.03.2023 was Rs. 3,00,000. Pass necessary journal entries in the books of P and Q for the above transactions. [3 marks]

Solution:

Concept:

- The incoming partner first receives the normal share of profit. A shortfall below the guaranteed amount is borne by the guarantors in the agreed deficiency ratio.
- P and Q divide the remaining $9/10$ share in their old ratio $2:1$, giving the new profit-sharing ratio $6:3:1$.

Step 1: Calculate ordinary shares and the deficiency Out of the profit of Rs 3,00,000, R normally receives Rs $3,00,000 \times 1/10 =$ Rs $30,000$. P receives Rs $2,70,000 \times 2/3 =$ Rs $1,80,000$, and Q receives Rs $2,70,000 \times 1/3 =$ Rs $90,000$. R's guarantee deficiency is Rs $50,000 -$ Rs $30,000 =$ Rs $20,000$. P bears Rs $20,000 \times 3/5 =$ Rs $12,000$; Q bears Rs $20,000 \times 2/5 =$ Rs $8,000$.

Step 2: Record profit distribution and guarantee adjustment Journal of the partnership firm (31st March, 2023)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.03.23	Profit and Loss Appropriation A/c Dr.		3,00,000	
	To P's Capital A/c			1,80,000
	To Q's Capital A/c			90,000
	To R's Capital A/c			30,000
	(Being profit distributed in the ratio 6:3:1)			
31.03.23	P's Capital A/c Dr.		12,000	
	Q's Capital A/c Dr.		8,000	
	To R's Capital A/c			20,000
	(Being R's guaranteed profit deficiency borne by P and Q in the ratio 3:2)			

Each entry has equal debit and credit totals. The first distributes the full profit; the second only reallocates it to satisfy the guarantee.

Step 3: Conclusion Final profit credited: P, $\boxed{\text{Rs } 1,68,000}$; Q, $\boxed{\text{Rs } 82,000}$; R, $\boxed{\text{Rs } 50,000}$. Together these equal the firm's Rs 3,00,000 profit.

Quick Tip to Solve: Use 2:1 for P and Q's ordinary profit, but 3:2 only for R's Rs 20,000 deficiency.

18(a). Nisha, Priya and Rajat were partners in a firm sharing profits in the ratio of 2 : 2 : 1. The firm closes its books on 31st March every year. Priya died on 1st July 2022. On Priya's death, the goodwill of the firm was valued at Rs. 3,00,000 and her share in the profits of the firm till the time of her death was to be calculated on the basis of previous year's profit which was Rs. 6,00,000.

Pass necessary journal entries for the treatment of goodwill and Priya's share of profit at the time of her death. [3 marks]

Solution:

Concept:

- The deceased partner's share of goodwill is credited to that partner's Capital Account and debited to the gaining partners in their gaining ratio.
- In the absence of a different agreement, surviving partners continue in their old relative ratio. Estimated profit up to death is credited through Profit and Loss Suspense Account.

Step 1: Calculate goodwill compensation and profit to death Nisha and Rajat continue in their relative ratio $2:1$; their new shares are $2/3$ and $1/3$. Their gains are $2/3 - 2/5 = 4/15$ and $1/3 - 1/5 = 2/15$, so the gaining ratio is $2:1$. Priya's goodwill entitlement is Rs $3,00,000 \times 2/5 =$ Rs $1,20,000$, borne by Nisha, Rs 80,000, and Rajat, Rs 40,000. From 1st April to 1st July is three months. Thus Priya's profit entitlement is

$$\text{Rs } 6,00,000 \times \frac{3}{12} \times \frac{2}{5} = \text{Rs } 60,000.$$

Step 2: Pass the entries on Priya's death Journal of the partnership firm (1st July, 2022)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
01.07.22	Nisha's Capital A/c Dr. Rajat's Capital A/c Dr. To Priya's Capital A/c (Being Priya's share of goodwill adjusted through gaining partners in the ratio 2:1)		80,000 40,000	 1,20,000
01.07.22	Profit and Loss Suspense A/c Dr. To Priya's Capital A/c (Being Priya's estimated share of profit for three months credited on her death)		60,000	 60,000

The goodwill is adjusted directly between partners without raising Goodwill Account. Profit and Loss Suspense Account records the estimated profit entitlement until the annual profit is determined.

Step 3: Conclusion Priya's Capital Account is credited with $\boxed{\text{Rs } 1,20,000}$ for goodwill and $\boxed{\text{Rs } 60,000}$ for profit up to death, a total of Rs 1,80,000.

Quick Tip to Solve: Count only April, May and June for profit to 1st July; charge goodwill to the survivors in their gaining ratio of 2:1.

OR

18(b). Sharma and Verma were partners in a firm sharing profits and losses in the ratio of 3 : 2. Their fixed capitals were Rs. 14,00,000 and Rs. 10,00,000 respectively. The partnership deed provided for the following :

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

(ii) Interest on drawings @ 12% per annum.

During the year ended 31.03.2023, Sharma withdrew Rs. 2,00,000 and Verma withdrew Rs. 1,00,000. After preparing the accounts for the year ended 31.03.2023, it was realised that interest on capital was not allowed and interest on drawings was not charged.

Showing your working notes clearly pass necessary journal entries in the books of the firm to rectify the above error. [3 marks]

Solution:

Concept:

- With fixed capitals, interest, drawings and profit adjustments are recorded in partners' Current Accounts.
- When dates of drawings are unspecified, the conventional average period for interest is six months. Omitted net appropriations also alter the residual profit distributed in the profit-sharing ratio.

Step 1: Compute the omitted interest Interest on capital is Rs $14,00,000 \times 10\% =$ Rs $1,40,000$ for Sharma and Rs $10,00,000 \times 10\% =$ Rs $1,00,000$ for Verma. Using six months for drawings, Sharma's interest on drawings is Rs $2,00,000 \times 12\% \times 6/12 =$ Rs $12,000$; Verma's is Rs $1,00,000 \times 12\% \times 6/12 =$ Rs $6,000$. The net omitted appropriation is Rs $2,40,000 -$ Rs $18,000 =$ Rs $2,22,000$.

Step 2: Find the net adjustment for each partner The previously distributed residual profit was higher by Rs 2,22,000. Reverse that excess in the ratio $3 : 2$, then give each partner the net interest entitlement:

Working note	Sharma (Rs)	Verma (Rs)
Interest on capital: credit	1,40,000	1,00,000
Interest on drawings: debit	(12,000)	(6,000)
Excess profit already credited: debit	(1,33,200)	(88,800)
Net adjustment	5,200 debit	5,200 credit

Thus Sharma's earlier net credit was excessive by Rs 5,200, while Verma's was short by the same amount.

Step 3: Record the single rectifying entry Journal of the partnership firm (31st March, 2023)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.03.23	Sharma's Current A/c Dr.		5,200	
	To Verma's Current A/c			5,200
	(Being net adjustment of omitted interest on capital and drawings and the related excess profit distribution)			

The equal debit and credit reallocate partners' balances without changing the firm's total profit or fixed capitals.

Step 4: Conclusion Debit Sharma's Current Account and credit Verma's Current Account by $\boxed{\text{Rs } 5,200}$.

Quick Tip to Solve: After computing omitted interest, reverse the Rs 2,22,000 excess residual profit in 3:2 before taking the net adjustment.

19(a). On 01.04.2021, Aman Ltd. purchased from Kamal Ltd. Machinery Rs. 5,00,000, Furniture Rs. 3,00,000 and Land and Building Rs. 40,00,000. It also took over the sundry creditors of Kamal Ltd. of Rs. 8,00,000. The purchase consideration was Rs. 36,00,000. Payment to Kamal Ltd. was made by issue of 9% Debentures of Rs. 100 each at a discount of 10%. On 31.03.2022, the company decided to write off 'Discount on Issue of Debentures Account' according to the provisions of Companies Act, 2013.

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

Solution:

Concept:

- Net assets equal assets taken over less liabilities assumed. An excess of net assets over purchase consideration is credited to Capital Reserve.
- Debentures are credited at face value; the excess of face value over their issue price is debited to Discount on Issue of Debentures Account.
- The available capital profit is used to write off the discount on issue of debentures.

Step 1: Calculate the capital reserve and debenture issue **Working Notes**

Total assets taken over are Rs $5,00,000 + 3,00,000 + 40,00,000 = 48,00,000$. After deducting sundry creditors of Rs 8,00,000, net assets are Rs 40,00,000. The purchase consideration is only Rs 36,00,000; hence the excess of Rs 4,00,000 is a capital profit, credited to Capital Reserve. Each Rs 100 debenture is issued at Rs $100 - 10 = 90$.

$$\text{Number of debentures} = 36,00,000/90 = 40,000,$$
$$\text{Nominal value} = 40,000 \times 100 = \text{Rs } 40,00,000,$$
$$\text{Discount} = 40,000 \times 10 = \text{Rs } 4,00,000.$$

Thus the capital reserve available is sufficient to write off the entire discount. The 9% rate is the coupon rate and does not determine the issue price.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
01.04.2021	Machinery A/c Dr.		5,00,000	
	Furniture A/c Dr.		3,00,000	
	Land and Building A/c Dr.		40,00,000	
	To Sundry Creditors A/c			8,00,000
	To Kamal Ltd.			36,00,000
	To Capital Reserve A/c			4,00,000
	(Being assets and liabilities taken over, excess net assets credited to capital reserve)			
01.04.2021	Kamal Ltd. Dr.		36,00,000	
	Discount on Issue of Debentures A/c Dr.		4,00,000	
	To 9% Debentures A/c			40,00,000
	(Being 40,000 debentures of Rs 100 each issued at 10% discount to settle the consideration)			

Step 3: Write off the discount at year end The capital reserve arising on acquisition is used for the capital loss on the debenture issue. No balance of discount remains to be charged to the Statement of

Profit and Loss.

Journal of Aman Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31.03.2022	Capital Reserve A/c Dr. To Discount on Issue of Debentures A/c (Being discount on issue of debentures written off against available capital reserve)		4,00,000	 4,00,000

Step 4: Conclusion Aman Ltd. issues 40,000 debentures of Rs 100 each. Capital Reserve of Rs 4,00,000 is fully used to write off the discount of Rs 4,00,000 on 31.03.2022.

Quick Tip to Solve: Divide the vendor's balance by Rs 90, not by the Rs 100 face value; compare the resulting discount with the capital reserve from the purchase.

OR

19(b). On 01.04.2021, Bain Ltd. purchased from Cayres Ltd., Machinery at Rs. 17,00,000 and Land and Building at Rs. 40,00,000. It also took over its liabilities amounting to Rs. 7,00,000. The purchase consideration of Rs. 60,00,000 was paid as follows : Rs. 5,00,000 through a cheque and the balance by issue of 9% debentures of Rs. 100 each at a premium of 10%.

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

Solution:

Concept:

- Purchase consideration in excess of net assets acquired is debited to Goodwill Account.
- Debentures issued at premium are credited at nominal value; the premium is separately credited to Securities Premium Reserve Account.

Step 1: Determine goodwill and the number of debentures **Working Notes**

Assets acquired are machinery of Rs 17,00,000 and land and building of Rs 40,00,000, totalling Rs 57,00,000. Liabilities of Rs 7,00,000 are also assumed, so net assets equal Rs 50,00,000.

$$\text{Goodwill} = 60,00,000 - 50,00,000 = \text{Rs } 10,00,000.$$

The cheque pays Rs 5,00,000 of the consideration. The remaining Rs 55,00,000 is settled by debentures issued at Rs $100 + 10 = 110$ each.

$$\text{Number of debentures} = 55,00,000/110 = 50,000,$$
$$\text{Face value issued} = 50,000 \times 100 = \text{Rs } 50,00,000,$$
$$\text{Securities premium} = 50,000 \times 10 = \text{Rs } 5,00,000.$$

Goodwill concerns the purchase of the business, whereas securities premium concerns the issue of debentures. The two amounts must be recorded separately.

Step 2: Record the assets and liabilities acquired **Journal of Bain Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
01.04.2021	Machinery A/c Dr.		17,00,000	
	Land and Building A/c Dr.		40,00,000	
	Goodwill A/c Dr.		10,00,000	
	To Liabilities A/c			7,00,000
	To Cayres Ltd.			60,00,000
	(Being business purchased, excess purchase consideration over net assets recorded as goodwill)			

The entry balances at Rs 67,00,000 on each side. The vendor is credited with the full agreed consideration, not just the amount payable in debentures.

Step 3: Discharge the purchase consideration **Journal of Bain Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
01.04.2021	Cayres Ltd. Dr.		60,00,000	
	To Bank A/c			5,00,000
	To 9% Debentures A/c			50,00,000
	To Securities Premium Reserve A/c			5,00,000
	(Being consideration settled by cheque and 50,000 debentures of Rs 100 each issued at a premium of 10%)			

The credits total Rs 60,00,000, clearing Cayres Ltd.'s account. The 9% coupon rate affects interest, not the number of debentures issued.

Step 4: Conclusion Goodwill is Rs 10,00,000. Bain Ltd. settles Rs 5,00,000 by cheque and issues 50,000 debentures, recording debenture capital of Rs 50,00,000 and Securities Premium Reserve of Rs 5,00,000.

Quick Tip to Solve: Deduct the cheque payment first, then divide Rs 55,00,000 by the Rs 110 issue price to obtain the debenture count.

20. On 01.04.2022, Ravi, Kavi and Avi started a partnership firm with fixed capitals of Rs. 6,00,000, Rs. 6,00,000 and Rs. 3,00,000 respectively. The partnership deed provided for the following :

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

(ii) Interest on drawings @ 12% per annum.

(iii) An annual salary of Rs. 1,20,000 to Avi.

(iv) Profits and losses were to be shared in the ratio of their capitals.

The net profit of the firm for the year ended 31.03.2023 was Rs. 3,08,000. Interest on partners' drawings was Ravi Rs. 4,800, Kavi Rs. 4,200 and Avi Rs. 3,000.

Prepare Profit and Loss Appropriation Account of Ravi, Kavi and Avi for the year ended 31.03.2023.

[3 marks]

Solution:

Concept:

- Interest on drawings increases the profit available for appropriation; interest on capital and a partner's salary are appropriations of that profit.
- With fixed capitals, interest, salary and shares of profit are transferred to partners' Current Accounts. Residual profit is distributed in the agreed profit-sharing ratio.

Step 1: Calculate appropriations and residual profit **Working Notes**

Since the business began on 01.04.2022, each fixed capital earns interest for the full year to 31.03.2023. Interest on capital at 10% is Rs 60,000 for Ravi, Rs 60,000 for Kavi and Rs 30,000 for Avi, totalling Rs 1,50,000.

The profit-sharing ratio is the ratio of capitals:

$$6,00,000 : 6,00,000 : 3,00,000 = 2 : 2 : 1.$$

Interest on drawings is already given: Rs $4,800 + 4,200 + 3,000 = 12,000$. Therefore, it is added directly to the net profit; it must not be multiplied by 12% again.

$$\begin{aligned} \text{Available profit} &= 3,08,000 + 12,000 = \text{Rs } 3,20,000, \\ \text{Residual profit} &= 3,20,000 - 1,50,000 - 1,20,000 \\ &= \text{Rs } 50,000. \end{aligned}$$

Ravi and Kavi each receive Rs $50,000 \times 2/5 = 20,000$, while Avi receives Rs $50,000 \times 1/5 = 10,000$.

Step 2: Prepare the appropriation account **Profit and Loss Appropriation Account of Ravi, Kavi and Avi for the year ended 31.03.2023**

Dr. Particulars	Amount (Rs)	Particulars Cr.	Amount (Rs)
To Interest on Capital:		By Profit and Loss A/c	3,08,000
Ravi's Current A/c	60,000	By Interest on Drawings:	
Kavi's Current A/c	60,000	Ravi's Current A/c	4,800
Avi's Current A/c	30,000	Kavi's Current A/c	4,200
To Avi's Current A/c (Salary)	1,20,000	Avi's Current A/c	3,000
To Profit transferred to:			
Ravi's Current A/c	20,000		
Kavi's Current A/c	20,000		
Avi's Current A/c	10,000		
Total	3,20,000	Total	3,20,000

The debit total comprises interest on capital of Rs 1,50,000, Avi's salary of Rs 1,20,000 and distributed profit of Rs 50,000. It equals the credit total of Rs 3,20,000. The account closes by transferring the entire residual profit to Current Accounts; no balance is carried forward.

Step 3: Conclusion The account totals Rs 3,20,000 on both sides. After interest on capital and Avi's salary, the residual profit of Rs 50,000 is shared as Ravi Rs 20,000, Kavi Rs 20,000 and Avi Rs 10,000.

Quick Tip to Solve: Add the given Rs 12,000 interest on drawings before deducting capital interest and salary; use the capital ratio 2:2:1 only for the remaining profit.

21. A, B and C were partners in a firm sharing profits and losses in the ratio of 7 : 1 : 2. From 01.04.2022 they decided to share the profits in the ratio of 5 : 3 : 2. For this purpose the goodwill of the firm was valued at Rs. 3,60,000. Revaluation of assets and reassessment of liabilities resulted in a loss of Rs. 50,000.

Calculate share of gain of loss of the individual partners on change in profit sharing ratio and pass necessary journal entries for the above in the books of the firm. [4 marks]

Solution:

Concept:

- A partner's sacrifice equals old share minus new share. A positive difference is a sacrifice; a negative difference represents a gain.
- The gaining partner compensates the sacrificing partner for goodwill: goodwill adjustment equals the firm's goodwill multiplied by the share gained or sacrificed.
- Revaluation loss relates to the period before the change and is therefore debited to the partners' capital accounts in their old profit-sharing ratio.

Step 1: Calculate each partner's gain or sacrifice **Working Notes**

The old ratio is $7 : 1 : 2$, whereas the new ratio is $5 : 3 : 2$. Both ratios have a total of 10, so compare

the shares directly:

$$A\text{'s sacrifice} = \frac{7}{10} - \frac{5}{10} = \frac{2}{10} = \frac{1}{5},$$
$$B\text{'s sacrifice} = \frac{1}{10} - \frac{3}{10} = -\frac{2}{10},$$
$$C\text{'s sacrifice} = \frac{2}{10} - \frac{2}{10} = 0.$$

Thus, A sacrifices $1/5$, B gains $1/5$, and C neither gains nor sacrifices. The whole of A's sacrifice is taken by B.

Step 2: Determine the goodwill adjustment and revaluation loss B must compensate A for the additional share in future profits. C's unchanged share gives rise to no goodwill adjustment.

$$\text{Compensation by B to A} = \text{Rs } 3,60,000 \times \frac{1}{5} = \text{Rs } 72,000.$$

The goodwill is adjusted directly through capital accounts. The revaluation loss of Rs 50,000 is borne by all three partners in the old ratio, because it arose before the revised sharing arrangement:

$$A\text{'s loss} = 50,000 \times \frac{7}{10} = \text{Rs } 35,000,$$
$$B\text{'s loss} = 50,000 \times \frac{1}{10} = \text{Rs } 5,000,$$
$$C\text{'s loss} = 50,000 \times \frac{2}{10} = \text{Rs } 10,000.$$

These allocations total Rs 50,000. The details of individual assets and liabilities are not supplied, so the given net loss is transferred from Revaluation Account.

Step 3: Record the journal entries **Journal of the Firm**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
01.04.2022	B's Capital A/c Dr. To A's Capital A/c (Being goodwill adjusted by debiting the gaining partner and crediting the sacrificing partner)		72,000	 72,000
01.04.2022	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Revaluation A/c (Being revaluation loss transferred to partners' capital accounts in the old ratio of 7:1:2)		35,000 5,000 10,000	 50,000

Step 4: Conclusion A sacrifices $1/5$, B gains $1/5$, and C's share remains unchanged. B's capital is debited and A's capital credited by Rs 72,000 for goodwill. The revaluation loss is debited to A, B and C by Rs 35,000, Rs 5,000 and Rs 10,000, respectively.

Quick Tip to Solve: Use old minus new shares for goodwill, but the old ratio for revaluation: C has no goodwill adjustment yet still bears Rs 10,000 of revaluation loss.

22. MM Ltd. is registered with an authorised share capital of Rs. 10,00,00,000 was divided into 1,00,00,000 equity shares of Rs. 10 each. The company invited applications for issuing 10,00,000 equity shares. The amount per share was payable as follows :

On Application - Rs. 3 per share

On Allotment - Rs. 4 per share

On First and Final Call - Rs. 3 per share

The issue was fully subscribed. All calls were made and were duly received except the first and final call on 1000 shares.

Present the share capital in the Balance Sheet of the company as per the provisions of Schedule III Part I of the Companies Act, 2013 and also prepare 'Notes of Accounts'. [4 marks]

Solution:

Concept:

- Under Schedule III, share capital appears under Shareholders' Funds within Equity and Liabilities, with its detailed classification in a note to accounts.
- Authorised capital is the registered limit; issued capital is the face value of shares offered. Subscribed capital is classified into fully paid-up and not fully paid-up shares.
- Calls in arrears reduce the amount paid up on subscribed shares. They do not reduce the authorised capital, issued capital or number of subscribed shares.

Step 1: Calculate the called-up capital and arrears **Working Notes**

The issue of 10,00,000 equity shares is fully subscribed. The instalments add up to the face value:

$$\text{Amount called per share} = 3 + 4 + 3 = \text{Rs } 10.$$

Therefore, all subscribed shares are fully called. Only the final instalment on 1,000 shares remains unpaid:

$$\begin{aligned}\text{Called-up capital} &= 10,00,000 \times 10 = \text{Rs } 1,00,00,000,\\ \text{Calls in arrears} &= 1,000 \times 3 = \text{Rs } 3,000,\\ \text{Paid-up share capital} &= 1,00,00,000 - 3,000\\ &= \text{Rs } 99,97,000.\end{aligned}$$

The number of fully paid shares is $10,00,000 - 1,000 = 9,99,000$. The remaining 1,000 shares have Rs 7 paid per share, although Rs 10 has been called on each. No forfeiture is stated, so all 10,00,000 shares remain subscribed.

Step 2: Present the balance sheet extract **MM Ltd. – Balance Sheet (Extract)**

Particulars	Note No.	Amount (Rs)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	99,97,000

The balance sheet reports the amount actually paid up. The higher authorised and issued amounts are disclosed in Note 1 and are not added to the balance sheet figure.

Step 3: Prepare the note to accounts **Notes to Accounts – Note 1: Share Capital**

Particulars	Amount (Rs)
Authorised Capital	
1,00,00,000 equity shares of Rs 10 each	10,00,00,000
Issued Capital	
10,00,000 equity shares of Rs 10 each	1,00,00,000
Subscribed Capital	
Subscribed and fully paid-up:	
9,99,000 equity shares of Rs 10 each	99,90,000
Subscribed but not fully paid-up:	
1,000 equity shares of Rs 10 each, fully called	10,000
Less: Calls in arrears (1,000 shares at Rs 3)	(3,000)
Subtotal: Paid-up amount on these 1,000 shares	7,000
Total Subscribed and Paid-up Share Capital	**99,97,000**

The total reconciles as Rs 99,90,000 on fully paid shares plus Rs 7,000 on shares that are not fully paid. Authorised capital remains the registered amount of Rs 10,00,00,000.

Step 4: Conclusion MM Ltd. will show Share Capital of **Rs 99,97,000** under Shareholders' Funds. Note 1 discloses authorised capital of Rs 10,00,00,000, issued capital of Rs 1,00,00,000 and calls in arrears of Rs 3,000 within the subscribed-capital details.

Quick Tip to Solve: Separate the 1,000 defaulting shares from the 9,99,000 fully paid shares; deduct only Rs 3 per defaulting share, not their entire face value.

23. Pass necessary journal entries for the issue of debentures in the following cases :

(i) Issued 1000, 9% debentures of Rs. 100 each at a premium of 10%, redeemable at a premium of Rs. 15 per debenture.

(ii) Issued Rs. 2,00,000, 9% debentures of Rs. 100 each at 6% discount, redeemable at 5% premium.

(iii) Issued 3500, 9% debentures of Rs. 100 each at par, redeemable at a premium of 20%. [6 marks]

Solution:

Concept:

- Debentures are credited at their face value. Bank is debited with the actual issue proceeds; any issue premium is credited to Securities Premium Reserve.
- Premium on Redemption of Debentures is credited for the additional amount payable on redemption. Loss on Issue of Debentures is debited for the issue discount, if any, plus the redemption premium.

Step 1: (i) Issue at premium, redeemable at premium Face value is $1,000 \times \text{Rs } 100 = \text{Rs } 1,00,000$. The issue premium is $10\% \times \text{Rs } 1,00,000 = \text{Rs } 10,000$, so the cash received is Rs 1,10,000. The redemption premium is $1,000 \times \text{Rs } 15 = \text{Rs } 15,000$. Since there is no issue discount, the loss on issue equals this redemption premium.

Journal: Case (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		1,10,000	
	Loss on Issue of Debentures A/c Dr.		15,000	
	To 9% Debentures A/c			1,00,000
	To Securities Premium Reserve A/c			10,000
	To Premium on Redemption of Debentures A/c			15,000
	(Being 1,000 debentures of Rs 100 each issued at 10% premium, redeemable at Rs 15 premium per debenture)			

Total debit and credit are each Rs 1,25,000. The issue premium remains separately credited; it is not netted against the redemption premium in this issue entry.

Step 2: (ii) Issue at discount, redeemable at premium The given Rs 2,00,000 is the total face value, representing 2,000 debentures of Rs 100 each. Discount on issue is $6\% \times \text{Rs } 2,00,000 = \text{Rs } 12,000$, while premium on redemption is $5\% \times \text{Rs } 2,00,000 = \text{Rs } 10,000$.

$$\text{Bank receipt} = \text{Rs } 2,00,000 - \text{Rs } 12,000 = \text{Rs } 1,88,000,$$

$$\text{Loss on issue} = \text{Rs } 12,000 + \text{Rs } 10,000 = \text{Rs } 22,000.$$

Journal: Case (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		1,88,000	
	Loss on Issue of Debentures A/c Dr.		22,000	
	To 9% Debentures A/c			2,00,000
	To Premium on Redemption of Debentures A/c			10,000
	(Being Rs 2,00,000 debentures issued at 6% discount, redeemable at 5% premium)			

Both sides of the journal entry total Rs 2,10,000. The issue discount reduces the bank receipt, whereas the redemption premium creates an additional liability.

Step 3: (iii) Issue at par, redeemable at premium The face value is $3,500 \times \text{Rs } 100 = \text{Rs } 3,50,000$. As the issue is at par, the company receives exactly Rs 3,50,000. Redemption premium is $20\% \times \text{Rs } 3,50,000 = \text{Rs } 70,000$; this is also the loss on issue because there is no issue discount.

Journal: Case (iii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		3,50,000	
	Loss on Issue of Debentures A/c Dr.		70,000	
	To 9% Debentures A/c			3,50,000
	To Premium on Redemption of Debentures A/c			70,000
	(Being 3,500 debentures of Rs 100 each issued at par, redeemable at 20% premium)			

Both sides total Rs 4,20,000. The stated 9% is the interest rate on face value and does not change the amount recorded at issue.

Step 4: Conclusion The journal entries above record bank receipts of Rs 1,10,000, Rs 1,88,000 and

Rs 3,50,000 in cases (i), (ii) and (iii), respectively. The corresponding losses on issue are Rs 15,000, Rs 22,000 and Rs 70,000.

Quick Tip to Solve: Separate issue price from redemption price: Bank follows the issue price, Debentures follows face value, and Loss on Issue equals issue discount plus redemption premium.

24. G and H were partners in a firm sharing profits and losses in the ratio of 3 : 1. On 31.03.2022, their Balance Sheet was as follows :

Balance Sheet of G and H as at 31st March, 2022

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	30,000	Bank	49,000
Profit and Loss Account	60,000	Stock	51,000
Capitals :		Debtors	99,000
G 2,00,000		Furniture	2,01,000
H 1,10,000	3,10,000		
	4,00,000		4,00,000

On the above date, the firm was dissolved. Debtors realised Rs. 1,10,000 and furniture realised Rs. 70,000. Stock was taken over by G at Rs. 71,000. Creditors were paid 10% less. Expenses on dissolution amounted to Rs. 20,000.

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

Solution:

Concept:

- On dissolution, non-cash assets are transferred to the debit of Realisation Account at book value and outside liabilities to its credit. Bank balance and partners' capitals are not transferred to Realisation Account.
- Asset proceeds and assets taken over by a partner are credited to Realisation Account; payments to creditors and dissolution expenses are debited. The resulting profit or loss is divided in the partners' profit-sharing ratio.
- The credit balance of Profit and Loss Account is accumulated profit. It is credited directly to partners' capital accounts in the ratio $3 : 1$, while an asset taken over is debited to the taking partner's capital.

Step 1: Work out the settlement amounts and accumulated profit The assets transferred to Realisation Account are stock Rs 51,000, debtors Rs 99,000 and furniture Rs 2,01,000, totalling Rs 3,51,000. Opening bank Rs 49,000 remains in Bank Account. Creditors of Rs 30,000 accept 90% of their claim:

$$\text{Payment to creditors} = \text{Rs } 30,000 \times 90\% = \text{Rs } 27,000.$$

Debtors and furniture bring cash of Rs $1,10,000$ + Rs $70,000$ = Rs $1,80,000$. G takes stock at Rs 71,000; this is a non-cash settlement, credited to Realisation and debited to G's Capital. Dissolution expenses paid through bank are Rs 20,000.

The Profit and Loss Account credit balance of Rs 60,000 is distributed as follows:

$$G:\ \text{Rs } 60,000 \times \frac{3}{4} = \text{Rs } 45,000, \qquad H:\ \text{Rs } 60,000 \times \frac{1}{4} = \text{Rs } 15,000.$$

Step 2: Prepare Realisation Account

Realisation Account

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Stock A/c	51,000	By Creditors A/c	30,000
To Debtors A/c	99,000	By Bank A/c:	
To Furniture A/c	2,01,000	Debtors	1,10,000
To Bank A/c:		Furniture	70,000
Creditors	27,000	By G's Capital A/c (stock)	71,000
Expenses	20,000	By Partners' Capital A/cs (loss):	
		G	87,750
		H	29,250
Total	3,98,000	Total	3,98,000

The debit total before transferring the loss is Rs 3,98,000. The corresponding credit total is Rs 2,81,000, so the loss transferred to capitals is:

$$\text{Realisation loss} = \text{Rs } 3,98,000 - \text{Rs } 2,81,000 = \text{Rs } 1,17,000,$$
$$G\text{'s share} = \text{Rs } 1,17,000 \times \frac{3}{4} = \text{Rs } 87,750,$$
$$H\text{'s share} = \text{Rs } 1,17,000 \times \frac{1}{4} = \text{Rs } 29,250.$$

This loss is debited to capitals, closing Realisation Account.

Step 3: Prepare Partners' Capital Accounts and settle through bank

Partners' Capital Accounts

Dr. Particulars	G (Rs)	H (Rs)	Particulars	G (Rs)	H (Rs) Cr.
To Realisation A/c (stock)	71,000	–	By Balance b/d	2,00,000	1,10,000
To Realisation A/c (loss)	87,750	29,250	By Profit and Loss A/c	45,000	15,000
To Bank A/c (final payment)	86,250	95,750			
Total	2,45,000	1,25,000	Total	2,45,000	1,25,000

After the accumulated profit and dissolution adjustments, the amounts payable are:

$$G:\ \text{Rs } 2,00,000 + \text{Rs } 45,000 - \text{Rs } 71,000 - \text{Rs } 87,750 = \text{Rs } 86,250,$$
$$H:\ \text{Rs } 1,10,000 + \text{Rs } 15,000 - \text{Rs } 29,250 = \text{Rs } 95,750.$$

Bank available after realisation and outside payments is

$$\text{Rs } 49,000 + \text{Rs } 1,80,000 - \text{Rs } 27,000 - \text{Rs } 20,000 = \text{Rs } 1,82,000.$$

The available bank equals the final capital payments; all accounts close on settlement.

Step 4: Conclusion Realisation loss is Rs 1,17,000, borne by G and H as Rs 87,750 and Rs 29,250. Final bank payments are Rs 86,250 to G and Rs 95,750 to H.

Quick Tip to Solve: Keep the Rs 49,000 bank balance outside Realisation Account, debit G's capital with stock at its takeover value of Rs 71,000, and transfer the Rs 60,000 accumulated profit directly to capitals.

25(a). CCL Ltd. invited applications for issuing 75,000 equity shares of Rs. 10 each at a premium of Rs. 3 per share.

The amount was payable as follows :

On Application - Rs. 2 per share

On Allotment - Rs. 6 per share (including premium)

On First Call - Rs. 3 per share

On Second and Final Call - Balance

Applications for 1,20,000 shares were received. Application for 45,000 shares were rejected and the excess application money was refunded. Full allotment was made to remaining applicants. All moneys due were received except for Harish, a shareholder holding 2000 shares, who failed to pay the first and second and final call money.

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

Solution:

Concept:

- Share Application is credited on receipt; application money on accepted shares is transferred to Share Capital and rejected applications are refunded.
- Share capital records the face value of Rs 10 per share. Securities Premium records the additional Rs 3 per share, due with allotment.
- Calls in Arrears records called amounts not received. A default does not itself require forfeiture unless forfeiture is stated.

Step 1: Calculate the instalments and application adjustment Total issue price is $10 + 3 = \text{Rs } 13$ per share. The second and final call is therefore $13 - 2 - 6 - 3 = \text{Rs } 2$ per share. Of allotment money of Rs 6, Rs 3 is capital and Rs 3 is premium.

$$\text{Applications received} = 1,20,000 \times 2 = \text{Rs } 2,40,000,$$
$$\text{Application capital} = 75,000 \times 2 = \text{Rs } 1,50,000,$$
$$\text{Refund} = 45,000 \times 2 = \text{Rs } 90,000.$$

No pro-rata adjustment arises: the remaining 75,000 applications receive full allotment. Allotment due and received is $75,000 \times 6 = \text{Rs } 4,50,000$, comprising Rs 2,25,000 capital and Rs 2,25,000 premium.

Step 2: Record application and allotment Journal of CCL Ltd. (application and allotment)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Application A/c (Being application money received on 1,20,000 shares)		2,40,000	 2,40,000
	Share Application A/c Dr. To Share Capital A/c To Bank A/c (Being application money on 75,000 shares transferred and rejected applications refunded)		2,40,000	 1,50,000 90,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Being allotment due at Rs 6 per share, including Rs 3 premium)		4,50,000	 2,25,000 2,25,000
	Bank A/c Dr. To Share Allotment A/c (Being full allotment money received)		4,50,000	 4,50,000

Step 3: Calculate and record the two calls Harish's first-call arrears are $2,000 \times 3 =$ Rs $6,000$; final-call arrears are $2,000 \times 2 =$ Rs $4,000$. Thus first-call cash is $2,25,000 - 6,000 =$ Rs $2,19,000$, and final-call cash is $1,50,000 - 4,000 =$ Rs $1,46,000$.

Journal of CCL Ltd. (calls)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr. To Share Capital A/c (Being first call due on 75,000 shares at Rs 3 each)		2,25,000	 2,25,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Share First Call A/c (Being first call received except on Harish's 2,000 shares)		2,19,000 6,000	 2,25,000
	Share Second and Final Call A/c Dr. To Share Capital A/c (Being final call due on 75,000 shares at Rs 2 each)		1,50,000	 1,50,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Share Second and Final Call A/c (Being final call received except on Harish's 2,000 shares)		1,46,000 4,000	 1,50,000

The capital credits total Rs 7,50,000. Net bank receipts are Rs 9,65,000, which equal capital plus premium of Rs 9,75,000 less total arrears of Rs 10,000. Harish has paid application and allotment in full, so no premium remains unpaid.

Step 4: Conclusion The entries above record the issue: Share Capital is Rs 7,50,000, Securities Premium is Rs 2,25,000, and Calls in Arrears is Rs 10,000. The second and final call is Rs 2 per share.

Quick Tip to Solve: Find the final call from the total issue price of Rs 13, then separate premium from allotment before calculating capital credits.

OR

25(b). Pass necessary journal entries for the forfeiture and reissue of shares in the following cases :

(i) CC Ltd. forfeited 10,000 shares of Rs. 10 each, Rs. 8 called up, for non-payment of allotment money of Rs. 3 per share and first call of Rs. 3 per share. Out of these, 2000 shares were reissued for Rs. 7 per share, Rs. 8 paid up.

(ii) GG Ltd. forfeited 2000 shares of Rs. 10 each fully called up, issued at a premium of 10% on which only application money of Rs. 3 per share was received. Out of these, 500 shares were re-issued at Rs. 11 per share, fully paid up. [6 marks]

Solution:

Concept:

- On forfeiture, Share Capital is debited with called-up capital; unpaid dues are cancelled and capital already received is credited to Share Forfeiture.
- Unpaid securities premium already due is cancelled by debiting Securities Premium. Share Forfeiture includes only the capital received, never premium.
- Reissue discount is debited to Share Forfeiture. Only the surplus relating to shares actually reissued is transferred to Capital Reserve; the balance on unreissued shares remains in Share Forfeiture.

Step 1: Case (i): calculate forfeiture, reissue discount and surplus For CC Ltd., called-up capital is Rs 8 per share, of which Rs 3 allotment and Rs 3 first call are unpaid. Capital received per share is therefore $8 - 3 - 3 =$ Rs 2. Forfeiture of 10,000 shares cancels Rs 80,000 called-up capital and Rs 60,000 unpaid amounts, while Rs 20,000 is credited to Share Forfeiture.

The 2,000 reissued shares are credited as Rs 8 paid up, not Rs 10 fully paid. Thus capital restored is $2,000 \times 8 =$ Rs $16,000$; bank receives $2,000 \times 7 =$ Rs $14,000$. The Rs 2,000 difference is discount, covered by the Rs 4,000 forfeiture credit on those shares. Capital Reserve receives $4,000 - 2,000 =$ Rs $2,000$.

Step 2: Case (i): journal entries in CC Ltd. Journal of CC Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		80,000	
	To Share Allotment A/c			30,000
	To Share First Call A/c			30,000
	To Share Forfeiture A/c			20,000
	(Being 10,000 shares of Rs 10 each, Rs 8 called up, forfeited for unpaid allotment and first call)			
	Bank A/c Dr.		14,000	
	Share Forfeiture A/c Dr.		2,000	
	To Share Capital A/c			16,000
	(Being 2,000 forfeited shares reissued at Rs 7 each as Rs 8 paid up)			
	Share Forfeiture A/c Dr.		2,000	
	To Capital Reserve A/c			2,000
	(Being surplus on 2,000 reissued shares transferred to Capital Reserve)			

Share Forfeiture retains $20,000 - 2,000 - 2,000 =$ Rs $16,000$, relating to the 8,000 shares not reissued. The uncalled Rs 2 per share is not debited on forfeiture.

Step 3: Case (ii): calculate unpaid premium and reissue proceeds GG Ltd.'s premium is $10\% \times$ Rs $10 =$ Rs 1 per share. Total issue price is Rs 11; only Rs 3 application money was received, leaving Rs 8 per share unpaid. Using Calls in Arrears for the combined unpaid amounts, Rs 16,000 is cancelled on forfeiture. This comprises unpaid capital of $2,000 \times 7 =$ Rs $14,000$ and unpaid premium of $2,000 \times 1 =$ Rs $2,000$.

Fully called-up capital of Rs 20,000 and unpaid premium of Rs 2,000 are debited, while capital received of $2,000 \times 3 =$ Rs $6,000$ is credited to Share Forfeiture. No instalment-wise division of the unpaid amount is needed because the question does not specify the instalments after application.

On reissue, $500 \times 11 =$ Rs $5,500$ is received: Rs 5,000 is capital and Rs 500 is fresh securities premium. There is no reissue discount. Forfeiture surplus on 500 reissued shares is $500 \times 3 =$ Rs $1,500$.

Step 4: Case (ii): journal entries in GG Ltd. Journal of GG Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		20,000	
	Securities Premium A/c Dr.		2,000	
	To Calls in Arrears A/c			16,000
	To Share Forfeiture A/c			6,000
	(Being 2,000 fully called-up shares forfeited, only Rs 3 application money per share having been received)			
	Bank A/c Dr.		5,500	
	To Share Capital A/c			5,000
	To Securities Premium A/c			500
	(Being 500 shares reissued at Rs 11 each, fully paid up at Rs 10)			
	Share Forfeiture A/c Dr.		1,500	
	To Capital Reserve A/c			1,500
	(Being surplus on 500 reissued shares transferred to Capital Reserve)			

The remaining Share Forfeiture balance is $6,000 - 1,500 =$ Rs $4,500$, attributable to 1,500 unreissued shares. Fresh premium on reissue remains in Securities Premium and is not transferred to Capital Reserve.

Step 5: Conclusion CC Ltd. transfers Rs 2,000 to Capital Reserve and retains Rs 16,000 in Share Forfeiture. GG Ltd. transfers Rs 1,500 to Capital Reserve, retains Rs 4,500 in Share Forfeiture, and credits fresh reissue premium of Rs 500.

Quick Tip to Solve: Allocate the forfeiture credit only to reissued shares: use 2,000 out of 10,000 for CC Ltd. and 500 out of 2,000 for GG Ltd., then deduct any reissue discount.

26(a). **A and B were partners in a firm sharing profits and losses in the ratio of 3 : 1. On 31.03.2022, their Balance Sheet was as follows :**

Balance Sheet of A and B as at 31st March, 2022

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Outstanding Expenses	3,000	Bank	40,000
Bills Payable	20,000	Stock	60,000
Sundry Creditors	1,40,000	Bills Receivable	70,000
General Reserve	80,000	Debtors 1,00,000	
		Less: Provision for Doubtful Debts 5,000	95,000
Capitals:		Furniture	85,000
A 2,00,000		Machinery	1,10,000
B 3,00,000	5,00,000	Land and Building	2,83,000
	7,43,000		7,43,000

On the above date, C was admitted as a new partner for 1/5 share in the profits on the following terms :

(i) C will bring Rs. 2,00,000 as her capital and Rs. 1,60,000 as her share of goodwill premium.

(ii) Stock will be appreciated by Rs. 1,500.

(iii) Debtors of Rs. 5,000 will be written off as bad debts and a provision of 10% for bad and doubtful debts will be maintained.

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

Solution:

Concept:

- Revaluation records changes in assets and liabilities on admission; its profit or loss belongs to the old partners in their old profit-sharing ratio.
- Accumulated reserves belong to the old partners. Goodwill premium is credited to the sacrificing partners; when no other sacrifice is specified, the old partners sacrifice in their old ratio.
- Bad debts are written off before calculating the new provision on the remaining debtors. Capital accounts include opening capital, reserves, goodwill, revaluation and fresh capital introduced.

Step 1: Working Notes: determine the adjustments A and B share profits in $3:1$. C acquires $1/5$, leaving $4/5$ for A and B in their existing ratio. Their new shares are $3/5$ and $1/5$; their sacrifices are $3/20$ and $1/20$. Thus the sacrificing ratio is also $3:1$.

$$\text{Goodwill credited to A} = 1,60,000 \times 3/4 = \text{Rs } 1,20,000,$$
$$\text{Goodwill credited to B} = 1,60,000 \times 1/4 = \text{Rs } 40,000.$$

General reserve of Rs 80,000 is credited to A and B as Rs 60,000 and Rs 20,000 respectively. C brings Rs 2,00,000 as capital separately from the goodwill premium; no withdrawal of the premium is specified.

$$\text{Debtors after write-off} = 1,00,000 - 5,000 = \text{Rs } 95,000,$$
$$\text{Required provision} = 95,000 \times 10\% = \text{Rs } 9,500,$$
$$\text{Increase over old provision} = 9,500 - 5,000 = \text{Rs } 4,500.$$

Revaluation therefore bears bad debts of Rs 5,000 and an increase in provision of Rs 4,500, while the stock appreciation of Rs 1,500 is a gain. Net revaluation loss is Rs 8,000, borne by A and B as Rs 6,000 and Rs 2,000. This treatment includes the old provision once only.

Step 2: Prepare the Revaluation Account Revaluation Account

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Bad Debts	5,000	By Stock	1,500
To Provision for Doubtful Debts (increase)	4,500	By A's Capital (loss)	6,000
		By B's Capital (loss)	2,000
Total	9,500	Total	9,500

The loss is transferred to the old partners' capital accounts, so the Revaluation Account closes with equal totals.

Step 3: Prepare the Partners' Capital Accounts Partners' Capital Accounts

Dr. Particulars	A (Rs)	B (Rs)	C (Rs)	Particulars	A (Rs)	B (Rs)	C (Rs) Cr.
To Revaluation	6,000	2,000	–	By Balance b/d	2,00,000	3,00,000	–
To Balance c/d	3,74,000	3,58,000	2,00,000	By General Reserve	60,000	20,000	–
				By Premium for Goodwill	1,20,000	40,000	–
				By Bank	–	–	2,00,000
Total	3,80,000	3,60,000	2,00,000	Total	3,80,000	3,60,000	2,00,000

Each partner's debit and credit totals agree. The closing balances remain capital liabilities of the reconstituted firm; the new partner does not participate in the pre-admission reserve or revaluation loss.

Step 4: Conclusion Revaluation loss is Rs 8,000. The closing capitals are A: Rs 3,74,000, B: Rs 3,58,000 and C: Rs 2,00,000.

Quick Tip to Solve: First deduct bad debts from gross debtors, then apply 10%; charge only the increase over the existing provision in addition to the bad debts.

OR

26(b). B, P and T were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31.03.2022, their Balance Sheet was as follows :

Balance Sheet of B, P and T as at 31st March, 2022

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	1,40,000	Bank	1,44,000
General Reserve	2,00,000	Stock	66,000
Workmen's Compensation Fund	90,000	Debtors 1,50,000	
		Less: Provision for Doubtful Debts 20,000	1,30,000
Capitals:		Furniture	70,000
B 4,00,000		Machinery	2,20,000
P 2,00,000		Land and Building	5,00,000
T 1,00,000	7,00,000		
	11,30,000		11,30,000

On the above date, B retired from the firm on the following terms :

(i) Goodwill of the firm will be valued at Rs. 3,60,000 and B's share will be adjusted without opening goodwill account.

(ii) Furniture will be reduced to Rs. 60,000.

(iii) A claim of Rs. 1,00,000 was admitted for workmen's compensation.

(iv) B was paid Rs. 20,000 through a cheque and the balance was transferred to his loan account.

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

Solution:

Concept:

- Revaluation profit or loss and accumulated general reserve are shared by all partners in their old profit-sharing ratio at retirement.
- The retiring partner's share of goodwill is credited to that partner and debited to the continuing partners in their gaining ratio, without creating a Goodwill Account.
- An admitted workmen's compensation claim is met first from the existing fund. Any excess claim is a revaluation loss; only an excess fund could be distributed as reserve.

Step 1: Working Notes: calculate goodwill, reserve and loss The old ratio B:P:T is $5 : 3 : 2$. As no new ratio is specified, P and T continue in their relative old ratio $3 : 2$, which is also their gaining ratio. Their gains are $3/5 - 3/10 = 3/10$ and $2/5 - 2/10 = 2/10$.

$$\text{B's goodwill entitlement} = 3,60,000 \times 5/10 = \text{Rs } 1,80,000,$$
$$\text{Goodwill debited to P} = 1,80,000 \times 3/5 = \text{Rs } 1,08,000,$$
$$\text{Goodwill debited to T} = 1,80,000 \times 2/5 = \text{Rs } 72,000.$$

General reserve of Rs 2,00,000 is credited to B, P and T as Rs 1,00,000, Rs 60,000 and Rs 40,000 respectively. The entire compensation fund of Rs 90,000 is used against the admitted claim of Rs

1,00,000; no part of that fund is distributed to partners.

$$\text{Furniture reduction} = 70,000 - 60,000 = \text{Rs } 10,000,$$
$$\text{Claim exceeding the fund} = 1,00,000 - 90,000 = \text{Rs } 10,000,$$
$$\text{Revaluation loss} = 10,000 + 10,000 = \text{Rs } 20,000.$$

B, P and T bear this loss in $5:3:2$: Rs 10,000, Rs 6,000 and Rs 4,000 respectively. The claim is a liability; admitting it does not mean that it has already been paid.

Step 2: Prepare the Revaluation Account Revaluation Account

Dr. Particulars	Amount (Rs)	Particulars	Amount (Rs) Cr.
To Furniture	10,000	By B's Capital (loss)	10,000
To Workmen's Compensation Claim (excess)	10,000	By P's Capital (loss)	6,000
		By T's Capital (loss)	4,000
Total	20,000	Total	20,000

The two reductions in the firm's net assets produce the loss, which is transferred to the partners' capital accounts in the old ratio.

Step 3: Prepare the Partners' Capital Accounts Partners' Capital Accounts

Dr. Particulars	B (Rs)	P (Rs)	T (Rs)	Particulars	B (Rs)	P (Rs)	T (Rs) Cr.
To Revaluation	10,000	6,000	4,000	By Balance b/d	4,00,000	2,00,000	1,00,000
To B's Capital (goodwill)	–	1,08,000	72,000	By General Reserve	1,00,000	60,000	40,000
To Bank	20,000	–	–	By P's Capital (goodwill)	1,08,000	–	–
To B's Loan	6,50,000	–	–	By T's Capital (goodwill)	72,000	–	–
To Balance c/d	–	1,46,000	64,000				
Total	6,80,000	2,60,000	1,40,000	Total	6,80,000	2,60,000	1,40,000

B's amount due before payment is Rs 6,70,000. The cheque of Rs 20,000 leaves Rs 6,50,000, transferred to B's Loan Account. B's Capital Account is thereby closed, while P and T retain their closing capital balances.

Step 4: Conclusion Revaluation loss is Rs 20,000. B's loan is Rs 6,50,000 after the Rs 20,000 payment; closing capitals are P: Rs 1,46,000 and T: Rs 64,000.

Quick Tip to Solve: Compare the compensation claim with its fund first: only the Rs 10,000 shortfall enters revaluation, and none of the fund is available for distribution.

Part B (20 marks)

OPTION – I
(Analysis of Financial Statements)

27(i). Which of the following is a tool of 'Analysis of Financial Statements' ? [1 mark]

(A) Statement of Profit and Loss
(B) Balance Sheet
(C) Ratio Analysis
(D) Both (a) and (b)

Correct Answer: (C) Ratio Analysis

Solution:

Concept:

- Financial statements present accounting information; tools of analysis interpret that information to assess performance and financial position.
- Ratio analysis relates two relevant financial figures to evaluate aspects such as liquidity, solvency, efficiency and profitability.

Step 1: Identify the analytical technique Ratio analysis computes meaningful relationships between financial statement items. For example, comparing current assets with current liabilities helps assess short-term payment capacity. It therefore functions as a tool for interpreting the statements.

Step 2: Check the other choices The Statement of Profit and Loss reports income, expenses and profit, while the Balance Sheet reports assets, liabilities and equity. These are the statements being analysed, rather than analytical techniques themselves. Consequently, neither (A) nor (B) answers the question, and combining them in (D) does not make them tools of analysis.

Step 3: Conclusion Ratio Analysis is a tool of Analysis of Financial Statements. Hence, the correct option is (C).

Quick Tip to Solve: Distinguish the source of financial information from the technique used to interpret it: statements supply figures, while ratios analyse their relationships.

OR

27(ii). If the Operating Ratio of Pathway Ltd. is 30%, its Operating Profit Ratio will be : [1 mark]

(A) 100%

(B) 30%

(C) 130%

(D) 70%

Correct Answer: (D) 70%

Solution:

Concept:

- Operating ratio expresses cost of revenue from operations plus operating expenses as a percentage of revenue from operations.
- Operating profit is revenue from operations less these operating costs; therefore operating ratio and operating profit ratio together equal 100%.

Step 1: Relate operating costs to operating profit Take revenue from operations as Rs 100. An operating ratio of 30% means that Rs 30 is absorbed by operating costs, leaving Rs 70 as operating profit. Non-operating income and expenses are excluded from both ratios.

Step 2: Calculate the complementary percentage

$$\text{Operating profit ratio} = 100\% - 30\% = 70\%.$$

Option (A) ignores operating costs, (B) repeats the operating ratio, and (C) adds the operating ratio to 100% instead of subtracting it.

Step 3: Conclusion Pathway Ltd.'s operating profit ratio is 70%. Hence, the correct option is (D).

Quick Tip to Solve: For these two operating ratios, subtract the given percentage from 100; never add the two percentages to obtain profit.

28(i). Which of the following is not a Solvency Ratio ? [1 mark]

(A) Interest Coverage Ratio

(B) Return on Investment

(C) Debt to Capital Employed Ratio

(D) Total Assets to Debt Ratio

Correct Answer: (B) Return on Investment

Solution:

Concept:

- Solvency ratios assess the long-term financial position and the ability to pay long-term debts and interest.
- Profitability ratios measure the earning capacity of a business; return on investment compares

profit before interest and tax with capital employed.

Step 1: Classify the debt-related measures Interest coverage ratio indicates the capacity to meet interest out of profits. Debt to capital employed ratio measures the proportion of long-term debt in permanent capital. Total assets to debt ratio indicates asset coverage for long-term debt. Thus (A), (C) and (D) are solvency ratios.

Step 2: Identify the ratio measuring earnings Return on investment measures the return generated on capital employed:

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

Its focus is profitability of invested capital, so it does not belong to the solvency category.

Step 3: Conclusion Return on Investment is a profitability ratio. Hence, the correct option is (B).

Quick Tip to Solve: In a question asking which ratio is not a solvency ratio, separate a return on capital from debt coverage measures.

OR

28(ii). Which of the following are known as Efficiency Ratios ? [1 mark]

(A) Liquidity Ratios

(B) Solvency Ratios

(C) Activity Ratios

(D) Profitability Ratios

Correct Answer: (C) Activity Ratios

Solution:

Concept:

- Activity ratios, also called turnover or efficiency ratios, measure how efficiently business resources are used.
- They relate business activity, such as sales or cost of goods sold, to the assets or resources used to generate that activity.

Step 1: Connect efficiency with asset utilisation Inventory turnover indicates how quickly inventory is sold, while trade receivables turnover indicates how efficiently credit sales are collected. These are activity ratios because they measure the rate at which resources are used in the operating cycle.

Step 2: Distinguish the other ratio groups Liquidity ratios assess short-term payment capacity, solvency ratios assess long-term financial stability, and profitability ratios measure earning capacity. Thus options (A), (B) and (D) name different objectives of ratio analysis; the group specifically called efficiency ratios is Activity Ratios.

Step 3: Conclusion Activity Ratios are known as Efficiency Ratios. Hence, the correct option is (C).

Quick Tip to Solve: Link the words efficiency, utilisation and turnover to activity ratios; link earning capacity to profitability ratios.

29. 'Cash received from royalties' will be considered which type of activity from the following while preparing Cash Flow Statement ? [1 mark]

(A) Financing Activity

(B) Investing Activity

(C) Both Financing and Investing Activity

(D) Operating Activity

Correct Answer: (D) Operating Activity

Solution:

Concept:

- Operating activities are the principal revenue-producing activities and other activities that are neither investing nor financing.
- Cash receipts from royalties, fees, commissions and other revenue are classified as operating cash flows under AS 3.

Step 1: Identify the nature of the receipt Royalty is revenue earned by allowing another party to use a right or resource. The cash received is therefore a revenue receipt included in operating activities when preparing the cash flow statement.

Step 2: Eliminate investing and financing classifications Financing cash flows change owners' capital or borrowings, which a royalty receipt does not do. Investing cash flows concern acquisition or disposal of long-term assets and investments; receiving royalty is not the sale of the underlying asset or right. Hence neither (A), (B) nor the combined classification in (C) is appropriate.

Step 3: Conclusion Cash received from royalties is an Operating Activity. Hence, the correct option is (D).

Quick Tip to Solve: Distinguish cash earned by permitting use of a right (royalty revenue) from cash received by selling the right itself.

30. Which of the following are included in 'Cash' for the purpose of preparing Cash Flow Statement ?

(i) Cash in hand

(ii) Marketable securities

(iii) Demand deposits with banks

(iv) Trade receivables

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

(A) (i) and (ii)

(B) (i) and (iii)

(C) (i) and (iv)

(D) (ii) and (iii)

Correct Answer: (B) (i) and (iii)

Solution:

Concept:

- Under AS 3, cash comprises cash on hand and demand deposits with banks.
- Cash equivalents are a separate category: short-term, highly liquid investments readily convertible into known cash amounts with insignificant risk of changes in value.

Step 1: Select the items meeting the definition of cash Cash in hand, item (i), is immediately available currency. Demand deposits with banks, item (iii), are withdrawable on demand. Both meet the definition of cash directly, so the required pair is (i) and (iii).

Step 2: Exclude securities and receivables Marketable securities are investments; only those satisfying the specified conditions may qualify as cash equivalents, not cash itself. Trade receivables are amounts yet to be collected from customers and are not cash. Thus (A) and (D) incorrectly include item (ii), while (C) incorrectly includes item (iv).

Step 3: Conclusion Cash includes cash in hand and demand deposits with banks, namely (i) and (iii). Hence, the correct option is (B).

Quick Tip to Solve: Read whether the question asks for cash alone or cash and cash equivalents; demand deposits belong to cash itself.

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

(a) Computer Software

(b) Work-in-Progress

(c) Calls in Advance [3 marks]

Solution:

Concept:

- Schedule III groups assets and liabilities by their nature and current or non-current classification; the relevant sub-head further identifies the item.

- An intangible asset has no physical substance. Inventory belongs to the normal operating cycle, while money received before a share call becomes due remains a liability.

Step 1: Classify computer software Computer software provides benefits over more than one accounting period and has no physical form of its own. It is classified under Assets: **Non-current assets**, under the fixed-assets category as **Intangible assets**. It is distinguished from computer hardware, which is a tangible asset.

Step 2: Classify work-in-progress Work-in-progress comprises goods whose production is incomplete at the reporting date. These goods are intended to be completed and sold in the normal operating cycle. It therefore falls under Assets: **Current assets**, sub-head **Inventories**. It is not capital work-in-progress, which relates to construction of a non-current asset.

Step 3: Classify calls in advance Calls in advance represent amounts paid by shareholders before the company has called them. Until the call is made, they are a liability and cannot be included in called-up share capital. They appear under Equity and Liabilities: **Current liabilities**, sub-head **Other current liabilities**.

Step 4: Conclusion The required classifications are:

Item	Major head	Sub-head / classification
Computer Software	Non-current assets	Fixed assets: Intangible assets
Work-in-Progress	Current assets	Inventories
Calls in Advance	Current liabilities	Other current liabilities

Quick Tip to Solve: Distinguish work-in-progress inventory from capital work-in-progress, and keep calls in advance outside share capital until called.

32. 'These ratios are calculated to determine the ability of the business to service its debt in the long run.' Identify and state the significance of three such ratios. [3 marks]

Solution:

Concept:

- Solvency ratios assess long-term financial soundness and the ability to service long-term debt, including interest and repayment obligations.
- They examine the balance between debt and owners' funds, the asset cover for lenders, and the earnings available for interest payments.

Step 1: Identify the category and explain debt-equity ratio The stated category is **Solvency Ratios**. One such measure is:

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

It compares funds supplied by long-term lenders with owners' funds. A lower ratio generally indicates a larger owners' contribution and greater protection for lenders. A higher ratio indicates greater dependence on debt and heavier fixed financing obligations.

Step 2: Explain total assets to debt ratio

$$\text{Total assets to debt ratio} = \frac{\text{Total assets}}{\text{Long-term debt}}.$$

This ratio shows the extent to which the company's total assets cover its long-term debt. A higher ratio generally gives lenders a larger asset cushion against their claims, whereas a lower ratio indicates relatively weaker asset coverage. Here debt means long-term debt, not total current and non-current liabilities together.

Step 3: Explain interest coverage ratio

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

It shows how many times operating earnings cover the fixed interest obligation. Higher coverage indicates a greater margin of safety for paying interest even if profits decline. Low coverage suggests that a larger share of earnings is absorbed by interest and that timely interest payment may be at risk.

Step 4: Conclusion These are Solvency Ratios. Debt-equity ratio measures financing dependence, total assets to debt ratio measures asset security for lenders, and interest coverage ratio measures capacity to pay interest from earnings.

Quick Tip to Solve: For each solvency ratio, state what it compares and what a higher or lower value means for a long-term lender.

33(a). Calculate Current Ratio from the following information :

Total Assets : Rs. 6,00,000

Fixed Assets : Rs. 4,00,000

Working Capital : Rs. 1,00,000 [4 marks]

Solution:

Concept:

- Current ratio measures the relationship between current assets (CA) and current liabilities (CL): $\text{Current Ratio} = \frac{\text{CA}}{\text{CL}}$.
- Current assets are obtained by deducting fixed assets from total assets in the given information. Working capital is the excess of current assets over current liabilities: $\text{WC} = \text{CA} - \text{CL}$.

Step 1: Determine current assets The total assets include the fixed assets and the current assets. Deduct the fixed assets because the current ratio concerns assets available for meeting short-term obligations.

$$\begin{aligned}\text{Current Assets} &= \text{Total Assets} - \text{Fixed Assets}\\ &= \text{Rs } 6,00,000 - \text{Rs } 4,00,000\\ &= \text{Rs } 2,00,000.\end{aligned}$$

Step 2: Derive current liabilities from working capital Working capital is not the denominator of

the current ratio. It is the difference between current assets and current liabilities. Rearranging this relationship gives:

$$\begin{aligned}\text{Current Liabilities} &= \text{Current Assets} - \text{Working Capital}\\ &= \text{Rs } 2,00,000 - \text{Rs } 1,00,000\\ &= \text{Rs } 1,00,000.\end{aligned}$$

Step 3: Substitute in the current-ratio formula Both amounts are in rupees, so their units cancel in the ratio. Divide both current assets and current liabilities by Rs 1,00,000 to express the relationship in its simplest form:

$$\text{Current Ratio} = \frac{2,00,000}{1,00,000} = 2:1.$$

As a check, current assets of Rs 2,00,000 less current liabilities of Rs 1,00,000 reproduce the given working capital of Rs 1,00,000.

Step 4: Conclusion The Current Ratio is $\boxed{2:1}$. This means there are Rs 2 of current assets for every Rs 1 of current liabilities.

Quick Tip to Solve: First subtract fixed assets from total assets; then subtract working capital from current assets to obtain the denominator, current liabilities.

OR

33(b). Average inventory of Beeta Ltd. was Rs. 80,000. Its inventory turnover ratio was 4 times. It sells goods at a profit of 20% on revenue from operations. Calculate its 'Revenue from Operations'.

[4 marks]

Solution:

Concept:

- Inventory turnover ratio compares cost of revenue from operations (cost of goods sold) with average inventory: $\text{Inventory Turnover Ratio} = \dfrac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$.
- Gross profit equals revenue from operations minus its cost. When profit is 20% of revenue, the cost is $100\% - 20\% = 80\%$ of revenue from operations.

Step 1: Calculate cost of revenue from operations Average inventory is given directly as Rs 80,000, so no calculation of opening and closing inventory is needed. Inventory turns over four times at cost. Multiply average inventory by the turnover ratio:

$$\begin{aligned}\text{Cost of Revenue from Operations} &= \text{Inventory Turnover Ratio}\\ &\quad \times \text{Average Inventory}\\ &= 4 \times \text{Rs } 80,000\\ &= \text{Rs } 3,20,000.\end{aligned}$$

This amount is the cost of goods sold, not the selling value of those goods.

Step 2: Express cost as a proportion of sales Let revenue from operations be S. The question states that profit is calculated on revenue from operations, so gross profit is $0.20S$. Deducting it from revenue gives the cost:

$$\begin{aligned}\text{Cost of Revenue from Operations} &= S - 0.20S \\ &= 0.80S.\end{aligned}$$

Thus Rs 3,20,000 represents 80% of revenue. Adding 20% of cost would use the wrong base, since the stated percentage is on sales.

Step 3: Find revenue and check the profit percentage Divide the cost by its proportion of revenue:

$$S = \frac{3,20,000}{0.80} = 3,20,000 \times \frac{100}{80} = 4,00,000.$$

The implied gross profit is Rs 4,00,000 minus Rs 3,20,000, or Rs 80,000. Its ratio to revenue is $80,000/4,00,000 = 20\%$, as required. Also, $3,20,000/80,000 = 4$, confirming the given inventory turnover ratio.

Step 4: Conclusion Beeta Ltd.'s Revenue from Operations is $\boxed{\text{Rs } 4,00,000}$.

Quick Tip to Solve: Multiply average inventory by inventory turnover to get cost; for a 20% profit on sales, divide that cost by 0.80 to find revenue.

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

Shobha started a small enterprise selling hand-knitted sweaters under 'Skill India Scheme'. As the business grew, the revenue started increasing. On 1st April 2020, she decided to form 'Shobha Ltd.' along with twelve other like-minded persons. The Balance Sheet of Shobha Ltd. as at 31st March, 2022, is given below.

From the figures given in the Balance Sheet and additional information, calculate 'Cash Flows from Investing Activities' and 'Cash Flows from Financing Activities'.

Balance Sheet of SHOBHA Ltd. as at 31st March, 2022

Particulars	Note No.	31.3.2022 (Rs.)	31.3.2021 (Rs.)
I - Equity and Liabilities :			
1. Shareholders' Funds			
(a) Equity Share Capital		8,00,000	6,00,000
(b) Reserves and Surplus	1	2,00,000	50,000
2. Non-Current Liabilities			
Long-term Borrowings	2	4,00,000	3,00,000
3. Current Liabilities			
(a) Trade Payables		40,000	45,000
(b) Bank Overdraft		1,00,000	85,000
(c) Short-term Provisions	3	30,000	20,000
Total		15,70,000	11,00,000
II - Assets :			
1. Non-Current Assets			
Fixed Assets			
(i) Tangible Assets	4	6,00,000	5,00,000
(ii) Intangible Assets	5		50,000
2. Current Assets			
(a) Inventories		5,00,000	4,00,000
(b) Trade Receivables		4,00,000	90,000
(c) Cash and Cash Equivalents		70,000	60,000
Total		15,70,000	11,00,000

Notes to Accounts :

Note No.	Particulars	31.3.2022 (Rs.)	31.3.2021 (Rs.)
1	Reserve and Surplus Surplus i.e. Balance in Statement of Profit and Loss	2,00,000	50,000
	Total	2,00,000	50,000
2	Long-term Borrowings 10% Debentures	4,00,000	3,00,000
	Total	4,00,000	3,00,000
3	Short-term Provisions Provision for tax	30,000	20,000
	Total	30,000	20,000
4	Tangible Assets Machinery Less : Accumulated Depreciation	 7,00,000 (1,00,000)	 6,50,000 (1,50,000)
	Total	6,00,000	5,00,000
5	Intangible Assets Goodwill	 -	 50,000

Additional Information :

(i) A piece of machinery costing Rs. 1,60,000 was sold at a loss of Rs. 20,000. Depreciation charged during the year amounted to Rs. 40,000.

(ii) Rs. 1,00,000, 10% debentures were issued on 31.3.2022. [6 marks]

Solution:

Concept:

- Investing activities include cash paid to purchase machinery and cash received from its sale. Use the gross cost and accumulated depreciation separately to find these cash amounts.
- Financing activities include proceeds from shares and debentures, the increase in bank overdraft and interest paid on debentures for a non-financial company.
- Depreciation, goodwill written off and loss on sale are non-cash charges; the loss is used to find sale proceeds and is not a separate investing cash payment.

Step 1: Working Notes: Find depreciation on the machinery sold Opening accumulated depreciation is Rs 1,50,000. After charging Rs 40,000 for the year, the balance would be Rs 1,90,000 before removing depreciation on the machinery sold. The actual closing balance is Rs 1,00,000. Therefore,

$$\text{Depreciation on machinery sold} = 1,50,000 + 40,000 - 1,00,000 = \text{Rs } 90,000.$$

The cost of the asset sold is Rs 1,60,000, so its carrying amount is Rs 70,000. Since it was sold at a loss of Rs 20,000, cash received is:

$$\text{Sale proceeds} = 1,60,000 - 90,000 - 20,000 = \text{Rs } 50,000.$$

Step 2: Find the cash purchase of machinery The machinery figures in Note 4 before deducting depreciation are gross cost balances. Opening cost plus purchases less the original cost disposed of equals closing cost.

$$6,50,000 + \text{Purchases} - 1,60,000 = 7,00,000,$$
$$\text{Purchases} = \text{Rs } 2,10,000.$$

The increase in net tangible assets alone is not the purchase amount because both depreciation and disposal affect the net figure. No non-cash acquisition is specified, so the purchase is treated as a cash outflow.

Step 3: Prepare the investing activities extract Shobha Ltd.: Cash Flow Statement (Extract) for the year ended 31st March, 2022

Particulars	Amount (Rs)
A. Cash Flows from Investing Activities	
Sale of machinery	50,000
Purchase of machinery	(2,10,000)
Net cash used in investing activities	**(1,60,000)**

The disappearance of goodwill represents a write-off in the absence of any sale information; it produces no investing cash receipt. Inventories, trade receivables, trade payables and tax provision are not used to calculate this investing section.

Step 4: Calculate financing receipts and interest paid Equity share capital increased from Rs 6,00,000 to Rs 8,00,000, giving cash proceeds of Rs 2,00,000. The debenture issue gives a further Rs 1,00,000. Bank overdraft increased by Rs 15,000, which is treated as a financing inflow under the CBSE cash flow treatment.

The additional debentures were issued on 31st March, 2022, the final day of the year. Annual interest

is therefore calculated on the opening Rs 3,00,000 only:

$$\text{Interest paid} = 3,00,000 \times \frac{10}{100} = \text{Rs } 30,000.$$

There is no interest outstanding or accrued shown, so this interest expense is taken as paid. No dividend payment is given.

Step 5: Prepare the financing activities extract Shobha Ltd.: Cash Flow Statement (Extract) for the year ended 31st March, 2022

Particulars	Amount (Rs)
B. Cash Flows from Financing Activities	
Proceeds from issue of equity shares	2,00,000
Proceeds from issue of 10% debentures	1,00,000
Increase in bank overdraft	15,000
Total financing cash receipts	3,15,000
Interest paid on debentures	(30,000)
Net cash from financing activities	**2,85,000**

Reserves and surplus are not themselves a financing receipt: the increase in the profit and loss balance reflects retained earnings, not a fresh contribution of capital.

Step 6: Conclusion Cash flow from investing activities is **Rs (1,60,000)**, a net outflow. Cash flow from financing activities is **Rs 2,85,000**, a net inflow.

Quick Tip to Solve: Use gross machinery cost to find purchases and accumulated depreciation to find the book value sold; charge annual interest only on the opening debentures here.

OPTION II (Computerised Accounting)

27. A sequential code refers to code applied to some documents where : [1 mark]

(A) account heads are assigned to documents.

(B) special names are given to documents.

(C) documents are arranged in special sequence.

(D) numbers and letters are assigned in consecutive order.

Correct Answer: (D) numbers and letters are assigned in consecutive order.

Solution:

Concept:

- A sequential code assigns identifiers in a consecutive order, making each document easy to distinguish and trace.
- The defining feature is the sequence of the assigned numbers or letters, rather than the account name or the document's descriptive title.

Step 1: Identify the coding rule Under sequential coding, successive documents receive successive identifiers, such as 101, 102 and 103. The identifier follows an established consecutive order. This is precisely the feature described by option (D).

Step 2: Distinguish the other descriptions Option (A) describes assigning account heads rather than

sequential identifiers. Option (B) concerns naming documents. Option (C) refers only to arranging documents, which can be done without assigning any code. Thus none of these describes the actual consecutive code assignment.

Step 3: Conclusion Numbers and letters are assigned in consecutive order. Hence, the correct option is (D).

Quick Tip to Solve: Look for consecutive identifiers, rather than merely arranging documents in a sequence.

28(i). Entries required to make Trading account and Profit and Loss account are known as : [1 mark]

(A) Opening entries

(B) Adjustment entries

(C) Closing entries

(D) (a) and (b) both

Correct Answer: (C) Closing entries

Solution:

Concept:

- Closing entries transfer nominal account balances to Trading Account and Profit and Loss Account at the end of the accounting period.
- Opening entries bring forward the opening asset, liability and capital balances; adjustment entries recognise outstanding or prepaid items and other period-end adjustments.

Step 1: Identify the transfer involved Direct expenses and revenue balances are transferred to the Trading Account to determine gross profit or loss. Indirect expenses and incomes are transferred to the Profit and Loss Account to determine net profit or loss. These transfers close the relevant nominal accounts.

Step 2: Eliminate entries serving different purposes Opening entries establish balances at the beginning of a period, so (A) does not fit. Adjustment entries modify balances to recognise accruals or other necessary adjustments, so (B) is not the name for the closing transfers. Combining these two in (D) does not make them closing entries.

Step 3: Conclusion The entries are closing entries. Hence, the correct option is (C).

Quick Tip to Solve: Link the transfer of nominal account balances into Trading and Profit and Loss Accounts with closing entries.

OR

28(ii). A cell reference that holds either row or column constant when the formula or function is copied to another location is known as : [1 mark]

(A) Range

(B) Absolute cell reference

(C) Relative cell reference

(D) Mixed cell reference

Correct Answer: (D) Mixed cell reference

Solution:

Concept:

- A mixed cell reference fixes one coordinate of a cell, either its column or its row, while the other coordinate remains relative.
- The dollar sign fixes the coordinate immediately following it: a column letter or a row number.

Step 1: Apply the one-coordinate condition In `$A1`, the column A is fixed while the row may change when the formula is copied. In `A$1`, row 1 is fixed while the column may change. Each combines one absolute coordinate with one relative coordinate, matching the condition in the question.

Step 2: Compare the alternatives An absolute reference such as `$A$1` fixes both coordinates, so (B) is too restrictive. A relative reference such as `A1` fixes neither, ruling out (C). A range denotes a group of cells and is not the reference type defined here, ruling out (A).

Step 3: Conclusion The reference is a mixed cell reference. Hence, the correct option is (D).

Quick Tip to Solve: One fixed coordinate means mixed; two fixed coordinates mean absolute; none means relative.

29(i). Computer-related peripherals and their network is known as which of the following components of Computerised Accounting System ? [1 mark]

(A) Procedure

(B) Data

(C) Hardware

(D) Software

Correct Answer: (C) Hardware

Solution:

Concept:

- Hardware consists of the physical equipment used by a computerised accounting system.
- Software contains instructions, data contains accounting facts, and procedures specify the steps followed in operating the system.

Step 1: Identify the physical components Computer peripherals include input, output and storage

devices, such as keyboards, printers and disk drives. These devices and the equipment connecting them into a network form the tangible infrastructure used by the system. They therefore belong to hardware.

Step 2: Rule out non-physical categories A procedure in (A) is a rule or sequence of tasks, not equipment. Data in (B) is the information processed by the system. Software in (D) consists of programs directing the computer. None of these categories names the physical peripherals and network referred to here.

Step 3: Conclusion The component is hardware. Hence, the correct option is (C).

Quick Tip to Solve: For CAS components, identify physical devices as hardware and the programs controlling them as software.

OR

29(ii). Which of the following functions automatically totals a column or row of values ? [1 mark]

(A) AVG

(B) TOTAL

(C) SUM

(D) ADD

Correct Answer: (C) SUM

Solution:

Concept:

- The SUM function adds numerical values in its arguments or in a specified range of cells.
- A range may be arranged vertically in a column or horizontally in a row; addition works in either orientation.

Step 1: Match the task with the function To total cells A1 through A5, a spreadsheet uses `=SUM(A1:A5)`. For a row such as A1 through E1, it uses `=SUM(A1:E1)`. Both formulas add the values, so SUM matches the stated operation.

Step 2: Check the other function names An average is obtained by dividing a total by the number of observations, so the AVG choice does not describe the requested total; Excel uses AVERAGE for that separate operation. TOTAL and ADD are not the standard spreadsheet function names for summing a row or column. Therefore (A), (B) and (D) are unsuitable.

Step 3: Conclusion The function is SUM. Hence, the correct option is (C).

Quick Tip to Solve: For a contiguous total, use SUM with the first and last cell addresses separated by a colon.

30. Which of the following menu is used to create a ledger in Tally ? [1 mark]

(A) Gateway of Tally > Master > Accounting information > Ledger > Alter

(B) Gateway of Tally > Master > Accounting information > Ledger > Create

(C) Gateway of Tally > Master > Accounting information > Ledger > Display

(D) Gateway of Tally > Create > Master > Edit > Accounting information > Ledger

Correct Answer: (B) Gateway of Tally > Master > Accounting information > Ledger > Create

Solution:

Concept:

- A ledger is an account master used to classify and record transactions relating to a particular account.
- The Create command makes a new ledger; Alter changes an existing ledger and Display only shows its details.

Step 1: Identify the command needed The question asks for creation of a new ledger. Starting at Gateway of Tally, follow Master, then Accounting information, then Ledger, and select Create. This sequence reaches the ledger master and opens the facility for entering a new account's details.

Step 2: Check the alternatives Option (A) ends in Alter and therefore edits a ledger already created. Option (C) ends in Display and only views an existing ledger. Option (D) places Create before reaching the ledger master and includes Edit; it is not the stated ledger-creation menu sequence. Only option (B) ends in Create after Ledger.

Step 3: Conclusion Gateway of Tally > Master > Accounting information > Ledger > Create. Hence, the correct option is (B).

Quick Tip to Solve: First check the final command: creating a new account needs Create, whereas changing or viewing an existing account needs Alter or Display.

31. Explain the security features of Computerised Accounting System. [3 marks]

Solution:

Concept:

- Security in a Computerised Accounting System protects accounting data against unauthorised access, alteration and misuse.
- Access control, data auditing and data vault protection work together to preserve the confidentiality and reliability of records.

Step 1: Explain password security and access rights A user name and password identify an authorised user before access is granted to the accounting system. Different users can be given different rights according to their responsibilities. For example, a data-entry operator may enter vouchers while only an authorised manager may alter masters or approve changes. Keeping passwords confidential and assigning suitable rights limits unauthorised viewing, entry and alteration of accounting data.

Step 2: Explain data audit The data audit feature maintains a record of transactions and subsequent

changes, including the responsible user and the time of the change. The auditor or administrator can examine this trail to identify alterations, deletions or irregular entries and verify whether they were authorised. Thus, changes remain traceable and users are accountable for their actions; an audit trail helps detect misuse rather than merely restricting initial access.

Step 3: Explain data vault protection A data vault protects stored company data through encryption and password protection. Encryption converts readable information into an unreadable form that requires the appropriate authorisation or key to recover. Consequently, merely obtaining a copy of the protected files does not allow an unauthorised person to read the accounting information. This strengthens the confidentiality of the stored records.

Step 4: Conclusion Passwords with user access rights control entry and permitted actions; data auditing makes changes traceable; and data vault encryption protects the confidentiality of stored accounting data.

Quick Tip to Solve: Link each feature to its purpose: passwords control access, a data audit tracks changes, and a data vault encrypts stored records.

32. Explain 'Receipt Voucher' and 'Payment Voucher' with the help of examples. [3 marks]

Solution:

Concept:

- An accounting voucher records the particulars of a transaction and supports its entry in the books of account.
- A receipt voucher records money received by the business, whereas a payment voucher records money paid by the business, through cash or bank.

Step 1: Explain the receipt voucher with examples A receipt voucher is used to record an inflow of money, such as cash received from a debtor, commission received or capital introduced through bank. It contains the date, voucher number, name of the payer, amount, mode of receipt and particulars of the transaction. For example, if Rs 10,000 is received in cash from debtor Mohan, a receipt voucher records the receipt: Cash Account is debited by Rs 10,000 and Mohan's Account is credited by Rs 10,000. Cash increases and the amount receivable from Mohan decreases. A receipt need not be income; collection from a debtor is also recorded using this voucher.

Step 2: Explain the payment voucher with examples A payment voucher is used to record an outflow of money, such as rent paid, wages paid or payment to a creditor. It contains the date, voucher number, payee, amount, payment mode and purpose, supported by the relevant bill or receipt. For example, if office rent of Rs 5,000 is paid by cheque, a payment voucher records the payment: Rent Account is debited by Rs 5,000 and Bank Account is credited by Rs 5,000. The expense increases and the bank balance decreases. A payment need not be an expense; settlement of a creditor is also recorded using a payment voucher.

Step 3: Conclusion A receipt voucher documents an inflow of cash or bank funds, for example Rs 10,000 collected from Mohan. A payment voucher documents an outflow, for example Rs 5,000 rent paid by cheque.

Quick Tip to Solve: Decide from the direction of money: money coming into the business needs a receipt voucher; money going out needs a payment voucher.

33(a). What are the reasons if 'Correct #N/A Error' appears on the computer screen while working on a spreadsheet ? How can it be corrected ? [4 marks]

Solution:

Concept:

- The spreadsheet error `#N/A` means that a value needed by a formula or function is not available.
- Correcting the error requires checking the source data, lookup values, ranges and required arguments rather than simply replacing the error with zero.

Step 1: Check for missing data or an unavailable lookup value The error appears when a lookup function such as VLOOKUP, HLOOKUP or MATCH cannot find the requested value in the specified lookup range. For example, searching a customer table for a code that has not been entered returns `#N/A`. Check the spelling of the lookup code, confirm that the record actually exists and include the correct lookup column or row in the selected range. Enter missing genuine data or correct the lookup value and range; do not invent a matching record merely to suppress the error.

Step 2: Check mismatched data types and lookup settings A value stored as text may fail to match an apparently identical number. Extra spaces in names or codes can also prevent an exact match. Remove unwanted spaces and ensure that the lookup value and lookup column use consistent data types. Where an exact match is required, use the exact-match setting, such as FALSE in VLOOKUP or 0 in MATCH. If an approximate-match function is used, check that its lookup data is sorted as required and that the requested value lies within the appropriate range.

Step 3: Check arguments and array ranges A required argument that has been omitted from a function can produce this error. An array formula can also return `#N/A` where the supplied range has fewer rows or columns than required for its results. Examine the function syntax, supply the missing arguments and correct the range dimensions. For example, ensure that all rows intended to be searched are actually included and that corresponding ranges contain the required number of entries.

Step 4: Check dependent cells A formula referring to a cell already containing `#N/A`, or a cell deliberately containing the NA() function to indicate unavailable information, can pass the error to its result. Trace the references to the first unavailable value and correct that source when the required data becomes available. Recalculate and verify the result. An error-handling formula can display a message for an expected missing match, but it does not repair incorrect or missing source data.

Step 5: Conclusion Correct `#N/A` by supplying available source data, correcting unmatched lookup values and data types, checking lookup settings, providing required arguments and matching array dimensions, and repairing errors in referenced cells.

Quick Tip to Solve: For a lookup error, check in order: does the key exist, is its data type identical, and does the selected range include the correct lookup row or column?

OR

33(b). State the steps to be taken in preparation of a chart. [4 marks]

Solution:

Concept:

- A chart presents worksheet data graphically, making comparisons, trends and relationships easier to understand.
- A chart is based on a selected data range. Category labels identify the groups, while data series contain the numerical values to be plotted.

Step 1: Select the source data and start chart creation Arrange the data in rows and columns with suitable headings. Select the cells containing the values and the relevant row or column headings so that the chart can use them as category and series labels. Choose the Chart command from the Insert menu, or click the Chart Wizard button, to begin preparing the chart.

Step 2: Choose the chart type Select the required chart type and subtype, such as column, bar, line or pie, according to the purpose of the presentation. For example, a column chart compares amounts across categories, while a line chart shows a trend over time. Check the preview and proceed to the next stage.

Step 3: Specify the chart source data Check or enter the complete data range. Specify whether the data series are arranged in rows or columns. Verify the series names and the category-axis labels; add or remove a series if required. This ensures that the chart displays the intended values under the correct headings.

Step 4: Set chart options and location Enter a meaningful chart title and axis titles where applicable. Set the legend, gridlines, data labels and other required chart options. Finally, choose whether to place the chart as an object in the existing worksheet or on a separate chart sheet, and click Finish. Check that the completed chart represents the selected data correctly.

Step 5: Conclusion The sequence is: select data, choose the chart type, confirm the source data, set chart options, and select the chart location to finish the chart.

Quick Tip to Solve: Include the headings in the selected range, then check whether series should run by rows or columns before finishing the chart.

34. Name and explain the financial function which will be used to know the returns in today's currency value of a series of future payments assuming constant payments and rate of interest. [6 marks]

Solution:

Concept:

- Present value is the value today of money to be received or paid in the future, obtained by discounting at the specified interest rate.
- The spreadsheet PV function calculates present value for constant periodic payments and a constant interest rate. The payment interval and the interest-rate period must be consistent.

Step 1: Identify the function and its purpose The required financial function is **PV (Present Value)**. It finds the current worth of a series of equal future payments, and can also include a lump-sum value at the end of the period. Thus, it expresses future cash flows in today's currency value. For example, it can determine the loan amount supported by a fixed instalment or the present worth of fixed future receipts.

Step 2: State the syntax The spreadsheet syntax is:

```
=PV(rate, nper, pmt, [fv], [type])
```

Square brackets indicate optional arguments and are not typed when entering the formula. The first three arguments describe the periodic interest rate, the number of payment periods and the constant payment per period.

Step 3: Explain the compulsory arguments **rate**: the interest or discount rate *per period*. For monthly payments at an annual rate of 12%, enter $12\%/12$, not 12%.

nper: the total number of payment periods. For monthly payments over five years, enter $5 \times 12 = 60$.

pmt: the constant amount paid or received in each period. It normally includes principal and interest, but excludes taxes and fees. Its sign depends on the direction of the cash flow.

Step 4: Explain the optional arguments and cash-flow signs **fv**: the future value or cash balance desired after the last payment. If omitted, it is taken as zero, as with a loan fully repaid by the last instalment.

type: the time when each payment occurs. Enter 0 for payments at the end of each period and 1 for payments at the beginning. If omitted, type is 0.

Money paid out is entered as a negative value and money received as a positive value. Consequently, PV and the corresponding future payments ordinarily have opposite signs: a loan received today is positive while its repayment instalments are negative.

Step 5: Illustrate the calculation Suppose, as an illustration, Rs 1,000 is paid at each year-end for three years and the annual interest rate is 10%. With no closing balance, enter:

```
=PV(10%,3,-1000,0,0)
```

The positive present value is the sum of the discounted payments:

$$PV = \frac{1,000}{1.10} + \frac{1,000}{(1.10)^2} + \frac{1,000}{(1.10)^3}$$
$$\approx \text{Rs } 2,486.85.$$

This is the amount received today that is equivalent to those future payments at the given interest rate. If the future payments were receipts entered positively, the function would return the corresponding negative present investment.

Step 6: Conclusion Use the PV function to calculate the present value of a series of constant future payments at a constant periodic interest rate, specifying the number of periods and the payment timing.

Quick Tip to Solve: Match rate and nper to the payment interval, and enter payments and receipts with opposite signs; check type 0 versus type 1 before calculating PV.