CBSE Class 12 Accountancy Question Paper 2024 with Solution PDF-Set 67-2-1

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

(iv) **Part B** has two options. Candidates have to attempt only **one** of the given options.
Option I : Analysis of Financial Statements
Option II : Computerised Accounting

(v) Questions number **1 to 16** (Part A) and Questions number **27 to 30** (Part B) are multiple choice questions. Each question carries **1** mark.

(vi) Questions number **17 to 20** (Part A) and Questions number **31** and **32** (Part B) are short answer type questions. Each question carries **3** marks.

(vii) Questions number **21, 22** (Part A) and Question number **33** (Part B) are Long answer type-I questions. Each question carries **4** marks.

(viii) Questions number **23 to 26** (Part A) and Question number **34** (Part B) are Long answer type-II questions. Each question carries **6** marks.

(ix) There is no overall choice. However, an internal choice has been provided in few questions in each of the parts.

Part A (60 marks)

(Accounting for Partnership Firms and Companies)

1(i). If a share of Rs. 100 on which Rs. 70 has been paid is forfeited, then at which minimum price can it be re-issued ? [1 mark]

(A) Rs. 100

(B) Rs. 30

(C) Rs. 70

(D) Rs. 130

Correct Answer: (B) Rs. 30

Solution:

Concept:

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

Step 1: Identify the available forfeiture amount The face value of the share is Rs 100 and the shareholder has already paid Rs 70. This Rs 70 is the amount available in Share Forfeiture Account to cover a discount on reissue.

Step 2: Apply the discount limit The largest permissible discount is Rs 70. Therefore, the least cash price for reissue as fully paid is

$$\text{Minimum price} = 100 - 70 = \text{Rs } 30.$$

Rs 70, Rs 100 and Rs 130 are possible higher prices, but none is the minimum permitted price.

Step 3: Conclusion The minimum reissue price is Rs 30 per share. Hence, the correct option is (B).

Quick Tip to Solve: Subtract the amount forfeited on a share from its paid-up value on reissue to obtain the minimum cash price.

OR

1(ii). If a share of Rs. 10 issued at a premium of Rs. 2 per share, on which Rs. 8 (including premium) has been called and Rs. 6 (including premium) has been paid by the shareholder, is forfeited, then Share Capital Account will be debited with : [1 mark]

(A) Rs. 10

(B) Rs. 4

(C) Rs. 8

(D) Rs. 6

Correct Answer: (D) Rs. 6

Solution:

Concept:

- On forfeiture, Share Capital Account is debited with the called-up capital on the forfeited share.
- Securities premium is separate from share capital; deduct any premium included in the called amount before finding the capital debit.

Step 1: Separate called-up capital from premium The total called amount is Rs 8, which includes Rs 2 premium. Thus,

$$\text{Called-up capital} = 8 - 2 = \text{Rs } 6.$$

The nominal value of Rs 10 does not determine the debit when the whole nominal value has not been called.

Step 2: Distinguish called capital from paid capital The amount received is Rs 6 including Rs 2 premium, so capital actually received is Rs 4. That Rs 4 is forfeited capital, not the capital debit. Rs 8 includes premium, while Rs 10 is face value. Since the premium has been received, no unpaid premium is reversed.

Step 3: Conclusion Share Capital Account is debited with Rs 6. Hence, the correct option is (D).

Quick Tip to Solve: For a forfeiture capital debit, start with the amount called and remove included premium; do not start with the cash paid.

2. Which of the following items *cannot* be recorded in the capital account of partners if the capital accounts of partners are fixed ? [1 mark]

(A) Drawings

(B) Withdrawal of capital

(C) Introduction of additional capital

(D) Opening balance of capital

Correct Answer: (A) Drawings

Solution:

Concept:

- Under the fixed capital method, each partner has a Capital Account and a separate Current Account.
- Permanent capital changes are recorded in Capital Account; routine drawings and profit-related adjustments are recorded in Current Account.

Step 1: Classify the capital items The opening balance of capital belongs in Capital Account. A fresh permanent contribution increases that account, and permanent withdrawal of capital reduces it. Thus options (B), (C) and (D) can all appear in a fixed Capital Account.

Step 2: Classify routine drawings Drawings are amounts withdrawn by a partner for personal use during the year. Under the fixed capital method, these routine withdrawals are debited to the partner's Current Account, so that they do not alter fixed capital. Drawings must be distinguished from a permanent withdrawal of capital.

Step 3: Conclusion Drawings cannot be recorded in the fixed Capital Account. Hence, the correct option is (A).

Quick Tip to Solve: Ask whether a withdrawal permanently changes invested capital: if it is only routine personal drawings, use Current Account.

3. Ashu and Basu are partners sharing profits and losses in the ratio of 2 : 1. Chetan is admitted as a new partner with 1/4th share in the profits which he acquires equally from Ashu and Basu. The new profit sharing ratio between Ashu, Basu and Chetan will be : [1 mark]

(A) 13 : 5 : 6

(B) 13 : 2 : 1

(C) 2 : 13 : 5

(D) 1 : 1 : 1

Correct Answer: (A) 13 : 5 : 6

Solution:

Concept:

- A partner's new profit share equals the old share less the share sacrificed to the incoming partner.
- An incoming partner acquiring a share equally from two partners takes half of that share from each, irrespective of their old ratio.

Step 1: Calculate the equal sacrifices Ashu and Basu have old shares $2/3$ and $1/3$. Chetan receives $1/4$, acquired equally, so each old partner sacrifices

$$\frac{1}{4} \times \frac{1}{2} = \frac{1}{8}.$$

Equal sacrifice does not mean that the new shares of all partners are equal.

Step 2: Calculate and compare the new shares

$$\text{Ashu} = \frac{2}{3} - \frac{1}{8} = \frac{13}{24},$$
$$\text{Basu} = \frac{1}{3} - \frac{1}{8} = \frac{5}{24},$$
$$\text{Chetan} = \frac{1}{4} = \frac{6}{24}.$$

Their numerators sum to 24. Options (B) and (C) do not preserve these individual shares, and (D) incorrectly makes the shares equal.

Step 3: Conclusion The new profit-sharing ratio is $13 : 5 : 6$. Hence, the correct option is (A).

Quick Tip to Solve: Convert the incoming share to an equal sacrifice per old partner first, then subtract from each old fraction.

4(i). On 1st January, 2023, Abhishek, a partner, advanced a loan of Rs. 3,00,000 to the firm. In the absence of a partnership agreement, the amount of interest on the loan for the year ending 31st March, 2023 will be : [1 mark]

(A) Rs. 18,000

(B) Rs. 4,500

(C) Rs. 9,000

(D) No interest will be provided

Correct Answer: (B) Rs. 4,500

Solution:

Concept:

- In the absence of a partnership agreement, interest on a partner's loan to the firm is allowed at 6% per annum.
- Interest for part of a year is $P \times r \times t/12$, where P is loan principal, r is the annual rate as a fraction and t is the number of months.

Step 1: Determine the applicable rate and period The loan of Rs 3,00,000 was advanced on 1 January 2023 and the accounts close on 31 March 2023. The loan is outstanding for three months. Since no agreement specifies a rate, use 6% per annum.

Step 2: Calculate the interest and test the alternatives

$$\text{Interest} = 3,00,000 \times \frac{6}{100} \times \frac{3}{12} = \text{Rs } 4,500.$$

Rs 18,000 is interest for a full year, and Rs 9,000 is interest for six months. The absence of an agreement does not eliminate interest on a partner's loan, so the no-interest option is incorrect.

Step 3: Conclusion Interest on Abhishek's loan is Rs 4,500. Hence, the correct option is (B).

Quick Tip to Solve: For a partner's loan with no agreed rate, use 6 percent per annum and count only the months the loan is outstanding.

OR

4(ii). If a partner withdraws a fixed amount at the end of each quarter, interest on drawings will be charged for _____ months. [1 mark]

(A) 9

(B) 7 1/2

(C) 6

(D) 4 1/2

Correct Answer: (D) 4 1/2

Solution:

Concept:

- For equal drawings at equal intervals, interest may be calculated on total drawings for their average outstanding period.
- The average period is the arithmetic mean of the time intervals from each withdrawal date to the year-end.

Step 1: List the outstanding periods Quarter-end withdrawals occur at the end of the third, sixth, ninth and twelfth months. They therefore remain outstanding for 9, 6, 3 and 0 months respectively. The final withdrawal is made at year-end and earns no interest for that year.

Step 2: Calculate the average period

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

Nine months relates only to the first drawing. Six months is the average for middle-of-quarter drawings, while $7\frac{1}{2}$ months applies to beginning-of-quarter drawings, not quarter-end withdrawals.

Step 3: Conclusion Interest is charged for an average of $4\frac{1}{2}$ months. Hence, the correct option is (D).

Quick Tip to Solve: For equal quarterly drawings at year-end quarter dates, average the first period of 9 months and the last period of zero months.

5(i). Bhim, Arjun and Nakul were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 3. With effect from 1st April, 2023, they agreed to share profits equally. Due to change in the profit sharing ratio, Arjun's gain or sacrifice will be : [1 mark]

(A) Sacrifice 1/30

(B) Gain 1/30

(C) Sacrifice 1/15

(D) Gain 1/15

Correct Answer: (B) Gain 1/30

Solution:

Concept:

- A partner gains when the new profit share exceeds the old share; gain equals new share minus old share.
- Express the old and new fractions with a common denominator before calculating the change.

Step 1: Identify Arjun's old and new shares The old ratio is $4 : 3 : 3$, with total parts $4 + 3 + 3 = 10$. Arjun's old share is therefore $3/10$. Equal sharing by the three partners gives him a new share of $1/3$.

Step 2: Determine the size and nature of the change

$$\text{Arjun's gain} = \frac{1}{3} - \frac{3}{10} = \frac{10 - 9}{30} = \frac{1}{30}.$$

The result is positive, so it is a gain, not a sacrifice. Both sacrifice options have the wrong nature, and a gain of $1/15$ would be twice the actual increase.

Step 3: Conclusion Arjun gains $1/30$ of the profits. Hence, the correct option is (B).

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

OR

5(ii). Neeru and Meetu are partners in a firm with capitals of Rs. 2,00,000 and Rs. 1,50,000 respectively. If the firm earned a profit of Rs. 17,500 for the year ended 31st March, 2023, then interest on capital @ 10% p.a. would be : [1 mark]

(A) Neeru Rs. 15,000; Meetu Rs. 20,000

(B) Neeru Rs. 8,750; Meetu Rs. 8,750

(C) Neeru Rs. 20,000; Meetu Rs. 15,000

(D) Neeru Rs. 10,000; Meetu Rs. 7,500

Correct Answer: (D) Neeru Rs. 10,000; Meetu Rs. 7,500

Solution:

Concept:

- Interest on capital is an appropriation of profit, unless the partnership agreement expressly makes it a charge.
- When available profit is less than the total interest entitlement, distribute that profit in the ratio of the partners' interest entitlements.

Step 1: Calculate the full interest entitlements

$$\text{Neeru} = 2,00,000 \times 10\% = \text{Rs } 20,000,$$
$$\text{Meetu} = 1,50,000 \times 10\% = \text{Rs } 15,000.$$

Their total entitlement is Rs 35,000, but available profit is only Rs 17,500. The entitlement ratio is $20,000 : 15,000 = 4 : 3$.

Step 2: Allocate the available profit proportionately

$$\text{Neeru} = 17,500 \times \frac{4}{7} = \text{Rs } 10,000,$$
$$\text{Meetu} = 17,500 \times \frac{3}{7} = \text{Rs } 7,500.$$

These amounts exhaust the available profit. Options (A) and (C) exceed that profit; option (B) divides it equally despite unequal interest entitlements.

Step 3: Conclusion Interest on capital is Rs 10,000 for Neeru and Rs 7,500 for Meetu. Hence, the correct option is (D).

Quick Tip to Solve: When profit is exactly half the full interest entitlement, allow each partner half of that partner's calculated interest.

6. At the time of dissolution of a firm, the total assets were Rs. 6,00,000 and outside liabilities were Rs. 2,40,000. If assets realised Rs. 7,20,000 and realisation expenses of Rs. 8,000 were paid, the profit or loss on realisation will be : [1 mark]

(A) Loss Rs. 1,20,000

(B) Profit Rs. 1,20,000

(C) Loss Rs. 1,12,000

(D) Profit Rs. 1,12,000

Correct Answer: (D) Profit Rs. 1,12,000

Solution:

Concept:

- Realisation profit is the gain on disposing of assets and settling outside liabilities, less realisation expenses.
- When no different settlement amount is specified, outside liabilities are settled at book value and create neither a gain nor a loss.

Step 1: Find the surplus on asset realisation Assets with a book value of Rs 6,00,000 realise Rs 7,20,000. The gain on assets before dissolution expenses is

$$7,20,000 - 6,00,000 = \text{Rs } 1,20,000.$$

The outside liabilities of Rs 2,40,000 are transferred and settled at the same amount, so their net effect on realisation profit is zero.

Step 2: Deduct the realisation expenses

$$\text{Realisation profit} = 1,20,000 - 8,000 = \text{Rs } 1,12,000.$$

The result remains positive, eliminating both loss options. Rs 1,20,000 is the gain before expenses and therefore overstates the final profit by Rs 8,000.

Step 3: Conclusion The profit on realisation is Rs 1,12,000. Hence, the correct option is (D).

Quick Tip to Solve: First compare asset proceeds with book value, then deduct expenses; book-value settlement of liabilities has no net profit effect.

7. On 1st April, 2022, Mega Ltd. issued 30,000, 10% Debentures of Rs. 100 each at a discount of 10%. The total amount of interest due on debentures for the year ending 31st March, 2023 will be : [1 mark]

(A) Rs. 2,70,000

(B) Rs. 3,00,000

(C) Rs. 27,000

(D) Rs. 30,000

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

Solution:

Concept:

- Interest on debentures is calculated on their nominal or face value, irrespective of the discount or premium on issue.
- For a full year, interest equals the number of debentures multiplied by face value per debenture and the annual coupon rate.

Step 1: Find the nominal amount The company issued 30,000 debentures of Rs 100 each. Hence their total face value is

$$30,000 \times 100 = \text{Rs } 30,00,000.$$

The discount reduces the issue proceeds to Rs 27,00,000; it does not reduce the contractual principal used to calculate interest.

Step 2: Apply the coupon rate for one year The period from 1 April 2022 to 31 March 2023 is one complete year. Thus

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

Option (A) incorrectly uses issue proceeds as the base. Options (C) and (D) have incorrect magnitudes and do not equal 10% of the nominal amount.

Step 3: Conclusion Total interest due is Rs 3,00,000. Hence, the correct option is (B).

Quick Tip to Solve: For debenture interest, circle the face value and coupon rate; ignore the issue discount when choosing the interest base.

8(i). Kishore and Bimal are partners in a firm sharing profits and losses in the ratio of 4 : 3. Nand is admitted as a new partner in the firm for 1/4th share in the profits. Kishore and Bimal decide to share profits and losses equally in the future. The sacrificing ratio of Kishore and Bimal will be : [1 mark]

(A) 1 : 1

(B) 4 : 3

(C) 11 : 3

(D) 3 : 11

Correct Answer: (C) 11 : 3

Solution:

Concept:

- A partner's sacrifice equals the old profit share minus the new profit share.
- The incoming partner receives $1/4$, leaving $3/4$ for the two existing partners; they divide this remainder equally.

Step 1: Find the new shares Kishore and Bimal originally have shares $4/7$ and $3/7$. After Nand receives $1/4$, the share of each existing partner is

$$\frac{1-1/4}{2}=\frac{3}{8}.$$

Equal future shares refer to the remaining three-fourths; they do not mean each old partner receives one-half of total profits.

Step 2: Calculate and compare their sacrifices

$$\text{Kishore}: \frac{4}{7}-\frac{3}{8}=\frac{11}{56},$$
$$\text{Bimal}: \frac{3}{7}-\frac{3}{8}=\frac{3}{56}.$$

Their sacrifices add to $14/56 = 1/4$, exactly Nand's share. The sacrificing ratio is $11 : 3$. Option (A) confuses equal new shares with equal sacrifices; (B) repeats the old ratio; (D) reverses the partners' order.

Step 3: Conclusion The sacrificing ratio of Kishore and Bimal is $11 : 3$. Hence, the correct option is (C).

Quick Tip to Solve: First divide the remainder after Nand's share equally, then subtract each new share from that partner's old share.

OR

8(ii). Raju, Sohan and Tina are partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. Tina is guaranteed a minimum amount of Rs. 40,000 as share of profit every year. Any deficiency arising on that account shall be borne by Raju. If profit of the firm for the year ended 31st March, 2023 is Rs. 1,60,000, Raju will bear a deficiency of : [1 mark]

(A) Rs. 8,000

(B) Rs. 40,000

(C) Rs. 48,000

(D) Rs. 4,000

Correct Answer: (A) Rs. 8,000

Solution:

Concept:

- A guaranteed partner first receives the normal profit share under the agreed profit-sharing ratio.
- The deficiency is the guaranteed minimum less the normal entitlement, and is borne by the partner specified in the guarantee.

Step 1: Find Tina's normal entitlement The ratio $2 : 2 : 1$ contains five total shares. Tina's ordinary share of the year's profit is

$$1,60,000 \times \frac{1}{5} = \text{Rs } 32,000.$$

This is below her guaranteed minimum of Rs 40,000, so a deficiency arises.

Step 2: Allocate the guaranteed shortfall

$$\text{Deficiency} = 40,000 - 32,000 = \text{Rs } 8,000.$$

The agreement makes Raju alone responsible, so the whole shortfall is charged to him. Rs 40,000 is the guaranteed amount, not the shortfall. Rs 48,000 is not the difference, and Rs 4,000 would wrongly split the shortfall between two partners. As a check, final shares are Raju Rs 56,000, Sohan Rs 64,000 and Tina Rs 40,000, totalling Rs 1,60,000.

Step 3: Conclusion Raju bears a deficiency of Rs 8,000. Hence, the correct option is (A).

Quick Tip to Solve: Calculate Tina's one-fifth share first; subtract it from Rs 40,000 and charge the whole difference to Raju.

9. ***Assertion (A) :*** **The court does not intervene when dissolution of partnership takes place.**

Reason (R) : **Dissolution of partnership takes place by mutual agreement between the partners.**

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

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

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

(C) Assertion (A) is incorrect, but Reason (R) is correct.

(D) Assertion (A) is correct, but Reason (R) is incorrect.

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

Solution:

Concept:

- Dissolution of partnership changes the existing relationship among partners; the firm may continue after reconstitution.
- In the CBSE distinction, dissolution of partnership is by mutual agreement without court intervention, whereas dissolution of a firm may also be ordered by a court.

Step 1: Evaluate the assertion Assertion (A) is correct. It refers to dissolution of partnership, meaning a change in the existing partnership arrangement. The partners settle that change themselves, and the court does not intervene in this reconstitution. This must be distinguished from dissolution of the firm, which ends its business and may involve a court order.

Step 2: Evaluate the reason Reason (R) is correct. The partners mutually agree to change their existing relationship, for example when an incoming partner is admitted and a new agreement governs future profit sharing.

Step 3: Check the explanatory link The mutual agreement stated in the reason explains why judicial intervention is unnecessary in the assertion. Thus option (B) wrongly denies the link, while (C) and (D) wrongly treat one of the two statements as incorrect.

Step 4: Conclusion Both statements are correct and Reason (R) correctly explains Assertion (A). Hence, the correct option is (A).

Quick Tip to Solve: Identify whether the statement concerns dissolution of the partnership relationship or dissolution of the firm before judging court intervention.

10. Maharaja Ltd. took over assets of Rs. 15,00,000 and liabilities of Rs. 2,00,000 of Dolphin Ltd. for an agreed purchase consideration of Rs. 12,60,000. It was agreed that the purchase consideration will be paid by issuing 11% Debentures of Rs. 100 each at 10% discount. The number of debentures issued will be : [1 mark]

(A) 13,000

(B) 12,600

(C) 10,000

(D) 14,000

Correct Answer: (D) 14,000

Solution:

Concept:

- The number of debentures issued to discharge purchase consideration equals the agreed consideration divided by the issue price per debenture.
- Issue price equals face value less issue discount; the coupon percentage determines interest, not the issue price.

Step 1: Calculate the issue price Each debenture has face value Rs 100 and is issued at a 10% discount. Thus

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

The 11% coupon rate does not enter this calculation.

Step 2: Divide the agreed consideration by issue price

$$\text{Number of debentures} = \frac{12,60,000}{90} = 14,000.$$

Check: $14,000 \times 90 = \text{Rs } 12,60,000$. The net assets of Rs 13,00,000 do not replace the explicitly agreed consideration. Option (A) confuses net assets with the payment basis; (B) divides consideration by face value; (C) does not discharge the required amount.

Step 3: Conclusion The company issues 14,000 debentures. Hence, the correct option is (D).

Quick Tip to Solve: For payment through discounted debentures, divide the agreed purchase consideration by Rs 90, not by their Rs 100 face value.

11. Misha Ltd. issued 6,000, 8% Debentures of Rs. 100 each at Rs. 96 per debenture. 8% Debentures Account will be credited by : [1 mark]

(A) Rs. 5,76,000

(B) Rs. 24,000

(C) Rs. 6,00,000

(D) Rs. 60,000

Correct Answer: (C) Rs. 6,00,000

Solution:

Concept:

- Debentures Account is credited with the total face value of the debentures issued.
- When issue price is below face value, the difference is a discount on issue; it does not reduce the credit to Debentures Account.

Step 1: Compute the nominal liability The nominal value of each debenture is Rs 100 and 6,000 debentures are issued. Therefore

$$\text{Credit to 8\% Debentures Account} = 6,000 \times 100 = \text{Rs } 6,00,000.$$

The company recognises its full nominal debenture liability even though it receives less cash.

Step 2: Distinguish cash proceeds from discount Cash received is $6,000 \times 96 = \text{Rs } 5,76,000$, while discount is $6,000 \times (100 - 96) = \text{Rs } 24,000$. Their sum is Rs 6,00,000. Thus (A) is cash proceeds, (B) is discount, and (D) is neither the nominal liability nor the proceeds. The 8% rate relates to interest and is irrelevant to the amount credited on issue.

Step 3: Conclusion 8% Debentures Account is credited with Rs 6,00,000. Hence, the correct option is (C).

Quick Tip to Solve: Keep three figures separate: nominal liability Rs 6,00,000, cash received Rs 5,76,000 and issue discount Rs 24,000.

12(i). Nominal/Authorised share capital is : [1 mark]

(A) that part of the share capital which is issued by the company.

(B) the amount of share capital which is actually applied for by the prospective shareholders.

(C) the maximum amount of share capital which a company is authorised to issue.

(D) the amount actually paid by the shareholders.

Correct Answer: (C) the maximum amount of share capital which a company is authorised to issue.

Solution:

Concept:

- Authorised capital, also called nominal or registered capital, is the maximum share capital a company is authorised to issue under its memorandum.
- Issued, subscribed and paid-up capital describe later stages of the share-capital process rather than

this maximum limit.

Step 1: Identify the defining feature The key word is maximum. Authorised capital sets the permitted ceiling for share issues. The company need not issue its entire authorised capital immediately, so the authorised amount may exceed the amount presently offered to investors.

Step 2: Compare all four descriptions Option (A) describes issued capital, the part offered for subscription. Option (B) describes subscribed capital, the amount applied for by prospective shareholders. Option (C) states the maximum amount the company is authorised to issue and matches nominal capital. Option (D) describes paid-up capital, the amount actually paid by shareholders; it does not describe the authorised ceiling.

Step 3: Conclusion Nominal/authorised capital is the maximum amount of share capital the company is authorised to issue. Hence, the correct option is (C).

Quick Tip to Solve: Match maximum permitted with authorised, offered with issued, applied for with subscribed, and actually paid with paid-up capital.

OR

12(ii). The debentures which do not have a specific charge on the assets of the company are called :

[1 mark]

(A) Redeemable Debentures

(B) Unsecured Debentures

(C) Zero Coupon Rate Debentures

(D) Non-Convertible Debentures

Correct Answer: (B) Unsecured Debentures

Solution:

Concept:

- Secured debentures carry a charge on company assets; unsecured or naked debentures do not carry such a charge.
- Redemption, coupon rate and convertibility are separate bases of classifying debentures.

Step 1: Identify the relevant classification The question focuses on the absence of a specific charge on company assets. This is a classification by security. Debentures without that security are called unsecured debentures, also known as naked debentures.

Step 2: Eliminate unrelated categories Redeemable debentures in (A) are classified by repayment terms. Zero coupon rate debentures in (C) are classified by interest terms. Non-convertible debentures in (D) cannot be converted into equity shares and are classified by convertibility. None of these three descriptions, by itself, establishes whether assets secure the borrowing. Option (B) directly addresses the security condition given.

Step 3: Conclusion These are unsecured debentures. Hence, the correct option is (B).

Quick Tip to Solve: Use the feature in the question: charge on assets means security, coupon means interest, and conversion means exchange into shares.

13. Manas and Ranvir are partners in a firm having capital balances of Rs. 1,20,000 and Rs. 80,000 respectively. Sanju is admitted as a new partner in the firm for 1/5th share in future profits. Sanju brought Rs. 1,00,000 as his capital. The goodwill of the firm on Sanju's admission will be : [1 mark]

(A) Rs. 5,00,000

(B) Rs. 2,00,000

(C) Rs. 3,00,000

(D) Rs. 1,00,000

Correct Answer: (B) Rs. 2,00,000

Solution:

Concept:

- Total implied capital of the firm equals the incoming partner's capital divided by the incoming partner's profit share.
- Hidden goodwill equals that implied total value less the combined actual capitals of all partners after admission.

Step 1: Find the implied total value Sanju brings Rs 1,00,000 for a $1/5$ share of future profits. The implied capitalised value of the whole firm is

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

This is the total implied value, not goodwill by itself.

Step 2: Deduct the actual combined capitals

$$\begin{aligned} \text{Actual total capital} &= 1,20,000 + 80,000 + 1,00,000 \\ &= \text{Rs } 3,00,000, \\ \text{Hidden goodwill} &= 5,00,000 - 3,00,000 \\ &= \text{Rs } 2,00,000. \end{aligned}$$

Option (A) gives implied total value; (C) gives actual combined capital; (D) gives Sanju's capital contribution. None of those amounts is the excess representing goodwill.

Step 3: Conclusion Goodwill of the firm is Rs 2,00,000. Hence, the correct option is (B).

Quick Tip to Solve: Include Sanju's Rs 1,00,000 in actual total capital before subtracting it from the Rs 5,00,000 implied value.

14–15. ***Read the following hypothetical situation and answer Questions No. 14 and 15 on the basis of the given information.***

Vivek and Nisha were partners in a firm sharing profits and losses in the ratio of 3 : 2. On 1st April, 2022, their capitals were Rs. 8,00,000 and Rs. 4,00,000 respectively. On 1st July, 2022, Vivek introduced additional capital of Rs. 2,00,000. During the year, Vivek's drawings were Rs. 40,000 while drawings of Nisha were Rs. 80,000. As per the partnership agreement, interest on capital is allowed @ 6% p.a., interest on drawings will be charged @ 5% p.a. The net profit for the year ended 31st March, 2023 amounted to Rs. 6,50,000.

14. Interest on capital payable to Vivek will be : [1 mark]

(A) Rs. 48,000

(B) Rs. 60,000

(C) Rs. 57,000

(D) Rs. 24,000

Correct Answer: (C) Rs. 57,000

Solution:

Concept:

- Interest on capital is calculated separately for each capital contribution: $I = C \times r \times t/12$, where C is capital, r is the annual rate and t is the number of months employed.
- Ordinary drawings are dealt with separately; they do not reduce the opening capital used for this calculation.

Step 1: Calculate interest on the opening capital Vivek's opening capital of Rs 8,00,000 remains invested for the full accounting year from 1st April, 2022 to 31st March, 2023. Thus, interest on this contribution is

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

Step 2: Calculate interest on the additional capital The additional Rs 2,00,000 was introduced on 1st July, 2022, so it earns interest for nine months, July to March:

$$2,00,000 \times \frac{6}{100} \times \frac{9}{12} = \text{Rs } 9,000.$$

Option (A) ignores this additional contribution; (B) incorrectly gives it a full year of interest. Option (D), Rs 24,000, is interest on Nisha's opening capital, not Vivek's.

Step 3: Conclusion Total interest payable to Vivek is $48,000 + 9,000 = \text{Rs } 57,000$. Hence, the correct option is (C).

Quick Tip to Solve: Keep the opening capital and July contribution separate; only the latter gets the nine-month multiplier.

15. The amount of interest on drawings of Nisha would be : [1 mark]

(A) Rs. 2,000

(B) Rs. 1,000

(C) Rs. 4,000

(D) Rs. 4,800

Correct Answer: (A) Rs. 2,000

Solution:

Concept:

- When total drawings during a year are given without withdrawal dates, interest is calculated for the average period of six months.
- Interest on drawings equals total drawings multiplied by the annual rate and the fraction of the year for which they are outstanding.

Step 1: Identify the amount and average period Nisha withdrew Rs 80,000 during the year. As no individual withdrawal dates are supplied, apply the usual average-period convention of six months. Use the stated drawings rate of 5%, not the 6% rate allowed on capital.

Step 2: Calculate and compare the options

$$I = 80,000 \times \frac{5}{100} \times \frac{6}{12} = \text{Rs } 2,000.$$

Rs 4,000 in option (C) charges interest for a whole year. Rs 1,000 in option (B) results from applying the same six-month calculation to Vivek's Rs 40,000 drawings. Rs 4,800 in option (D) incorrectly uses the capital rate of 6% for a full year.

Step 3: Conclusion Interest on Nisha's drawings is Rs 2,000. Hence, the correct option is (A).

Quick Tip to Solve: For undated annual drawings, multiply by one-half after applying the drawings rate; do not use the capital-interest rate.

16. ***Assertion (A) :*** **In a partnership firm, at the time of admission, the new partner brings in an agreed amount of capital either in cash or in kind.**

Reason (R) : **In a partnership firm, at the time of admission, the new partner acquires the right to share the assets and the profits of the partnership firm.**

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

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

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

(C) Assertion (A) is incorrect, but Reason (R) is correct.

(D) Assertion (A) is correct, but Reason (R) is incorrect.

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

Solution:

Concept:

- An incoming partner contributes the capital agreed with the existing partners, either in cash or by bringing other assets.
- Admission gives the new partner rights in the assets of the firm and a share in its future profits. Capital compensates for the asset right; goodwill premium compensates for the profit-sharing right.

Step 1: Examine the assertion The assertion correctly describes the agreed capital contribution made on admission. Capital need not always be cash: agreed assets contributed in kind can also constitute capital. Hence Assertion (A) is true.

Step 2: Examine the reason The reason correctly states the two rights acquired by an incoming partner: a right to share in the partnership assets and a right to share in future profits. Hence Reason (R) is true.

Step 3: Check the explanatory connection The incoming partner obtains an interest in the assets when admitted, and the agreed capital contribution supports that ownership interest. Thus the rights stated in the reason explain the capital contribution in the assertion. The separate goodwill adjustment relates to the right to future profits. Options (C) and (D) incorrectly reject a true statement; (B) overlooks the explanatory link.

Step 4: Conclusion Both Assertion (A) and Reason (R) are correct, and Reason (R) correctly explains Assertion (A). Hence, the correct option is (A).

Quick Tip to Solve: On admission, link capital to the right in assets and goodwill to the right in future profits before judging the explanation.

17(a). Prateek, Charu and Sirima were partners in a firm sharing profits in the ratio of 3 : 2 : 1. Prateek retired from the firm on 31st March, 2023. Charu and Sirima decided that the capital of the new firm will be Rs. 6,30,000. The capital accounts of Charu and Sirima after all adjustments on the date of retirement showed a credit balance of Rs. 4,35,000 and Rs. 1,89,000 respectively. Calculate the amount of actual cash to be brought into the firm or to be paid to the partners. Also pass necessary journal entries. [3 marks]

Solution:

Concept:

- After all retirement adjustments, the continuing partners compare their adjusted capitals with the capital required in their new profit-sharing ratio.
- An excess is paid to the partner by debiting capital and crediting Bank; a deficiency is brought in by debiting Bank and crediting capital.

Step 1: Working Notes: determine the required capitals No different ratio is specified for Charu and Sirima, so their old relative shares continue as $2:1$. Divide the new firm's capital of Rs 6,30,000 accordingly:

$$\text{Charu} = 6,30,000 \times \frac{2}{3} = \text{Rs } 4,20,000,$$

$$\text{Sirima} = 6,30,000 \times \frac{1}{3} = \text{Rs } 2,10,000.$$

These are the target closing capitals, after the cash adjustment.

Step 2: Compare with the adjusted balances Charu already has Rs 4,35,000, which exceeds the required Rs 4,20,000 by Rs 15,000; the firm must refund the excess. Sirima has only Rs 1,89,000, which is short of Rs 2,10,000 by Rs 21,000; she must bring in the deficiency. The net cash inflow is Rs 6,000, reconciling the present total capital of Rs 6,24,000 with Rs 6,30,000.

Step 3: Record the cash adjustments Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2023	Charu's Capital A/c Dr. To Bank A/c (Being excess capital refunded to Charu)		15,000	 15,000
31-3-2023	Bank A/c Dr. To Sirima's Capital A/c (Being capital deficiency brought in by Sirima)		21,000	 21,000

Each entry has equal debit and credit amounts. These cash movements make both partners' capitals proportional to the continuing profit-sharing ratio.

Step 4: Conclusion Charu is paid Rs 15,000 and Sirima brings in Rs 21,000. Their final capitals are Rs 4,20,000 and Rs 2,10,000 respectively, totalling Rs 6,30,000.

Quick Tip to Solve: Calculate each target capital first, then subtract the adjusted capital: a positive difference means cash must be brought in.

OR

17(b). Chaman, Burman and Aman were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Aman was guaranteed a minimum amount of Rs. 60,000 as his share of profit every year. The net profit for the year ended 31st March, 2023 amounted to Rs. 1,20,000.

Pass necessary journal entries in the books of the firm showing the distribution of profit amongst the partners. [3 marks]

Solution:

Concept:

- First distribute the actual profit in the agreed profit-sharing ratio and compare the guaranteed partner's normal share with the minimum guaranteed amount.
- Unless a special guarantee-bearing ratio is stated, the other partners bear the deficiency in their mutual profit-sharing ratio.

Step 1: Working Notes: distribute the profit normally The ratio is $3 : 2 : 1$, totalling six parts. On Rs 1,20,000, the normal shares are

$$\begin{aligned} \text{Chaman} &= 1,20,000 \times 3/6 = \text{Rs } 60,000, \\ \text{Burman} &= 1,20,000 \times 2/6 = \text{Rs } 40,000, \\ \text{Aman} &= 1,20,000 \times 1/6 = \text{Rs } 20,000. \end{aligned}$$

Aman's guarantee therefore creates a deficiency of $60,000 - 20,000 = \text{Rs } 40,000$.

Step 2: Allocate the deficiency to Chaman and Burman No special ratio for bearing the guarantee is given. Chaman and Burman bear the Rs 40,000 shortfall in their mutual ratio $3 : 2$: Chaman bears $40,000 \times 3/5 = \text{Rs } 24,000$, and Burman bears $40,000 \times 2/5 = \text{Rs } 16,000$. Consequently their shares become Rs 36,000 and Rs 24,000, while Aman receives Rs 60,000. The guarantee reallocates existing profit; it does not create additional profit.

Step 3: Pass the distribution and guarantee entries Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
31-3-2023	Profit and Loss Appropriation A/c Dr.		1,20,000	
	To Chaman's Capital A/c			60,000
	To Burman's Capital A/c			40,000
	To Aman's Capital A/c			20,000
	(Being profit distributed in the ratio 3:2:1)			
31-3-2023	Chaman's Capital A/c Dr.		24,000	
	Burman's Capital A/c Dr.		16,000	
	To Aman's Capital A/c			40,000
	(Being Aman's guarantee deficiency borne by Chaman and Burman in 3:2)			

The first entry transfers the year's distributable profit; the second adjusts the partners' shares to honour the guarantee.

Step 4: Conclusion Final profit shares are: Chaman Rs 36,000, Burman Rs 24,000 and Aman Rs 60,000. They total Rs 1,20,000, and Aman receives his guaranteed minimum.

Quick Tip to Solve: Find the guaranteed partner's shortfall first; share only that shortfall among the guarantors in their mutual ratio.

18. Anu, Manu, Sonu and Rohan were partners in a firm sharing profits and losses in the ratio of 1 : 2 : 1 : 2. With effect from 1st April, 2023, they decided to share profits and losses in the ratio of 2 : 4 : 1 : 3. Their Balance Sheet showed General Reserve of Rs. 90,000. The goodwill of the firm was valued at Rs. 4,50,000.

Pass necessary journal entries for the above on account of change in the profit sharing ratio. Show your working clearly. [3 marks]

Solution:

Concept:

- Accumulated reserves belong to the partners in the old profit-sharing ratio and are credited to their capital accounts in that ratio.
- For goodwill adjustment, a partner's gain equals new share minus old share. Gaining partners compensate sacrificing partners; goodwill need not be raised as an asset.

Step 1: Working Notes: distribute the general reserve In the old ratio $1:2:1:2$, the Rs 90,000 General Reserve is credited as follows: Anu $90,000/6 =$ Rs $15,000$, Manu $90,000 \times 2/6 =$ Rs $30,000$, Sonu Rs 15,000 and Rohan Rs 30,000. The credits total Rs 90,000.

Step 2: Working Notes: compute the goodwill compensation The new ratio $2:4:1:3$ has ten parts. Using a common denominator of 30,

$$\begin{aligned}\text{Anu gain} &= 2/10 - 1/6 = 1/30,\\ \text{Manu gain} &= 4/10 - 2/6 = 2/30,\\ \text{Sonu sacrifice} &= 1/6 - 1/10 = 2/30,\\ \text{Rohan sacrifice} &= 2/6 - 3/10 = 1/30.\end{aligned}$$

Multiply each fraction by goodwill of Rs 4,50,000. Anu is debited Rs 15,000 and Manu Rs 30,000; Sonu is credited Rs 30,000 and Rohan Rs 15,000. Total gain equals total sacrifice: $3/30$.

Step 3: Record the reserve and goodwill adjustments Journal of the Firm

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
1-4-2023	General Reserve A/c Dr.		90,000	
	To Anu's Capital A/c			15,000
	To Manu's Capital A/c			30,000
	To Sonu's Capital A/c			15,000
	To Rohan's Capital A/c			30,000
	(Being general reserve distributed in the old ratio 1:2:1:2)			
1-4-2023	Anu's Capital A/c Dr.		15,000	
	Manu's Capital A/c Dr.		30,000	
	To Sonu's Capital A/c			30,000
	To Rohan's Capital A/c			15,000
	(Being goodwill adjusted between gaining and sacrificing partners)			

Step 4: Conclusion Distribute the Rs 90,000 reserve in the old ratio. Adjust Rs 45,000 goodwill compensation by debiting Anu and Manu and crediting Sonu and Rohan as shown above.

Quick Tip to Solve: Use old shares for reserve, but the change in shares for goodwill; the total gain must equal the total sacrifice.

19(a). Priti Ltd. purchased assets worth Rs. 5,40,000 and took over liabilities of Rs. 1,20,000 of Payal Ltd. for a purchase consideration of Rs. 5,28,000. Priti Ltd. paid half the amount by cheque and the balance was settled by issuing 10% Debentures of Rs. 100 each at a premium of 10%.

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

Solution:

Concept:

- Net assets acquired equal assets taken over minus liabilities assumed. Goodwill is the excess of purchase consideration over net assets.
- Debentures issued at a premium settle the vendor's claim at their issue price. Credit Debentures Account with face value and Securities Premium Account with the excess.

Step 1: Working Notes: calculate goodwill and the debenture issue The purchase consideration is the agreed amount payable to Payal Ltd.; it is not the net book value of its assets.

$$\text{Net assets} = 5,40,000 - 1,20,000 = \text{Rs } 4,20,000,$$
$$\text{Goodwill} = 5,28,000 - 4,20,000 = \text{Rs } 1,08,000.$$

Half of the consideration is paid by cheque, leaving the same amount to be discharged by debentures.

$$\text{Cash and debenture portions (each)} = 5,28,000/2 = \text{Rs } 2,64,000,$$
$$\text{Issue price per debenture} = 100 + 10 = \text{Rs } 110,$$
$$\text{Number issued} = 2,64,000/110 = 2,400,$$
$$\text{Face value issued} = 2,400 \times 100 = \text{Rs } 2,40,000,$$
$$\text{Securities premium} = 2,400 \times 10 = \text{Rs } 24,000.$$

The 10% coupon rate describes interest on the debentures; no interest payment is involved in these purchase entries.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Business Purchase A/c Dr. To Payal Ltd. (Being business purchased for the agreed consideration)		5,28,000	 5,28,000
	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Business Purchase A/c (Being assets and liabilities taken over, with the excess consideration recorded as goodwill)		5,40,000 1,08,000	 1,20,000 5,28,000
	Payal Ltd. Dr. To Bank A/c To 10% Debentures A/c To Securities Premium A/c (Being purchase consideration settled half by cheque and half by 2,400 debentures issued at 10% premium)		5,28,000	 2,64,000 2,40,000 24,000

The acquisition entry balances at Rs 6,48,000. The settlement credits total Rs 5,28,000 and completely discharge the vendor's balance.

Step 3: Conclusion Goodwill is Rs 1,08,000. Priti Ltd. pays Rs 2,64,000 by cheque and issues 2,400 debentures, crediting face value of Rs 2,40,000 and securities premium of Rs 24,000.

Quick Tip to Solve: Divide the non-cash purchase consideration by Rs 110, the issue price, to find the number of debentures; use Rs 100 only for their face-value credit.

OR

19(b). Dhatu Ltd. invited applications for issuing 4,000, 11% Debentures of Rs. 100 each at a premium of Rs. 50 per debenture. Full amount was payable on application. Applications were received for 5,000 debentures. Applications for 1,000 debentures were rejected and application money was refunded. Debentures were allotted to the remaining applicants.

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

Solution:

Concept:

- When the full issue price is payable on application, Bank Account is debited and Debenture Application and Allotment Account is credited with the total cash received.
- Rejected applications are refunded in full. The amount retained for allotted debentures is divided between their face value and securities premium.

Step 1: Working Notes: reconcile applications, refunds and allotment Each applicant pays face value of Rs 100 plus premium of Rs 50, making the application amount Rs 150 per debenture. Although the

company offers only 4,000 debentures, it initially receives money for all 5,000 applications.

$$\begin{aligned}\text{Application money received} &= 5,000 \times 150 = \text{Rs } 7,50,000,\\ \text{Refund on rejected applications} &= 1,000 \times 150 = \text{Rs } 1,50,000,\\ \text{Amount retained} &= 4,000 \times 150 = \text{Rs } 6,00,000,\\ \text{Face value allotted} &= 4,000 \times 100 = \text{Rs } 4,00,000,\\ \text{Securities premium} &= 4,000 \times 50 = \text{Rs } 2,00,000.\end{aligned}$$

No pro-rata allotment or amount carried forward is needed: the 1,000 excess applications are specifically rejected, and the remaining 4,000 are allotted in full. The 11% rate is the annual interest rate, not the premium rate.

Step 2: Pass the receipt, refund and allotment entries **Journal of Dhatu Ltd.**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Debenture Application and Allotment A/c (Being full application money received for 5,000 debentures at Rs 150 each)		7,50,000	 7,50,000
	Debenture Application and Allotment A/c Dr. To Bank A/c (Being application money refunded on 1,000 rejected debentures)		1,50,000	 1,50,000
	Debenture Application and Allotment A/c Dr. To 11% Debentures A/c To Securities Premium A/c (Being 4,000 debentures allotted at a premium of Rs 50 each)		6,00,000	 4,00,000 2,00,000

The application and allotment account is cleared: its Rs 7,50,000 credit equals debits of Rs 1,50,000 and Rs 6,00,000. Net bank receipts equal the issue proceeds of Rs 6,00,000.

Step 3: Conclusion Dhatu Ltd. receives Rs 7,50,000, refunds Rs 1,50,000 and allots 4,000 debentures. The final credits are Rs 4,00,000 to 11% Debentures and Rs 2,00,000 to Securities Premium.

Quick Tip to Solve: Refund rejected applications at the full Rs 150 issue price, including premium; split only the retained amount into face value and premium.

20. On 1st April, 2023, a partnership firm had assets of Rs. 2,00,000 including cash of Rs. 6,000 and bank balance of Rs. 14,000. The partners' capital accounts showed a balance of Rs. 1,90,000 and reserves constituted the rest. If the normal rate of return is 10% and the goodwill of the firm is valued at Rs. 60,000 at 4 years purchase of super profits, find the average profits of the firm. [3 marks]

Solution:

Concept:

- Under the super profit method, goodwill equals super profit multiplied by the number of years' purchase. Super profit is the excess of average profit over normal profit.

- Normal profit equals capital employed multiplied by the normal rate of return. Capital employed is net assets, or partners' capitals plus accumulated reserves when there are no outside liabilities.

Step 1: Establish the capital employed Total assets are Rs 2,00,000. Partners' capitals of Rs 1,90,000 and reserves together finance these assets, so reserves constitute the remaining Rs 10,000:

$$\text{Reserves} = 2,00,000 - 1,90,000 = \text{Rs } 10,000.$$

Thus capital employed includes both partners' capitals and the accumulated reserves retained in the business:

$$\text{Capital employed} = 1,90,000 + 10,000 = \text{Rs } 2,00,000.$$

The cash of Rs 6,000 and bank balance of Rs 14,000 are already included in total assets. They are business assets, so neither subtract them nor add them again. The question identifies no outside liability or non-trade investment requiring an adjustment.

Step 2: Calculate normal profit and recover super profit Apply the normal return of 10% to the whole capital employed, not just the partners' capital account balances:

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

Since Rs 60,000 is the goodwill at four years' purchase of super profits, reverse the goodwill formula:

$$\text{Super profit} = \frac{\text{Goodwill}}{\text{Years' purchase}} = \frac{60,000}{4} = \text{Rs } 15,000.$$

This Rs 15,000 represents the profit above a normal return; it is not the firm's entire average profit.

Step 3: Combine normal profit and super profit Rearranging Super profit = Average profit − Normal profit, we obtain

$$\text{Average profit} = 20,000 + 15,000 = \text{Rs } 35,000.$$

As a check, an average profit of Rs 35,000 produces super profit of Rs 15,000, and four times that excess gives the stated goodwill of Rs 60,000.

Step 4: Conclusion The average profits of the firm are $\boxed{\text{Rs } 35,000}$.

Quick Tip to Solve: Work backwards: divide goodwill by four, then add 10% of capitals plus reserves. Cash and bank are already part of the Rs 2,00,000 assets.

21. Aditi, Renu and Varsha were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 5. On 31st March, 2023 their Balance Sheet was as under :

Balance Sheet of Aditi, Renu and Varsha as at 31st March, 2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals:		Buildings	6,00,000
Aditi 5,00,000		Machinery	3,00,000
Renu 4,00,000		Stock	1,00,000
Varsha 3,00,000	12,00,000	Patents	1,50,000
General Reserve	1,00,000	Debtors	2,50,000
Creditors	2,00,000	Cash	1,00,000
	15,00,000		15,00,000

Varsha died on 31st July, 2023. The partnership deed provided for the following, on the death of a partner :

(i) Interest on capital was to be provided @ 6% p.a.

(ii) Goodwill of the firm was to be valued at 3 years purchase of average profits of the previous five years which were Rs. 90,000.

(iii) Varsha's share of profit or loss till the date of death was to be calculated on the basis of sales. Sales for the year ended 31st March, 2023 amounted to Rs. 60,00,000 and that from 1st April, 2023 to 31st July, 2023 amounted to Rs. 15,00,000. The profit for the year ended 31st March, 2023 was Rs. 12,00,000.

Prepare Varsha's Capital Account to be rendered to her executors. [4 marks]

Solution:

Concept:

- A deceased partner's capital account is credited with her opening capital, share of accumulated reserves, goodwill, interest on capital and profit up to death. The balance is transferred to her executor's account.
- Profit estimated on the sales basis equals sales up to death multiplied by the preceding year's profit-to-sales ratio. Only the deceased partner's old profit share is credited to her capital.

Step 1: Prepare working notes for reserve and goodwill **Working Notes**

Varsha's old share is $5/(3+2+5) = 1/2$. Hence her share of General Reserve is Rs $1,00,000 \times 1/2 =$ Rs $50,000$. The given Rs 90,000 is the average annual profit, so it is multiplied by three years' purchase, not divided by five again:

$$\text{Firm's goodwill} = 90,000 \times 3 = \text{Rs } 2,70,000,$$
$$\text{Varsha's share} = 2,70,000 \times \tfrac{1}{2} = \text{Rs } 1,35,000.$$

In the absence of a changed ratio, Aditi and Renu continue in their relative old ratio of $3 : 2$; their gaining ratio is also $3 : 2$. They bear Varsha's goodwill through their capital accounts: Aditi $1,35,000 \times 3/5 =$ Rs $81,000$, and Renu $1,35,000 \times 2/5 =$ Rs $54,000$.

Step 2: Compute interest and profit up to death From 1st April to 31st July is four months. Interest

on Varsha's capital is therefore

$$3,00,000 \times \frac{6}{100} \times \frac{4}{12} = \text{Rs } 6,000.$$

The preceding year's profit-to-sales ratio is $12,00,000/60,00,000 = 20\%$. Apply this rate to the actual sales up to death:

$$\text{Estimated firm profit} = 15,00,000 \times 20\% = \text{Rs } 3,00,000,$$
$$\text{Varsha's share of profit} = 3,00,000 \times \tfrac{1}{2} = \text{Rs } 1,50,000.$$

This estimated profit is credited through Profit and Loss Suspense Account. The four-month fraction applies to interest; it is not applied again to the profit already calculated from sales for these four months.

Step 3: Prepare Varsha's Capital Account **Varsha's Capital Account (up to 31st July, 2023)**

Dr. Particulars	Rs	Cr. Particulars	Rs
To Varsha's Executor's A/c	6,41,000	By Balance b/d	3,00,000
		By General Reserve A/c	50,000
		By Aditi's Capital A/c	81,000
		By Renu's Capital A/c	54,000
		By Interest on Capital A/c	6,000
		By Profit and Loss Suspense A/c	1,50,000
Total	**6,41,000**	**Total**	**6,41,000**

The credit total is transferred to the executor on the debit side, closing Varsha's capital account. No cash payment is recorded because payment to the executor is not stated.

Step 4: Conclusion The amount due to Varsha's executor is $\boxed{\text{Rs } 6,41,000}$, comprising capital Rs 3,00,000, reserve Rs 50,000, goodwill Rs 1,35,000, interest Rs 6,000 and profit Rs 1,50,000.

Quick Tip to Solve: Use the sales ratio for profit up to death and the time fraction only for interest. Transfer the final capital balance to the executor, rather than assuming it has been paid.

22. RR Ltd. was registered with an authorised capital of Rs. 8,00,000 divided into 80,000 equity shares of Rs. 10 each. The company offered to the public for subscription 40,000 equity shares. The amount per share was payable as follows :

On Application - Rs. 5

On Allotment - Rs. 3

On first and final call - Balance

The issue was fully subscribed and all amounts due were received except the allotment and call money on 2,000 shares allotted to Seema.

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

Solution:

Concept:

- Share capital is shown under Shareholders' Funds within Equity and Liabilities, with a note disclosing authorised, issued, subscribed and paid-up capital.
- Called-up capital less calls in arrears gives paid-up capital. Non-payment alone does not mean forfeiture; the subscribed shares remain outstanding unless forfeiture is stated.

Step 1: Calculate called-up capital and calls in arrears The first and final call is the balance of the Rs 10 face value after application and allotment:

$$\text{Final call per share} = 10 - 5 - 3 = \text{Rs } 2.$$

All 40,000 offered shares were subscribed and the whole face value was called, so subscribed and called-up capital is $40,000 \times 10 = \text{Rs } 4,00,000$. Seema has paid application money but not allotment or call money. Her arrears are

$$\begin{aligned} \text{Allotment arrears} &= 2,000 \times 3 = \text{Rs } 6,000, \\ \text{Call arrears} &= 2,000 \times 2 = \text{Rs } 4,000, \\ \text{Total calls in arrears} &= 6,000 + 4,000 = \text{Rs } 10,000. \end{aligned}$$

The remaining $40,000 - 2,000 = 38,000$ shares are fully paid. Seema's 2,000 shares are subscribed but not fully paid; they have not been forfeited in the printed question.

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

Particulars	Note No.	Amount (Rs)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	3,90,000

The face value of all subscribed shares cannot be shown as paid-up capital because Rs 10,000 is still unpaid. The detailed deduction is disclosed in Note 1.

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

Particulars	Amount (Rs)
Authorised Capital	
80,000 equity shares of Rs 10 each	8,00,000
Issued Capital	
40,000 equity shares of Rs 10 each	4,00,000
Subscribed and Fully Paid-up Capital	
38,000 equity shares of Rs 10 each	3,80,000
Subscribed but Not Fully Paid-up Capital	
2,000 equity shares of Rs 10 each, fully called-up	20,000
Less: Calls in arrears (allotment Rs 6,000; call Rs 4,000)	(10,000)
Paid-up amount on shares not fully paid	10,000
Total Subscribed and Paid-up Capital	**3,90,000**

Working Note: As a receipt check, application money is $40,000 \times 5 = \text{Rs } 2,00,000$, allotment received is $38,000 \times 3 = \text{Rs } 1,14,000$, and call received is $38,000 \times 2 = \text{Rs } 76,000$. These total Rs 3,90,000, agreeing with paid-up share capital.

Step 4: Conclusion RR Ltd. reports $\boxed{\text{Rs } 3,90,000}$ as Share Capital under Shareholders' Funds. Note 1 shows authorised capital Rs 8,00,000, issued and called-up capital Rs 4,00,000, and calls in arrears Rs 10,000.

Quick Tip to Solve: Separate Seema's 2,000 partly paid shares from the 38,000 fully paid shares. Deduct only the unpaid Rs 5 per share, not their entire Rs 10 face value.

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

(i) Kajal Ltd. issued 30,000, 11% Debentures of Rs. 100 each at a discount of 10%, redeemable at a premium of 5%.

(ii) Ninja Ltd. issued 32,000, 8% Debentures of Rs. 100 each at a premium Rs. 20 per debenture, redeemable at a premium of Rs. 10 per debenture.

(iii) Him Ltd. issued 40,000, 13% Debentures of Rs. 100 each at par, redeemable at a premium of 10%. [6 marks]

Solution:

Concept:

- Debentures are credited at their nominal value. Bank is debited with the actual proceeds, while any premium collected on issue is credited to Securities Premium Account.
- Loss on Issue of Debentures comprises the discount allowed on issue plus the premium payable on redemption. The redemption premium is credited to Premium on Redemption of Debentures Account when the debentures are issued.
- The interest rate identifies the debenture account; it does not determine the issue proceeds or redemption premium. These entries record the issue, not annual interest or repayment.

Step 1: Record Kajal Ltd.'s issue at discount **Working Notes:** The nominal value is $30,000 \times \text{Rs } 100 = \text{Rs } 30,00,000$. The issue discount is $10\% \times \text{Rs } 30,00,000 = \text{Rs } 3,00,000$, so the bank receives Rs

27,00,000. The redemption premium is $5\% \times$ Rs $30,00,000 =$ Rs $1,50,000$. Therefore, the total loss recognised at issue is Rs 4,50,000.

Journal of Kajal Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		27,00,000	
	Loss on Issue of Debentures A/c Dr.		4,50,000	
	To 11% Debentures A/c			30,00,000
	To Premium on Redemption of Debentures A/c			1,50,000
	(Being 30,000 debentures of Rs 100 each issued at 10% discount, redeemable at 5% premium)			

The debit and credit totals are each Rs 31,50,000. The redemption premium creates an additional liability even though it is payable later.

Step 2: Record Ninja Ltd.'s issue at premium **Working Notes:** The nominal value is $32,000 \times$ Rs $100 =$ Rs $32,00,000$. Issue proceeds are $32,000 \times$ Rs $120 =$ Rs $38,40,000$, including securities premium of $32,000 \times$ Rs $20 =$ Rs $6,40,000$. Premium payable on redemption is $32,000 \times$ Rs $10 =$ Rs $3,20,000$, which is the loss recognised on issue because there is no issue discount.

Journal of Ninja Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		38,40,000	
	Loss on Issue of Debentures A/c Dr.		3,20,000	
	To 8% Debentures A/c			32,00,000
	To Securities Premium A/c			6,40,000
	To Premium on Redemption of Debentures A/c			3,20,000
	(Being 32,000 debentures of Rs 100 each issued at a premium of Rs 20 each, redeemable at a premium of Rs 10 each)			

Both sides total Rs 41,60,000. Premium received on issue and premium payable on redemption are separate amounts and are recorded in separate accounts.

Step 3: Record Him Ltd.'s issue at par **Working Notes:** Nominal value and bank proceeds are both $40,000 \times$ Rs $100 =$ Rs $40,00,000$. There is no issue discount or securities premium. The redemption premium is $10\% \times$ Rs $40,00,000 =$ Rs $4,00,000$, and hence the loss on issue is Rs 4,00,000.

Journal of Him Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		40,00,000	
	Loss on Issue of Debentures A/c Dr.		4,00,000	
	To 13% Debentures A/c			40,00,000
	To Premium on Redemption of Debentures A/c			4,00,000
	(Being 40,000 debentures of Rs 100 each issued at par, redeemable at 10% premium)			

Both sides total Rs 44,00,000. Issue at par does not remove the loss arising from a contractual redemption premium.

Step 4: Conclusion The losses on issue are Rs 4,50,000 for Kajal Ltd., Rs 3,20,000 for Ninja Ltd. and

Rs 4,00,000 for Him Ltd. Ninja Ltd. separately credits securities premium of Rs 6,40,000. The entries above recognise the issue proceeds, nominal debenture liability and redemption premium for all three companies.

Quick Tip to Solve: For each company, calculate four amounts separately: face value, cash received, issue premium or discount, and redemption premium. Debit the loss with discount plus redemption premium; never use the interest rate for these calculations.

24. Nandu, Bandu and Chandu were partners in a firm. On 31st March, 2023 they decided to dissolve the firm. Pass necessary journal entries for the following transactions after the various assets (other than cash and bank) and outside liabilities have been transferred to Realisation Account :

(i) Stock of Rs. 1,40,000 was taken by Nandu at a discount of 30%.

(ii) Creditors to whom the firm owed Rs. 40,000 accepted stock at Rs. 4,000 and the balance amount was paid to them by a cheque.

(iii) An old computer which had been written off completely from the books was sold for Rs. 4,000, whereas its estimated market value was Rs. 10,000.

(iv) Chandu had given a loan of Rs. 1,00,000 to the firm, which was paid to him through a cheque.

(v) Rs. 24,000 were recovered from a debtor which was written off as bad debt in the previous year.

(vi) Bandu was appointed to look after the dissolution work for which he was allowed a remuneration of Rs. 26,000. Bandu agreed to bear the dissolution expenses. Actual dissolution expenses of Rs. 36,000 were paid by Bandhu. [6 marks]

Solution:

Concept:

- After assets and outside liabilities have been transferred, Realisation Account records amounts received for assets and amounts paid to discharge outside liabilities. An asset taken by a partner is debited to that partner's Capital Account at the agreed value.
- No separate entry is made for an asset handed directly to a creditor after both balances have been transferred to Realisation Account. Only an additional cash or bank settlement is recorded.
- A partner's loan is settled through that partner's Loan Account, not Realisation Account. Remuneration allowed for dissolution is a realisation expense credited to the partner's Capital Account.

Step 1: Record stock taken over by Nandu **Working Note:** Stock is taken over at 70% of its book value, so the agreed value is Rs $1,40,000 \times 70/100 = \text{Rs } 98,000$. Nandu receives this asset in settlement of part of his capital claim; therefore his Capital Account is debited. Stock Account is not credited again because it has already been transferred to Realisation Account.

Journal of the Firm – (i)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Nandu's Capital A/c Dr. To Realisation A/c (Being stock of Rs 1,40,000 taken by Nandu at 30% discount)		98,000	98,000

Step 2: Settle the creditors with stock and cheque The stock accepted by creditors settles Rs 4,000 of their Rs 40,000 claim. No entry is required for this direct transfer of stock because both the asset and creditor balances are already in Realisation Account. The remaining liability paid by cheque is Rs $40,000$ − Rs $4,000$ = Rs $36,000$.

Journal of the Firm – (ii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Bank A/c (Being balance due to creditors paid by cheque after their acceptance of stock for Rs 4,000)		36,000	 36,000

Step 3: Record the sale of the unrecorded computer The computer has no carrying value because it was fully written off. Its actual sale proceeds, Rs 4,000, are credited to Realisation Account. The estimated market value of Rs 10,000 is not an amount realised and gives rise to no separate entry.

Journal of the Firm – (iii)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Cash A/c Dr. To Realisation A/c (Being sale proceeds of the fully written-off computer received)		4,000	 4,000

Step 4: Repay Chandu's loan A partner's loan is distinct from both the partner's capital and outside liabilities transferred to Realisation Account. Its repayment extinguishes the loan balance directly and reduces Bank Account by the cheque amount.

Journal of the Firm – (iv)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Chandu's Loan A/c Dr. To Bank A/c (Being Chandu's loan repaid through a cheque)		1,00,000	 1,00,000

Step 5: Record recovery of the written-off debt The debt was removed from the books in the previous year. Its recovery during dissolution is therefore a realisation of an unrecorded asset. The whole amount received, Rs 24,000, is credited to Realisation Account; no Debtors Account needs to be reopened.

Journal of the Firm – (v)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Cash A/c Dr. To Realisation A/c (Being recovery of a debt written off in the previous year)		24,000	 24,000

Step 6: Allow Bandu's remuneration and treat expenses The firm owes Bandu the agreed remuneration of Rs 26,000 for dissolution work. This is debited to Realisation Account and credited to his Capital Account. Since Bandu agreed to bear dissolution expenses and paid the actual Rs 36,000 himself, the firm records no separate entry for that payment. The excess of his expenditure over his remuneration is borne by him personally.

Journal of the Firm – (vi)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Bandu's Capital A/c (Being remuneration allowed to Bandu for dissolution work, with expenses to be borne by him)		26,000	26,000

Step 7: Conclusion The six transactions are recorded above with equal debits and credits in every entry. No separate entry is passed for stock worth Rs 4,000 accepted by creditors or for Rs 36,000 of expenses paid and borne by Bandu. Chandu's loan repayment is kept outside Realisation Account.

Quick Tip to Solve: First identify who receives an asset, who bears an expense and who actually pays. Here the firm's expense is Bandu's agreed Rs 26,000 remuneration, not the Rs 36,000 that he personally bears and pays.

25(a). Sanju and Manju were partners in a firm sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet on 31st March, 2023 was as follows :

Balance Sheet of Sanju and Manju as at 31st March, 2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals : Sanju 1,40,000 Manju 1,20,000	2,60,000	Plant and Machinery	80,000
General Reserve	40,000	Furniture	1,32,000
Creditors	1,80,000	Investments	60,000
		Debtors 76,000 Less : Provision for doubtful debts 4,000	72,000
		Cash at Bank	1,36,000
	4,80,000		4,80,000

On 1st April, 2023, Uday was admitted into the firm for 1/4th share in profits on the following terms :

(i) Furniture was to be depreciated by Rs. 6,000.

(ii) Investments were valued at Rs. 72,000.

(iii) Plant and Machinery was taken over by Sanju and Manju in their profit sharing ratio.

(iv) Uday will bring in proportionate capital and Rs. 10,000 as his share of goodwill premium in cash.

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

Solution:

Concept:

- Revaluation profit or loss and accumulated reserves belong to the old partners and are transferred in their old profit-sharing ratio, here 3 : 2.
- An asset taken over by a partner at its book value is debited directly to that partner's Capital Account. It produces no revaluation gain or loss.

- Goodwill premium is credited to the sacrificing partners. Where no different sacrifice is specified, the incoming partner acquires his share from the old partners in their old ratio.
- Proportionate capital is based on the adjusted combined capital of the old partners and their combined share in the new firm.

Step 1: Work out reserve, goodwill and machinery adjustments **Working Notes**

Uday receives $1/4$, leaving $3/4$ jointly to Sanju and Manju. Their new shares are $(3/5)(3/4) = 9/20$ and $(2/5)(3/4) = 6/20$, so the new ratio is $9 : 6 : 5$. Their sacrifices are $3/20$ and $2/20$; hence the sacrificing ratio is $3 : 2$. The general reserve of Rs 40,000 is credited to Sanju by Rs 24,000 and Manju by Rs 16,000. Uday's goodwill premium of Rs 10,000 is credited to them by Rs 6,000 and Rs 4,000 respectively. No withdrawal of this premium is specified. Plant and Machinery, taken over at its book value of Rs 80,000, is debited to Sanju by Rs 48,000 and Manju by Rs 32,000. Since no different takeover value is given, no gain or loss on this asset enters Revaluation Account.

Step 2: Prepare the Revaluation Account Investments appreciate by $72,000 - 60,000 =$ Rs $12,000$, while furniture falls by Rs 6,000. The net profit of Rs 6,000 is transferred to Sanju and Manju in the old ratio: Rs 3,600 and Rs 2,400.

Revaluation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Furniture	6,000	By Investments	12,000
To Sanju's Capital	3,600		
To Manju's Capital	2,400		
Total	12,000	Total	12,000

Step 3: Determine Uday's proportionate capital First complete all admission adjustments in the old partners' capitals:

$$\begin{aligned} C_S &= 1,40,000 + 24,000 + 3,600 + 6,000 - 48,000 \\ &= \text{Rs } 1,25,600, \\ C_M &= 1,20,000 + 16,000 + 2,400 + 4,000 - 32,000 \\ &= \text{Rs } 1,10,400. \end{aligned}$$

Their combined capital of Rs 2,36,000 represents the remaining $3/4$ share. Thus Uday's capital for his $1/4$ share is

$$C_U = 2,36,000 \times \frac{1/4}{3/4} = \text{Rs } 78,666\tfrac{2}{3}.$$

The exact recurring amount is retained below; rounded to the nearest paise, it is Rs 78,666.67. His goodwill premium is additional to this capital, so his total cash contribution is Rs 88,666.67 to the nearest paise.

Step 4: Prepare the Partners' Capital Accounts Machinery taken over is debited to the old partners; reserve, revaluation profit and goodwill premium are credited. Uday's capital contribution is credited through Bank. Each closing balance is carried down on the debit side.

Sanju's Capital Account

Dr.			Cr.
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Plant and Machinery	48,000	By Balance b/d	1,40,000
To Balance c/d	1,25,600	By General Reserve	24,000
		By Revaluation	3,600
		By Premium for Goodwill	6,000
Total	1,73,600	Total	1,73,600

Step 5: Complete Manju's and Uday's Capital Accounts **Manju's Capital Account**

Dr.			Cr.
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Plant and Machinery	32,000	By Balance b/d	1,20,000
To Balance c/d	1,10,400	By General Reserve	16,000
		By Revaluation	2,400
		By Premium for Goodwill	4,000
Total	1,42,400	Total	1,42,400

Uday's Capital Account

Dr.			Cr.
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Balance c/d	$78,666\frac{2}{3}$	By Bank	$78,666\frac{2}{3}$
Total	$78,666\frac{2}{3}$	Total	$78,666\frac{2}{3}$

Step 6: Conclusion Revaluation profit is Rs 6,000. Closing capitals are Sanju Rs 1,25,600, Manju Rs 1,10,400 and Uday Rs $78,666\frac{2}{3}$ (Rs 78,666.67 to the nearest paise). Both sides of every account agree.

Quick Tip to Solve: Adjust the old partners' capitals for reserve, revaluation, goodwill and machinery takeover before finding Uday's capital; multiply their adjusted total by $1/3$, not $1/4$.

OR

25(b). Ravi, Tanu and Sara were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Ravi retired from the firm due to his illness on 31st March, 2023. The Balance Sheet of the firm on that date was as follows :

Balance Sheet of Ravi, Tanu and Sara as at 31st March, 2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals : Ravi 80,000 Tanu 1,24,000 Sara 66,000	2,70,000	Fixed Assets	1,20,000
Profit and Loss	1,70,000	Stock	1,60,000
Employees' Provident Fund	20,000	Debtors	2,00,000
Creditors	1,00,000	Cash in hand	80,000
	5,60,000		5,60,000

Additional Information :

(i) Creditors included a sum of Rs. 4,000 which was not likely to be claimed.

(ii) A provision of 5% for doubtful debts was to be created on debtors.

(iii) Goodwill of the firm was valued at Rs. 1,60,000.

(iv) Fixed Assets were found overvalued by Rs. 5,000.

(v) New profit sharing ratio of Tanu and Sara was agreed at 2 : 3.

(vi) The amount due to Ravi was transferred to his loan account.

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

Solution:

Concept:

- On retirement, accumulated profits and revaluation profit or loss are shared by all the old partners in their old profit-sharing ratio.
- The retiring partner's share of goodwill is credited to his Capital Account and debited to the continuing partners in their gaining ratio, without raising goodwill in the books.
- The amount finally due to the retiring partner is transferred to his Loan Account when immediate payment is not required. Employees' Provident Fund remains an outside liability.

Step 1: Calculate the gaining ratio and goodwill adjustment **Working Notes**

The old ratio of Ravi, Tanu and Sara is $5 : 3 : 2$, while Tanu and Sara's new ratio is $2 : 3$. Their gains are:

$$\text{Tanu's gain} = \frac{2}{5} - \frac{3}{10} = \frac{1}{10},$$
$$\text{Sara's gain} = \frac{3}{5} - \frac{2}{10} = \frac{4}{10}.$$

The gaining ratio is therefore $1 : 4$. Ravi's share of the firm's goodwill is $1,60,000 \times 5/10 = \text{Rs } 80,000$. Debit Tanu's Capital by $80,000 \times 1/5 = \text{Rs } 16,000$ and Sara's Capital by $80,000 \times 4/5 = \text{Rs } 64,000$; credit Ravi's Capital by Rs 80,000. This compensates Ravi for the profit share acquired by the continuing partners.

Step 2: Prepare the Revaluation Account Unclaimed creditors decrease the liability and create a gain of Rs 4,000. The new provision for doubtful debts is $2,00,000 \times 5\% = \text{Rs } 10,000$, and fixed assets must be written down by Rs 5,000. Consequently the loss is $10,000 + 5,000 - 4,000 = \text{Rs } 11,000$. It is debited to Ravi, Tanu and Sara in the old ratio as Rs 5,500, Rs 3,300 and Rs 2,200 respectively.

Revaluation Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Provision for Doubtful Debts	10,000	By Creditors	4,000
To Fixed Assets	5,000	By Ravi's Capital	5,500
		By Tanu's Capital	3,300
		By Sara's Capital	2,200
Total	15,000	Total	15,000

Step 3: Transfer accumulated profit and calculate the capital balances The credit balance of Profit and Loss, Rs 1,70,000, is distributed in $5 : 3 : 2$: Ravi Rs 85,000, Tanu Rs 51,000 and Sara Rs 34,000. The Employees' Provident Fund of Rs 20,000 is owed to employees, so it is not divided among the

partners.

$$\begin{aligned}\text{Ravi's amount due} &= 80,000 + 85,000 + 80,000 - 5,500\\ &= \text{Rs } 2,39,500,\\ \text{Tanu's capital} &= 1,24,000 + 51,000 - 3,300 - 16,000\\ &= \text{Rs } 1,55,700,\\ \text{Sara's capital} &= 66,000 + 34,000 - 2,200 - 64,000\\ &= \text{Rs } 33,800.\end{aligned}$$

Ravi's amount is transferred to his loan, closing his Capital Account. No cash payment is made.

Step 4: Prepare Ravi's Capital Account **Ravi's Capital Account**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Revaluation	5,500	By Balance b/d	80,000
To Ravi's Loan	2,39,500	By Profit and Loss	85,000
		By Tanu's Capital (goodwill)	16,000
		By Sara's Capital (goodwill)	64,000
Total	2,45,000	Total	2,45,000

Step 5: Prepare the continuing partners' Capital Accounts **Tanu's Capital Account**

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Revaluation	3,300	By Balance b/d	1,24,000
To Ravi's Capital (goodwill)	16,000	By Profit and Loss	51,000
To Balance c/d	1,55,700		
Total	1,75,000	Total	1,75,000

Sara's Capital Account

Dr.		Cr.	
Particulars	Amount (Rs)	Particulars	Amount (Rs)
To Revaluation	2,200	By Balance b/d	66,000
To Ravi's Capital (goodwill)	64,000	By Profit and Loss	34,000
To Balance c/d	33,800		
Total	1,00,000	Total	1,00,000

Step 6: Conclusion Revaluation loss is Rs 11,000. Ravi's loan is credited with Rs 2,39,500, and the closing capitals of Tanu and Sara are Rs 1,55,700 and Rs 33,800 respectively.

Quick Tip to Solve: Use the old ratio $5:3:2$ for accumulated profit and revaluation, but the gaining ratio $1:4$ for goodwill. Keep Employees' Provident Fund as a liability.

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

(i) Star Ltd. forfeited 8,000 shares of Rs. 100 each issued at 10% premium for non-payment of allotment money of Rs. 40 per share (including premium) and first call of Rs. 30 per share. The second and final call of Rs. 20 per share was not yet called. Out of these, 6,000 shares were reissued at Rs. 80 paid up for Rs. 70 per share.

(ii) Premier Ltd. forfeited 3,000 shares of Rs. 10 each on which the first call of Rs. 3 per share was not received and the second and final call of Rs. 2 per share was not yet called. Out of these, 2,000 shares were reissued to Gita at Rs. 8 paid up for Rs. 12 per share. [6 marks]

Solution:

Concept:

- On forfeiture, debit Share Capital with called-up capital. Credit unpaid instalments and credit Share Forfeiture with capital already received.
- Reverse securities premium only when it was due but not received. A reissue discount is debited to Share Forfeiture; any reissue premium is credited to Securities Premium.
- Capital reserve equals the forfeiture attributable to reissued shares less their reissue discount. The forfeiture on unreissued shares remains in Share Forfeiture.

Step 1: Compute amounts for Star Ltd. The uncalled Rs 20 is excluded, so called-up capital per share is $100 - 20 =$ Rs 80. Allotment includes Rs 10 premium and Rs 30 capital. Capital received per share is $80 - 30 - 30 =$ Rs 20. Thus Share Capital is debited by $8,000 \times 80 =$ Rs $6,40,000$, unpaid premium reversed is Rs 80,000, unpaid allotment is Rs 3,20,000, unpaid first call is Rs 2,40,000 and forfeiture is Rs 1,60,000.

For 6,000 reissued shares, bank receipt is $6,000 \times 70 =$ Rs $4,20,000$; paid-up capital is Rs 4,80,000. Discount is Rs 60,000. The related forfeiture is $6,000 \times 20 =$ Rs $1,20,000$; deducting discount leaves Rs 60,000 for capital reserve.

Step 2: Record Star Ltd. entries Journal of Star Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr.		6,40,000	
	Securities Premium A/c Dr.		80,000	
	To Share Allotment A/c			3,20,000
	To Share First Call A/c			2,40,000
	To Share Forfeiture A/c			1,60,000
	(Being 8,000 shares forfeited for unpaid allotment and first call; unpaid premium reversed)			
	Bank A/c Dr.		4,20,000	
	Share Forfeiture A/c Dr.		60,000	
	To Share Capital A/c			4,80,000
	(Being 6,000 forfeited shares reissued for Rs 70 each as Rs 80 paid up)			
	Share Forfeiture A/c Dr.		60,000	
	To Capital Reserve A/c			60,000
	(Being profit on reissue transferred to capital reserve)			

Step 3: Compute amounts for Premier Ltd. Called-up capital per share is $10 - 2 =$ Rs 8, of which Rs 3 remains unpaid, so Rs 5 per share was received. Therefore capital cancelled is $3,000 \times 8 =$ Rs $24,000$, first call outstanding is Rs 9,000 and forfeiture is Rs 15,000.

Reissue cash is $2,000 \times 12 =$ Rs $24,000$. Credit Share Capital with $2,000 \times 8 =$ Rs $16,000$ and Securities Premium with Rs 8,000. There is no reissue discount; all $2,000 \times 5 =$ Rs $10,000$ forfeiture on these shares goes to capital reserve.

Step 4: Record Premier Ltd. entries Journal of Premier Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share Capital A/c Dr. To Share First Call A/c To Share Forfeiture A/c (Being 3,000 shares forfeited for non-payment of first call)		24,000	 9,000 15,000
	Bank A/c Dr. To Share Capital A/c To Securities Premium A/c (Being 2,000 forfeited shares reissued to Gita at Rs 12 each as Rs 8 paid up)		24,000	 16,000 8,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being forfeiture on the reissued shares transferred to capital reserve)		10,000	 10,000

Step 5: Conclusion Star Ltd. transfers $\boxed{\text{Rs } 60,000}$ to Capital Reserve and retains Rs 40,000 in Share Forfeiture. Premier Ltd. transfers $\boxed{\text{Rs } 10,000}$ to Capital Reserve and retains Rs 5,000 in Share Forfeiture. The uncalled final calls require no entry.

Quick Tip to Solve: Use called-up capital, not face value; transfer only forfeiture on shares actually reissued.

OR

26(b). Zee Ltd. invited applications for issuing 40,000 shares of Rs. 10 each at a premium of Rs. 2 per share. The amount was payable as follows :

On Application - Rs. 4 per share

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

On First call - Rs. 2 per share

On Second and Final call - Balance

Applications were received for 60,000 shares. Applications for 12,000 shares were rejected and money returned to the applicants.

The shares were allotted on pro-rata basis to the applicants of 48,000 shares. The excess money received on application was adjusted towards sums due on allotment.

All shareholders paid the allotment money except one shareholder who had applied for 1,200 shares. His shares were forfeited immediately after allotment. First call was made thereafter and all the money due was received. The second and final call was not yet made.

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

Solution:

Concept:

- Pro-rata allotment distributes available shares proportionately among accepted applicants. Excess application money is credited to Share Allotment.
- Forfeiture cancels only capital already called up. Unpaid premium is reversed and capital money received is credited to Share Forfeiture.
- A call made after forfeiture applies only to shares still outstanding; an uncalled amount has no journal entry.

Step 1: Determine the allotment ratio and application adjustment Of 60,000 applications, 12,000 are rejected, leaving applications for 48,000 shares against 40,000 shares available. The applied-to-allotted ratio is $48,000 : 40,000 = 6 : 5$. Application receipts are $60,000 \times 4 =$ Rs $2,40,000$. Refund is $12,000 \times 4 =$ Rs $48,000$, capital on application is $40,000 \times 4 =$ Rs $1,60,000$, and excess transferred to allotment is $(48,000 - 40,000) \times 4 =$ Rs $32,000$.

Step 2: Record application and allotment due Journal of Zee 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 60,000 shares at Rs 4 each)		2,40,000	 2,40,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Bank A/c (Being application money adjusted, excess transferred to allotment and rejected applications refunded)		2,40,000	 1,60,000 32,000 48,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Being allotment of Rs 5 per share including Rs 2 premium due on 40,000 shares)		2,00,000	 1,20,000 80,000

Step 3: Calculate the default and forfeiture The defaulter is allotted $1,200 \times 5/6 = 1,000$ shares. His application payment is Rs 4,800; Rs 4,000 is application capital and Rs 800 is adjusted against allotment. Gross allotment is $1,000 \times 5 =$ Rs $5,000$, so the unpaid balance is Rs 4,200.

The excess Rs 800 is applied to the capital component of allotment, leaving the entire Rs 2,000 premium unpaid. Called-up capital at forfeiture is $1,000(4 + 3) =$ Rs $7,000$. Capital actually received is Rs 4,800. Total allotment cash received is $2,00,000 - 32,000 - 4,200 =$ Rs $1,63,800$.

Step 4: Record allotment receipt and forfeiture Journal of Zee Ltd. – receipt and forfeiture

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr. To Share Allotment A/c (Being allotment received after excess application adjustment, excluding the defaulting shareholder)		1,63,800	 1,63,800

	Share Capital A/c Dr.
	Securities Premium A/c Dr.
	  To Share Allotment A/c
	  To Share Forfeiture A/c
	(Being 1,000 shares forfeited immediately after allotment; unpaid premium cancelled)
			7,000
			2,000
				
				4,200
				4,800

Step 5: Make and receive the first call After forfeiture, $40,000 - 1,000 = 39,000$ shares remain. First call at Rs 2 per share is therefore $39,000 \times 2 =$ Rs $78,000$, received in full. The second and final call is $12 - 4 - 5 - 2 =$ Rs 1 per share, but it has not been made.

Journal of Zee Ltd. – first call

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Share First Call A/c Dr. To Share Capital A/c (Being first call of Rs 2 each due on 39,000 outstanding shares)		78,000	 78,000
	Bank A/c Dr. To Share First Call A/c (Being first call received in full)		78,000	 78,000

Step 6: Conclusion The 1,000 defaulting shares are forfeited with $\boxed{\text{Rs } 4,800}$ credited to Share Forfeiture. Allotment cash received is Rs 1,63,800 and first-call receipt is Rs 78,000 on 39,000 shares. No entry is made for the uncalled final call.

Quick Tip to Solve: Convert applications to allotted shares before calculating the default, and reduce shares outstanding before making the first call.

Part B (20 marks)

OPTION – I

(Analysis of Financial Statements)

27(i). Which of the following is *not* an objective of 'Analysis of Financial Statements' ? [1 mark]

(A) To assess the current profitability and operational efficiency of the firm.

(B) To ascertain the relative importance of different components of the financial position of the firm.

(C) To consider the impact of price level changes.

(D) To identify the reasons for change in the profitability/financial position of the firm.

Correct Answer: (C) To consider the impact of price level changes.

Solution:

Concept:

- Financial statement analysis interprets accounting data to evaluate profitability, efficiency and financial position.
- Historical-cost statements do not ordinarily adjust for price-level changes; this is a limitation of their analysis.

Step 1: Identify the objectives represented by the options Option (A) is an objective because analysis evaluates profitability and operational efficiency. Option (B) is also an objective: common-size analysis shows the relative importance of different components. Option (D) is an objective because comparisons help explain changes in profitability and financial position.

Step 2: Distinguish the limitation from an objective Option (C) refers to considering the impact of price-level changes. Ordinary financial statement analysis uses recorded figures, which do not fully reflect changes in purchasing power. Ignoring price-level changes is a limitation, so correcting for such changes is not a stated objective of this analysis.

Step 3: Conclusion The correct option is $\boxed{(C)}$: To consider the impact of price level changes.

Quick Tip to Solve: For a negative objective question, distinguish what analysis evaluates from the limitations of historical-cost figures.

OR

27(ii). _____ is also known as Acid-Test Ratio. [1 mark]

(A) Current Ratio

(B) Quick Ratio

(C) Gross profit Ratio

(D) Operating Ratio

Correct Answer: (B) Quick Ratio

Solution:

Concept:

- The quick ratio measures the ability to meet current liabilities from assets that are readily convertible into cash.
- Quick Ratio = Quick Assets/Current Liabilities, where quick assets exclude inventory and prepaid expenses from current assets.

Step 1: Identify the stricter liquidity test Inventory may require time to sell and prepaid expenses cannot be used to pay creditors. Excluding them makes the quick ratio a stricter test of immediate liquidity. This is why it is also called the Acid-Test Ratio.

Step 2: Distinguish the other ratios The current ratio includes all current assets, including inventory and prepaid expenses. Gross profit ratio measures gross profit relative to revenue from operations, while operating ratio compares operating costs with revenue from operations. The latter two are profitability measures and cannot be the acid test of liquidity.

Step 3: Conclusion Quick Ratio is also known as Acid-Test Ratio. Hence, the correct option is (B).

Quick Tip to Solve: Link the word acid-test with immediately available assets: exclude inventory and prepaid expenses to identify the quick ratio.

28. Current Ratio of Super Ltd. is 2 : 1. Which of the following transactions will result in decrease in this ratio ? [1 mark]

(A) Payment of Rs. 40,000 to creditors

(B) Sale of furniture (book value Rs. 38,000) for Rs. 16,000 only

(C) Repayment of long term loan of Rs. 7,00,000

(D) Cash collected from debtors Rs. 1,18,000

Correct Answer: (C) Repayment of long term loan of Rs. 7,00,000

Solution:

Concept:

- Current Ratio is current assets divided by current liabilities. Initially, $CA = 2CL$, where CA denotes current assets and CL current liabilities.
- A decrease in current assets with no change in current liabilities reduces this ratio. Changes in

non-current assets or long-term debts do not directly change the denominator.

Step 1: Test the transactions affecting both sides Payment of Rs 40,000 to creditors reduces both current assets and current liabilities equally. Since the starting ratio exceeds one, $(2CL - 40,000)/(CL - 40,000) > 2$; the ratio rises. Collection of Rs 1,18,000 from debtors increases cash and reduces debtors equally, so total current assets and the ratio remain unchanged.

Step 2: Test the transactions affecting only current assets Sale of furniture adds Rs 16,000 to cash without changing current liabilities, so the ratio increases. Furniture is a non-current asset; the loss on its sale does not separately reduce current assets. Repayment of the long-term loan reduces cash by Rs 7,00,000 while current liabilities remain unchanged. The numerator falls, so the current ratio decreases.

Step 3: Conclusion Repayment of the long-term loan of Rs 7,00,000 decreases the current ratio. Hence, the correct option is (C).

Quick Tip to Solve: For each transaction, first mark its effect on total current assets and current liabilities; a long-term loan repayment reduces only the numerator.

29(i). ***Statement I :*** **Issue of Debentures will result in inflow of cash.**

Statement II : **Issue of Debentures to the vendors for purchase of machinery will result in outflow of cash.**

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

(A) Both statements are correct.

(B) Both statements are incorrect.

(C) Statement I is correct and Statement II is incorrect.

(D) Statement I is incorrect and Statement II is correct.

Correct Answer: (C) Statement I is correct and Statement II is incorrect.

Solution:

Concept:

- Cash flows are actual inflows and outflows of cash and cash equivalents. Raising a loan by issuing debentures for cash is a financing activity.
- A transaction settled by directly issuing securities, without paying or receiving cash, is a non-cash transaction and is excluded from the cash flow statement.

Step 1: Evaluate Statement I An ordinary issue of debentures for cash brings money into the company and increases its borrowings. Therefore, the issue referred to in Statement I produces a cash inflow from financing activities. Statement I is correct.

Step 2: Evaluate Statement II When debentures are issued directly to the machinery vendor, the vendor receives debentures in settlement of the purchase price. The company acquires machinery and incurs a debenture liability, but its cash balance does not change. There is neither a cash payment for machinery nor a cash receipt from debentures. Statement II is incorrect; this is disclosed separately as a non-cash investing and financing transaction.

Step 3: Conclusion Statement I is correct and Statement II is incorrect. Hence, the correct option is (C).

Quick Tip to Solve: Check what the machinery vendor receives: debentures issued directly to the vendor mean no cash moves and no cash flow is recorded.

OR

29(ii). What will be effect of 'Purchase of Marketable Securities for Cash' on Cash Flow Statement ?

[1 mark]

(A) No effect

(B) Inflow from financing activities

(C) Outflow from investing activities

(D) Outflow from financing activities

Correct Answer: (A) No effect

Solution:

Concept:

- A cash flow statement explains changes in the total of cash and cash equivalents. In the CBSE treatment used here, marketable securities are cash equivalents.
- Transfers between cash and cash equivalents form part of cash management and are excluded from operating, investing and financing cash flows.

Step 1: Trace both sides of the purchase Purchasing marketable securities for cash reduces cash and increases marketable securities by the same amount. Since these securities are included in cash equivalents, the combined balance of cash and cash equivalents remains unchanged.

Step 2: Determine the cash flow effect This transaction only changes the composition of cash and cash equivalents, so it is not reported as a cash outflow in the cash flow statement. The investing-outflow option would apply to buying investments that are not cash equivalents. There is no raising or repayment of capital or borrowing, so neither financing option applies.

Step 3: Conclusion Purchase of marketable securities for cash has no effect on the cash flow statement. Hence, the correct option is (A).

Quick Tip to Solve: Before calling a securities purchase an investing outflow, check whether the securities form part of cash equivalents; here it is an internal transfer.

30. 'Paid Rs. 5,00,000 to acquire shares in Neligare Industries and received a dividend of Rs. 30,000 after acquisition.' This transaction will result in : [1 mark]

(A) Cash outflow from financing activities Rs. 4,70,000

(B) Cash inflow from investing activities Rs. 4,70,000

(C) Cash inflow from financing activities Rs. 4,70,000

(D) Cash outflow from investing activities Rs. 4,70,000

Correct Answer: (D) Cash outflow from investing activities Rs. 4,70,000

Solution:

Concept:

- For a non-financial enterprise, acquiring shares in another company is an investing cash outflow and dividend received on those shares is an investing cash inflow.
- The net cash effect is found by subtracting the investment purchase payment from the dividend receipt. A negative result represents a net outflow.

Step 1: Classify the two cash movements The payment of Rs 5,00,000 acquires shares in Neligare Industries; it is an investment in another enterprise and therefore an investing outflow. The dividend of Rs 30,000 received after acquisition is a return on that investment and is an investing inflow. These transactions do not raise or repay the reporting enterprise's own capital or borrowings, so they are not financing activities.

Step 2: Calculate the combined effect Taking inflows as positive and outflows as negative,

$$\text{Net investing cash flow} = 30,000 - 5,00,000 = -4,70,000 \text{ Rs.}$$

The cash flow statement can show the payment and dividend separately; their combined effect is negative because the payment exceeds the receipt. Thus, options describing a net inflow are also incorrect.

Step 3: Conclusion The net result is a cash outflow from investing activities of Rs 4,70,000. Hence, the correct option is (D).

Quick Tip to Solve: Buying another company's shares is investing; deduct the Rs 30,000 dividend inflow from the Rs 5,00,000 purchase outflow to find the net effect.

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

(i) Calls in advance

(ii) Mining rights

(iii) Loose tools [3 marks]

Solution:

Concept:

- Schedule III classifies an item first by its nature as equity, liability or asset, and then under the appropriate major head and sub-head.
- An advance received before a call becomes due is a liability. Long-term rights without physical substance are intangible assets, while loose tools form part of inventories.

Step 1: Classify calls in advance Calls in advance are amounts received from shareholders before the company has called them. Until the call is made, the amount is not called-up share capital. It is therefore shown on the equity and liabilities side under the major head Current Liabilities and sub-head Other Current Liabilities.

Step 2: Classify mining rights Mining rights give the company the right to extract minerals over a period of time. The right itself has no physical form, even though the minerals and mining equipment are tangible. Hence it is shown on the assets side under Non-current Assets, within Fixed Assets, as an Intangible Asset.

Step 3: Classify loose tools and present the heads Loose tools are included in inventory in the prescribed company balance-sheet classification. They are therefore shown on the assets side under Current Assets, sub-head Inventories. The required classification is:

Item	Major head	Sub-head
Calls in advance	Current Liabilities	Other Current Liabilities
Mining rights	Non-current Assets	Fixed Assets: Intangible Assets
Loose tools	Current Assets	Inventories

Step 4: Conclusion Calls in advance belong to Other Current Liabilities; mining rights to Intangible Assets under Non-current Assets; and loose tools to Inventories under Current Assets.

Quick Tip to Solve: Separate the mining right from mining machinery: the right is intangible. Calls received before they are due remain a liability, and loose tools are inventory.

32. Calculate 'Quick Ratio' and 'Debt-Equity Ratio' from the following information :

Particulars	Rs.
Total Debt	8,00,000
Inventory	2,20,000
Long Term Debts	6,00,000
Working Capital	2,40,000
Shareholders' Funds	12,00,000

[3 marks]

Solution:

Concept:

- Total debt consists of long-term debts and current liabilities. Working capital equals current assets minus current liabilities.
- Quick Ratio equals quick assets divided by current liabilities. Quick assets are current assets less inventory and prepaid expenses; no prepaid expenses are given here.
- Debt-Equity Ratio equals long-term debts divided by shareholders' funds. Current liabilities are not included in its numerator under the CBSE definition.

Step 1: Derive current liabilities and current assets First separate the long-term debts from total debt:

$$\begin{aligned}\text{Current Liabilities} &= 8,00,000 - 6,00,000\\ &= \text{Rs } 2,00,000.\end{aligned}$$

Since working capital is the excess of current assets over current liabilities, add it to current liabilities:

$$\begin{aligned}\text{Current Assets} &= 2,40,000 + 2,00,000\\ &= \text{Rs } 4,40,000.\end{aligned}$$

Step 2: Calculate quick assets and the quick ratio Inventory is excluded because it is not immediately available to meet liabilities. No other non-quick current asset is specified.

$$\begin{aligned}\text{Quick Assets} &= 4,40,000 - 2,20,000\\ &= \text{Rs } 2,20,000,\\ \text{Quick Ratio} &= \frac{2,20,000}{2,00,000} = 1.1 : 1.\end{aligned}$$

Thus, the company has Rs 1.10 of quick assets for each rupee of current liabilities.

Step 3: Calculate the debt-equity ratio Compare the given long-term debts with shareholders' funds:

$$\text{Debt-Equity Ratio} = \frac{6,00,000}{12,00,000} = 0.5 : 1.$$

Using total debt of Rs 8,00,000 here would wrongly include current liabilities. The result means that long-term borrowed funds are half the amount of shareholders' funds.

Step 4: Conclusion Quick Ratio is $1.1 : 1$, and Debt-Equity Ratio is $0.5 : 1$ (equivalently, $1 : 2$).

Quick Tip to Solve: Start by subtracting long-term debts from total debt to get current liabilities; add working capital to find current assets before removing inventory.

33(a). From the following information, prepare Comparative Statement of Profit and Loss for the year ended 31st March, 2023 :

Particulars	2022 - 23 (Rs.)	2021 - 22 (Rs.)
Revenue from operations	4,00,000	2,00,000
Other income	80,000	40,000
Employee benefit expenses - 50% of Revenue from operations		
Tax rate 50%		

[4 marks]

Solution:

Concept:

- A comparative statement shows the previous-year amount, current-year amount, absolute change and percentage change under the same financial-statement heads.
- Absolute change is current year minus previous year. Percentage change is $\dfrac{\text{Absolute change}}{\text{Previous-year amount}} \times 100$. Thus 2021–22 is the base year here.
- Profit before tax equals total income less expenses. Tax is charged on profit before tax; employee benefit expenses are calculated on revenue from operations.

Step 1: Calculate the expenses and profits for both years **Working Notes**

All amounts below are in Rs. The expense percentage applies only to revenue from operations, not to other income. For 2022–23:

$$\begin{aligned}\text{Total income} &= 4,00,000 + 80,000 = 4,80,000,\\ \text{Employee benefit expenses} &= 4,00,000 \times 50\% = 2,00,000,\\ \text{Profit before tax} &= 4,80,000 - 2,00,000 = 2,80,000,\\ \text{Tax} &= 2,80,000 \times 50\% = 1,40,000,\\ \text{Profit after tax} &= 2,80,000 - 1,40,000 = 1,40,000.\end{aligned}$$

For 2021–22, total income is Rs 2,40,000 and employee benefit expenses are Rs 1,00,000. Hence profit before tax is Rs 1,40,000; tax at 50% is Rs 70,000, leaving profit after tax of Rs 70,000.

Step 2: Prepare the comparative statement **Comparative Statement of Profit and Loss**
For the year ended 31st March, 2023

Particulars	2021–22 (Rs)	2022–23 (Rs)	Increase (Rs)	Change (%)
I. Revenue from operations	2,00,000	4,00,000	2,00,000	100
II. Other income	40,000	80,000	40,000	100
III. Total income (I + II)	2,40,000	4,80,000	2,40,000	100
IV. Expenses:				
Employee benefit expenses	1,00,000	2,00,000	1,00,000	100
Total expenses	1,00,000	2,00,000	1,00,000	100
V. Profit before tax (III - IV)	1,40,000	2,80,000	1,40,000	100
VI. Tax expense	70,000	1,40,000	70,000	100
VII. Profit after tax (V - VI)	70,000	1,40,000	70,000	100

Step 3: Verify the percentage-change column For example, the increase in revenue is Rs $4,00,000 -$

$2,00,000 = 2,00,000$, giving $2,00,000/2,00,000 \times 100 = 100\%$. Similarly, the increase in profit after tax is Rs 70,000 on a base of Rs 70,000, also 100%. Each current-year amount is twice its previous-year counterpart, so the same check verifies every percentage in the statement.

Step 4: Conclusion Profit after tax for 2022–23 is **Rs 1,40,000**, compared with Rs 70,000 in 2021–22: an increase of **Rs 70,000 or 100%**. Every income, expense and profit head in this comparative statement increases by 100%.

Quick Tip to Solve: Use revenue from operations for the employee-expense calculation and profit before tax for tax. Divide each increase by the 2021–22 amount, never by the 2022–23 amount.

OR

33(b). Prepare a 'Common Size Statement of Profit and Loss' of Neurosci Ltd. for the year ended 31st March, 2023 from the following information :

Particulars	2022 - 23 (Rs.)	2021 - 22 (Rs.)
Revenue from operations	40,00,000	20,00,000
Purchase of stock in trade	4,00,000	2,00,000
Other expenses	40,000	20,000
Tax rate 50%		

[4 marks]

Solution:

Concept:

- A common size Statement of Profit and Loss expresses each item as a percentage of revenue from operations of the same year, which is taken as 100%.
- Common size percentage is $\dfrac{\text{Amount of the item}}{\text{Revenue from operations}} \times 100$. Each year's revenue is its own base; the previous year's revenue is not used for current-year percentages.
- Total expenses are purchases of stock in trade plus other expenses here. Profit before tax is revenue less total expenses, and profit after tax is profit before tax less tax.

Step 1: Work out the expense and profit totals **Working Notes**

All amounts below are in Rs. For 2022–23:

$$\text{Total expenses} = 4,00,000 + 40,000 = 4,40,000,$$
$$\text{Profit before tax} = 40,00,000 - 4,40,000 = 35,60,000,$$
$$\text{Tax expense} = 35,60,000 \times 50\% = 17,80,000,$$
$$\text{Profit after tax} = 35,60,000 - 17,80,000 = 17,80,000.$$

For 2021–22, total expenses are Rs $2,00,000 + 20,000 = 2,20,000$. Profit before tax is Rs $20,00,000 - 2,20,000 = 17,80,000$. Tax at 50% is Rs 8,90,000, and profit after tax is therefore Rs 8,90,000.

Step 2: Convert the amounts into common size percentages Using 2022–23 revenue from operations of Rs 40,00,000, purchases are $4,00,000/40,00,000 \times 100 = 10\%$, and other expenses are

$40,000/40,00,000 \times 100 = 1\%$. Thus total expenses are 11% and profit before tax is $100 - 11 = 89\%$ of revenue. Tax is half of profit before tax, so both tax and profit after tax are $89\% \times 50\% = 44.5\%$ of revenue. Applying the same formula with the 2021–22 revenue of Rs 20,00,000 gives identical percentages.

Step 3: Present the common size statement **Neurosci Ltd.**

Common Size Statement of Profit and Loss

For the year ended 31st March, 2023

Particulars	2021–22 (Rs)	2022–23 (Rs)	2021–22 (%)	2022–23 (%)
I. Revenue from operations	20,00,000	40,00,000	100	100
II. Expenses:				
Purchases of stock in trade	2,00,000	4,00,000	10	10
Other expenses	20,000	40,000	1	1
Total expenses	2,20,000	4,40,000	11	11
III. Profit before tax (I - II)	17,80,000	35,60,000	89	89
IV. Tax expense	8,90,000	17,80,000	44.5	44.5
V. Profit after tax (III - IV)	8,90,000	17,80,000	44.5	44.5

The amounts double between the two years, while their proportions remain constant because revenue from operations also doubles.

Step 4: Conclusion Neurosci Ltd.'s profit after tax for 2022–23 is **Rs 17,80,000**, or **44.5% of revenue from operations**. The common size proportions are unchanged from 2021–22: expenses 11%, profit before tax 89%, tax 44.5% and profit after tax 44.5%.

Quick Tip to Solve: In this statement 50% is the tax rate on profit, not tax as a percentage of sales. First find profit before tax as 89% of revenue, then halve it to obtain tax of 44.5%.

34. From the following Balance Sheet of Nishant Ltd. as at 31st March, 2023, calculate 'Cash Flows From Operating Activities'.

Balance Sheet of Nishant Ltd. as at 31st March, 2023

Particulars	Note No.	31.3.2023 (Rs.)	31.3.2022 (Rs.)
I - Equity and Liabilities :			
1. Shareholders' Funds			
(a) Share Capital		6,00,000	5,50,000
(b) Reserves and Surplus	1	1,50,000	1,00,000
2. Non-Current Liabilities			
(a) Long-term Borrowings	2	1,20,000	85,000
3. Current Liabilities			
(a) Trade Payables		89,500	1,02,000
(b) Short-term Provisions	3	25,000	38,500
Total		9,84,500	8,75,500
II - Assets :			
1. Non-Current Assets			
(a) Fixed Assets/Property, Plant and Equipment and Intangible Assets			
(i) Tangible Assets/Property, Plant and Equipment	4	5,35,000	4,25,000
(ii) Intangible Assets	5	20,000	56,000
2. Current Assets			
(a) Current Investments		1,20,000	75,000
(b) Inventories		64,500	60,500
(c) Trade Receivables		85,000	71,500
(d) Cash and Cash Equivalents		1,60,000	1,87,500
Total		9,84,500	8,75,500

Notes to Accounts :

Note No.	Particulars	31.3.2023 (Rs.)	31.3.2022 (Rs.)
1	**Reserves and Surplus**		
	Surplus i.e. Balance in Statement of Profit and Loss	1,50,000	1,00,000
		1,50,000	1,00,000
2	**Long-term Borrowings**		
	10% Debentures	1,20,000	85,000
		1,20,000	85,000
3	**Short-term Provisions**		
	Provision for Tax	25,000	38,500
		25,000	38,500
4	**Tangible Assets/Property, Plant and Equipment**		
	Machinery	6,35,000	5,00,000
	Less : Accumulated Depreciation	(1,00,000)	(75,000)
		5,35,000	4,25,000
5	**Intangible Assets**		
	Goodwill	20,000	56,000
		20,000	56,000

Additional Information :

(i) A piece of machinery costing Rs. 12,000 on which accumulated depreciation was Rs. 8,000 was sold for Rs. 3,000.

(ii) Interest paid on 10% Debentures amounted to Rs. 8,500. [6 marks]

Solution:

Concept:

- The indirect method starts with profit before tax and adjusts for non-cash expenses, non-operating items and operating working capital changes.
- Depreciation, goodwill written off and loss on sale of machinery are added back because they do not represent operating cash outflows.
- Interest on debentures is added back as a financing cost; income tax paid is deducted after cash generated from operations.

Step 1: Determine profit before tax and tax paid The surplus in the Statement of Profit and Loss increased from Rs 1,00,000 to Rs 1,50,000. No dividend or other appropriation is given. Therefore the profit after tax is Rs 50,000. Under the usual provision-for-tax treatment, the opening provision is paid during the year and the closing provision relates to the current year.

$$\text{Profit after tax} = 1,50,000 - 1,00,000 = \text{Rs } 50,000,$$

$$\text{Profit before tax} = 50,000 + 25,000 = \text{Rs } 75,000,$$

$$\text{Tax paid} = 38,500 + 25,000 - 25,000 = \text{Rs } 38,500.$$

Tax provision is treated separately, so its decrease is not also included in operating working capital.

Step 2: Calculate non-cash charges and the loss on sale The accumulated depreciation of Rs 8,000 on the machine sold is removed from the accumulated depreciation balance. Hence the depreciation charged during the year must restore that amount as well as explain the increase in the closing balance:

$$\text{Depreciation} = 1,00,000 - 75,000 + 8,000 = \text{Rs } 33,000,$$

$$\text{Goodwill written off} = 56,000 - 20,000 = \text{Rs } 36,000,$$

$$\text{Book value of machine sold} = 12,000 - 8,000 = \text{Rs } 4,000,$$

$$\text{Loss on sale} = 4,000 - 3,000 = \text{Rs } 1,000.$$

Interest paid on debentures is Rs 8,500. With no outstanding interest given, this is the financing expense added back. The sale proceeds of Rs 3,000 themselves belong to investing activities.

Step 3: Calculate the changes in operating working capital Inventories increased by Rs 4,000 and trade receivables increased by Rs 13,500. Both increases absorb operating cash. Trade payables decreased by Rs 12,500, also using cash. Thus the total working capital deduction is

$$(64,500 - 60,500) + (85,000 - 71,500) + (1,02,000 - 89,500) = \text{Rs } 30,000.$$

Share capital and debentures are financing items. Machinery and current investments are investing items; cash and cash equivalents are excluded from operating working capital. Accordingly their balance changes do not enter this operating calculation.

Step 4: Prepare the operating activities statement **Nishant Ltd.**
Cash Flow Statement (Operating Activities)
for the year ended 31st March, 2023

Particulars	Amount (Rs)
Profit before tax	75,000
Adjustments for:	
Depreciation on machinery	33,000
Goodwill written off	36,000
Loss on sale of machinery	1,000
Interest on debentures	8,500
Operating profit before working capital changes	1,53,500
Less: Increase in inventories	(4,000)
Less: Increase in trade receivables	(13,500)
Less: Decrease in trade payables	(12,500)
Cash generated from operations	1,23,500
Less: Income tax paid	(38,500)
Net cash flows from operating activities	85,000

The non-cash and financing adjustments total Rs 78,500. Adding these to profit before tax gives operating profit of Rs 1,53,500 before the Rs 30,000 working capital deduction.

Step 5: Conclusion Net cash flows from operating activities of Nishant Ltd. for the year ended 31st March, 2023 are Rs 85,000 (inflow).

Quick Tip to Solve: Add the sold machine's accumulated depreciation back when finding the year's depreciation; deduct opening tax provision only once.

OPTION II (Computerised Accounting)

27. 'Data, people _____, _____ and software are five pillars of a Computerised Accounting System (CAS)'.

Which of the pillars of CAS are missing from the statement ? [1 mark]

(A) Procedures and Hardware

(B) Printer and CPU

(C) Mouse and Desktop

(D) Information and Accounts

Correct Answer: (A) Procedures and Hardware

Solution:

Concept:

- A Computerised Accounting System (CAS) combines data, people, procedures, hardware and software.
- Procedures prescribe how accounting information is processed, while hardware provides the physical equipment.

Step 1: Identify the omitted components The statement already names data, people and software. Comparing these with all five pillars leaves procedures and hardware. Procedures include the instructions for entering, checking and processing transactions; hardware includes the computer and its connected devices.

Step 2: Check the other pairs Printer and CPU in (B), and mouse and desktop in (C), name particular hardware components rather than two distinct pillars. Information and accounts in (D) concern accounting content or output and are not the two omitted pillars.

Step 3: Conclusion The missing pillars are Procedures and Hardware. Hence, the correct option is (A).

Quick Tip to Solve: List all five pillars first, then cross out data, people and software to identify the missing pair.

28(i). 'Sales and Accounts Receivable Sub-system' of Accounting Information System deals with which of the following ? [1 mark]

(A) Receipt and payment of cash sub-system

(B) Recording and maintaining the sales ledger and receivables

(C) Ascertaining cost of goods produced

(D) Purchase and payment to creditors

Correct Answer: (B) Recording and maintaining the sales ledger and receivables

Solution:

Concept:

- The sales sub-system records sales transactions and maintains the sales ledger.

- Accounts receivable records amounts owed by customers and tracks their subsequent collection.

Step 1: Match the function to the sub-system Sales and Accounts Receivable is concerned with recording sales and maintaining customer balances. Credit sales create receivables, and collections reduce the amounts due from customers. Thus recording and maintaining the sales ledger and receivables is its direct function.

Step 2: Distinguish the other sub-systems Option (A) describes cash receipts and payments. Option (C) describes cost accounting and production costing. Option (D) describes purchases and accounts payable to creditors. None of these is the sales and customer-receivables function asked for.

Step 3: Conclusion It deals with recording and maintaining the sales ledger and receivables. Hence, the correct option is (B).

Quick Tip to Solve: Associate receivables with customers and credit sales; associate payables with suppliers and purchases.

OR

28(ii). A Null value is a special value which represents : [1 mark]

(A) Single value data item

(B) Item with many values

(C) Absence of data items

(D) Stored value

Correct Answer: (C) Absence of data items

Solution:

Concept:

- A NULL value represents missing, unknown or unavailable data in a database field.
- NULL is distinct from a stored zero, an empty-looking text value or a field containing one or several actual values.

Step 1: Interpret the special value A null indicates that no data value is supplied for the relevant data item. For example, a customer record may have a null telephone field when the telephone number is not available. It does not mean that the number is numerically zero.

Step 2: Compare the choices A single-value item in (A) and a many-value item in (B) describe the number of values associated with an item. Option (D) refers to a stored value. The absence of data items in (C) is the description that matches NULL.

Step 3: Conclusion A Null value represents absence of data items. Hence, the correct option is (C).

Quick Tip to Solve: Read NULL as no supplied data, and never replace it mentally with a numerical zero.

29. The process of comparing input data with some unknown data is called : [1 mark]

(A) Data storage

(B) Data entry

(C) Data validation

(D) Data filter

Correct Answer: (C) Data validation

Solution:

Concept:

- Data validation checks input against prescribed rules, permitted values or other reference criteria.
- Data entry captures data; storage retains it; filtering selects records satisfying conditions.

Step 1: Identify the checking operation The key operation in the question is comparing input data to check it. In a computerised accounting system, that checking operation is data validation. Validation can test whether an entry has the required type, lies within an allowed range or belongs to a permitted list.

Step 2: Assess the printed wording and alternatives The question prints "unknown data"; useful validation ordinarily requires a defined rule or reference rather than an unknown benchmark. Nevertheless, among the given processes, validation is the one concerned with checking input. Storage (A) saves data, entry (B) records it and a filter (D) selects data; none names the checking process.

Step 3: Conclusion The process referred to is data validation. Hence, the correct option is (C).

Quick Tip to Solve: Look for the verb: checking input means validation; entering, saving and selecting mean different operations.

30(i). From the following, identify a 'Data label' as a chart element : [1 mark]

(A) Details and positions a legend on the chart.

(B) Indicates the individual value plotted on the chart.

(C) Details the data value and categories below the chart.

(D) Is a descriptive text for the chart.

Correct Answer: (B) Indicates the individual value plotted on the chart.

Solution:

Concept:

- A data label displays information, commonly the numerical value, for an individual plotted data point.
- A legend identifies data series, a data table presents values beneath a chart, and a chart title describes the chart.

Step 1: Recognise a data label A label placed beside a bar, point or pie slice can show the individual value represented by that plotted element. Thus a data label lets the reader identify the value directly without estimating it from the axis scale.

Step 2: Eliminate other chart elements Option (A) concerns positioning a legend, which identifies series. Option (C) describes the data table below a chart. Option (D) describes text such as a chart title. Only option (B) identifies the individual value plotted on the chart.

Step 3: Conclusion A data label indicates the individual value plotted on the chart. Hence, the correct option is (B).

Quick Tip to Solve: Match a label beside one plotted point with its value; a legend instead identifies the whole series.

OR

30(ii). How many logical values can be entered into a logical function ? [1 mark]

(A) 525

(B) 552

(C) 255

(D) 15

Correct Answer: (C) 255

Solution:

Concept:

- Logical functions evaluate conditions and return a logical result, TRUE or FALSE.
- For spreadsheet logical functions such as AND and OR, the argument list can contain up to 255 logical values or conditions.

Step 1: Identify the limit being tested The question asks for the maximum number of logical arguments supplied to a logical function. It is not asking how many different truth values exist: those are only TRUE and FALSE. In this context, the permitted argument limit is 255.

Step 2: Check the printed alternatives The values 525 and 552 in (A) and (B) exceed the logical-argument limit. The value 15 in (D) is below the maximum and is not the required limit. The number 255 in (C) matches the maximum number of logical values accepted.

Step 3: Conclusion Up to 255 logical values can be entered. Hence, the correct option is (C).

Quick Tip to Solve: Distinguish the two possible truth values from the maximum of 255 logical arguments in the function.

31. Explain the advantages of using a chart. [3 marks]

Solution:

Concept:

- A chart is a graphical representation of numerical data, using elements such as bars, lines or sectors.
- Charts convert worksheet figures into a visual form that makes comparison, interpretation and

communication easier.

Step 1: Explain how charts simplify large data sets A chart condenses a large quantity of numerical information into an easily understood picture. The reader can grasp the overall position quickly without examining every figure in a lengthy table. For example, a chart of monthly sales gives an immediate view of the year's sales pattern. This saves time and makes a report more understandable to readers who are not accounting specialists.

Step 2: Explain comparison and trend identification Charts make it easier to compare values across products, departments or periods. Bar heights can show which department has the highest expenses, while a line chart can show whether sales are rising or falling over successive months. Changes, unusually high or low values, and relationships between data series are more readily visible than in a list of figures.

Step 3: Explain their value in communication and decisions A clear chart presents information attractively and helps the reader remember the main message. It draws attention to important differences, such as an expense category increasing faster than sales, so management can investigate the cause and make informed decisions. Suitable titles, labels and scales are necessary for the chart to communicate its meaning correctly.

Step 4: Conclusion Charts simplify numerical data, facilitate comparisons and identification of trends, and improve the communication of information for decision-making.

Quick Tip to Solve: Link each advantage to a use: bars compare categories, lines reveal time trends, and sectors show shares of a total.

32. Explain 'Sequential Codes' and 'Block Codes' with the help of an example. [3 marks]

Solution:

Concept:

- A code is a short numeric or alphanumeric identifier assigned to an account, document or other data item.
- Sequential codes identify items by consecutive numbers; block codes reserve separate ranges of numbers for different groups of items.

Step 1: Explain sequential codes with an example Sequential coding assigns numbers in consecutive order to successive items. The code primarily identifies the item and its place in the sequence; it does not by itself indicate a separate category. For example, sales invoices issued one after another may be numbered 1001, 1002, 1003 and 1004. Each invoice has a unique reference, and a missing number in the series can alert the user to check whether a document is missing, cancelled or not yet recorded.

Step 2: Explain block codes with an example Block coding divides the available code numbers into blocks and assigns each block to a particular class of items. Individual items are then allotted codes within their class's block. For example, assets may use codes 100–199, liabilities 200–299 and income accounts 300–399. Within the asset block, Cash could be 101, Bank 102 and Furniture 103. The code therefore indicates both the broad class and the individual account; unused numbers in a block allow further accounts to be added in that class.

Step 3: State the essential distinction In the invoice example, the next document simply receives the next serial number. In the block-code example, a new liability must receive a code from the liability block rather than from the asset block. Thus sequential coding stresses order, whereas block coding combines identification with classification.

Step 4: Conclusion Sequential codes are consecutive identifiers, such as invoice numbers 1001, 1002 and 1003. Block codes allocate ranges to classes, such as 100–199 for assets and 200–299 for liabilities.

Quick Tip to Solve: Give a running document-number series for sequential coding and distinct account-class ranges for block coding.

33(a). What is meant by Accounting Cycle ? List its basic phases. [4 marks]

Solution:

Concept:

- The accounting cycle is the systematic sequence of accounting activities through which financial transactions are identified, recorded, classified and summarised into financial statements.
- The sequence is repeated for each accounting period. It begins with business transactions and leads to information about profit or loss and financial position.

Step 1: State the meaning of the accounting cycle An accounting cycle is the complete process followed to convert evidence of business transactions into accounting records and financial statements for an accounting period. Each phase uses the output of the preceding phase: source documents support entries, entries are posted to accounts, and account balances provide the basis for summaries and reports. It is called a cycle because these activities recur in successive accounting periods.

Step 2: List the phases of identifying and recording transactions The initial phases are: (i) identify financial transactions and collect their source documents, such as invoices and receipts; (ii) analyse each transaction to determine the accounts affected and prepare the accounting voucher; and (iii) record the transaction chronologically in the journal or appropriate subsidiary book, applying the rules of debit and credit. Only transactions measurable in monetary terms enter the financial accounting records.

Step 3: List the phases of classification and checking The next phases are: (iv) post the recorded transactions to the relevant ledger accounts, thereby classifying them account-wise; and (v) balance the ledger accounts and prepare a trial balance to check the arithmetical agreement of total debits and credits. Trial balance agreement alone does not establish that every accounting error has been eliminated.

Step 4: List the phases of adjustment, reporting and closing The remaining phases are: (vi) make necessary period-end adjustments, such as outstanding expenses, prepaid expenses and depreciation; (vii) prepare the financial statements, including the Trading and Profit and Loss Account and Balance Sheet as applicable, and communicate the results; and (viii) close the nominal accounts and carry forward the continuing account balances to the next accounting period. These phases complete the summarisation of transactions and provide a starting point for the next cycle.

Step 5: Conclusion The accounting cycle is the recurring process from identifying transactions to preparing financial statements and closing the books. Its basic sequence is identification, recording, classification, trial balance, adjustments, financial statements and closing.

Quick Tip to Solve: Recall the sequence by following one transaction: source document, journal, ledger, trial balance, adjustments, financial statements and closing.

OR

33(b). What is 'data formatting' ? What tools are used to format a given data ? [4 marks]

Solution:

Concept:

- Data formatting means changing the appearance and presentation of data in worksheet cells so that it is clear, readable and meaningful.
- Formatting normally changes how a stored value is displayed, not the value used in calculations. For example, currency and decimal-place formats control the display of an amount.

Step 1: Explain the meaning of data formatting Data formatting is the process of applying suitable display styles to data, such as a number format, font, alignment, border and background colour. It helps distinguish headings from details and makes an accounting worksheet easier to interpret. For example, an amount may be displayed with a currency symbol and two decimal places, while a column heading may be made bold and centred. Merely reducing the displayed decimal places does not round the underlying value used by a formula.

Step 2: Identify the main formatting tools Select the cell or range to be formatted. Use the formatting controls on the Home tab or open the Format Cells dialogue box, for example by pressing Ctrl+1. Its principal tools are:

Number: choose General, Number, Currency, Accounting, Date, Time, Percentage or other display formats; set decimal places and digit separators as appropriate.

Alignment: set horizontal or vertical alignment, indentation and text orientation; wrap long text within a cell or merge selected cells for a heading.

Font: choose the typeface and font size, and apply bold, italics, underline or font colour to distinguish important entries.

Border: add or remove cell outlines and dividing lines, choosing suitable line styles and colours for tables and totals.

Fill or Patterns: apply background colours or patterns to highlight headings, input cells or totals.

Protection: set Locked or Hidden properties in Format Cells. These properties take effect when worksheet protection is applied; they control editing or formula visibility rather than the numerical value.

Step 3: Apply a consistent format Choose the required settings and click OK. The Format Painter tool can copy an existing cell's formatting to another cell or range, while cell styles apply a consistent combination of formats. Use consistent number formats for monetary amounts and consistent font

and border styles for similar headings and totals.

Step 4: Conclusion Data formatting improves the presentation of worksheet data. The main Format Cells tools are Number, Alignment, Font, Border, Fill/Patterns and Protection, supported by Home-tab formatting controls, cell styles and Format Painter.

Quick Tip to Solve: Remember the Format Cells tabs, and link each to one example: currency, centre alignment, bold font, total border, heading fill and locked formula cell.

34. Write the steps to create 'If' function using formula tab and dialogue box on a given spreadsheet where the total income less expenses if greater than Rs. 10,000 then 10% savings and if income is less than Rs. 10,000 then 5% savings. Also write the syntax of the result. [6 marks]

Solution:

Concept:

- The IF function tests a condition and returns one result when the condition is TRUE and another when it is FALSE.
- Net income is total income less expenses. Savings are calculated by multiplying this balance by the applicable savings rate.
- The general syntax is `=IF(logical_test,value_if_true,value_if_false)`.

Step 1: Arrange the worksheet and calculate net income For a clear cell-reference example, place Total Income in B1, Expenses in C1, Net Income in D1 and Savings in E1. Enter the given income and expense amounts in B2 and C2. In D2, enter `=B2-C2` and press Enter. Thus D2 contains total income less expenses, which is the amount to be tested and the base on which savings are calculated. These cell addresses illustrate the method; use the corresponding cells in the given spreadsheet.

Step 2: Open IF from the Formulas tab Select E2, the cell in which the savings result is required. Click the Formulas tab, go to the Function Library group, choose Logical and then select IF. This opens the Function Arguments dialogue box. Alternatively, choose Insert Function on the Formulas tab, select the Logical category, select IF and click OK to open the same argument box.

Step 3: Enter the logical test In the `Logical_test` box, enter `D2>10000`. This checks whether income after deducting expenses is greater than Rs 10,000. Do not type the currency symbol or a digit-grouping comma inside the number 10000 in the formula, since the comma separates function arguments.

Step 4: Enter both savings calculations In the `Value_if_true` box, enter `D2*10%`. When D2 exceeds Rs 10,000, this calculates savings at 10% of net income.

In the `Value_if_false` box, enter `D2*5%`. When the test is FALSE, this calculates savings at 5% of net income. Click OK to insert the function and display the savings amount in E2. The entries are calculations, so they are not enclosed in quotation marks. Returning only 10% or 5% would return the rate rather than the savings amount.

Step 5: Write and verify the resulting formula The resulting formula in E2 is

```
=IF(D2>10000,D2*10%,D2*5%).
```

Without the helper cell D2, the equivalent formula is

`=IF(B2-C2>10000,(B2-C2)*10%,(B2-C2)*5%).`

For example, a net income of Rs 12,000 gives savings of Rs 1,200, while a net income of Rs 8,000 gives savings of Rs 400. The wording does not separately state a rate at exactly Rs 10,000. In this two-branch IF formula, equality makes the test FALSE and is included in the 5% branch, giving Rs 500. Apply a suitable currency or accounting number format to E2, and copy the formula down if more rows of income and expenses are present.

Step 6: Conclusion Select the savings cell, choose Formulas, Logical, IF, and fill the test and both result arguments. With net income in D2, the required savings formula is `=IF(D2>10000,D2*10%,D2*5%)`.

Quick Tip to Solve: Test net income after deducting expenses, and enter net income times the rate in each result box so that IF returns savings, not just a percentage.