CBSE Class 12 Accountancy Question Paper 2024 with Solution PDF-Set 67-2-3

Question Paper with Solutions

Conducted by the Central Board of Secondary Education (CBSE)

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

General Instructions

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

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

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

(iv) **Part B** has two options. 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). 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 share of profit exceeds the old share. Gain equals new share minus old share.
- Express both shares with a common denominator before comparing them; a negative sacrifice represents a gain.

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

Step 2: Calculate and interpret the difference

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

The change is positive, so this is a gain, not a sacrifice. Thus options (A) and (C) reverse the nature of the change; option (D) doubles its magnitude.

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

Quick Tip to Solve: Use new share minus old share for a gain; here $1/3$ is slightly larger than $3/10$.

OR

1(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 specifically treated as a charge under the agreement.
- When available profit is insufficient, distribute it in the ratio of the interest on capital due to the partners.

Step 1: Calculate the interest due For the full year, Neeru is entitled to Rs $2,00,000 \times 10\% =$ Rs $20,000$, while Meetu is entitled to Rs $1,50,000 \times 10\% =$ Rs $15,000$. Total interest due is Rs 35,000, exceeding profit of Rs 17,500.

Step 2: Allocate the available profit The interest ratio is $20,000 : 15,000 = 4 : 3$. Thus Neeru receives $17,500 \times 4/7 =$ Rs $10,000$ and Meetu receives $17,500 \times 3/7 =$ Rs $7,500$. Options (A) and (C) allocate more than available profit; option (B) incorrectly divides it equally.

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: Here profit is half the total interest due, so each partner receives half of their calculated interest.

2. 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 equals the excess of asset proceeds over book value, adjusted for gains or losses on settlement of liabilities and realisation expenses.
- Outside liabilities settled at their book value produce no gain or loss: their transfer and payment cancel in the realisation calculation.

Step 1: Find the gain on assets The assets have a book value of Rs 6,00,000 and realise Rs 7,20,000. The gain before expenses is Rs $7,20,000$ − Rs $6,00,000$ = Rs $1,20,000$. There is no stated difference in settlement of the Rs 2,40,000 outside liabilities.

Step 2: Deduct realisation expenses

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

Asset proceeds exceed book value even after expenses, so the result is a profit, ruling out (A) and (C). Option (B) ignores the realisation expenses.

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

Quick Tip to Solve: Do not deduct outside liabilities twice: at book-value settlement they have no net effect on realisation profit.

3. ***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 refers to a change in the existing relationship among partners, with the business capable of continuing under a new agreement.
- Distinguish this reconstitution from dissolution of the firm, which ends the business and may take place through court intervention.

Step 1: Evaluate the assertion Assertion (A) is correct in the stated textbook distinction: dissolution of partnership changes the partners' relationship without court intervention. It need not bring the firm's business to an end.

Step 2: Evaluate the reason Reason (R) is correct: partners mutually agree to change the existing partnership relationship and establish the new terms under which the business continues.

Step 3: Check the explanatory link The mutual agreement explains why court intervention is unnecessary for this dissolution of partnership. Hence the reason supports the assertion directly; (B) wrongly denies that link, while (C) and (D) wrongly reject one of the statements.

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

Quick Tip to Solve: First distinguish dissolution of partnership from dissolution of the firm before judging whether court intervention is involved.

4(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 or nominal capital is the maximum share capital a company is authorised to issue under its Memorandum of Association.
- Issued, subscribed and paid-up capital describe later stages of raising capital and must not be confused with the authorised ceiling.

Step 1: Identify the authorised ceiling The question asks for nominal capital, another name for authorised capital. This is a permitted maximum, regardless of how many shares have actually been offered, applied for or paid for. The definition in option (C) matches this ceiling.

Step 2: Distinguish the other options Option (A) describes issued capital: the part offered for subscription. Option (B) describes subscribed capital: the amount applied for by investors. Option (D) describes paid-up capital: the amount actually received from shareholders. None defines the maximum authorised amount.

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

Quick Tip to Solve: Link authorised with allowed maximum; issued, subscribed and paid-up refer to successive amounts actually raised.

OR

4(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:

- Debentures may be classified by security, redemption, interest rate or convertibility; each basis describes a different feature.

- Unsecured debentures, also called naked debentures, do not carry a specific charge over company assets.

Step 1: Identify the basis of classification The words "specific charge on the assets" refer to security available to debenture holders. In the stated classification, debentures without such security are unsecured debentures.

Step 2: Eliminate unrelated classifications Redeemable debentures in (A) are classified by repayment terms. Zero coupon rate debentures in (C) are classified by their interest terms. Non-convertible debentures in (D) cannot be converted into shares. These names do not themselves establish the absence of a charge on assets.

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

Quick Tip to Solve: Identify the feature tested: charge on assets means security, whereas repayment, coupon and conversion are separate features.

5(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:

- Sacrificing share equals old share minus new share for each existing partner.
- After allowing the incoming partner's share, allocate the remaining profit between the old partners in their agreed new ratio.

Step 1: Find the new shares of the old partners Nand receives $1/4$, leaving $1 - 1/4 = 3/4$ for Kishore and Bimal. They divide this remainder equally, so each new share is $\frac{3}{4} \times \frac{1}{2} = \frac{3}{8}$. Their old shares were $4/7$ and $3/7$.

Step 2: Calculate the individual sacrifices

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

Their sacrifices total $14/56 = 1/4$, matching Nand's share. Equal future shares do not imply equal sacrifices, ruling out (A); (B) repeats the old ratio and (D) reverses the order.

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

Quick Tip to Solve: Allocate only the remaining $3/4$ equally, then subtract those new shares from $4/7$ and $3/7$.

OR

5(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 receives the specified minimum if their normal profit share falls below it.
- Deficiency equals the guaranteed amount minus the normal share; the partner who gives the guarantee bears the stated deficiency.

Step 1: Calculate Tina's normal share The total ratio is $2+2+1=5$. Tina's share before the guarantee is therefore $\frac{1}{5} \times$ Rs $1,60,000 =$ Rs $32,000$. This is below her guaranteed minimum of Rs 40,000.

Step 2: Find the shortfall borne by Raju

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

The agreement expressly assigns all of this deficiency to Raju. Option (B) is the whole guarantee, not the shortfall; (C) exceeds the guarantee; (D) would incorrectly share the shortfall equally between two partners.

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

Quick Tip to Solve: Calculate the guaranteed partner's normal share first, then charge only the shortfall to the named guarantor.

6. 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:

- Number of debentures issued equals the agreed purchase consideration divided by the issue price per debenture.
- Issue price at a discount equals face value minus discount. The coupon rate determines interest, not the issue price.

Step 1: Calculate the issue price Each Rs 100 debenture is issued at a discount of 10%. The discount is Rs $100 \times 10\% =$ Rs 10, making the issue price Rs $100 -$ Rs $10 =$ Rs 90. The 11% rate is the annual interest rate.

Step 2: Divide the agreed consideration by issue price

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

Use the agreed consideration, not the Rs 13,00,000 net assets. Option (A) confuses net assets with face-value units; (B) divides consideration by face value and ignores discount; (C) does not discharge the consideration at Rs 90 each.

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

Quick Tip to Solve: Use the issue price of Rs 90 in the denominator; the 11 per cent coupon affects interest only.

7. 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 records the nominal liability: number of debentures multiplied by face value.
- An issue discount reduces the cash received but does not reduce the face value credited to Debentures Account.

Step 1: Calculate the nominal liability The company issues 6,000 debentures with a face value of Rs 100 each. Therefore, the amount credited is

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

The coupon rate of 8% determines interest, not this principal liability.

Step 2: Distinguish cash and discount from face value Cash received is $6,000 \times 96 = \text{Rs } 5,76,000$, and discount is $6,000 \times (100 - 96) = \text{Rs } 24,000$. These explain options (A) and (B), but neither is the Debentures Account credit. Option (D), Rs 60,000, understates the nominal liability by a factor of ten.

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

Quick Tip to Solve: For the Debentures Account credit, multiply quantity by face value; use issue price only to find cash received.

8(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.
- Minimum reissue price equals the face value treated as paid up on reissue less the amount already

forfeited.

Step 1: Find the maximum permitted discount The original holder has paid Rs 70 towards a share of Rs 100. On forfeiture this Rs 70 is available to cover a discount when the share is reissued as fully paid. The maximum discount per share is therefore Rs 70.

Step 2: Calculate the minimum reissue price For a fully paid share,

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

A price of Rs 100 gives no discount, while Rs 70 gives only Rs 30 discount; both exceed the permitted minimum. Rs 130 is a premium price, so it also cannot be the minimum.

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 from the paid-up value on reissue; do not confuse the forfeited amount with the minimum price.

OR

8(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 called-up share capital, excluding securities premium.
- The amount received towards capital determines the forfeiture credit; it is distinct from the capital amount called.

Step 1: Remove premium from the amount called The total called amount is Rs 8, including securities premium of Rs 2. Thus the capital called on the share is

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

Forfeiture cancels this called-up capital, so Share Capital Account is debited with Rs 6.

Step 2: Check the other amounts Rs 10 is the face value, but the entire face value has not been called. Rs 8 includes premium and therefore cannot be debited wholly to Share Capital. The shareholder paid Rs 6 including Rs 2 premium, leaving Rs 4 received towards capital; that Rs 4 is the amount

forfeited, not the capital debit.

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

Quick Tip to Solve: For the capital debit on forfeiture, start with the amount called and remove any premium included in it.

9. 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:

- Debenture interest is calculated at the stated coupon rate on the face value of debentures outstanding.
- Issue discount affects issue proceeds, not the base for interest; interest is adjusted for the period outstanding.

Step 1: Find the principal and period The nominal value of 30,000 debentures is

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

They were issued on 1st April, 2022 and remain outstanding through 31st March, 2023, giving a full twelve-month interest period.

Step 2: Apply the coupon rate The interest due is

$$30,00,000 \times \frac{10}{100} \times \frac{12}{12} = \text{Rs } 3,00,000.$$

Rs 2,70,000 incorrectly applies the rate to discounted proceeds of Rs 27,00,000. Rs 27,000 and Rs 30,000 also understate the relevant amounts by a factor of ten.

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

Quick Tip to Solve: Circle the face value and coupon rate first: an issue discount does not reduce contractual debenture interest.

10. 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:

- The total capital implied by an incoming partner is the capital brought divided by that partner's profit share.
- Hidden goodwill equals this implied total capital less the actual combined capital of all partners after admission.

Step 1: Calculate the implied total capital Sanju brings Rs 1,00,000 for a one-fifth share. The capitalised value implied for the whole firm is

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

This total is the value used to derive goodwill, not goodwill itself.

Step 2: Deduct the actual combined capital The capitals actually available after admission are

$$1,20,000 + 80,000 + 1,00,000 = \text{Rs } 3,00,000.$$

Therefore, hidden goodwill is

$$5,00,000 - 3,00,000 = \text{Rs } 2,00,000.$$

Option (A) is the implied total, option (C) is actual combined capital, and option (D) is only Sanju's contribution.

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

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

11. 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, separate Capital and Current Accounts are maintained for each partner.
- Capital Accounts record permanent capital changes; routine drawings and profit-related adjustments go through Current Accounts.

Step 1: Identify the treatment of drawings Ordinary drawings are withdrawals by a partner for personal use during the year. Under the fixed capital method, these are debited to the partner's Current Account. They are therefore not recorded in the fixed Capital Account.

Step 2: Test the other options A permanent withdrawal of capital reduces the agreed capital and is debited to Capital Account. Additional capital introduced increases that agreed amount and is credited to Capital Account. The opening capital balance is also brought forward in Capital Account. Thus options (B), (C) and (D) are all appropriate capital entries; only ordinary drawings are excluded.

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

Quick Tip to Solve: Distinguish ordinary personal drawings from a permanent withdrawal of capital: only the latter changes fixed capital.

12. ***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 money or through assets.
- Admission gives the incoming partner rights in the firm's assets and a share of its future profits.

Step 1: Evaluate the Assertion The Assertion is correct. At admission, the agreed capital contribution may be brought in cash or in kind, such as an asset accepted by the firm; it establishes the new partner's capital interest.

Step 2: Evaluate the Reason The Reason is also correct. The new partner joins the ownership arrangement and acquires rights to share in the assets and future profits in accordance with the partnership agreement.

Step 3: Check the explanatory connection These acquired partnership rights explain why the new partner contributes an agreed amount on joining. In particular, capital is contributed for the right in the assets; compensation for the right to future profits is dealt with through goodwill. Thus the Reason explains the Assertion. Option (B) wrongly denies that connection, while (C) and (D) wrongly reject one of the true statements.

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

Quick Tip to Solve: Link the new partner's capital contribution to rights in assets, while keeping the separate goodwill adjustment for profit rights in mind.

13(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 an agreement to the contrary, interest on a partner's loan to the firm is allowed at 6% per annum.
- Interest on a loan is a charge against profit and is calculated only for the period the loan remains outstanding.

Step 1: Determine the period and rate Abhishek advanced the loan on 1st January, 2023. Up to the year end on 31st March, 2023, the loan has run for three months: January, February and March. Since there is no partnership agreement, use 6% per annum.

Step 2: Calculate and compare the interest The amount due is

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

Rs 18,000 is a full year's interest, and Rs 9,000 would represent six months. The no-interest option is incorrect because the default loan-interest entitlement applies even without an agreement.

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 without an agreement, use 6% per annum and count months from the advance date to the closing date.

OR

13(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 regular intervals, interest can be calculated on total drawings for their average outstanding period.
- The average period is the mean of the periods for which the first and last equal instalments remain withdrawn.

Step 1: List the outstanding periods With drawings at the end of each quarter, the first instalment remains withdrawn for nine months up to year end. The second remains for six months, the third for three months and the final instalment, drawn at year end, for zero months.

Step 2: Compute the average period Because all four instalments are equal,

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

Nine months applies only to the first instalment. An average of six months applies to drawings in the middle of quarters, and seven and a half months applies to drawings at the beginning of quarters; neither matches end-of-quarter drawings.

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

Quick Tip to Solve: For quarterly drawings at the end, average the first and last periods: $(9+0)/2 = 4.5$ months.

14. 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.

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:

- Interest on drawings is charged on the amount withdrawn for personal use, for the period it remains withdrawn.
- When only total drawings during the year are given and no dates are specified, the average period is six months. Interest equals drawings multiplied by the annual rate and the fraction of a year.

Step 1: Select Nisha's drawings and the applicable rate Nisha withdrew Rs 80,000 during the year. The agreement charges interest on drawings at 5% per annum; the 6% rate applies to capital and must not be used here. With no individual withdrawal dates given, take the average period as $6/12$ of a year.

Step 2: Calculate the interest and compare the options

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

Option (B), Rs 1,000, would result from using Vivek's drawings of Rs 40,000. Option (C), Rs 4,000, incorrectly charges a full year's interest. Option (D), Rs 4,800, uses 6% for a full year, although that is the capital rate.

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

Quick Tip to Solve: For unspecified drawings during the year, use six months and check that you have selected the drawings rate, not the capital rate.

15. 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.

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 on each amount for the time it is employed in the business.
- Interest equals capital multiplied by the annual rate and time in years. Additional capital introduced on 1st July earns interest for nine months up to 31st March.

Step 1: Calculate interest on the opening capital Vivek's opening capital of Rs 8,00,000 remained invested for the entire financial year. At the agreed rate of 6% per annum, its interest is

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

His personal drawings are considered separately for interest on drawings, and are not treated as a dated permanent withdrawal of capital.

Step 2: Include interest on the additional capital The additional Rs 2,00,000 was invested from 1st July, 2022 to 31st March, 2023, or nine months.

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

Total interest is Rs $48,000 + 9,000 = 57,000$. Option (A) omits the additional capital, option (B) wrongly treats it as invested for twelve months, and option (D) is the interest on Nisha's Rs 4,00,000 capital.

Step 3: Conclusion Interest on capital payable to Vivek is Rs 57,000. Hence, the correct option is (C).

Quick Tip to Solve: Split opening and additional capital into separate calculations; July to March contributes nine months of interest.

16. 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:

- New share of an existing partner equals old share minus the share sacrificed in favour of the incoming partner.
- Chetan acquires his one-fourth share equally from Ashu and Basu, so each sacrifices $\frac{1}{4} \times \frac{1}{2} = \frac{1}{8}$. Equal sacrifice does not mean equal remaining shares.

Step 1: Deduct each partner's sacrifice The old ratio $2 : 1$ gives Ashu $2/3$ and Basu $1/3$ of the total profit. Therefore,

$$\text{Ashu's new share} = \frac{2}{3} - \frac{1}{8} = \frac{13}{24},$$
$$\text{Basu's new share} = \frac{1}{3} - \frac{1}{8} = \frac{5}{24}.$$

Step 2: Express all shares with a common denominator Chetan's share is $1/4 = 6/24$. Thus the three shares are $13/24, 5/24, 6/24$; their sum is $24/24 = 1$. Option (B) gives Chetan only $1/16$; option (C) gives him $5/20 = 1/4$ but does not reflect equal sacrifice by Ashu and Basu; and option (D) gives him $1/3$, contradicting the agreed share.

Step 3: Conclusion The new profit sharing ratio of Ashu, Basu and Chetan is $13 : 5 : 6$. Hence, the correct option is (A).

Quick Tip to Solve: First halve Chetan's one-fourth share, then subtract one-eighth from each old share before converting to a ratio.

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:

- When the continuing partners fix the new firm's total capital, divide that total in their new profit sharing ratio to find the required individual capitals.
- Compare each adjusted capital with the required capital. Excess capital is paid out and a deficiency is brought in as cash. With no new ratio specified, the remaining partners retain their relative old shares.

Step 1: Working Notes: determine the required capitals After Prateek retires, Charu and Sirima continue in their relative old ratio $2:1$. Their required capitals out of Rs 6,30,000 are

$$\text{Charu} = 6,30,000 \times \frac{2}{3} = \text{Rs } 4,20,000,$$
$$\text{Sirima} = 6,30,000 \times \frac{1}{3} = \text{Rs } 2,10,000.$$

Charu already has Rs 4,35,000, so her excess of Rs $4,35,000 - 4,20,000 = 15,000$ is paid to her. Sirima has Rs 1,89,000, so she must bring Rs $2,10,000 - 1,89,000 = 21,000$. The net increase in cash and capital is Rs 6,000, agreeing with $6,30,000 - (4,35,000 + 1,89,000)$.

Step 2: Record the cash adjustments **Journal of the firm (31st March, 2023)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Charu's Capital A/c Dr. To Cash A/c (Being excess capital returned to Charu)		15,000	15,000
	Cash A/c Dr. To Sirima's Capital A/c (Being deficiency in capital brought in by Sirima)		21,000	21,000

The first entry reduces Charu's capital and cash; the second increases cash and Sirima's capital. No further retirement adjustment is made because the given balances already incorporate all adjustments.

Step 3: Conclusion Pay Rs 15,000 to Charu and receive Rs 21,000 from Sirima. Their final capitals become Rs 4,20,000 and Rs 2,10,000 respectively, totalling Rs 6,30,000 in the ratio $2:1$.

Quick Tip to Solve: Compare required capital with the adjusted balance separately for each partner; a capital excess means a cash payment, while a deficiency means a receipt.

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 profit in the agreed profit sharing ratio, then compare the guaranteed partner's normal share with the minimum guarantee.
- If no individual guarantor or special deficiency ratio is specified, the other partners bear the deficiency in their relative profit sharing ratio. The guarantee reallocates profit and does not increase total profit.

Step 1: Working Notes: calculate the normal shares and deficiency Profit of Rs 1,20,000 is initially shared in $3:2:1$. Chaman receives Rs $1,20,000 \times 3/6 = 60,000$, Burman Rs $1,20,000 \times 2/6 = 40,000$, and Aman Rs $1,20,000 \times 1/6 = 20,000$. Aman's guaranteed minimum is Rs 60,000, so the deficiency is Rs $60,000 - 20,000 = 40,000$. Chaman and Burman bear this deficiency in $3:2$: Chaman bears Rs $40,000 \times 3/5 = 24,000$ and Burman bears Rs $40,000 \times 2/5 = 16,000$. Their final shares are Rs $60,000 - 24,000 = 36,000$ and Rs $40,000 - 16,000 = 24,000$, while Aman receives Rs 60,000.

Step 2: Record the allocation and guarantee adjustment **Journal of the firm (31st March, 2023)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	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 initially distributed in the ratio 3:2:1)			
	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 guaranteed profit deficiency borne by Chaman and Burman in the ratio 3:2)			

Both entries balance. The first distributes the available profit; the second transfers Rs 40,000 from the guarantors to Aman without changing total profit distributed.

Step 3: Conclusion The final profit shares of Chaman, Burman and Aman are Rs 36,000, Rs 24,000 and Rs 60,000 respectively. They total Rs 1,20,000 and satisfy Aman's guarantee.

Quick Tip to Solve: Compute Aman's normal one-sixth share before finding the guarantee shortfall; share only that shortfall between Chaman and Burman in 3:2.

18. Madhu, Raj, Atul and Prachi were partners in a firm sharing profit and losses in the ratio of 3 : 2 : 4 : 1. With effect from 1st April, 2023, they decided to share profits and losses equally. Their Balance Sheet showed a General Reserve of Rs. 1,00,000. The goodwill of the firm was valued at Rs. 20,00,000.

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

Solution:

Concept:

- General Reserve represents accumulated profit earned before the change and is transferred to all partners' capital accounts in the old profit sharing ratio.
- Goodwill compensation equals the firm's goodwill multiplied by each partner's sacrifice or gain. Debit gaining partners and credit sacrificing partners; no goodwill asset is raised when the adjustment is made directly through capitals.

Step 1: Working Notes: distribute reserve and calculate sacrifice or gain The old ratio is $3:2:4:1$ and each new share is $1/4$. General Reserve of Rs 1,00,000 belongs to Madhu, Raj, Atul and Prachi in amounts of Rs 30,000, Rs 20,000, Rs 40,000 and Rs 10,000 respectively.

$$\text{Madhu's sacrifice} = \frac{3}{10} - \frac{1}{4} = \frac{1}{20},$$
$$\text{Raj's gain} = \frac{1}{4} - \frac{2}{10} = \frac{1}{20},$$
$$\text{Atul's sacrifice} = \frac{4}{10} - \frac{1}{4} = \frac{3}{20},$$
$$\text{Prachi's gain} = \frac{1}{4} - \frac{1}{10} = \frac{3}{20}.$$

At goodwill of Rs 20,00,000, a $1/20$ share is Rs 1,00,000 and a $3/20$ share is Rs 3,00,000. Thus Raj and Prachi compensate Madhu and Atul by those respective amounts; total gains equal total sacrifices.

Step 2: Pass the adjustment entries **Journal of the firm (1st April, 2023)**

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	General Reserve A/c Dr.		1,00,000	
	To Madhu's Capital A/c			30,000
	To Raj's Capital A/c			20,000
	To Atul's Capital A/c			40,000
	To Prachi's Capital A/c			10,000
	(Being General Reserve distributed in the old ratio 3:2:4:1)			
	Raj's Capital A/c Dr.		1,00,000	
	Prachi's Capital A/c Dr.		3,00,000	
	To Madhu's Capital A/c			1,00,000
	To Atul's Capital A/c			3,00,000
	(Being goodwill adjusted through partners' capitals on change in profit sharing ratio)			

The reserve entry has equal debits and credits of Rs 1,00,000. The goodwill entry has equal debits and credits of Rs 4,00,000; only the transferred profit shares are compensated, not the entire goodwill value.

Step 3: Conclusion Distribute General Reserve in $3:2:4:1$. For goodwill, debit Raj Rs 1,00,000 and Prachi Rs 3,00,000, and credit Madhu Rs 1,00,000 and Atul Rs 3,00,000 through their capital accounts.

Quick Tip to Solve: Use the old ratio for accumulated reserves, but use the difference between old and new shares for goodwill; these are two distinct adjustments.

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:

- Purchase consideration is the amount payable to the vendor. Goodwill equals purchase consideration less the net assets acquired, where net assets are assets less liabilities.
- Debentures issued at a premium settle the vendor at their issue price. The face value is credited to Debentures A/c and the excess to Securities Premium A/c; payment by cheque is credited to Bank A/c.

Step 1: Working Notes: compute goodwill and the debenture issue The agreed purchase consideration is Rs 5,28,000; it is not the same as the net assets taken over.

$$\begin{aligned} \text{Net assets} &= 5,40,000 - 1,20,000 = \text{Rs } 4,20,000, \\ \text{Goodwill} &= 5,28,000 - 4,20,000 = \text{Rs } 1,08,000, \\ \text{Cheque payment} &= 5,28,000 \div 2 = \text{Rs } 2,64,000. \end{aligned}$$

The remaining Rs 2,64,000 is settled with debentures. Each debenture is issued for $100 + 10 = \text{Rs } 110$, so

$$\begin{aligned} \text{Number of debentures} &= 2,64,000 \div 110 = 2,400, \\ \text{Face value issued} &= 2,400 \times 100 = \text{Rs } 2,40,000, \\ \text{Securities premium} &= 2,400 \times 10 = \text{Rs } 24,000. \end{aligned}$$

The 10% coupon rate determines future interest; it does not change the issue price or the number allotted.

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

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Payal Ltd. A/c (Being assets and liabilities taken over at an agreed purchase consideration and goodwill recognised)		5,40,000 1,08,000	 1,20,000 5,28,000
	Payal Ltd. A/c Dr. To Bank A/c (Being half the purchase consideration paid by cheque)		2,64,000	 2,64,000
	Payal Ltd. A/c Dr. To 10% Debentures A/c To Securities Premium A/c (Being 2,400 debentures of Rs 100 each issued at a premium of 10% to settle the balance)		2,64,000	 2,40,000 24,000

The vendor account is cleared by the two debits of Rs 2,64,000 against its initial credit of Rs 5,28,000. Each journal entry has equal debit and credit totals.

Step 3: Conclusion Goodwill is Rs 1,08,000. Priti Ltd. pays Rs 2,64,000 by cheque and issues 2,400 debentures, crediting Debentures A/c with Rs 2,40,000 and Securities Premium A/c with Rs 24,000.

Quick Tip to Solve: Divide the amount settled through debentures by Rs 110, not Rs 100. Separate the issue premium from the 10% interest rate.

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:

- Application money received is credited to Debenture Application and Allotment A/c when the full issue price is payable with application.
- Rejected applications are refunded at the full issue price. On allotment, accepted money is transferred to Debentures A/c at face value and Securities Premium A/c for the premium.

Step 1: Working Notes: calculate receipts, refunds and allotment The face value is Rs 100 and the

issue premium is Rs 50, so the full application money per debenture is $100 + 50 = \text{Rs } 150$.

$$\begin{aligned}
\text{Money received} &= 5,000 \times 150 = \text{Rs } 7,50,000,\\
\text{Refund on rejection} &= 1,000 \times 150 = \text{Rs } 1,50,000,\\
\text{Money retained} &= 4,000 \times 150 = \text{Rs } 6,00,000,\\
\text{Debenture capital} &= 4,000 \times 100 = \text{Rs } 4,00,000,\\
\text{Securities premium} &= 4,000 \times 50 = \text{Rs } 2,00,000.
\end{aligned}$$

The excess applications are rejected entirely, so no pro-rata adjustment is required. The 11% rate is the coupon rate for interest, not an additional issue premium or an amount payable on application.

Step 2: Pass the journal 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 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 money refunded on 1,000 rejected applications at Rs 150 each)		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 and application money transferred)		6,00,000	 4,00,000 2,00,000

The application and allotment account closes because its credit of Rs 7,50,000 equals the refund of Rs 1,50,000 plus the transfer of Rs 6,00,000. Net bank receipts equal Rs 6,00,000.

Step 3: Conclusion Dhatu Ltd. issues Rs 4,00,000 of 11% debentures with securities premium of Rs 2,00,000 and refunds Rs 1,50,000 for rejected applications.

Quick Tip to Solve: Refund rejected applications at Rs 150 each, including the Rs 50 premium; only accepted applications create debentures and securities premium.

20. On 1st April, 2023, the books of the firm of Kashish and Sagar showed assets of Rs. 9,00,000 including cash of Rs. 32,000 and bank balance of Rs. 1,68,000. The partners' capital accounts showed a balance of Rs. 6,00,000 and reserves constituted the rest. If the normal rate of return is 8% and the goodwill of the firm is valued at Rs. 4,00,000 at 5 years purchase of super profits, find the average profits of the firm. [3 marks]

Solution:

Concept:

- Capital employed is the proprietors' funds: partners' capitals plus accumulated reserves, equivalently total assets less outside liabilities.

- Normal profit equals capital employed multiplied by the normal rate of return. Super profit is average profit less normal profit.
- Under the super profit method, goodwill equals super profit multiplied by the number of years' purchase.

Step 1: Working Notes: determine capital employed The firm has total assets of Rs 9,00,000. These are financed by partners' capitals of Rs 6,00,000 and reserves constituting the rest. Therefore,

$$\text{Reserves} = 9,00,000 - 6,00,000 = \text{Rs } 3,00,000,$$
$$\text{Capital employed} = 6,00,000 + 3,00,000 = \text{Rs } 9,00,000.$$

Cash of Rs 32,000 and the bank balance of Rs 1,68,000 are included in the given assets. They are not stated to be non-business assets, so they remain part of capital employed. Reserves are owners' funds, not outside liabilities, and must not be deducted from assets.

Step 2: Compute normal profit and super profit Using the normal return of 8% on total capital employed,

$$\text{Normal profit} = 9,00,000 \times \frac{8}{100} = \text{Rs } 72,000.$$

Goodwill is Rs 4,00,000 at five years' purchase of super profits. Reverse that valuation to find the annual super profit:

$$\text{Super profit} = \frac{\text{Goodwill}}{\text{Years' purchase}} = \frac{4,00,000}{5} = \text{Rs } 80,000.$$

Super profit measures the excess of the firm's annual average profit over the normal return; it is not itself the total average profit.

Step 3: Find and verify average profit Rearranging Super profit = Average profit − Normal profit,

$$\text{Average profit} = 80,000 + 72,000 = \text{Rs } 1,52,000.$$

As a check, the implied excess over normal profit is $1,52,000 - 72,000 = \text{Rs } 80,000$. Multiplying this by five reproduces the stated goodwill of Rs 4,00,000.

Step 4: Conclusion The average annual profit of Kashish and Sagar's firm is Rs 1,52,000.

Quick Tip to Solve: Include reserves in capital employed. First divide goodwill by five, then add the normal return of 8% on Rs 9,00,000.

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 : Aditi 5,00,000 Renu 4,00,000 Varsha 3,00,000	12,00,000	Buildings	6,00,000
		Machinery	3,00,000
		Stock	1,00,000
		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:

- The deceased partner's capital is credited with opening capital, the share of accumulated reserves, interest on capital, goodwill compensation and profit up to the date of death. The amount due is transferred to the executor's account.
- Estimated profit on a sales basis equals current-period sales multiplied by the previous year's profit-to-sales ratio. The deceased partner receives only her profit-sharing fraction of that estimated profit.
- Goodwill equals average annual profit multiplied by the years' purchase. The continuing partners compensate the deceased partner in their gaining ratio.

Step 1: Calculate reserve, interest and goodwill adjustments **Working Notes**

Varsha's share is $5/10 = 1/2$. Therefore, her share of general reserve is

$$\text{Rs } 1,00,000 \times \frac{5}{10} = \text{Rs } 50,000.$$

Interest is allowed for four months, from 1st April to 31st July, 2023:

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

The stated Rs 90,000 is the average annual profit, so it is multiplied directly by three:

$$\text{Firm's goodwill} = \text{Rs } 90,000 \times 3 = \text{Rs } 2,70,000.$$

Varsha's goodwill entitlement is Rs $2,70,000 \times 5/10 = \text{Rs } 1,35,000$. Since no new ratio is specified, Aditi and Renu continue in their relative old ratio $3:2$, which is also their gaining ratio. Aditi bears Rs $1,35,000 \times 3/5 = \text{Rs } 81,000$, and Renu bears Rs $54,000$. Their capital accounts are debited and Varsha's capital account is credited.

Step 2: Estimate profit up to the date of death Use the previous year's actual profit for the sales-based estimate; the average profit used for goodwill serves a different purpose.

$$\text{Profit-to-sales ratio} = \frac{12,00,000}{60,00,000} \times 100 = 20\%.$$

Thus the firm's estimated profit from 1st April to 31st July is

$$\text{Rs } 15,00,000 \times 20\% = \text{Rs } 3,00,000.$$

Varsha's share is Rs $3,00,000 \times 5/10 = \text{Rs } 1,50,000$. Credit her capital account by debiting Profit and Loss Suspense Account because the final annual profit has not yet been ascertained.

Step 3: Prepare the capital account and transfer the amount due **Varsha's Capital Account (up to 31st July, 2023)**

Dr.			Cr.
Particulars	Amount (Rs)	Particulars	Amount (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 Interest on Capital A/c	6,000
		By Aditi's Capital A/c	81,000
		By Renu's Capital A/c	54,000
		By Profit and Loss Suspense A/c	1,50,000
Total	6,41,000	Total	6,41,000

All amounts payable are on the credit side. The equal debit transfers the liability to Varsha's Executor's Account and closes her capital account; no cash payment to the executor is stated.

Step 4: Conclusion The amount due to Varsha's executors is $\boxed{\text{Rs } 6,41,000}$, transferred from her Capital Account to her Executor's Account.

Quick Tip to Solve: Use Rs 90,000 only for goodwill; use Rs 12,00,000 divided by Rs 60,00,000 for the sales-based profit estimate, and allow interest for four months.

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 presented under Shareholders' Funds within Equity and Liabilities. Its note distinguishes authorised, issued and subscribed capital, including fully paid and not fully paid shares.
- Calls in arrears are deducted from the subscribed called-up capital. A shareholder's failure to pay does not itself mean that the shares have been forfeited.

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

The first and final call per share is Rs $10 -$ Rs $5 -$ Rs $3 =$ Rs 2. All Rs 10 per share has therefore been called on 40,000 subscribed shares, giving called-up capital of $40,000 \times$ Rs $10 =$ Rs $4,00,000$. Seema paid application money of Rs 5 per share, but failed to pay allotment and call money:

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

Thus 38,000 shares are fully paid and 2,000 shares are subscribed but not fully paid. The question does not state forfeiture, so the latter shares remain within subscribed capital and no forfeited-shares balance arises.

Step 2: Present the Balance Sheet extract **RR Ltd. — Balance Sheet (Extract)**

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
(a) Share Capital	1	3,90,000

Only the requested Share Capital extract is presented; the supporting classification and deduction appear in Note 1 below.

Step 3: Prepare the share capital note **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 Capital	
Subscribed and fully paid-up:	
38,000 equity shares of Rs 10 each	3,80,000
Subscribed but not fully paid-up:	
2,000 equity shares of Rs 10 each, fully called-up	20,000
Less: Calls in arrears	(10,000)
Subscribed but not fully paid-up, net	10,000
Total Share Capital	**3,90,000**

The note reconciles to cash received for share capital: Rs 2,00,000 on application, Rs 1,14,000 on allotment and Rs 76,000 on the first and final call, totalling Rs 3,90,000.

Step 4: Conclusion RR Ltd. presents Share Capital of $\boxed{\text{Rs } 3,90,000}$ under Shareholders' Funds, comprising Rs 3,80,000 on fully paid shares and Rs 10,000 received on shares not fully paid.

Quick Tip to Solve: Separate the 2,000 defaulting shares from the 38,000 fully paid shares, then deduct only their unpaid Rs 5 per share; do not assume forfeiture.

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

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

(ii) Mudit Ltd. issued 20,000, 9% Debentures of Rs. 100 each at a premium of 5%, redeemable at a premium of 10%.

(iii) Sudip Ltd. issued 30,000, 8% Debentures of Rs. 100 each at par, redeemable at a premium of 5%. [6 marks]

Solution:

Concept:

- Debentures Account is credited with the total face value. Bank is debited with the actual issue proceeds; issue premium is credited to Securities Premium Account.
- Loss on Issue of Debentures includes the discount on issue and the premium payable on redemption. The latter is credited separately to Premium on Redemption of Debentures Account at the time of issue.
- The coupon rate identifies the debenture account but does not determine the issue proceeds or redemption premium. No interest entry is required for the issue transaction.

Step 1: (i) Record Suhavo Ltd.'s issue at a discount **Working Notes:** Face value $= 10,000 \times$ Rs $100 =$ Rs $10,00,000$. Discount $= 10\% \times$ Rs $10,00,000 =$ Rs $1,00,000$, so the bank receives Rs 9,00,000. Redemption premium $= 5\% \times$ Rs $10,00,000 =$ Rs $50,000$. Thus, loss on issue is Rs 1,00,000 + Rs 50,000 = Rs 1,50,000.

Journal of Suhavo Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		9,00,000	
	Loss on Issue of Debentures A/c Dr.		1,50,000	
	To 11% Debentures A/c			10,00,000
	To Premium on Redemption of Debentures A/c			50,000
	(Being 10,000 debentures issued at 10% discount, redeemable at 5% premium)			

Step 2: (ii) Record Mudit Ltd.'s issue at a premium **Working Notes:** Face value $= 20,000 \times$ Rs $100 =$ Rs $20,00,000$. Issue premium $= 5\% \times$ Rs $20,00,000 =$ Rs $1,00,000$, so the bank receives Rs 21,00,000. Redemption premium $= 10\% \times$ Rs $20,00,000 =$ Rs $2,00,000$. Record the redemption premium as loss on issue; do not net it against the issue premium in this entry.

Journal of Mudit Ltd.

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Bank A/c Dr.		21,00,000	
	Loss on Issue of Debentures A/c Dr.		2,00,000	
	To 9% Debentures A/c			20,00,000
	To Securities Premium A/c			1,00,000
	To Premium on Redemption of Debentures A/c			2,00,000
	(Being 20,000 debentures issued at 5% premium, redeemable at 10% premium)			

Step 3: (iii) Record Sudip Ltd.'s issue at par **Working Notes:** Face value $= 30,000 \times$ Rs $100 =$ Rs $30,00,000$. Since the issue is at par, the bank receives the entire face value. The redemption premium is $5\% \times$ Rs $30,00,000 =$ Rs $1,50,000$, which is also the loss on issue.

Journal of Sudip Ltd.

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

Step 4: Conclusion The issue entries record bank receipts of Rs 9,00,000, Rs 21,00,000 and Rs 30,00,000, with losses on issue of Rs 1,50,000, Rs 2,00,000 and Rs 1,50,000 for Suhavo Ltd., Mudit Ltd. and Sudip Ltd., respectively. Each entry has equal debit and credit totals.

Quick Tip to Solve: Calculate issue proceeds and redemption premium separately on face value. Credit Debentures at face value even when the cash received differs from it.

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

(i) Sharma paid creditors Rs. 34,000 in full settlement of their claim of Rs. 40,000.

(ii) Verma agreed to pay his wife's loan of Rs. 80,000.

(iii) There was an old typewriter which had been written off completely from the books. It was estimated to realise Rs. 3,000. It was taken away by Verma at the estimated price less 20%.

(iv) Neelu, an old customer whose account for Rs. 1,500 was written off as bad debt in the previous year, paid 80% of the amount.

(v) Dissolution expenses amounting to Rs. 8,000 were paid by Sharma.

(vi) Loss on realisation Rs. 40,000 was to be distributed between Sharma and Verma in their profit sharing ratio 3 : 2. [6 marks]

Solution:

Concept:

- Once assets and outside liabilities have been transferred, their settlement is recorded through Realisation Account. Do not debit the original creditor or loan account again.
- Credit a partner's Capital Account for a liability assumed or a firm expense paid personally. Debit it for an asset taken over. Cash received for an unrecorded asset is credited to Realisation Account.
- Realisation loss is debited to partners' Capital Accounts in their profit sharing ratio, with a corresponding credit to Realisation Account.

Step 1: (i) Record creditors paid personally by Sharma Sharma has paid Rs 34,000 on the firm's behalf, so his Capital Account is credited by that amount. The creditors' original Rs 40,000 balance has already been transferred to Realisation; the Rs 6,000 settlement gain is automatically reflected there and requires no separate entry.

Journal of Sharma and Verma

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr.		34,000	
	To Sharma's Capital A/c			34,000
	(Being creditors settled by Sharma personally)			

Step 2: (ii) Record the wife's loan assumed by Verma Verma's wife's loan is an outside liability, already transferred to Realisation Account. Verma now assumes responsibility for the full Rs 80,000; this increases the firm's obligation to him without any payment from the firm's bank.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr.		80,000	
	To Verma's Capital A/c			80,000
	(Being wife's loan taken over by Verma)			

Step 3: (iii) Record the unrecorded typewriter taken by Verma **Working Note:** Takeover value $= \text{Rs } 3,000 \times (1 - 20/100) = \text{Rs } 2,400$. The typewriter has no book balance to transfer. Its agreed takeover value is credited directly to Realisation, and Verma's Capital Account is debited because he receives the asset.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Verma's Capital A/c Dr. To Realisation A/c (Being unrecorded typewriter taken over by Verma at 20% below its estimated value)		2,400	 2,400

Step 4: (iv) Record the recovery from Neelu **Working Note:** Amount recovered $=$ Rs $1,500 \times 80/100 =$ Rs $1,200$. Neelu's account had been written off, so there is no debtor balance to settle. During dissolution the recovery of this unrecorded asset is credited to Realisation Account. Cash is used for the receipt since no bank mode is specified.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Cash A/c Dr. To Realisation A/c (Being 80% of the previously written-off debt recovered from Neelu)		1,200	 1,200

Step 5: (v) Record dissolution expenses paid by Sharma The expenses are the firm's dissolution cost, so Realisation Account is debited. Sharma only pays them personally; there is no agreement that he must bear them. Hence, credit his Capital Account rather than the firm's Cash or Bank Account.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Realisation A/c Dr. To Sharma's Capital A/c (Being dissolution expenses paid by Sharma on behalf of the firm)		8,000	 8,000

Step 6: (vi) Transfer the realisation loss in the ratio 3 : 2 **Working Notes:** Sharma's share $=$ Rs $40,000 \times 3/5 =$ Rs $24,000$. Verma's share $=$ Rs $40,000 \times 2/5 =$ Rs $16,000$. The loss reduces both partners' capital balances. Crediting Realisation Account by the total loss closes its debit balance.

Journal (continued)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	Sharma's Capital A/c Dr. Verma's Capital A/c Dr. To Realisation A/c (Being realisation loss transferred to partners' Capital Accounts in the ratio 3 : 2)		24,000 16,000	 40,000

Step 7: Conclusion The six journal entries record the liability settlements, unrecorded asset realisations, expenses and distribution of loss. The typewriter is recorded at Rs 2,400, Neelu's recovery at Rs 1,200, and the loss is shared as Rs 24,000 by Sharma and Rs 16,000 by Verma.

Quick Tip to Solve: After the initial transfers, use Realisation for outside liabilities and unrecorded assets. A partner paying for the firm is credited; a partner taking an asset is debited.

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:

- On admission, accumulated reserves and the profit or loss on revaluation belong to the old partners in their old profit-sharing ratio, here $3 : 2$.
- An asset taken over by partners is debited to their capital accounts at the agreed value. When no revised value is given, its book value is used; the withdrawal itself causes no revaluation gain or loss.
- Goodwill premium compensates the sacrificing partners. Proportionate capital is calculated from the old partners' adjusted combined capital and their combined share after admission.

Step 1: Prepare the Revaluation Account Furniture decreases by Rs 6,000, while investments increase by $72,000 - 60,000 = \text{Rs } 12,000$. Thus, revaluation profit is Rs 6,000, shared by Sanju and Manju as Rs 3,600 and Rs 2,400. Plant and machinery is transferred directly to their capital accounts at its book value of Rs 80,000.

Revaluation Account as at 1st April, 2023

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 2: Calculate the capital adjustments **Working Notes**

In the absence of another arrangement, Sanju and Manju sacrifice in their existing ratio of $3:2$. Their remaining combined share is $3/4$, so the new shares are $9/20, 6/20, 5/20$, giving the new ratio $9:6:5$. General reserve of Rs 40,000 is credited as Rs 24,000 to Sanju and Rs 16,000 to Manju. Uday's goodwill premium of Rs 10,000 is credited as Rs 6,000 and Rs 4,000 respectively. The plant and machinery taken over is debited as Rs 48,000 and Rs 32,000 respectively.

$$\begin{aligned}\text{Sanju's adjusted capital} &= 1,40,000 + 24,000 + 3,600 + 6,000 - 48,000\\ &= \text{Rs } 1,25,600,\\ \text{Manju's adjusted capital} &= 1,20,000 + 16,000 + 2,400 + 4,000 - 32,000\\ &= \text{Rs } 1,10,400.\end{aligned}$$

These capitals total Rs 2,36,000 and represent the old partners' combined $3/4$ share. Uday therefore brings capital of

$$2,36,000 \times \frac{1/4}{3/4} = \frac{2,36,000}{3} = \text{Rs } 78,666.67 \quad \text{(rounded to paise)}.$$

The goodwill premium is additional to this capital. No instruction requires Sanju and Manju to adjust their individual capitals into the new profit-sharing ratio.

Step 3: Prepare the Partners' Capital Accounts The premium is received through Bank and credited to the old partners via Premium for Goodwill. Uday's capital account receives only his capital contribution. All amounts below are in Rs; the repeating capital fraction is rounded to two decimal places.

Partners' Capital Accounts as at 1st April, 2023

Dr.							Cr.
Particulars	Sanju	Manju	Uday	Particulars	Sanju	Manju	Uday
To Plant and Machinery	48,000	32,000	–	By Balance b/d	1,40,000	1,20,000	–
To Balance c/d	1,25,600	1,10,400	78,666.67	By General Reserve	24,000	16,000	–
				By Revaluation	3,600	2,400	–
				By Premium for Goodwill	6,000	4,000	–
				By Bank	–	–	78,666.67
Total	1,73,600	1,42,400	78,666.67	Total	1,73,600	1,42,400	78,666.67

Step 4: Conclusion Revaluation profit is $\boxed{\text{Rs } 6,000}$. The closing capitals are Sanju: $\boxed{\text{Rs } 1,25,600}$, Manju: $\boxed{\text{Rs } 1,10,400}$, and Uday: $\boxed{\text{Rs } 78,666.67}$ (rounded). Uday also brings Rs 10,000 as goodwill premium, making his total cash contribution Rs 88,666.67.

Quick Tip to Solve: First adjust the old capitals for reserves, revaluation, goodwill and assets taken over. Then multiply their combined capital by $1/3$, since Uday's $1/4$ share is one-third of the old partners' remaining $3/4$.

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:

- Revaluation gains and losses and accumulated profits are transferred to all partners in the old profit-sharing ratio, including the retiring partner.
- The continuing partners compensate the retiring partner for his share of goodwill in their gaining ratio, where gain equals new share minus old share.
- The amount due to a retiring partner is the credit balance of his capital account after all adjustments. Transfer to his loan account is a debit to capital and a credit to loan; it is not a cash payment.

Step 1: Prepare the Revaluation Account The unclaimed creditors produce a gain of Rs 4,000. The required provision is $5\% \times 2,00,000 = \text{Rs } 10,000$, and fixed assets must be reduced by Rs 5,000. Hence, the net revaluation loss is $10,000 + 5,000 - 4,000 = \text{Rs } 11,000$. It is borne in the old ratio $5 : 3 : 2$: Ravi Rs 5,500, Tanu Rs 3,300 and Sara Rs 2,200.

Revaluation Account as at 31st March, 2023

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 2: Allocate accumulated profits and adjust goodwill **Working Notes**

The Profit and Loss balance is on the liabilities side, so it is an accumulated profit. Credit Rs 1,70,000 in the old ratio: Ravi $1,70,000 \times 5/10 =$ Rs $85,000$, Tanu Rs 51,000 and Sara Rs 34,000. Employees' Provident Fund is a liability to employees, so it is not distributed among partners. The continuing partners' gains are:

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

Their gaining ratio is therefore $1 : 4$. Ravi's share of goodwill is $1,60,000 \times 5/10 =$ Rs $80,000$. Credit Ravi's capital by Rs 80,000 and debit Tanu's capital by $80,000 \times 1/5 =$ Rs $16,000$ and Sara's capital by $80,000 \times 4/5 =$ Rs $64,000$. No goodwill asset is raised; the adjustment is made directly through the partners' capital accounts.

Step 3: Prepare the Partners' Capital Accounts Ravi's claim is transferred to his loan account after all adjustments. Tanu's and Sara's remaining capital balances are carried down. All amounts in the table are in Rs.

Partners' Capital Accounts as at 31st March, 2023

Dr.				Cr.			
Particulars	Ravi	Tanu	Sara	Particulars	Ravi	Tanu	Sara
To Revaluation	5,500	3,300	2,200	By Balance b/d	80,000	1,24,000	66,000
To Ravi's Capital	–	16,000	64,000	By Profit and Loss	85,000	51,000	34,000
To Ravi's Loan	2,39,500	–	–	By Tanu's Capital	16,000	–	–
To Balance c/d	–	1,55,700	33,800	By Sara's Capital	64,000	–	–
Total	2,45,000	1,75,000	1,00,000	Total	2,45,000	1,75,000	1,00,000

The closing amounts can also be checked directly:

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

Step 4: Conclusion The revaluation loss is $\boxed{\text{Rs } 11,000}$. Ravi's amount due, $\boxed{\text{Rs } 2,39,500}$, is transferred to his loan account. The closing capitals are $\boxed{\text{Rs } 1,55,700}$ for Tanu and $\boxed{\text{Rs } 33,800}$ for Sara.

Quick Tip to Solve: Use the old ratio $5 : 3 : 2$ for profit and revaluation, but the gaining ratio $1 : 4$ for Ravi's goodwill. Keep Employees' Provident Fund as an outside 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 the called-up capital only. Credit Share Forfeiture with the capital amount already received; uncalled capital is excluded.
- Unreceived securities premium already credited is cancelled by debiting Securities Premium. A discount on reissue is debited to Share Forfeiture.
- Transfer to Capital Reserve only the forfeiture profit attributable to the shares actually reissued, after deducting their reissue discount.

Step 1: (i) Calculate the amounts for Star Ltd. **Working Notes**

The final call of Rs 20 is uncalled, so called-up capital is $100 - 20 = \text{Rs } 80$ per share. Allotment includes Rs 30 capital and Rs 10 premium. Capital received per share is $80 - 30 - 30 = \text{Rs } 20$.

$$\begin{aligned}
\text{Capital cancelled} &= 8,000 \times 80 = \text{Rs } 6,40,000,\\
\text{Unpaid premium} &= 8,000 \times 10 = \text{Rs } 80,000,\\
\text{Allotment unpaid} &= 8,000 \times 40 = \text{Rs } 3,20,000,\\
\text{First call unpaid} &= 8,000 \times 30 = \text{Rs } 2,40,000,\\
\text{Amount forfeited} &= 8,000 \times 20 = \text{Rs } 1,60,000.
\end{aligned}$$

For the 6,000 shares reissued, cash received is Rs 4,20,000 and capital credited is Rs 4,80,000. Thus reissue discount is Rs 60,000. Their forfeited amount is $6,000 \times 20 = \text{Rs } 1,20,000$; the balance Rs 60,000 is capital profit.

Step 2: Record the journal entries of Star Ltd. **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)			
	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 shares reissued at Rs 70, Rs 80 paid up)			
	Share Forfeiture A/c Dr.		60,000	
	To Capital Reserve A/c			60,000
	(Being profit on 6,000 reissued shares transferred to capital reserve)			

Step 3: (ii) Calculate the amounts for Premier Ltd. **Working Notes**

Called-up capital per share is $10 - 2 =$ Rs 8. The first call of Rs 3 is unpaid, so the amount received is $8 - 3 =$ Rs 5 per share. Forfeiture therefore cancels $3,000 \times 8 =$ Rs $24,000$ of capital, clears Rs 9,000 of unpaid calls and credits Rs 15,000 to Share Forfeiture.

The 2,000 shares are reissued for Rs 12 each but credited as Rs 8 paid up. Bank receives Rs 24,000, capital is credited Rs 16,000, and the excess Rs 8,000 is securities premium. There is no discount to absorb; the entire forfeiture amount on these shares, $2,000 \times 5 =$ Rs $10,000$, is transferred to Capital Reserve.

Step 4: Record the journal entries of Premier Ltd. **Journal of Premier Ltd.**

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

Step 5: Conclusion Star Ltd. transfers Rs 60,000 to Capital Reserve and retains Rs 40,000 in Share Forfeiture for 2,000 unreissued shares. Premier Ltd. transfers Rs 10,000 to Capital Reserve and retains Rs 5,000 for 1,000 unreissued shares. Neither company records its uncalled final call.

Quick Tip to Solve: For each company, use paid-up value, not face value, in the reissue capital credit; transfer forfeiture profit only for reissued shares.

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:

- Under pro-rata allotment, shares allotted equal shares applied for multiplied by the allotment ratio. Excess application money is adjusted against allotment dues.
- Forfeiture cancels called-up capital and unpaid premium; capital already received is credited to Share Forfeiture. Subsequent calls apply only to shares still outstanding.

Step 1: Calculate the pro-rata adjustment and default **Working Notes**

The allotment ratio is $40,000 : 48,000 = 5 : 6$. Application money received is $60,000 \times 4 =$ Rs $2,40,000$. Rejected applicants receive $12,000 \times 4 =$ Rs $48,000$. Share capital receives $40,000 \times 4 =$ Rs $1,60,000$, leaving $48,000 \times 4 - 1,60,000 =$ Rs $32,000$ for allotment.

The defaulting applicant receives $1,200 \times 5/6 = 1,000$ shares. He paid Rs 4,800 on application; Rs 4,000 is application capital and Rs 800 is adjusted towards allotment. His allotment due is Rs 5,000, leaving Rs 4,200 unpaid. The Rs 800 adjustment is towards the capital portion of allotment; the Rs 2,000 premium remains unpaid.

$$\begin{aligned}\text{Allotment cash received} &= 2,00,000 - 32,000 - 4,200\\ &= \text{Rs } 1,63,800,\\ \text{Called-up capital forfeited} &= 1,000 \times (4+3) = \text{Rs } 7,000,\\ \text{Capital amount forfeited} &= 4,000 + 800 = \text{Rs } 4,800.\end{aligned}$$

Step 2: Record application and allotment transactions **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 transferred, excess adjusted 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 due, including Rs 2 premium)		2,00,000	 1,20,000 80,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment received after excess adjustment, except Rs 4,200 unpaid)		1,63,800	 1,63,800

Step 3: Record forfeiture and the first call Immediately after allotment, 1,000 shares are forfeited. Thus the first call is made on $40,000 - 1,000 = 39,000$ shares only, amounting to $39,000 \times 2 =$ Rs $78,000$.

Journal of Zee Ltd. (forfeiture and first call)

Date	Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
	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 for unpaid allotment and unpaid premium cancelled)		7,000 2,000	 4,200 4,800
	Share First Call A/c Dr. To Share Capital A/c (Being first call of Rs 2 per share due on 39,000 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

The second and final call would be $12 - 4 - 5 - 2 =$ Rs 1 per share. Since it has not been made, no liability to pay it arises and no journal entry is passed.

Step 4: Conclusion After forfeiture, 39,000 shares remain with called-up capital of Rs 3,51,000. Share Forfeiture has Rs 4,800 and Securities Premium has Rs 78,000. The first call is fully received; the final call remains uncalled.

Quick Tip to Solve: Forfeit the defaulter before calculating the first call: use 39,000 shares, and reduce his allotment arrears by the Rs 800 excess application money.

Part B (20 marks)

OPTION I (Analysis of Financial Statements)

27. '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, acquisition of shares of another company is an investing cash outflow.
- Dividend received on investments is an investing cash inflow; subtract receipts from payments to determine the net outflow.

Step 1: Classify both cash movements The Rs 5,00,000 payment buys an investment in Neligare Industries. It does not issue the reporting company's own shares or raise finance. The Rs 30,000 dividend received after acquisition is a return on that investment. Both amounts therefore enter investing activities.

Step 2: Calculate the net flow and check the options Taking receipts as positive and payments as negative,

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

The negative amount denotes an outflow. Options (A) and (C) incorrectly classify the flows as financing. Option (B) incorrectly calls the net payment an inflow.

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

Quick Tip to Solve: Identify whose shares are involved: buying another company's shares is investing; then net the dividend receipt against the purchase payment.

28(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 record actual movements of cash and cash equivalents. A normal issue of debentures for cash raises finance.
- Acquisition of an asset by directly issuing debentures is a non-cash investing and financing transaction.

Step 1: Evaluate Statement I An issue of debentures for cash brings money into the bank and increases the company's borrowings. Accordingly, the proceeds are an inflow from financing activities. Statement I describes this normal cash issue and is correct.

Step 2: Evaluate Statement II When debentures are issued directly to the vendor of machinery, the vendor receives securities instead of money. Machinery and the debenture liability increase, but neither cash nor bank is paid. This transaction is excluded from the cash flow statement, with appropriate separate disclosure; it is not a cash outflow. Statement II is incorrect.

Step 3: Check the options Option (A) incorrectly treats Statement II as correct. Option (B) incorrectly rejects Statement I, while option (D) reverses the two judgments.

Step 4: Conclusion Statement I is correct and Statement II is incorrect. Hence, the correct option is (C).

Quick Tip to Solve: Ask what the vendor actually receives: debentures issued directly to a vendor do not move cash.

OR

28(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:

- In this CBSE cash-flow question, marketable securities are treated as cash equivalents: readily convertible short-term holdings used in cash management.
- Movements between cash and cash equivalents do not change their combined total and are excluded from cash flows.

Step 1: Trace both sides of the purchase When marketable securities are purchased for cash, cash decreases by the purchase amount while cash equivalents increase by the same amount. Therefore, the total of cash and cash equivalents remains unchanged.

Step 2: Compare the classifications There is no financing transaction, so neither financing inflow in (B) nor financing outflow in (D) applies. Option (C) would apply to an investment outside cash equivalents; it does not apply to the marketable securities treated as cash equivalents here. The conversion within cash and cash equivalents is omitted from the cash flow statement.

Step 3: Conclusion The purchase has no effect on the cash flow statement. Hence, the correct option is (A).

Quick Tip to Solve: For a transfer from cash into cash equivalents, compare their combined balance before recording any cash flow.

29. 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/Current liabilities. A non-current asset or long-term loan is outside the numerator and denominator respectively.
- Let current liabilities be L; then the initial current assets are $2L$. Track both totals for each transaction.

Step 1: Test the repayment of long-term loan Repayment uses Rs 7,00,000 of cash, a current asset, while reducing a long-term liability. Current liabilities remain L. Thus the new ratio is

$$\frac{2L - 7,00,000}{L} < 2.$$

The current ratio decreases.

Step 2: Eliminate the other transactions Paying creditors reduces both current assets and current liabilities by Rs 40,000. Since the initial ratio exceeds one, $(2L - 40,000)/(L - 40,000) > 2$ when liabilities remain positive. Sale of furniture brings Rs 16,000 into cash without changing current liabilities, so the ratio rises; the loss of Rs 22,000 does not itself reduce cash. Collecting Rs 1,18,000 from debtors merely exchanges one current asset for another, leaving the ratio unchanged.

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: Ignore the furniture loss when tracking current assets: only its cash proceeds enter the current-ratio numerator.

30(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 evaluates profitability, efficiency and financial position by interpreting the relationships and changes in reported accounting figures.
- Conventional statements use historical monetary amounts; changes in the purchasing power of money are a limitation of their analysis.

Step 1: Identify the stated objectives Assessing profitability and operating efficiency in (A) is a direct objective. Studying the relative importance of components in (B), such as through common-size statements, helps interpret financial position. Identifying reasons for changes in profitability or financial position in (D) is also an objective.

Step 2: Distinguish an objective from a limitation Ordinary financial statement analysis does not adjust the historical figures for price-level changes. Consequently, considering the impact of such changes is not one of the stated objectives of conventional analysis. Changes in price levels instead limit comparisons over time.

Step 3: Conclusion To consider the impact of price level changes is not an objective. Hence, the correct option is (C).

Quick Tip to Solve: In a negative-objective question, distinguish interpreting reported figures from correcting their historical-price limitation.

OR

30(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 acid-test ratio measures immediate short-term solvency using quick assets. It is also called the quick ratio.

- Quick ratio = Quick assets/Current liabilities, where quick assets exclude inventories and prepaid expenses from current assets.

Step 1: Identify the liquidity test An acid test uses assets that can be readily realised to meet current liabilities. Inventories require sale and prepaid expenses do not provide cash for repayment, so both are excluded from the numerator. This stricter liquidity measure is the quick ratio.

Step 2: Compare the alternatives The current ratio in (A) includes all current assets and is a broader liquidity measure. Gross profit ratio in (C) compares gross profit with revenue from operations, while operating ratio in (D) compares operating cost with revenue from operations. Those two measure operating performance, not immediate liquidity.

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

Quick Tip to Solve: Associate the word acid-test with quick assets: remove inventory and prepaid expenses before dividing by current liabilities.

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

(i) Livestock

(ii) Accrued incomes

(iii) Unpaid dividend [3 marks]

Solution:

Concept:

- Schedule III groups assets and liabilities into current and non-current categories. The classification follows the nature of the item and its operating-cycle treatment.
- A tangible fixed asset supports operations over more than one period; accrued income is an amount receivable, while unpaid dividend is an amount payable.

Step 1: Classify livestock Livestock held for continuing use in the business is a physical asset used over more than one accounting period. It is therefore classified under Non-current assets, under Property, Plant and Equipment (Tangible assets). It is not an intangible asset because it has a physical existence.

Step 2: Classify accrued incomes Accrued income has been earned and recognised but has not yet been received. It represents an asset, rather than an expense or liability. In the normal current-period classification required here, it is shown under Current assets, with the sub-head Other current assets.

Step 3: Classify unpaid dividend Unpaid dividend is a dividend already payable to shareholders but not yet paid to them. The company has a present obligation, so it is a liability and not a reserve or an asset. It is classified under Current liabilities, with the sub-head Other current liabilities.

Step 4: Present the classification

Item	Major head	Sub-head
Livestock	Non-current assets	Property, Plant and Equipment (Tangible assets)
Accrued incomes	Current assets	Other current assets
Unpaid dividend	Current liabilities	Other current liabilities

Step 5: Conclusion Livestock is a non-current tangible asset; accrued incomes are other current assets; unpaid dividend is an other current liability.

Quick Tip to Solve: Use the direction of the claim: accrued income is receivable by the company, whereas unpaid dividend is payable by it.

32. From the following information calculate 'Gross Profit Ratio' :

Particulars	Rs.
Revenue from operations	**10,00,000**
Purchases	**3,00,000**
Carriage inwards	**60,000**
Salaries	**1,18,000**
Decrease in inventory	**40,000**
Returns outwards	**20,000**
Wages	**50,000**

[3 marks]

Solution:

Concept:

- Gross profit ratio $= \dfrac{\text{Gross profit}}{\text{Revenue from operations}} \times 100$. Gross profit is revenue from operations less cost of revenue from operations.
- Cost of revenue from operations includes net purchases and direct expenses, adjusted for inventory. A decrease in inventory increases this cost.

Step 1: Calculate net purchases Returns outwards are purchase returns and reduce purchases. Thus,

$$\begin{aligned}\text{Net purchases} &= \text{Purchases} - \text{Returns outwards}\\ &= 3,00,000 - 20,000 = \text{Rs } 2,80,000.\end{aligned}$$

Step 2: Calculate cost of revenue from operations Carriage inwards and wages are direct expenses. The decrease in inventory means opening inventory exceeds closing inventory by Rs 40,000, which is added to net purchases and direct expenses.

$$\begin{aligned}\text{Cost of revenue from operations} &= 2,80,000 + 60,000 + 50,000 + 40,000\\ &= \text{Rs } 4,30,000.\end{aligned}$$

Salaries of Rs 1,18,000 are an indirect expense. They affect net profit, not gross profit, and are therefore excluded from this calculation.

Step 3: Determine gross profit and its ratio Subtract the cost of revenue from operations from the given revenue, then express the difference as a percentage of that revenue.

$$\text{Gross profit} = 10,00,000 - 4,30,000 = \text{Rs } 5,70,000.$$
$$\text{Gross profit ratio} = \frac{5,70,000}{10,00,000} \times 100 = 57\%.$$

The denominator remains revenue from operations; purchases and the cost of goods sold are not the base for the gross profit ratio.

Step 4: Conclusion The Gross Profit Ratio is 57%, with gross profit of Rs 5,70,000.

Quick Tip to Solve: Add a decrease in inventory to cost, deduct returns outwards from purchases, and leave indirect salaries out of gross profit.

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 for each income, expense and profit item.
- Absolute change equals current-year amount minus previous-year amount. Percentage change is $\frac{\text{Absolute change}}{\text{Previous-year amount}} \times 100$. The base year here is 2021–22.
- Profit before tax equals total revenue less employee benefit expenses. Tax is 50% of profit before tax, and profit after tax equals profit before tax less tax.

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

For 2021–22, employee benefit expenses are 50% of revenue from operations, not of total revenue. Thus expenses are $2,00,000 \times 50\% = \text{Rs } 1,00,000$. Total revenue is $2,00,000 + 40,000 = \text{Rs } 2,40,000$. Profit before tax is $2,40,000 - 1,00,000 = \text{Rs } 1,40,000$, tax is Rs 70,000 and profit after tax is Rs 70,000.

For 2022–23, employee benefit expenses are $4,00,000 \times 50\% = \text{Rs } 2,00,000$. Total revenue is $4,00,000 + 80,000 = \text{Rs } 4,80,000$. Profit before tax is $4,80,000 - 2,00,000 = \text{Rs } 2,80,000$, tax is Rs 1,40,000 and profit after tax is Rs 1,40,000.

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)	Increase (%)
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 revenue (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 (50%)	70,000	1,40,000	70,000	100
VII. Profit after tax (V - VI)	70,000	1,40,000	70,000	100

For example, the profit-after-tax increase is Rs 70,000, and its percentage increase is $70,000/70,000 \times 100 = 100\%$. The same calculation applies to each row because every current-year amount is twice its corresponding previous-year amount.

Step 3: Conclusion Profit after tax rises from Rs 70,000 to Rs 1,40,000, an increase of Rs 70,000 or 100%. Revenue, expenses and profit all increase by 100% in the comparative statement.

Quick Tip to Solve: Use the 2021–22 amount as the denominator for every percentage change; compute employee expenses from revenue from operations before adding other income.

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:

- In a common size Statement of Profit and Loss, revenue from operations is the 100% base for each year.
- Each percentage equals $\dfrac{\text{Item amount}}{\text{Revenue from operations}} \times 100$, using amounts for the same year.
- Profit before tax equals revenue less expenses. Tax is 50% of this profit; deduct tax to find profit after tax.

Step 1: Work out total expenses, tax and net profit **Working Notes**

For 2021–22, expenses are $2,00,000 + 20,000 =$ Rs $2,20,000$; profit before tax is $20,00,000 -$

$2,20,000 =$ Rs $17,80,000$. Deducting 50% tax leaves Rs 8,90,000.

For 2022–23, expenses are $4,00,000 + 40,000 =$ Rs $4,40,000$; profit before tax is $40,00,000 - 4,40,000 =$ Rs $35,60,000$. Deducting 50% tax leaves Rs 17,80,000.

Step 2: Prepare the common size statement Purchases are $4,00,000/40,00,000 \times 100 = 10\%$ of revenue and other expenses are 1%. Thus expenses are 11%, pre-tax profit is 89%, and tax and post-tax profit each equal $89\% \times 50\% = 44.5\%$. Both years have identical proportions.

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. Total revenue	20,00,000	40,00,000	100	100
III. 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
IV. Profit before tax (II - III)	17,80,000	35,60,000	89	89
V. Tax expense (50%)	8,90,000	17,80,000	44.5	44.5
VI. Profit after tax (IV - V)	8,90,000	17,80,000	44.5	44.5

Step 3: Conclusion Profit after tax is Rs 17,80,000 in 2022–23 and Rs 8,90,000 in 2021–22, representing 44.5% of revenue in each year.

Quick Tip to Solve: Apply the 50% tax rate to profit before tax; divide each statement item by its own year's revenue to find its common size percentage.

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 Less : Accumulated Depreciation	 6,35,000 (1,00,000)	 5,00,000 (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 net profit before tax and adjusts for non-cash expenses, non-operating items and changes in operating working capital.
- Depreciation, goodwill written off and loss on sale of machinery are added back because they reduce accounting profit without being operating cash payments. Debenture interest is added back because its payment is a financing activity.
- An increase in operating current assets or a decrease in operating current liabilities reduces operating cash flow. Income tax paid is deducted separately.

Step 1: Calculate profit before tax and tax paid The surplus in the Statement of Profit and Loss increases from Rs 1,00,000 to Rs 1,50,000. No dividend or transfer is given, so profit after tax is:

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

The closing provision for tax is the current year's provision. Therefore,

$$\text{Net profit before tax} = 50,000 + 25,000 = \text{Rs } 75,000.$$

With no other tax adjustment stated, the opening provision of Rs 38,500 is taken as tax paid during the year. This also follows from opening provision plus current provision less closing provision: $38,500 + 25,000 - 25,000 = \text{Rs } 38,500$.

Step 2: Derive depreciation and other adjustments The Rs 8,000 accumulated depreciation relating to the machine sold is removed from the accumulated depreciation balance. Hence the year's depreciation is:

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

The machine's book value is $12,000 - 8,000 = \text{Rs } 4,000$. Sale proceeds are Rs 3,000, so the loss on sale is $4,000 - 3,000 = \text{Rs } 1,000$. Goodwill written off is $56,000 - 20,000 = \text{Rs } 36,000$. Debenture interest of Rs 8,500 is also added back. The machinery sale proceeds themselves belong to investing activities and do not enter operating cash flow.

Step 3: Calculate operating working-capital changes Inventories increase by $64,500 - 60,500 = \text{Rs } 4,000$, and trade receivables increase by $85,000 - 71,500 = \text{Rs } 13,500$; both increases absorb operating cash. Trade payables decrease by $1,02,000 - 89,500 = \text{Rs } 12,500$, also reducing cash. Current investments are excluded from operating working capital; their movement is an investing item. Cash and cash equivalents, share capital and debentures are likewise not operating working-capital adjustments.

Step 4: Prepare the operating activities section **Nishant Ltd. — Cash Flow Statement (Extract)**
For the year ended 31st March, 2023

Particulars	Amount (Rs)
A. Cash flows from operating activities	
Net 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**
Decrease in trade payables	(12,500)
Increase in inventories	(4,000)
Increase in trade receivables	(13,500)
Cash generated from operations	**1,23,500**
Less: Income tax paid	(38,500)
Net cash from operating activities	**85,000**

Step 5: Conclusion Net cash inflow from operating activities for the year ended 31st March, 2023 is $\boxed{\text{Rs } 85,000}$.

Quick Tip to Solve: Add the sold machine's Rs 8,000 depreciation to the balance increase; use the opening tax provision as tax paid.

OPTION II (Computerised Accounting)

27. 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 a reference, rule or permissible criterion before the data is accepted.
- Storage preserves data, entry captures data, and filtering selects records satisfying conditions.

Step 1: Identify the checking process The central action in the question is comparing input data. Of the listed processes, validation is the process concerned with checking the acceptability of input. The printed phrase "unknown data" does not change which listed operation performs an input check; validation normally compares input with specified criteria.

Step 2: Eliminate the other options Option (A) concerns saving data for later use. Option (B) concerns entering data into the system. Option (D) concerns displaying or selecting a subset of existing records. None names the checking process described, whereas option (C) does.

Step 3: Conclusion The correct option is (C): Data validation.

Quick Tip to Solve: Link validation to checking input; distinguish it from entering, saving or filtering data.

28(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 identifies an individual data point and can display the value plotted at that point.
- A legend identifies data series; a data table lists underlying data, while a chart title describes the chart.

Step 1: Match the description to a data label A label attached to a bar, point or slice tells the reader the individual value represented by that graphical element. This directly matches the statement in option (B): it indicates the individual value plotted on the chart.

Step 2: Distinguish the neighbouring chart elements Option (A) describes legend placement, not a data label. Option (C) describes the data table below the chart. Option (D) is the descriptive text of a chart title. These operate at the series, table or whole-chart level rather than identifying the value of a particular plotted point.

Step 3: Conclusion The correct option is (B): Indicates the individual value plotted on the chart.

Quick Tip to Solve: For a data label, look for a value next to one plotted point; a legend identifies a whole series.

OR

28(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 such as AND and OR combine logical arguments, each evaluated as TRUE or FALSE.
- The spreadsheet limit tested here is 255 logical arguments in an AND or OR function; it is not the number of distinct truth states.

Step 1: Interpret what is being counted The question asks how many logical values can be entered into a logical function. In the textbook spreadsheet context, this means the maximum number of logical arguments supplied to functions such as AND and OR. These functions accept up to 255 logical arguments.

Step 2: Check the numerical options The number 255 appears in option (C). Options (A) and (B), 525 and 552, exceed the permitted argument count. Option (D), 15, is below the maximum and is not the stated limit. Although each argument has one of two truth states, that does not restrict the number of arguments to two.

Step 3: Conclusion The correct option is (C): 255.

Quick Tip to Solve: Keep the 255-argument limit separate from the two possible truth values, TRUE and FALSE.

29. '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:

- The five pillars of a computerised accounting system are hardware, software, people, procedures and data.
- Hardware supplies physical resources, while procedures prescribe how users carry out accounting tasks.

Step 1: Complete the list of five pillars The statement already supplies data, people and software. Comparing these three with the complete list leaves procedures and hardware as the two missing pillars. Procedures govern operations, and hardware provides the physical equipment that executes them.

Step 2: Test the alternatives Option (A) supplies exactly these two categories. Printer and CPU in option (B) are both examples of hardware, so procedures remain missing. Mouse and desktop in option (C) likewise name hardware examples rather than two separate pillars. Information and accounts in option (D) do not complete the standard five-component list.

Step 3: Conclusion The correct option is (A): Procedures and Hardware.

Quick Tip to Solve: Write the five CAS pillars first, then cross out data, people and software to locate the missing pair.

30(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 and accounts receivable sub-system records sales transactions and maintains customer receivables.

- Accounting information systems use separate sub-systems for cash transactions, purchases and payments, and cost accounting.

Step 1: Connect sales with the customer ledger Sales records show goods or services sold, while accounts receivable records track amounts owed by customers and their settlement. Recording and maintaining the sales ledger and receivables is therefore the function of the named sub-system.

Step 2: Eliminate functions of other sub-systems Option (A) describes the cash receipt and payment sub-system. Option (C) belongs to cost accounting or production costing. Option (D) relates to purchases and accounts payable, which deals with suppliers rather than customers. Only option (B) directly combines the sales ledger with customer receivables.

Step 3: Conclusion The correct option is (B): Recording and maintaining the sales ledger and receivables.

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

OR

30(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 indicates the absence of an actual data value in a database field; the value may be unknown, unavailable or not applicable.
- Null is distinct from a numeric zero or an empty text string, both of which are specified values.

Step 1: Interpret the missing value If a customer's telephone number has not been supplied, the telephone field can contain Null. This does not mean that the telephone number is zero; it means that no actual telephone-number value is available in that field.

Step 2: Compare all four alternatives Options (A) and (B) describe whether an item has one value or many values; they do not describe missing data. Option (D), stored value, does not give the meaning of Null. Option (C) identifies the absence of data items and is therefore consistent with the database meaning of Null.

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

Quick Tip to Solve: Associate Null with missing or unknown data, and keep it distinct from the number zero.

31. What is meant by 'resizing of chart' ? How can it be done ? Explain. [3 marks]

Solution:

Concept:

- Resizing a chart means changing its overall height, width or both, so that the chart fits the space available on the worksheet or printed report.
- Resizing changes the dimensions of the chart object; it does not change the source data or the values represented by the chart.

Step 1: Select the complete chart Click the chart's outer area or border to select the chart object. A selection border with sizing handles appears around it. Select the whole chart, rather than an individual title, legend or data series, because the aim is to change the size of the complete chart.

Step 2: Drag the appropriate sizing handle Place the pointer on a sizing handle until it changes to a resizing arrow. Drag a side handle outward or inward to increase or decrease the width, or a top or bottom handle to change the height. Drag a corner handle to change both dimensions. Release the mouse button when the chart reaches the required size. Dragging the chart border itself normally moves the chart instead of resizing it.

Step 3: Set exact dimensions when required The chart's Format or Size controls can also be used to enter a specific height and width. After resizing, check that the chart title, axes, data labels and legend remain readable and that the chart fits the report area. The plotted values remain the same even though the display occupies a different amount of space.

Step 4: Conclusion Resizing changes the chart's height and/or width. Select the chart and drag its sizing handles, or specify the required dimensions through the chart's size controls.

Quick Tip to Solve: Use a corner handle to alter both dimensions; use a side handle when only the width must change.

32. State any three limitations of Computerised Accounting System. [3 marks]

Solution:

Concept:

- A Computerised Accounting System processes accounting data quickly, but its operation depends on suitable hardware, software, trained people and controls.
- Its limitations include the cost of preparing users, dependence on the computer system and threats to the confidentiality or integrity of accounting data.

Step 1: Cost of training Employees must be trained to enter transactions correctly, use the accounting package and generate reports. Training requires expenditure and staff time. Changes in software or the introduction of a new package can require further training, increasing the cost of operating the system. Without adequate training, users may enter incorrect data or apply the software incorrectly.

Step 2: System failure Computerised accounting depends on functioning hardware, software and electricity. Equipment breakdown, software failure or a power interruption can stop the recording and processing of transactions. A serious failure can also damage or destroy stored data, particularly

where reliable backups are absent. Accounts and reports may therefore become unavailable when needed.

Step 3: Breach of security Accounting records stored electronically can be accessed, copied or altered by unauthorised persons if security controls are weak. Password misuse, malicious software or unauthorised access may expose confidential information or change records, affecting their reliability. Access restrictions, backups and other protective controls are consequently essential and require continuing attention.

Step 4: Conclusion Three limitations are the cost of training, the risk of system failure and the possibility of a breach of security.

Quick Tip to Solve: State each limitation by name and then link it to a concrete effect on cost, continuity or data security.

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

Solution:

Concept:

- The accounting cycle is the complete sequence of accounting activities, beginning with identifying financial transactions and ending with preparing financial statements and closing the books for an accounting period.
- It is a cycle because the sequence is repeated in every accounting period. Each phase converts transaction data into progressively more organised accounting information.

Step 1: Identify, analyse and document transactions Identify the transactions and events that affect the business financially. Analyse the accounts involved and the amounts to be recorded. Collect source documents, such as invoices, cash memos and receipts, and prepare the necessary accounting vouchers. These documents provide evidence for the accounting records.

Step 2: Record transactions and classify them Record the transactions chronologically in the journal or appropriate subsidiary books, applying the debit and credit rules. Post the entries to the relevant ledger accounts. Posting classifies all transactions relating to the same account in one place, and the ledger accounts are then balanced.

Step 3: Summarise and adjust the balances Prepare a trial balance from the ledger balances to check the agreement of total debits and total credits. Record necessary period-end adjustments, such as outstanding expenses, prepaid expenses and depreciation, and incorporate their effects. An adjusted trial balance provides the balances required to prepare the financial statements. Agreement of a trial balance is an arithmetical check; it does not prove that every transaction has been recorded correctly.

Step 4: Prepare financial statements and close the period Prepare the financial statements to determine the profit or loss for the period and the financial position at its end. For a trading business these normally include the Trading and Profit and Loss Account and the Balance Sheet. Pass the necessary closing entries to close temporary accounts and carry forward the balances of assets, liabilities and capital to the next accounting period, when the cycle begins again.

Step 5: Conclusion The basic phases are identification and analysis of transactions, preparation of source documents and vouchers, recording in books of original entry, posting and balancing ledger accounts, preparation of a trial balance, adjustments, preparation of financial statements and closing the books.

Quick Tip to Solve: Recall the sequence: evidence, journal, ledger, trial balance, adjustments, financial statements, 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 display of data in a spreadsheet so that it is clear, consistent and easy to read.
- Formatting normally changes how a cell's contents are displayed, rather than changing the underlying value used in calculations. For example, a number can be displayed with a currency symbol and two decimal places.

Step 1: Explain data formatting A worksheet contains headings, text, dates and numerical amounts. Formatting distinguishes these types of information and presents them suitably. For example, headings may be made bold and centred, while accounting amounts may be shown in a consistent currency format. Thus, formatting improves the presentation and interpretation of a worksheet.

Step 2: Identify the principal formatting tools Select the required cell or range and use the formatting commands on the Home tab or the Format Cells dialogue box. The principal tools are:

1. **Font tools:** choose the font and size, apply bold, italic or underline, and change font colour to distinguish headings and important entries.
2. **Alignment tools:** align contents left, centre or right, set vertical alignment, wrap long text and change text orientation. Merge and Centre can be used for a heading across columns.
3. **Number formats:** display values as numbers, currency, accounting amounts, percentages, dates or times, and choose decimal places and separators.
4. **Borders and fill:** add cell borders and background colours to separate headings, totals and groups of data.

Step 3: Apply and reuse a consistent format Column width and row height can be adjusted so that the formatted contents remain visible. Format Painter copies an existing cell's formatting to another range; cell styles apply a set of formats together. Conditional formatting highlights cells satisfying a stated rule, such as amounts above a limit. These tools help maintain a uniform appearance across the worksheet.

Step 4: Conclusion Data formatting is the presentation of spreadsheet data using suitable font, alignment, number, border and fill formats. The Home tab and Format Cells dialogue box provide the main tools, while Format Painter, styles and conditional formatting help apply formats consistently.

Quick Tip to Solve: Select the cells first, then choose the format. Use number formatting for the displayed amount and font or fill formatting for visual emphasis.

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 evaluates a logical test and returns one value when the test is TRUE and another when it is FALSE.
- The amount available for saving is net income: total income less expenses. The saving is this amount multiplied by the applicable savings rate.
- The general syntax is `=IF(logical_test,value_if_true,value_if_false)`. A comparison such as $C2 > 10000$ supplies the logical test.

Step 1: Arrange the data and calculate net income For illustration, enter total income in cell A2 and expenses in B2. Label C1 "Net income" and D1 "Savings". In C2 enter `=A2-B2` and press Enter. C2 now contains the total income less expenses on which both the comparison and savings calculation will be based. These cell references are illustrative; use the corresponding cells in the given worksheet.

Step 2: Select the result cell and open the IF dialogue box Select D2, the cell in which savings are to appear. Click the **Formulas** tab. In the Function Library group, open **Logical** and select **IF**. The Function Arguments dialogue box opens with the fields Logical_test, Value_if_true and Value_if_false. Alternatively, choose Insert Function on the Formulas tab, select the Logical category, select IF and click OK to open the same dialogue box.

Step 3: Enter the three arguments In **Logical_test**, enter `C2>10000`. In **Value_if_true**, enter `C2*10%`. In **Value_if_false**, enter `C2*5%`. The TRUE branch calculates savings at 10% when net income exceeds Rs 10,000. The FALSE branch calculates savings at 5% when the test is not satisfied. Click **OK**; the formula is inserted into D2 and its calculated result is displayed.

Step 4: Write the resulting formula and check its branches With the illustrative layout above, the formula in D2 is

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

For net income of Rs 12,000, the test is TRUE and savings are $12,000 \times 10\% = \text{Rs } 1,200$. For net income of Rs 8,000, the test is FALSE and savings are $8,000 \times 5\% = \text{Rs } 400$. These checks confirm that the test and both percentage calculations use net income, rather than gross income. The question does not specify a separate rule at exactly Rs 10,000; in this two-branch formula equality enters the FALSE branch, giving Rs 500. Format D2 as a currency or number amount, not as a percentage. If there are further rows, copy the formula down so that its relative references adjust for each row.

Step 5: Conclusion Choose Formulas, then Logical, then IF; enter `C2>10000`, `C2*10%` and `C2*5%` in the three argument fields and click OK. The resulting formula is `=IF(C2>10000,C2*10%,C2*5%)`, where C2 contains total income less expenses.

Quick Tip to Solve: Calculate income less expenses in one helper cell first. Use that same cell in the test and in both savings calculations to avoid testing one amount but saving a percentage of another.