KENDRIYA VIDYALAYA SANGTHAN RAIPUR REDION

ACCOUNTANCY

SESSION 2022-23

CLASS 12

(A) Accounting for Partnership Firms

(1) In the absence of Partnership Deed, interest on capital will be allowed to partners @_____%.

(2) Executor' of deceased partner's will be entitled to get share of profits (for the year of death) for the periods from___________________to______________.

(3) The capital balance of deceased partner (after making all adjustments) 1,20,000. Continuing partners agree to make payments immediately in cash with the purpose to financially help to the family of deceased person. The amount will be debited to_________________A/c

(4) In case of dissolution of a firm, C's Loan Account (C is a partner) settled. Name the account which to be debited.

(5) In the case of Partnership firms, third party liabilities are called:
(a) Partners Capital A/c (b) Partner's Loan A/c (c) Bank Loan (d) All the above

(6) In case of dissolution of a firm, intangible assets shown in the balance sheet will be transferred to_______________Account.

(7) Executor of deceased partner's is entitled for the interest on the balance due amount @___%.

(8) A and B are partners sharing profits and losses in the ratio of 3:2. C is admitted as a new partner for 1/3 share in the firm and brought in cash for his share of capital ₹ 3,00,000. As per the terms of reconstitution for new admission, after adjustments made, the capitals of A and B are 3,20,000 and 2,80,000 respectively. If they also agree to adjust the capitals of A and B according to share of capital of C and his new share, the new share of capital of A will be _____________.

(9) A and B are partners sharing profits and losses in the ratio of 3:2. C is admitted as a new partner for 1/3 shares in the firm and brought necessary cash for his share of capital. As per the terms of reconstitution for new admission, after adjustments made, the capitals of A and B are 3,20,000 and 2,80,000 respectively. C's share of capital is _____________.

(10) X, Y and Z were partners sharing profits & losses in the ratio of 3:2:1. On 29th June, 2019, Z died. On this date, the balance of partners capital (after adjustments) were ₹ 5,00,000;₹ 4,00,000 and 2,30,000 respectively. After settlement of deceased partners dues, X and Y decides to adjust their capitals as per new profits & loss sharing ratio. The new share of capital of X ____.
(a) 5,00,000 (b) 6,00,000 (c) 4,80,000 (d) 5,40,000.

(11) X, Y And Z were partners sharing profits & losses in the ratio of 3:2:1. On 29th June, 2019, Z died. On this date, the balance of partners capital (After adjustments) were ₹ 5,00,000; ₹ 4,00,000 and 2,30,000 respectively. After settlement of deceased partners dues, X and Y decides to adjust their capitals as per new profits & loss sharing ratio 2:1. After reconstitution, the new share of capital of X _____________.

(12) X, Y And Z were partners sharing profits & losses in the ratio of 3:2:1. On 29th June, 2019, Z died. On this date, the balance of partners capital (After adjustments) were ₹ 5,00,000; 4,00,000 and 2,30,000 respectively. After settlement of deceased partners dues, X and Y decides to set total capitals of the firm at 12,00,000 and adjust their capitals as per new profits & loss sharing ratio. The new share of capital of X _____________.

(13) A, B and C are partners in a firm sharing profits & losses in equal proportion. On 1st April, 2019 they agree to share future profits & losses in the ratio of 4:3:3 ratios. After adjustments of their capitals as per the terms of reconstitution, the balance of their capitals are 3,20,000; 2,80,000 and 3,00,000 respectively. They are agreeing to adjust their capitals as per the profits and losses sharing ratio. The new capital proportion of A, B and C will be________:

(a) 4,00,000 : 2,50,000 : 2,50,000 (b) 3,20,000 : 2,90,000 : 2,90,000
(c) 3,40,000 : 2,80,000 : 2,80,000 (d) 3,60,000 : 2,70,000 : 2,70,000

(14) A partner withdrew ₹ 30,000 during an accounting year. The rate of interest on drawings made by partners will be charged @ 10% p.a. The interest on drawings is ₹ _______.

(15) A partner withdrew ₹ 2,000 at the beginning of every month for the periods of 9 months. The interest on drawings will be charged for the periods of_________months.

(16) A partner withdrew ₹ 3,000 at the end of every month in an accounting year. The interest on drawings will be charged for the periods of____________months.

(17) A partner withdrew ₹ 5,000 at the end of each quarter during the year. The interest on drawings will be charged for the periods of__________months.

(18) A partner withdrew ₹ 10,000 at the middle of each quarter during the year. The interest on drawings will be charged for the periods of_________months.

(19) A partner withdrew ₹ 4,000 at the beginning of each quarter during the year. The interest on drawings @ 10% p.a. will be ₹ ____________.

(20) P, Q and R are partners in a firm, sharing profits & losses in 5:3:2 ratios. They agree to admit S as new partner for $\frac{1}{4}$ share in a firm. The balance sheet of P, Q and R showed a balance of 'Profit and Loss Suspense Account' ₹ 60,000. Pass necessary Journal entry.

(21) P, Q and R are partners in a firm, sharing profits & losses in 5:3:2 ratios. They agree to admit S as new partner for $\frac{1}{4}$ share in a firm. The balance sheet of P, Q and R showed a balance of 'Goodwill' ₹ 20,000. Pass necessary Journal entry.

(22) P, Q and R are partners in a firm, sharing profits & losses in 5:3:2 ratios. They agree to admit S as new partner for $\frac{1}{4}$ share in a firm. The balance sheet of P, Q and R showed a balance of 'Workmen's Compensation Reserve' ₹ 60,000. Pass necessary Journal entry.

(23) P, Q and R are partners in a firm, sharing profits & losses in 5:3:2 ratios. They agree to admit S as new partner for $\frac{1}{4}$ share in a firm. The balance sheet of P, Q and R showed a balance of 'Workmen's Compensation Reserve' ₹ 60,000. There is a claim for workmen's compensation of ₹ 40,000. Pass necessary Journal entry.

(24) P, Q and R are partners in a firm sharing profits & losses in the ratio of 5:3:2. On 1^{st} April, 2019, they agree to share future profits & losses in the ratio of 3:2:1 and on the same date, the Balance Sheet is showing Investment at ₹ 3,00,000 and Investment Fluctuation Reserve at ₹ 30,000. Investment valued ₹ 2,60,000. Pass necessary Journal entry.

(25) X and Y are partners in a firm sharing profits in the ratio of 7:3. Z is admitted as partner for $3/10^{th}$ share which he takes from X and Y in ratio 2:1. The new profit sharing ratio between X, Y and Z will be________.

(26) A and B are partners in a firm sharing profits in the ratio of 3:2. C admitted as partner for 1/3 share. A, B and C are agree to share future profit and loss in equal proportion. The sacrificing ratio between A and B is:

(a) 1:1 (b) 3:2 (c) 4:1 (d) 2:3

(27) X, Y and Z were partners in a firm sharing profit in the ratio of 3:2:1. Z decides to retire from the firm due to medical problem. X and Y agree to share future profit in 2:1. The gaining ratio between X and Y is:

(a) 3:2 (b) 2:1 (c) 1:1 (d) None of the above

(28) What is the purpose to prepare 'Revaluation Account' on reconstitution of a partnership?

(29) Pankaj and Rohit are partners in a firm sharing profit in the ratio of 2:1. Gopal, a incoming partner brought in his share of premium for goodwill in cash ₹ 30,000. Make necessary Journal entry for the same.

(30) Pankaj and Rohit are partners in a firm sharing profit in the ratio of 2:1. Gopal, a incoming partner brought in his share of premium for goodwill in cash ₹ 30,000. Make necessary Journal entry for the same to adjust with the capital accounts of Pankaj and Rohit..

(31) Pankaj and Rohit are partners in a firm sharing profit in the ratio of 2:1. Gopal admitted as a partner for 1/3 share in firm and brought in share of capital in cash ₹ 3,00,000. The balance of capitals of Pankaj and Rohit (after adjustments of accumulated profit/loss, gain/loss on revaluation) 3,20,000 and ₹ 1,90,000 respectively. As per the terms of Deed, Gopal will be brought in his share of premium for goodwill of ₹ ______________.

(32) Pankaj and Rohit are partners in a firm sharing profit in the ratio of 3:2. They agree to share future profit in the ratio of 2:1. Goodwill valued at ₹ 60,000. Pass necessary Journal entry.

(33) Pankaj, Rohit and Gopal were partners in a firm sharing profit in the ratio of 3:2:1. Pankaj retires from firm. Goodwill valued at ₹ 1,20,000. Pass necessary Journal entry.

(34) Pankaj, Rohit and Gopal were partners in a firm sharing profit in the ratio of 3:2:1. Pankaj retires from firm. Goodwill valued at ₹ 1,20,000. Rohit and Gopal agree to share future profit in the ratio of 3:2. Pass necessary Journal entry.

(35) If the deceased partner's executor is not paid full amount/partial amount due to him/her immediately on death, his/her balance is transferred to his/her________________A/c.

(36) If the retiring partner is not paid full/partial amount due to him immediately on retirement, his balance is transferred to his_____________________A/c.

(37) A, B and C are partners in a firm sharing profits in ratio 3:2:1. Firm closes its accounts on 31st March every year. B died on June 12. His share of profits in the firm till his death was to be computed on the basis of last year's profit which was ₹ 1,50,000. B's share in profits will be:

(a) ₹ 30,000 (b) ₹ 10,000 (c) ₹ 20,000 (d) ₹ 15,000

(38) In the absence of partnership deed, deficiency arising on guaranteed share is met by other partners in which ratio?

(39) Interest on Partners' Loan is to be treated as 'a charge against profit'. (True / False)

(40) Terms of Partnership Deed allowed interest on capital to the partners, but the net profit was not sufficient for this interest. The net profit will be distributed between partners in the 'ratio of interest on capital'. (True / False)

(41) As per the Companies Act-2013, the maximum number of partners in a firm is 20. (True/False)

(42) Profit & Loss Appropriation Account is an extension of Profit & Loss Account. (True/False)

(43) Under Fixed Capital method, the capital accounts of partners will changes with every change in the claim / charge with respect to partners. (True / False)

(44) Under fluctuate capital method; interest on capital will be credited to____________A/c.

(45) At the time of reconstitution, provision for doubtful debts appears in the balance sheet and all Debtors become good, then provision for doubtful debts will be________in revaluation A/c.

(46) Provision for doubtful debts appearing in the books at the time of dissolution of firm is transferred to credit side of_____________A/c.

(47) Realization expenses of ₹ 10,000 were paid by firm on behalf of Vijay (a partner) will be debited to___________A/c.

(48) On dissolution of firm, all partners are agree to accomplish dissolution process by Deepak (a partner) for which they have consent for expenses at ₹ 15,000. Pass necessary Journal entry.

(49) On dissolution of firm, ₹ 5,000 paid by firm on behalf of Sanjay, for which ₹ 50,000 were credited to his capital account so that he proceed for dissolution work. Actual realization expenses incurred at ₹ 70,000. Realization Account will be debited by ₹ ______________.

(50) Stock of ₹ 20,000 was not shown in the books. At the time of dissolution, one of the creditors of 18,000 took this investment in full settlement of his debt. How much amount will be payable to creditor?

(a) 18,000 (b) 20,000 (c) 2,000 (d) None of the above

(51) Stock of ₹ 20,000 was not shown in the books. At the time of dissolution, one of the creditors of 22,000 took this investment in full settlement of his debt. How much amount will be payable to creditor?

(a) 18,000 (b) 20,000 (c) 2,000 (d) None of the above

(52) Stock of ₹ 20,000 was not shown in the books. At the time of dissolution, one of the creditors of ₹ 18,000 took this investment at ₹ 16,000. How much amount will be payable to creditor?.

(a) 18,000 (b) 20,000 (c) 2,000 (d) None of the above

(53) Stock of ₹ 30,000 was not shown in the books. At the time of dissolution, one of the creditors of ₹ 18,000 took this investment at ₹ 24,000. Pass necessary Journal entry.

(54) On dissolution of firm, Goodwill appearing in the balance sheet will be transferred to _______ side of the______________Account.

(55) On dissolution of firm, which one be settled first:

(a) Partner's Wife Loan (b) Partner's Loan (c) Bank Loan (d) a and c

(56) On dissolution of firm, unrecorded furniture of ₹ 4,000 took over by Anand (a partner) will be credited to___________A/c.

(57) On dissolution of a firm, Investments of book value ₹ 60,000 appearing in the balance sheet. One third of investment took over by Anil for cash (a partner) at 20% less and remaining was realized at a loss of ₹ 9,000. Pass necessary Journal entry.

(58) On Dissolution of firm, received ₹ 3,000 from a debtor which was written off as bad debts earlier, pass necessary Journal entry.

(59) Change in the existing agreement between the partners is termed as____________.

(60) On dissolution of firm, a creditor of ₹ 12,000 paid at a discount of 20%. Realization Account will be debited by ₹ __________.

(61) On reconstitution of partnership, receiv ₹3000 from a debtor which was written off as bad debts earlier, pass necessary Journal entry.

(62) State the main aim of Not-for-Profit Organisation.

(63) How are specific donations treated while preparing final accounts of a Not-for-Profit Organisation?

(64) Under which of the following circumstances', the balance of 'Fixed Capital Accounts' will changes?

(i) Additional capital is introduced (ii) Interest on capital is provided

(iii) Interest on Drawings is charged (iv) Excess capital is withdrew

Choose the correct option from the following:

(a) Option: i, ii, iii and iv (b) Option: ii and iii (c) Option: i and iv (d) None of above

(65) In the absence of Partnership Deed, interest on capital of a partner is__________allowed.

(66) Akash and Bhumija are partners in a firm. Bhumija is entitled to get a commission of 25% on net profit after charging such commission. Net profit before charging such commission is ₹ 60,000. Bhumija's commission will be ₹ __________.

(67) If all are partners agree, a minor may be admitted in to the partnership. (True/False)

(68) Name the method of calculating interest on drawings of the partners if they made drawings in different amounts on different dates.

(69) Goodwill of the firm valued at ₹ 30,000, on the basis of 2 years' purchase of average profit of the last 3 years. The average profit of the firm is ₹ __________.

(70) Capital employed in a firm is ₹ 3,00,000. Average profit is ₹ 35,000. The normal rate of return is 10% and the goodwill to be valued at 2 ½ years' purchase. Valued goodwill is ₹ ______ _.

(71) Goodwill is a fictitious asset. (True / False)

(72) How does the factor 'efficiency of management' affect the goodwill of a firm?

(73) When new partner does not bring his share of goodwill in cash, the amount is debited to:

(a) Premium A/c (b) Goodwill A/c
(c) Current A/c of new partner (d) None of the above

(74) At the time of reconstitution of a partnership, there is some unrecorded liabilities are found. It will be shown:
(i) Debited to Revaluation A/c (ii) Credited to Revaluation A/c (iii)Reconstituted Balance Sheet
Choose the correct option from the following:
(a) Option: (i) (b) Option: (ii) (c) Option: (iii) (d) Option: (i) and (iii)

(75) New partner's share of goodwill taken by old partners in__________Ratio.

(76) State the purpose for treatment of goodwill on admission of a partner.

(77) A and B are partners in a firm sharing profit in the ratio of 3:2. They admitted C as a partner for $\frac{1}{4}$ share with a minimum guarantee of profits 10,000. At the close of the financial year, the firm earned a profit of 60,000. C's share of profit will be ₹ ________.

(78) Under which circumstance will the premium for goodwill paid by the incoming partner not be recorded in the books of accounts?

(79) At the time of admission of a partner, need to calculate sacrificing share/ratio between old partners under the condition of________________.

(80) Differentiate between dissolution of partnership and dissolution of partnership firm.

(81) X, Y Z were partners in a firm sharing profits & losses in the ratio of 3:2:1. Their books are closed on March 31^{st}, every year.
Z retired from the firm on September 30^{th}, 2019. The claims of Z to be settled on the following terms:
a. Goodwill valued at 1,20,000.
b. There is gain on revaluation of assets & liabilities ₹ 12,000.
c. Z's share of capital i.e. 6,00,000.
d. His share of profit up to his date of retirement on the basis of previous year profits. The profit of the previous year was 90,000.
e. Amount payable to Z was transferred to his loan account.
Pass necessary Journal entries and show the workings clearly. (4)

(82) Ram, Mohan and Shyam are partners in a firm sharing profits in the ratio of 3:2:1. Their balance of capitals as on 1^{st} April, 2019: 2,40,000; ₹ 1,80,000 and ₹ 1,20,000 respectively.
Partnership Deed provides the following terms:
(a) Interest on capital allowed @ 10% p.a.
(b) Interest on drawings will be charged @ 5% p.a. and calculated interests on drawings are – Ram: ₹ 5,000; Mohan: 3,000 and Shyam: 2,000.
(c) Shaym allowed salary of 5,000 per month.
(d) Shaym also has guarantee of profits that in any year his profits should not be less than to ₹ 60,000.
Profit of the firm for the year ending 31^{st} March, 2019 ₹ 2,40,000 (after charging salary to Shyam but before adjustments of interest on capital and interest on drawings).
Prepare Profit and Loss Appropriation Account and pass necessary Journal entry for guarantee of profit to Shaym.

(83) X, Y Z are partners in a firm, they have fixed capitals as on 1^{st} April, 2018 were ₹ 5 lakhs; ₹ 3 lakhs and ₹ 2 lakhs respectively. The profits of the firm for the year 2018-19 ₹ 3,00,000 was distributed in their capital proportion, thereafter, it comes to know that the following terms of Partnership Deed are being ignored: (4)
(a) They allowed interest on capital @ 10% p.a.
(b) Z allowed Salary @ 5,000 p.m.
(c) They made drawings in the year 2018-19 as ₹ 50,000; ₹30,000 and ₹ 20,000 respectively. Interest on drawings will be charged @ 20% p.a.
(d) Their profit and loss sharing ratio is 3:2:1.

You are required to make necessary Journal Entry to adjustment the above discrepancy.

(84) In case of dissolution, pass Journal entries for the following circumstances: (any four) (4)

(a) Realization expenses incurred for 12,000.
(b) Realization expense of 15,000 paid by partner Mohan.
(c) Realization expense of 18,000 paid by firm on behalf of partner Vijay.
(d) All partners agreed that the dissolution works be accomplished by Ajay (a partner) and expenses thereon may be occurred at 10,000.
(e) Firm paid 6,000 on behalf of Ajay (a partner) for which 10,000 were credited to Ajay's capital account. Actual realization expenses incurred at 16,000.

(85) In case of dissolution, pass Journal entries for the following circumstances: (any four) (4)

(a) Furniture of 90,000 was sold for 80,000 by auction and auctioneer's commission amounted to 5,000.
(b) A partner, Deeraj's Loan A/c of 25,000 was paid.
(c) A bill receivable of 6,000 under discount was dishonoured as the acceptor had become insolvent and hence the bill had to be met by the firm.
(d) Out of the Stock of 1,20,000; Kiran (a partner) took over 1/3 of the stock at a discount of 25% and 50% of remaining stock was took over by a Creditor of 30,000 in full settlement of his claim. Balance amount of stock realized at 25,000.
(e) A creditor of 25,000 took over an unrecorded asset (valued at 45,000) at ₹ 30,000.

(86) Satyam and Shivam were partners in a firm sharing profits and losses in the ratio of 3:2. On 31st March, 2019 they decides to dissolve the firm. On that date, they furnished the following balance of their firm:

Creditors: 45,000 and Debtors: 60,000; Workmen's Compensation Fund: 40,000; Satyam's Current A/c (Cr.): 65,000 and Shivam Current A/c (Dr.): 20,000; Stock: ₹ 85,000; Furniture: 1,00,000; Machinery: 1,30,000. The balance of Capitals- Satyam: ₹ 2,00,000 & Shivam: 1,00,000.

Additional Information:

(a) Satyam took over 25,000 of the stock at 20,000 for cash and remaining stock was sold for 55,000. Furniture realized at 80,000.
(b) An unrecorded Investment was sold for ₹ 20,000. Machinery was sold at a ₹ 1,00,000.
(c) Debtors realized at ₹ 55,000. There was an outstanding bill for legal charges of ₹15,000 which were paid.

You are required to prepare Realization Account, Partners Capital Account and Bank Account from the above information.

(87) In case of dissolution of a firm, pass necessary Journal entries for the following: (6)

(a) An outstanding bill for repairs and renewal ₹ 3,000. There was a balance of Employees Provident Fund of ₹25,000 and a contingent liability for ₹ 2,000.
(b) Akash a partner agrees to pay off his wife loan ₹ 10,000.
(c) General Reserve of ₹ 12,000; Profit & Loss Account (Cr.) of ₹ 9,000 given on the liabilities side of balance sheet. There were three partners A, B and C sharing profits in 3:2:1 ratio.
(d) Profit & Loss Suspense Account of ₹ 1,000; Profit & Loss Account (Dr.) of ₹ 9,000 given on the assets side of balance sheet. There were two partners X and Y, sharing profit in 2:3 ratios.
(e) Chetan, a partner has Current Account (Dr.) of ₹ 6,000 and Ravi, a partner has Current Account (Cr.) of ₹ 4,000.

Vikrant, a partner has his Loan Account on the assets side of balance sheet for 9,000. ₹

(88) Sonia, Rohit and Udit were partners in a firm sharing profit & loss in the ratio of 5:3:2. On 31st March, 2019 their firm was dissolved. As on that date, the firm's balance sheet as under:

Balance Sheet (As on March 31st 2019)

Liabilities	(₹)	Assets	(₹)

Creditors	30,000	Buildings	1,40,000
Bills Payable	30,000	Machinery	40,000
Bank Loan	1,20,000	Stock	1,60,000
Sonia's Husband's Loan	1,30,000	Bills Receivable	1,20,000
Investment Fluctuation Fund	2,000	Furniture	80,000
Workmen Compensation Fund	15,000	Debtors	40,000
Bank Overdraft	5,000	Goodwill	15,000
Provision for doubtful debts	4,000	Investments	20,000
Rohit's Loan	20,000	Udit's Current A/c	10,000
General Reserve	80,000	Cash at Bank	60,000
Profit & Loss A/c	5,000		
Sonia's Current A/c	10,000		
Capitals:	2,34,000		
Sonia 60,000			
Rohit 80,000			
Udit 94,000			
	6,81,000		6,81,000

The firm was dissolved on that date. Close the books of the firm with following information:

(a) Buildings realized for ₹ 1,30,000; Machinery sold at ₹ 48,000 and Furniture for ₹75,000.
(b) Bank Loan was settled for ₹ 1,30,000 and Bills Payable were settled at 10% discount.
(c) Rohit paid realization expenses of ₹ 10,000 and he was to get a remuneration of ₹ 12,000 for completing the dissolution process.
(d) There was an unrecorded asset of ₹ 2000, which was taken over by Rohit at ₹ 1,500.
(e) There was an unrecorded typewriter which was sold for ₹ 3,000.
(f) Udit took over 25% of the stock at 10% less on its book value, and the remaining stock was sold at a gain of 10%.
(g) There was an outstanding bill for repairs which had to be paid for ₹ 2,000.
(h) Debtors realized for ₹ 32,000 and ₹ 1,000 were recovered for bad debts written-off last year.
(i) Sonia promised to pay Sonia's Husband's Loan and took away Bills Receivable for ₹ 1,10,000.
(j) Rohit took away half of the Investment at 10% less and remaining Investments were sold at ₹ 9,000. Goodwill realized at ₹ 12,000.
(k) It is found that an asset not recorded in the books amounted to ₹ 1,000. The same were accepted by one creditor for this amount and other creditors were paid at 10% discount.

NOTE: The above question on dissolution of a firm is too lengthy. This lengthof question will not be asked in CBSE BUT it contains all the possible items ofBalance Sheet as well as adjustments points which help to develop broad and complete understanding to prepare necessary ledgers.

NOW, the next page is demonstrating that how to response with the items ofBalance Sheet on the dissolution of a firm:

Balance Sheet (As on March 31st 2016)5:3:2

Liabilities	(₹)	Assets	(₹)
Creditors	30,000	Buildings	1,40,000
Bills Payable	30,000	Machinery	40,000
Bank Loan	1,20,000	Stock	1,60,000
Sonia's Husband's Loan	1,30,000	Bills Receivable	1,20,000
Investment Fluctuation Fund	2,000	Furniture	80,000
Workmen Compensation Fund	15,000	Debtors	40,000
Bank Overdraft	5,000	Goodwill	15,000
Provision for doubtful debts	4,000	Investments	20,000
Rohit's Loan	20,000	Udit's Current A/c	10,000
General Reserve	80,000	Cash at Bank	60,000
Profit & Loss A/c	5,000		
Sonia's Current A/c	10,000		
Capitals:	2,34,000		
Sonia 60,000			
Rohit 80,000			
Udit 94,000			
	6,81,000		6,81,000

Realization Account

Particulars	(₹)	Particulars	(₹)
Buildings	1,40,000	Creditors	30,000
Machinery	40,000	Bills Payable	30,000
Stock	1,60,000	Bank Loan	1,20,000
Bills Receivable	1,20,000	Sonia's Husband's Loan	1,30,000
Furniture	80,000	Investment Fluctuation Fund	2,000
Debtors	40,000	Workmen Compensation Fund	15,000
Goodwill	15,000	Bank Overdraft	5,000
Investments	20,000	Provision for doubtful debts	4,000

Capital Account

Particulars	Sonia	Rohit	Udit	Particulars	Sonia	Rohit	Udit
Current A/c	----	----	10,000	Balance b/d	60,000	80,000	94,000
				General Reserve	40,000	24,000	16,000
				Profit & Loss A/c	2,500	1,500	1,000
				Current A/c	10,000	-----	-----

**** Bank Account will be opened with ₹ 60,000.**

**** Rohit's Loan Account will be opened with ₹ 20,000.**

Assets Realized (1)		**Asset Taken Over by a Partner**	
Buildings, Machinery & Furniture	2,53,000	Rohit U/R	1,500
U/R Typewriter	3,000		
		Rohit (1/2 Investment less 10%)	9,000
Stock (1,20,000 + 10%)	1,32,000		
		Udit (stock)	36,000
Debtors (including B/d)	33,000		
		(25% of 1,60,000 at 10% less)	

Investment Goodwill	9,000 12,000		Sonia (B/R)	1,10,000

Bank A/C Dr. **To Realization A/c**	**4,42,000**		**Capitals A/c Dr.** **To Realization A/c**	**1,56,500**
External Liabilities Paid (2)			**A Partner agree to pay Liability**	
Bank Loan& Bills Payable O/S Bill for Repairs Creditors (30,000-1,000)less10% Bank Overdraft	1,57,000 2,000 26,100 5,000		Rohit (Realization Expense) Sonia (Husband Loan)	12,000 1,30,000
Realization A/C Dr. **To Bank A/c**	**1,90,100**		**Realization A/c Dr.** **To Capitals A/c**	**1,42,000**

Realization Account

Particulars	(₹)	Particulars	(₹)
To Buildings	1,40,000	By Creditors	30,000
To Machinery	40,000	By Bills Payable	30,000
To Stock	1,60,000	By Bank Loan	1,20,000
To Bills Receivable	1,20,000	By Sonia's Husband's Loan	1,30,000
To Furniture	80,000	By Investment Fluctuation Fund	2,000
To Debtors	40,000	By Workmen Compensation Fund	15,000
To Goodwill	15,000	By Bank Overdraft	5,000
To Investments	20,000	By Provision for doubtful debts	4,000
ToBank A/c**(2)**	1,90,100	By Bank A/c**(1)**	4,42,000
To Rohit's Capital A/c	12,000	By Rohit's Capital A/c	10,500
To Sonia's Capital A/c	1,30,000	Unrecorded asset 1,500	
		$\frac{1}{2}$ Investment 9,000	
		By Udit's Capital A/c	
		25% stock	36,000
		By Sonia's Capital A/c	1,10,000
		B/R	
		By Capitals A/c (5:3:2)	12,600
		Sonia 6,300	
		Rohit 3,780	
		Udit 2,520	
	9,47,100		9,34,500

Capital Account

Particulars	Sonia	Rohit	Udit	Particulars	Sonia	Rohit	Udit
Current A/c	----	----	10,000	Balance b/d	60,000	80,000	94,000
RealizationA/c	1,10,000	10,500	36,000	General Reserve	40,000	24,000	16,000
RealizationA/c	6,300	3,780	2,520	Profit & LossA/c	2,500	1,500	1,000
(Loss on Real.)				Current A/c	10,000	-----	-----
Bank A/c	1,26,200	1,03,220	62,480	Realization A/c	1,30,000	12,000	-----
	2,42,500	1,17,500	1,11,000		2,42,500	1,17,500	1,11,000

Bank Account

Particulars	(₹)	Particulars	(₹)
To Balance b/d	60,000	By Realization A/c	1,90,100
To Realization A/c	4,42,000	By Rohit's Loan A/c	20,000
		By Capitals A/c	2,91,900
	5,02,000		5,02,000

(89) A, B and C were partners in a firm sharing profits in 2:2:1 ratio. On31.3.2016 B retired from the firm. On the date of B's retirement the Balance Sheet of the firm was as follows:

Liabilities	Amt. in ₹	Assets	Amt. in ₹
Creditors	54,000	Bank	50,200
Bills Payable	24,000	Debtors 12,000	11,200
O/S Rent	4,400	Less: Prov. For D/D 800	
Prov. For Legal Claim	12,000	Stock	18,000
Capitals:	1,92,000	Furniture	8,000
A 92,000		Premises	1,94,000
B 60,000		B's Loan A/c	5,000
C 40,000			
	2,86,400		2,86,400

On B's retirement it was agreed that:

(i) Premises will be appreciated by 5% and Stock will be depreciated by 10%.

(ii) A has taken furniture at₹ 10,000.

(iii) Provision for bad debts was to be made at 5% on debtors and provision for legal claim to be made for ₹14,400.

(iv) Goodwill of the firm was valued at ₹ 48,000.

(v) ₹50,000 from B's Capital Account will be transferred to his loan account andthe balance will be paid by cheque.

Prepare B's Capital Account.

SOL. **B's Capital Account**

Particulars	Amt. in ₹	Particulars	Amt. in ₹
To B's Loan A/c	5,000	By Balance b/d	60,000
To Bank A/c	32,280	By Revaluation A/c	3,080
To B's Loan A/c	50,000	By A's Capital A/c	12,800
(Bal. figure)		By C's Capital A/c	6,400
	82,280		82,280

Workings: (1) Revaluation (to find gain/loss on revaluation)

Stock	1,800	Premises	9,700
Prov. for Legal Claim	2,400	Furniture	2,000
Capitals A/c	7,700	Prov. for D/D	200
A 3,080			
B 3,080			
C 1,540			

Working: (2) B's Share in Goodwill adjusted with A's & C's Capital A/cB's share of goodwill = 2/5 of valued goodwill 48,000 = 19,200

19,200 will be debited to capitals A/c of A and C in their gaining share i.e. 2:1

A's Capital A/c will be debited with 2/3 of 19,200 = 12,800 & C's Capital by 6,400.

(90) A, B and C were partners in a firm sharing profits in 2:2:1 ratio.

On 30th June **2016** B died. As per the deed on the death of a partner, account of deceased partner is to be settled as:

(i) Premises will be appreciated by 5%, Stock will be depreciated by 10% and A has taken furniture at ₹ 10,000 for cash.

(ii) Goodwill of the firm was valued at ₹48,000.

(iii) Interest on capital allowed @ 10% p.a.

(iv) B's share of profit from the last balance sheet date to date of death is calculated on the basis of average profits of last three years, which were ₹90,000.

(v) Paid ₹ 39,160 immediately to the family of B and balance will be paid in two equal annual installments together with 10% interest p.a.

On 31.3.2016 the Balance Sheet of the firm was as follows:

Liabilities	Amt. in ₹	Assets	Amt. in ₹
Creditors	54,000	Bank	55,200
Bills Payable	24,000	Debtors 12,000	11,200
O/S Rent	4,400	Less: Prov. For D/D 800	
WCF	12,000	Stock	18,000
Capitals:	1,92,000	Furniture	8,000
A 92,000		Premises	1,94,000
B 60,000			
C 40,000			
	2,86,400		2,86,400

Prepare B's Capital Account to be rendered to his Executor's Account.

SOL.: **B's Capital Account**

Particulars	Amt. in ₹	Particulars	Amt. in ₹
To Z's Executors A/c	**98,460**	By Balance b/d	60,000
		By WCF	**4,800**
		By Revaluation A/c	3,960
		By A's Capital A/c	12,800
		By C's Capital A/c	6,400
		By P/L Suspense A/c	**9,000**
		By Interest on Capital	1,500
	98,460		**98,460**

Workings: (1) Gain/Loss on Revaluation

Depreciate Stock by	1,800	Appreciate Premises by	9,700
Capitals A/c (share in gain)	9,900	Appreciate Furniture by	2,000
A: 3,960; B: 3,960; C: 1,980			

Working: (2) B's Share in GoodwillAdjusted with A's & C's Capital A/c

B's share of goodwill = 2/5 of valued goodwill 48,000 = 19,200

19,200 will be debited to capitals A/c of A and C in their gaining share i.e. 2:1

A's Capital A/c will be debited with 2/3 of 19,200 = 12,800 & C's Capital by 6,400.

Working: (3) Share of profit of Deceased partner-B (Profit & Loss Suspense A/c)

Share of Profit = Average Profits X Share of B X Periods (from 31.03.2016 to 30.06.2016)

= 90,000 X 2/5 X 3 months = 36,000 X 3/12 = 9,000

Working: (4) <u>Interest on capital:</u> = 60,000 X 10/100 X 3 months = 6,000 X 3/12 = 1,500.

(91) A & B were partners sharing profits in 3:2. The Balance Sheet as on 31st March,2019 as under:

Liabilities	₹	Assets	₹
Provision for doubtful debts	1500	Debtors	15000
Employees' Provident Fund	10500	Goodwill	5000
General Reserve / P & L A/c	6000	Advertisement Expenditure	3000
Workmen's Compensation Fund	10000	Profit & Loss Suspense A/c	2000
Investment Fluctuation Fund	5000	Patents	2000
Creditors	30000	Stock	26000
Capital A/c of A –	50000	Buildings	60000
Capital A/c of B –	30000	Machinery	30000
Bank Loan	10000	Cash	10000
	153000		153000

C is admitted into the partnership for 1/5th share in the profits & losses. C is to bring in ₹ 30000 as his capital subject to the following terms:

(i) Goodwill of the firm valued at ₹ 50000.
(ii) Patents to be value less.
(iii) There was a claim against the firm for damages amounting to ₹ 2000. The claim has now been accepted.
(iv) Stock is overvalued by ₹ 1000.
(v) A liability of Workmen's Compensation Reserve is determined to ₹ 4000.
(vi) Outstanding Rent amounted to ₹ 1000.
(vii) Prepaid Salaries ₹ 500.
(viii) A liability for Rs 2000 included in sundry creditors was not likely to arise / claim.
(ix) Debtors are all good.
(x) Bank Loan is paid off.
(xi) Buildings are appreciated by ₹ 5000 (appreciated to ₹ 65000).
(xii) Machinery is depreciated to ₹ 26000 (depreciated by ₹ 4000).

Prepare the Revaluation Account, Partners' Capital Accounts and Balance Sheet after admission of C into the partnership.

<u>Important Notes:</u> **<u>{Above problem is also too lenghty and the same length of question will not be asked in CBSE …..BUT it help to develop comprehensive understanding}</u>**

*** Employees' Provident Fund** – The provident fund is an outside liability and therefore it will not be adjusted. (It may be increased or reduced on payment by cash, if, there is given in the term).

*** General Reserve / P & L A/c** – Generally, This will be distributed among the old partners' in their old profit-sharing ratio.

*** Workmen's Compensation Fund** – Generally, thiswill be distributed among the old partners' in their old profit-sharing ratio.
(If, there is given terms as liability arise on it, than up to the liability/claim 'Fund' should be retained & will be shown in the Balance Sheet and remains will be distributed in old partners.)

* **Investment Fluctuation Fund – Treatment will made same as above.**

* **Goodwill –** Any amount of goodwill shown in the Balance Sheet, shall be written-off with the old partners' capital A/c in their old ratio.

* **Advertisement Expenditure** –Such head will be written-off with the partners' capital A/cs.

* **Profit & Loss Suspense A/c –** All theSuch head will be written-off with partners' capital A/cs.

* **Provision for doubtful debts & Debtors –**

 # Debtors are all good: It is a gain on debtors as earlier amount provided for doubtful debtors against (by charging) the Profit & Loss A/c, thus, up to the amount of Provision for Doubtful Debts will be treated as gain on revaluation and Debtors will shown with full (book) value in the Balance Sheet. **(**If, there is given other terms for its treatment than accordingly will be done)

* **Bank Loan –** Bank Loan paid off therefore, in the Balance Sheet no such head will be shown & the amount of cash will be reduced by this head.

* **Claim for damages –** This is an unrecorded liability, due to arise; it should be taken in to account. It is loss on revaluation as well as will be shown on the Liability side of Balance sheet.

* **Stock –** Stock overvalued, thus, it should be adjusted by reduced to original value and will be treated loss on revaluation ₹ 1000.

* **Patents –** This is the loss on revaluation by all its book value i.e., ₹ 2000.

* **Creditors –** Claims are reduced, thus, it is a gain on revaluation by ₹ 2000.

* **<u>Treatment of Goodwill</u> –**

It can be made by opening of C's Current A/c or through the C's Capital A/c. BUT -----

<u>When there is need to adjust the capital of old partners OR need to ascertain the capital of new partner, than goodwill treatment </u>(if new partner unable to bring his/her share of goodwill in cash)<u> should be made by new partner's Current A/c.</u>

<u>Solution</u>: **Revaluation Account**

Particulars	₹	Particulars	₹
To Patents	2000	By Prov. for doubtful debts	1500
To Stock	1000	By Creditors	2000
To Machinery	4000	By Buildings	5000
To Claim for Damages	2000	By Prepaid Salaries	500
To O/s Rent	1000	By A's Capital A/c – 600	1000
		By B's Capital A/c – 400	
	10000		10000

Capital Account

Particulars	A (₹)	B (₹)	C (₹)	Particulars	A (₹)	B (₹)	C (₹)

To Goodwill	3000	2000	-------	By Balance b/d	50000	30000	--------
To Adv. Exp	1800	1200	------	By Gen. Reserve	3600	2400	--------
To P&L Sup. A/c	1200	800	-------	By WC Fund	3600	2400	--------
To Reval. A/c	600	400	-------	By Inv.Flu.Fund	3000	2000	--------
To Balance C/d	59600	36400	30000	By Cash	--------	--------	30000
				By C's CurrentA/c	6000	4000	
	66200	40800	30000		66200	40800	30000

Balance Sheet (After admission of C)

Liabilities	₹	Assets	₹
Employees' Provident Fund	10500	Debtors	15000
Workmen Comp. Fund	4000	Buildings	65000
Prov. For Claim for Damages	2000	Machinery	26000
Outstanding Rent	1000	Stock	25000
Creditors	28000	Prepaid Salaries	500
Capitals Account:	126000	Cash (10000+30000-10000)	30000
A – 59600		C's Current A/c	10000
B – 36400			
C – 30000			
	171500		171500

(92) A, B & C, partners sharing profits in 3:2:1. Their Balance Sheet on 31.03.2019 as under:

Liabilities	₹	**Assets**	₹
Provision for doubtful debts	1,500	Debtors	15,000
Employees' Provident Fund	10,500	Goodwill	6,000
General Reserve / P & L A/c	6,000	Advertisement Expenditure	3,000
Workmen's Compensation Fund	10,000	Profit & Loss Suspense A/c	3,000
Investment Fluctuation Fund	3,000	Patents	2,000
Creditors	30,000	Stock	26,000
Capital A/c of A –	40,000	Buildings	60,000
Capital A/c of B –	25,000	Machinery	30,000
Capital A/c of C –	15,000	Cash	8,000
Bank Loan	12,000		
	1,53,000		**1,53,000**

C is retires from the firm on 1st April, 2019 on the basis of the following terms:

(a) Goodwill of the firm valued at ₹ 60,000.

(b) Patents to be value less.

(c) There was a claim against the firm for damages amounting to ₹ 2,000. The claim has now been accepted.

(d) Stock is overvalued by ₹ 1,000.

(e) A liability of Workmen's Compensation Reserve is determined to ₹ 4,000.

(f) Outstanding Rent amounted to ₹ 1,000.

(g) Prepaid Salaries ₹ 500.

(h) A liability for ₹ 2,000 included in sundry creditors was not likely to arise / claim.

(i) Debtors are all good.

(j) Buildings are appreciated by ₹ 4,500 (appreciated to ₹ 64,500).

(k) Machinery is depreciated to ₹ 26,000 (depreciated by ₹ 4,000).

Pass necessary Journal entries in the books of firm on the retirement of C.

SOL.: **Journal Entries**

Date	Particulars		Dr. (₹)	Cr. (₹)
2019	A's Capital A/c Dr.		6,000	
April 1st	B's Capital A/c Dr.		4,000	
	C's Capital A/c Dr.		2,000	
	To Goodwill A/c			6,000
	To P/L Suspense A/c			3,000
	To Advertisement Exp. A/c			3,000
	(Being adjustment made to w/off)			
	Gen. Res./P/L A/c Dr.		6,000	
1st April	Workmen's Comp. Fund Dr.		6,000	
	Investment Fluct. Fund Dr.		3,000	
	To A's Capital A/c			7,500
	To B's Capital A/c			5,000
	To C's Capital A/c			2,500
	(Being accumulated profits trans.)			
	A's capital A/c Dr.		6,000	
1st April	B's Capital A/c Dr.		4,000	
	To C's Capital A/c			10,000
	(Being C's share of g/w adjusted)			
	Revaluation A/c Dr.		10,000	
	To Patents			2,000
1st April	To Prov. for damage claim			2,000
	To Stock			1,000
	Outstanding Rent			1,000
	Machinery			4,000
	(Being assets & liabilities revalued)			
	Prepaid Salary A/c Dr.		500	
1st April	Creditor A/c Dr.		2,000	
	Buildings A/c Dr.		4,500	
	Provision for doubtful debt Dr.		1,500	
	To Revaluation A/c			8,500
	(Being assets & liabilities revalued)			
	A's Capital A/c Dr.		750	
1st April	B's Capital A/c Dr.		500	
	C's Capital A/c Dr.		250	
	To Revaluation A/c			1,500
	(Being loss on revaluation transferred)			
	C's Loan A/c Dr.		25,250	
1st April	To C's Capital A/c			25,250
	(Being balance transferred to loan A/c)			

(93) A, B and C were partners in a firm sharing profits in the ratio of 5:3:2. On 31.03.2019 their Balance Sheet was as under:

Liabilities	(₹)	Assets	(₹)
Creditors	7,000	Building	20,000
Reserves	10,000	Machinery	30,000
Capital A/cs:	70,000	Stock	10,000
A 30,000		Patents	6,000
B 25,000		Debtors	8,000

C 15,000		Cash	13,000
	87,000		87,000

B died on 1st October, 2019. It was agreed between his executors and the remains partners that:

(a) Goodwill be valued at 2 years purchase of the average of the previous 5 years, which were 2005: 15,000; 2006: 13,000; 2007: 12,000; 2008: 15,000; 2009: 20,000.

(b) Patents be valued at 8,000; Machinery at 28,000 and Buildings at 30,000.

(c) Profit for the year 2019-20 be taken as having accrued at the same rate as the previous year.

(d) Interest on capital be provided at 10% p.a.

(e) A sum of 4,250 was to be paid to his executors immediately.

Prepare B's Capital Account and his Executors' Account at the time of his death.

Solution: **B's Capital Account**

Particulars	( )	Particulars	( )
To B's Executors A/c	44,250	By Balance b/d By Reserves (3/10 x 10,000) By Revaluation A/c By Profit & Loss Suspense A/c (20,000 x 6/12 x 3/10) By Interest on Capital A/c (for 6 months) By A's Capital A/c (share of goodwill) By C's Capital A/c (share of goodwill)	25,000 3,000 3,000 3,000 1,250 6,429 2,571
	44,250		44,250

B's Executors Account

Particulars	( )	Particulars	( )
To Cash A/c To B's Executors Loan A/c	4,250 40,000	By B's Capital A/c	44,250
	44,250		44,250

Workings: **(1)** Revaluation Account

Particulars	( )	Particulars	( )
To Machinery A/c To Gain transferred to: A's Capital A/c 5,000 B's Capital A/c 3,000 C's Capital A/c 2,000	2,000 10,000	By Patents By Building	2,000 10,000
	12,000		12,000

Workings: **(2)** Calculation of B's share of goodwill:

$$\text{Firm's Goodwill} = \frac{(15{,}000 + 13{,}000 + 12{,}000 + 15{,}000 + 20{,}000) \times 2}{5} = 30{,}000$$

B's share of goodwill = 30,000 x 3/10 = 9,000, which is adjusted between A and C in their gaining ratio, i.e., 5:3. A= 5/7 of 9,000 = 6,429 and B = 2/7 of 9,000 = 2,571.

If on the above problem asked that 'Prepare B's Executors Account till the last settlement of his account, which to be settled in two equal yearly installments with 10%interest.

Solution: **B's Executors Loan Account**

Year	Particulars	( )	Year	Particulars	( )
Mar 31, 20'	To Balance c/d	42,000	Oct.1, 19' Mar 31, 20'	By B's Executors A/c By Interest A/c (for 6 months)	40,000 2,000

		42,000			42,000
Apr 1, 20'	To Cash A/c (20,000 + 4,000)	24,000	Apr 1, 20'	By Balance b/d	42,000
Mar 31, 21'	To Balance c/d	21,000	Oct 1, 20'	By Interest A/c (for 6 months)	2,000
			Mar 31, 21'	By Interest A/c (for 6 months)	1,000
		45,000			45,000
Oct 1, 21'	To Cash A/c (20,000 + 2,000)	22,000	Apr 1, 21'	By Balance b/d	21,000
			Oct 1, 21'	By Interest A/c (for 6 months)	1,000
		22,000			22,000

Accounting for Companies

(94) A company mustcreate Debenture Redemption Reserve at_____% of the amount of outstanding debentures to be redeemed, if company is redeem its debentures out of profits.

(95) A company must crate Debenture Redemption Reserve at_____% of the amount of outstanding debentures to be redeemed.

(96) A company has to make Investment for Debenture Redemption at_____% of the debentures to be redeemed.

(97) Forfeited shares can be re-issued at a discount, not more than the amount of__________.

(98) Which of the following is not correct:

(a) Shares cannot be re-issued at discount (b) Shares cannot be issued at discount

(c) Shares can be re-issued at discount (d) All of the above are not correct

(99) The Companies Act, 2013, does not permit for issue of_____________preference shares.

(100) Which one of the following is/are not correct for the 'One Person Company (OPC)'':

(a) Artificial person who is a citizen of India and resident of India can be the member of OPC

(b) Average annual turnover of 3 years does not exceed to ₹ 2 crores & Directors up to 15.

(c) Paid-up share capital is not more than ₹ 50 lakhs (d) OPC is a private company

(101) According to Table F of Schedule I of the Companies Act, 2013 what is the rate of interest on calls-in-advance and calls-in-arrears.

(102) On the basis of Liability, as per the Companies Act. 2013, which one is/are correct:

(a) Companies Limited by Shares (b) Companies Limited by Guarantee

(c) Unlimited Liability Companies (d) All the above

(103) Which on e of the following is/are not correct with reference to "Reserve Capital":

(a) A special resolution is required for its creation (b) It is not necessary to create

(c) It is used only at the time of winding-up. (d) It is created out of capital profits

(104) As per Companies Act, 2013, only preference shares, which are redeemable within ______ years, can be issued.

(105) In order to develop sense of belongingness, recognizing the contributions towards the organization, Excel Ltd decides to offer equity shares of company in the form of a choice to their whole time directors, officers and employees, at a predetermined price below the price of market. What type of plan Excel Ltd has implemented here?

(106) If a share of ₹ 10 each on which ₹ 8 has been paid up, is forfeited, it can be reissued at the minimum price of ₹ ______.

(107) An issue of shares (either by Private company or Public Company) which is not a Public Issue but an offer to a selected group of persons is called:______________________.

(108) A company issued 12,000 shares of ₹ 100 each for public subscriptions. Company received application for 10,000 shares. State with reason whether the company can allot the shares?

(109) A company issued 3,000 shares of 100 each at 10% premium other than cash for the purchase consideration of Machinery. The purchase consideration value will be ₹ _________.

(110) A company issued 3,000 shares of 100 each at 10% premium as well as issued bank demand draft of 20,000 to M/s Vandana Auto Ltd for the purchase consideration. The purchase consideration value is ___________.

(111) X Ltd purchased a running business of Y Ltd by taking over of sundry assets of ₹ 12 lakhs and creditors of 3 lakhs. X Ltd issued 12% Debentures of ₹ 100 each at 10% discount for purchase consideration of business. Issued number of debentures by X Ltd is_________.

(112) If share of 10 issued at a premium of ₹ 2 on which the full amount has been called and ₹ 7 has been (including premium) paid on it, is forfeited. The share capital account is debited with: (a) 10 (b) ₹ 9 (c) ₹ 8 (d) ₹ 7

(113) Securities premium reserve can be utilized for issuing________shares.

(114) Y Ltd forfeited 100 shares of 10 each for the non-payment of the first call of ₹ 2 per share. The final call of 2 per share was not yet made. Share capital account will be debited by ₹.

(115) X Ltd forfeited 600 shares (applied for 900 shares) of ₹ 10 each due to non-payment of Allotment of 3 per share. First & Final call of ₹ 3 per share was not yet made.Share Forfeiture Account will be credited by ₹ _______.

(116) Silver Coin Ltd issued 11% 9,000 Debentures of ₹ 100 each to Bank against bank loan as secondary security is called, issue of debenture as __________.

(117) Silver Coin Ltd issued 11% 9,000 debentures of ₹ 100 each to Bank against bank loan as secondary security. Pass necessary Journal Entry for the same.

(118) Discount/loss on issue of debentures should be written off:
(a) Within 2 years of the such issue (b) In the year of such issue
(c) After the redemption of debentures (d) During the life of debentures

(119) Debentures which do not carry any specific rate of interest are known as:
(a) Naked Debentures (b) Bearer Debentures
(c) Zero Coupon Rate Debentures (d) Convertible Debentures

(120) Debentures cannot be redeemed At:
(a) Par (b) Premium (c) Discount (d) None of the above

(121) Why would an investor prefer to invest in the Debentures of a company rather than in its shares? State any two reasons.

(122) Which shareholders have a right to receive the arrears of dividend from future profits:
(a) Redeemable Preference Shares (b) Participating Preference Shares
(c) Cumulative Preference Shares (d) Non-Cumulative Preference Shares

(123) Minimum subscription must received on issue of shares for the meeting of the following requirements' of a company:
(a) Preliminary Expenses (b) Floatation Costs (c) Working Capital (d) All of the above

(124) Unless otherwise stated, a preference share is always deemed to be:
(a) Cumulative, Participative and Non-convertible
(b) Non-cumulative, Non-participative and Non-convertible
(c) Cumulative, Non-participative and Non-convertible
(d) Non-cumulative, Participative and Non-convertible

(125) In case of Private Placement of Shares, the lock in period is ______ years.

(126) In case of Private Placement of Shares, company must prepare the_____________.

(127) As per SEBI Guidelines, Application money should not be less than___% of the issue price of each share.

(128) Maximum limit of Premium on shares is:

(a) 5 % (b) 10 % (c) 25 % (d) No Limit

(129) For which purpose securities premium reserve account cannot be utilized:

(a) Amortization of preliminary expenses (b) Distribution of dividend

(c) Issue of fully paid bonus shares (c) Buy-Back of own shares

(130) A company issued 5,000 equity shares of ₹10 each at par payable as under:

On Application: ₹3; On Allotment: ₹3 and First & Final Call: ₹ Balance.

Applications were received for 6,000 shares. Pro-rata allotment was made to all applicants. How much amount will be received in cash on allotment?

(a) ₹15,000 (b) ₹18,000 (c) ₹12,000 (d) ₹NIL

(131) Forfeiture of shares results in the reduction of:

(a) Subscribed Capital (b) Authorized Capital (c) Reserve Capital (d) Fixed Assets

(132) Which one of the following items is not a part of subscribed capital?

(a) Equity Shares (b) Preference Shares (c) Forfeited Shares (d) Bonus Shares

(133) At the time of forfeiture of shares, the share capital account is debited with:

(a) Face Value (b) Called up value (c) Paid up value (d) Issued value

(134) If the Premium on forfeited shares has not been received, then Securities Premium A/c should be__________while making journal entry for share forfeiture.

(135) A company forfeited 3,000 shares of ₹100 each due to non-payment of allotment of ₹ 40 per share and first call of ₹ 2 per share. The second and final call of ₹ 2 per share was not yet made. Pass necessary Journal entry for the forfeiture of shares.

(136) Discount allowed on re-issue of forfeited shares is debited to_____________Account.

(137) Balance of the share forfeiture account after re-issue of forfeited shares is transferred to:

(a) Statement of Profit & Loss (b) Reserve Capital (c) General Reserve (d) Capital Reserve

(138) Premium on Redemption of Debentures Account is:

(a) Personal Account (b) Nominal Account (c) Real Account (d) None of the above

(139) Read the following statements and choose the correct answer:

(1) Debentures can be issued as collateral security to bank against bank loan other than the primary security.

(2) Bank is entitled for the interest on such issue of debentures when it becomes due.

(a) Statement first is correct and statement second support to statement first.

(b) Statement first is as well as statement second are correct

(c) Statement first is correct but statement second is not correct

(d) Statement first as well as statement second are incorrect

(140) Issued 4,000 12% debentures of ₹100 each at a premium of 4%, redeemable at a premium of 10%. In such case:

(a) Loss on issue will be debited by ₹16,000 (b) Loss on issue will be debited by ₹24,000

(c) Loss on issue will be debited by ₹ 56,000 (d) Loss on issue will be debited by ₹ 40,000

(141) On 1st April, 2019 X Ltd issued 12% 1,000 debentures of ₹ 200 each at a discount of 5%. Debentures were to be redeemed at the end of five years at premium 10%.

Pass Journal entry for writing off 'Loss on Issue of Debenture Account'. Accounts are closed on 31st March every year.

(142) 'Debenture Redemption Reserve' shall be transferred to__________Account after the redemption of all debentures?

(143) Debentures is a ______

(i) Charges against the statement of profit & loss A/c (ii) Debt A/c

(iii) Charges on the assets of a company (iv) Secured Loan

Choose the correct answer from the following:

(a) Option i, ii and iii correct (b) Option i, iii and iv correct
(c) Option ii, iii and iv correct (d) All options are correct

(144) X Ltd purchased a Machinery at ₹ 3,50,000 from Z Ltd. Immediately paid ₹ 20,000 by cheque and for the balance, issued its 6% preference shares of ₹ 100 each at 10% premium for purchase consideration.

Sol. Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(1)	Machinery A/c Dr.		3,50,000	
	To Bank A/c			20,000
	To Z Ltd.			3,30,000
	(Being machinery purchased)			
	Z Ltd. Dr.		3,30,000	
(2)	To 6% Preference Share Capital A/c(3,000 X 100)			3,00,000
	To Securities Premium(3,000 X 10)			
	(Being 6% preference shares issued for purchase consideration)			30,000

Working: No. of Shares to be issued = 3,30,000 / 100+10 = 3,30,000 / 110 = 3,000 shares

(145) X Ltd purchased a Machinery at ₹4,00,000 from Z Ltd. Immediately paid ₹40,000 by acceptance on bill of 3 months and for the balance, issued its 9% debentures of ₹ 100 each at 10% discount for purchase consideration.

Sol. Journal Entries

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(1)	Machinery A/c Dr.		4,00,000	
	To Bills Payable A/c			40,000
	To Z Ltd.			3,60,000
	(Being machinery purchased)			
(2)	Z Ltd. Dr.		3,60,000	
	Discount on Issue A/c(4,000 X 10) Dr.		40,000	
	To 9% Debentures A/c(4,000 X 100)			4,00,000
	(Being 9% debentures issuedfor purchase consideration)			

Working: No. of Debentures to be issued = 3,60,000/100-10 =3,60,000/90 = 4,000 Debentures

(146) .AB Ltd purchased a business of XY Ltd by taking over following assets & liabilities: Buildings ₹ 2,00,000; Machinery ₹ 1,50,000; Debtors ₹ 30,000; Stock ₹20,000; Creditors ₹ 20,000 and Bank Loan ₹ 30,000. AB Ltd paid ₹ 20,000 cash immediately and for the balance issued equity shares of ₹100 each for purchase consideration

Sol.: **Journal Entries**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(1)	Building A/c Dr.		2,00,000	
	Machinery A/c Dr.		1,50,000	
	Debtors A/c Dr.		30,000	
	Stock A/c Dr.		20,000	
	To Creditors A/c			20,000
	To Bank Loan A/c			30,000
	To Cash A/c			20,000
	To XY Ltd.			3,30,000
	(Being business purchased)			
(2)	XY Ltd. Dr.		3,30,000	3,30,000
	To Share Capital A/c(3,300 X 100)			

	(Being shares issued for purchase consideration)			

No. of shares issued = 3,30,00 / 100 = 3,300 shares

(147) AB Ltd purchased a business of XY Ltd by taking over following assets & liabilities: Buildings 2,00,000; Machinery 1,50,000; Debtors 30,000; Stock 20,000; Creditors ₹ 20,000 and Bank Loan 30,000.

AB Ltd issued 3,200, 8% debentures of 100 each for purchase consideration.

<u>Sol.:</u> **Journal Entries**

Date	Particulars		L.F.	Debit ( )	Credit (₹)
(1)	Building A/c	Dr.		2,00,000	
	Machinery A/c	Dr.		1,50,000	
	Debtors A/c	Dr.		30,000	
	Stock A/c	Dr.		20,000	
	To Creditors A/c				20,000
	To Bank Loan A/c				30,000
	To XY Ltd. **(3,200 X 100)**				3,20,000
	To Capital Reserve A/c				**30,000**
	(Being business purchased)				
(2)	XY Ltd.	Dr.		3,20,000	
	To Debentures A/c(3,200 X 100)				3,20,000
	(Being debentures issued for purchase consideration)				

Capital Reserve = Business Value – Purchase Value; = 3,50,000 – 3,20,000 = ₹ 30,000

Business Value = All Assets – Other Liabilities = 4,00,000 – 50,000 = 3,50,000

Purchase Value = 3,200, 8% debentures of 100 each = 3,200 X 100 = 3,20,000

(148) SKY Ltd purchased the business of Golden Ltd by taking over the Sundry Assets and other Liabilities of 3,20,000 and 90,000 respectively.

They agreed for the purchase consideration value of 2,60,000. SKY Ltd drawn a Promissory Note of 20,000 in favour to Golden Ltd and for the balance issued 15% Debentures of 100 each at 20% discount.**<u>Sol</u>.:** **Journal Entries**

Date	Particulars		L.F.	Debit ( )	Credit (₹)
(1)	Sundry Assets A/c	Dr.		3,20,000	
	Goodwill A/c	**Dr.**		**30,000**	
	To Other Liabilities A/c				90,000
	To Golden Ltd.				2,60,000
	(Being business purchased)				
(2)	Golden Ltd.	Dr.		20,000	
	To Promissory Note A/c				20,000
	(Being Promissory Note issued)				
(3)	Golden Ltd. (2,60,000 – 20,000)	Dr.		2,40,000	
	Discount on Issue (3,000 X 20)	Dr.		60,000	
	To 15% Debentures A/c(3,000 X 100)				3,00,000
	(Being 15% debentures issued for purchase consideration)				

Goodwill = Purchase Value - Business Value; = 2,60,000 – 2,30,000 = 30,000

Business Value = All Assets – Other Liabilities = 3,20,000 – 90,000 = ₹ 2,30,000 Purchase Value =Agreed value as ₹ 2,60,000

No. of debentures issued = 2,40,000 / 100 – 20 = 2,40,000 / 80 = 3,000 debentures.

(149) Venture Ltd registered with capital of 10,00,00,000 divided into 10,00,000 equity shares of ₹100 each. The company issued prospectus inviting applications for 5,00,000 equity shares payable as: on application ₹ 30 per share; on allotment 30 per share; on first call ₹ 20 per share and balance on second & final call.

Application were received for 4,50,000 shares. Rakesh to whom 12,000 shares were allotted failed to pay first call and second & final call. These shares were forfeited. Out of the forfeited shares, 9,000 shares were re-issued to Mukesh at ₹ 80 per share fully paid.

Present the Share Capital into the Balance Sheet as per Schedule III of Companies Act, 2013, on the following circumstances:

(1) Balance Sheet to be prepared just before the forfeiture of shares
(2) Balance Sheet to be prepared Just after the forfeiture of shares
(3) Balance Sheet to be prepared after re-issue of forfeited shares

Extract of Balance Sheet of Venture Ltd (As on...........)

Particulars	Note No.	Amt. Current Year	Amt. Previous Year
I. Equity & Liabilities:			
1. Shareholders Fund:			
(a) Share Capital		4,45,20,000 (1) OR 4,45,20,000 (2) OR 4,48,80,000 (3)	
(b) Reserves & Surplus		3,60,000 (3)	

Notes to Accounts:

Particulars				Amt. in ₹
1. Share Capital:				
Authorized Capital	10,00,000 shares of	100 each		10,00,00,000
Issued Capital	5,00,000 shares of	100 each		5,00,00,000
Subscribed Capital	4,50,000 shares of	100 each		4,50,00,000
Paid Up Capital:	4,50,000 shares of	100 each		
(1) 4,50,000 shares of ₹100 each		=	4,50,00,000	
Less: Calls-in-arrears (12,000 x 40)			4,80,000	**4,45,20,000 (1)**
(2) 4,50,000 shares of ₹100 each		=	4,50,00,000	
Less: Share Forfeited (12,000 x 100)			12,00,000	4,38,00,000
Add: Share Forfeiture Account (12,000 x 60)				7,20,000
				4,45,20,000 (2)
(3) 4,50,000 shares of ₹100 each		=	4,50,00,000	
Less: Share forfeited (3,000 x 100)			3,00,000	4,47,00,000
Add: Share forfeiture Account (3,000 x 60)				1,80,000
				4,48,80,000 (3)
2. Reserve & Surplus:				
Share forfeiture A/c			5,40,000	**3,60,000 (3)**
Less: Adjusted loss on re-issue			₹ 1,80,000	

(150) Pass the necessary Journal entries for the issue of 12% Debentures of ₹ 100 each for the following circumstances:

(a) 6,000 debentures issued at 10% discount to be redeemed at 15% premium after 3 years.
(b) 4,000 debentures issued at 20% premium to be redeemed at 10% premium after 2 years.
(c) 9,000 debentures issued at 10% discount to be redeemed after 4 years.

(d) 12,000 debentures issued to be redeemed at 15% premium after 5 years.

Sol.: **Journal entries**

Date	Particulars		Dr. (₹)	Cr. (₹)
(a) 1	Bank A/c (6,000 x 90) Dr.		5,40,000	
	To 12% Debenture Appl. & Allot. A/c			5,40,000
	(Being application received for debentures at discount)			
	12% debenture Appl. & Allotment A/c Dr.		5,40,000	
(a) 2	Loss on Issue of Debenture A/c (60,000 + 90,000) Dr.		1,50,000	
	To Premium on Redemption A/c (6,000 x 15)			90,000
	To 12% Debenture A/c (6,000 x 100)			6,00,000
	(Being 12% debentures issued)			

Journal entries

Date	Particulars		Dr. (₹)	Cr. (₹)
(b) 1	Bank A/c (4,000 x 120) Dr.		4,80,000	
	To 12% Debenture Appl. & Allot. A/c			4,80,000
	(Being application received for debentures at discount)			
	12% debenture Appl. & Allotment A/c Dr.		4,80,000	
(b) 2	Loss on Issue of Debenture A/c (4,000 x 10) Dr.		40,000	
	To Premium on Redemption A/c (4,000 x 10)			40,000
	To Securities Premium A/c (4,000 x 20)			80,000
	To 12% Debenture A/c (4,000 x 100)			4,00,000
	(Being 12% debentures issued)			
(c) 1	Bank A/c (9,000 x 90) Dr.		8,10,000	
	To 12% Debenture Appl. & Allot. A/c			8,10,000
	(Being application received for debentures at discount)			
	12% debenture Appl. & Allotment A/c Dr.		8,10,000	
(c) 2	Discount on Issue of Debenture A/c (9,000 x 10)Dr.		90,000	
	To 12% Debenture A/c (9,000 x 100)			9,00,000
	(Being 12% debentures issued)			
	Bank A/c (12,000 x 100) Dr.		12,00,000	
(d) 1	To 12% Debenture Appl. & Allot. A/c			12,00,000
	(Being application received for debentures at discount)			
	12% debenture Appl. & Allotment A/c Dr.		12,00,000	
	Loss on Issue of Debenture A/c (12,000 x 15) Dr.		1,80,000	
(d) 2	To Premium on Redemption A/c			1,80,000
	To 12% Debenture A/c (15,000 x 100)			12,00,000
	(Being 12% debentures issued)			

(151) Pass the necessary Journal entries for the redemption of 12% Debentures of ₹100 each for the following circumstances:

(a) 6,000 debentures were issued at 10% discount to be redeemed at 15% premium after three years.

(b) 4,000 debentures were issued at 20% premium to be redeemed at 10% premium after two years.

(c) 9,000 debentures were issued at 10% discount to be redeemed after four years.

(d) 12,000 debentures were issued to be redeemed at 15% premium after five years.

NOTE: Debentures can be redeemed either at PAR or at PREMIUM.

Redemption at PAR:

(1) Debenture A/c	Dr.	xxx	
To Debentureholders A/c			xxx
(2) Debentureholders A/c	Dr.	xxx	
To Bank A/c			xxx

Redemption at PREMIUM:

(1) Debenture A/c	Dr.	xxx	
Premium on Red. A/c	Dr.	xxx	
To Debentureholders A/c			xxx
(2) Debentureholders A/c	Dr.	xxx	
To Bank A/c			xxx

Journal entries

Date	Particulars			Dr. (₹)	Cr. (₹)
(a) 1	12% Debenture A/c (6,000 x 100)	Dr.		6,00,000	
	Premium on Redemption A/c (6,000 x 15)	Dr.		90,000	
	To Debentureholders A/c				6,90,000
(a) 2	(being debentures proceeds for redemption)				
	Debentureholders A/c	Dr.		6,90,000	
	To Bank A/c				6,90,000
	(Being debentures redeemed)				
(b) 1	12% Debenture A/c (4,000 x 100)	Dr.		4,00,000	
	Premium on Redemption A/c (4,000 x 10)	Dr.		40,000	
	To Debentureholders A/c				4,40,000
(b) 2	(being debentures proceeds for redemption)				
	Debentureholders A/c	Dr.		4,40,000	
	To Bank A/c				4,40,000
	(Being debentures redeemed)				
(c) 1	12% Debenture A/c (9,000 x 100)	Dr.		9,00,000	
	To Debentureholders A/c				9,00,000
	(being debentures proceeds for redemption)				
(c) 2	Debentureholders A/c	Dr.		9,00,000	
	To Bank A/c				9,00,000
	(Being debentures redeemed)				
(d) 1	12% Debenture A/c (12,000 x 100)	Dr.		12,00,000	
	Premium on Redemption A/c (12,000 x 15)	Dr.		1,80,000	
	To Debentureholders A/c				13,80,000
(d) 2	(being debentures proceeds for redemption)				
	Debentureholders A/c Dr.			13,80,000	
	To Bank A/c				13,80,000
	(Being debentures redeemed)				

(152) Pass necessary Journal Entries for the following transactions: (1.5 x 4 = 6)

(a) 6,000 9% Preference shares of ₹ 10 each forfeited in which only ₹ 3 per share application money were received. Out of which, 4,000 shares were re-issued at ₹ 32,000 fully paid.

(b) 12,000 shares of ₹10 each forfeited which were issued at 20% premium, due to non-payment of allotment of ₹5 (including ₹1 premium) and first & final call of ₹2 per share. These shares were re-issued at ₹7 per share fully paid.

(c) 5,000 shares of ₹100 each (applied for 6,000) forfeited due to non-payment of allotment of ₹40 per share and first & final call of ₹ 20 per share. These shares were re-issued at the sum of ₹6,00,000.

(d) 9,000 shares of ₹10 each forfeited due to non-payment of allotment and first call. The final call of ₹2 per share was not yet made. Share-holder had been paid only ₹ 3 per share application money along with application for shares. Out of the forfeited shares, 6,000 shares were reissued at ₹ 7 per share for ₹ 8 per share.

Journal entries

Date	Particulars		Dr. (₹)	Cr. (₹)
(a) 1	9% Preference Share Capital A/c (6,000 x 10) Dr.		60,000	
	To Calls-in-arrears A/c (6,000 x 7)			42,000
	To Share Forfeiture A/c (6,000 x 3)			18,000
	(Being shares forfeited due to non-payment)			
(a) 2	Bank A/c Dr.		32,000	
	Share Forfeiture A/c Dr.		8,000	
	To 9% Preference Share Capital A/c (4,000 x 10)			40,000
	(Being forfeited shares re-issued)			
(a) 3	Share Forfeiture A/c {(4,000x3) – 8,000} Dr.		4,000	
	To Capital Reserve A/c (12,000 – 8,000)			4,000
	(Being balance of share forfeiture A/c transferred)			
(b) 1	Share Capital A/c (12,000 x 10) Dr.		1,20,000	
	Securities Premium A/c (12,000 x 1) Dr.		12,000	
	To Calls-in-arrears (12,000 x 7)			84,000
	To Share Forfeiture A/c (12,000 x 4)			48,000
	(Being shares forfeited due to non-payment)			
(b) 2	Bank A/c (12,000 x 7) Dr.		84,000	
	Share Forfeiture A/c (12,000 x 3) Dr.		36,000	
	To Share Capital A/c (12,000 x 10)			1,20,000
	(Being forfeited shares re-issued)			
(b) 3	Share Forfeiture A/c (48,000 – 36,000) Dr.		12,000	
	To Capital Reserve A/c			12,000
	(Being balance of share forfeiture A/c transferred)			
(c) 1	Share Capital A/c (5,000 x 100) Dr.		5,00,000	
	To calls-in-arrears A/c (1)			2,60,000
	To Share Forfeiture A/c			2,40,000
	(Being shares forfeited due to non-payment)			
(c) 2	Bank A/c Dr.		6,00,000	
	To Share Capital A/c (5,000 x 100)			5,00,000
	To Securities Premium A/c			1,00,000
	(Being forfeited shares re-issued)			
(c) 3	Share Forfeiture A/c Dr.		2,40,000	
	To Capital Reserve A/c			2,40,000
	(Being balance of share forfeiture A/c transferred)			
	Share Capital A/c (9,000 x 8) Dr.		72,000	

(d) 1	To Calls-in-arrears A/c (9,000 x 5)			45,000
	To Share Forfeiture A/c (9,000 x 3)			27,000
	(Being shares forfeited due to non-payment)			
	Bank A/c (6,000 x 7) Dr.		42,000	
(d) 2	Share Forfeiture A/c (6,000 x 1) Dr.		6,000	
	To Share Capital A/c (6,000 x 8)			48,000
	(Being forfeited shares re-issued)			
	Share Forfeiture A/c {(6,000x3) – 6,000}		12,000	
(d) 3	To Capital Reserve A/c (18,000 – 6,000)			12,000
	(Being balance of share forfeiture A/c transferred)			
Note: **(1):** Calls-in-arrears on allotment (2,00,000 – 40,000) + 1,00,000 = 2,60,000				

(153) AB Ltd purchased a Machinery of ₹ 3,00,000 from X Ltd. Immediate paid ₹ 30,000 by Bank Demand Draft and balance by issue of 12% Debenture of ₹100 each at 10% Discount for purchase consideration. Pass necessary Journal entries in the books of AB Ltd.

Journal entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Machinery A/c Dr.		3,00,000	
1	To Bank A/c			30,000
	To X Ltd			2,70,000
	(Being machinery purchased)			
	X Ltd A/c Dr.		2,70,000	
2	Discount on issue of Debenture A/c (3,000x10) Dr.		30,000	
	To 12% Debenture A/c (3,000x100)			3,00,000
	(Being 12% debenture issued for purchase consideration)			
No. of debentures issued = 2,70,000 / (100-10) = 3,000 debentures				

(154) AB Ltd purchased the business of XY Ltd by taking over of the following assets and liabilities:
Land & Building ₹3,80,000; Machinery ₹2,20,000; Furniture ₹90,000; Stock ₹40,000 and Creditors ₹60,000.
AB Ltd paid ₹50,000 by accepting on bill of exchange and the balance by issue of 6,000 9% preference shares of ₹100 each at 20% premium for purchase consideration.
Pass necessary Journal entries in the books of AB Ltd.

Journal entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Land & Building A/c Dr.		3,80,000	
1	Machinery A/c Dr.		2,20,000	
	Furniture A/c Dr.		90,000	
	Stock A/c Dr.		40,000	
	Goodwill A/c (7,70,000 – 6,70,000) Dr.		1,00,000	
	To Creditors A/c			60,000
	To Bills Payable A/c			50,000
	To X Y Ltd			7,20,000
	(Being business of XY Ltd purchased)			
	X Y Ltd A/c Dr.		7,20,000	

2	To Securities Premium A/c (6,000 x 20)			1,20,000
	To 9% Preference Share Capital A/c (6,000x100)			6,00,000
	<u>(Being 9% preference shares issued for purchase consideration)</u>			

Value of Purchased Business = Total Assets – Creditors; = 7,30,000 – 60,000 = ₹6,70,000
Purchase consideration value = 6,000 preference shares x 100 = ₹ 6,00,000
Add: Securities Premium = ₹ 1,20,000
Add: Bills Payable = <u>₹ 50,000</u>
Purchase value <u>₹ 7,70,000</u>
<u>Excess of purchase consideration value over to Business value</u> = <u>Purchased Goodwill</u>

(155) AB Ltd purchased the business of XY Ltd by taking over of the following assets and liabilities:
Land & Building ₹3,80,000; Machinery ₹2,20,000; Furniture ₹90,000; Stock ₹40,000 and Creditors ₹60,000.
AB Ltd paid ₹50,000 by accepting on bill of exchange and the balance by issue of 4,000 9% preference shares of ₹100 each at 20% premium for purchase consideration.
Pass necessary Journal entries in the books of AB Ltd.

Journal entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Land & Building A/c Dr.		3,80,000	
1	Machinery A/c Dr.		2,20,000	
	Furniture A/c Dr.		90,000	
	Stock A/c Dr.		40,000	
	To Creditors A/c			60,000
	To Bills Payable A/c			50,000
	To Capital Reserve (6,70,000 – 5,90,000)			80,000
	To X Y Ltd			5,40,000
	<u>(Being business of XY Ltd purchased)</u>			
	X Y Ltd A/c Dr.		5,40,000	
2	To Securities Premium A/c (4,500 x 20)			90,000
	To 9% Preference Share Capital A/c (4,500x100)			4,50,000
	<u>(Being 9% preference shares issued for purchase consideration)</u>			

Value of Purchased Business = Total Assets – Creditors; = 7,30,000 – 60,000 = ₹6,70,000
Purchase consideration value = 4,000 preference shares x 100 = ₹ 4,50,000
Add: Securities Premium = ₹90,000
Add: Bills Payable = <u>₹ 50,000</u>
Purchase value <u>₹ 5,90,000</u>
<u>Excess of Business value over to Purchase consideration value</u> = <u>Capital Gain</u> (Capital Reserve)

(156) Alfa Ltd issued 3,00,000 equity shares of ₹10 each for public subscription payable as under:
On Application : ₹3 per share
On Allotment : ₹4 per share
On 1st & Final Call : ₹ 3 per share
All due money was duly received for issued shares except from Mohan to whom allotted 12,000 shares failed to pay allotment and call money, from Suresh to whom allotted 9,000 shares failed to pay call money. These shares were forfeited and out of which 12,000 shares were re-issued (including all forfeited shares of Suresh) at ₹ 8 per share fully paid.
Pass necessary Journal entries in the books of Alfa Ltd.

Journal entries

Date	Particulars			Dr. (₹)	Cr. (₹)
1	Bank A/c (3,00,000 x 3)	Dr.		9,00,000	
	To Share Application A/c				9,00,000
	(Being subscriptions received for issued shares)				
2	Share Application A/c	Dr.		9,00,000	
	To Share Capital A/c				9,00,000
	(Being share application money transferred)				
3	Share Allotment A/c (3,00,000 x 4)	Dr.		12,00,000	
	To Share Capital A/c				12,00,000
	(Being share allotment money become due)				
4	Bank A/c	Dr.		11,52,000	
	Calls-in-arrears A/c (12,000 x 4)	Dr.		48,000	
	To Share Allotment A/c				12,00,000
	(Being allotment money received with exception)				
5	Share 1st & Final A/c	Dr.		3,00,000	
	To Share Capital A/c				9,00,000
	(Being call money become due)				
6	Bank A/c	Dr.		8,37,000	
	Calls-in-arrears A/c (21,000 x 3)	Dr.		63,000	
	To Share 1st & Final Call A/c				9,00,000
	(Being call money received with exception)				
	Share Capital A/c (21,000 x 10)	Dr.		2,10,000	
	To Calls-in-arrears A/c				1,11,000
	To Share Forfeiture A/c				9,00,000
	(Being shares forfeited due to non-payment)				

(157) Golden Eye Ltd had ₹ 3,00,000 9% Debentures of ₹ 100 each to be redeemed at premium of 10% on 31st March 2019. Pass necessary Journal entries for redemption of debentures if there is a balance of ₹ 20,000 in DRR.

Journal entries

Date	Particulars			Dr. (₹)	Cr. (₹)
1	Statement of P & L A/c	Dr.		55,000	
	To DRR {(25% of 3,00,000=75,000) – 20,000}				55,000
	(Being reserve created from out of profits)				
2	DRR Investment A/c	Dr.		45,000	
	To Bank A/c				45,000
	(Being investment made @ 15% of 3,00,000)				
3	Bank A/c	Dr.		45,000	
	To DRR Investment A/c				45,000
	(Being DRR Investment sold)				
	9% debentures A/c	Dr.		3,00,000	
4	Premium on redemption A/c	Dr.		30,000	
	To Debentureholders A/c				3,30,000
	(Being debentures proceeds to redeem)				
	Debentureholders A/c	Dr.		3,30,000	
5	To Bank A/c				3,30,000
	(Being debentures redeemed)				
	DRR A/c	Dr.		75,000	

6	To General Reserve A/c (Being DRR transferred)			75,000

(158) IDBI (an All India Financial Company) issued 10,00,000; 9% Debentures of ₹50 each on 1st April 2012 redeemable on 1st April 2019. How much amount of Debentures Redemption Reserve is required before the redemption of debentures? Pass Journal entries for redemption of debentures in the books of company.

DRR is not to be created, as it being an All India Financial Company.

Journal entries

Date	Particulars		Dr. (₹)	Cr. (₹)
2019	9% Debentures A/c (10,00,000 x 50) Dr.		5,00,00,000	
Ap. 1	To Debenture holders A/c			5,00,00,000
	(Being debentures proceeds to redeem)			
	Debenture holders A/c Dr.		5,00,00,000	
	To Bank A/c			5,00,00,000
	(Being debentures redeemed)			

(159) X Ltd issued 3,00,000 equity shares of ₹100 each payable as under:

On Application : ₹30 per share
On Allotment : ₹40 per share
On First Call : ₹20 per share
On 2nd & Final Call : ₹10 per share

Company received subscriptions for shares for 5,00,000 shares and pro-rata allotment was made as under:

Group	**Applicants**	**Allotted Shares**
A	2,00,000 shares	2,00,000 shares
B	2,00,000 shares	1,00,000 shares
C	1,00,000 shares	NIL

All due money was duly received except from Rakesh (under the group B) who had applied for 20,000 shares, failed to pay allotment and first call. Raghav (to whom allotted 10,000shares) (under the Group A) failed to pay first call money. 2nd & Final call was not yet made.

These shares were forfeited and 15,000 shares (including all forfeited shares of Rakesh) re-issued to Ghanshaym at ₹70 per share for ₹90 per shares.

Pass necessary Journal entries in the books of X Ltd.

Journal entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c (5,00,000 x 30) Dr.		1,50,00,000	
1	To Share Application A/c			1,50,00,000
	(Being application received for shares)			
	Share Application A/c Dr.		1,50,00,000	
	To Share Capital A/c (3,00,000 x 30)			90,00,000
2	To Bank A/c (1,00,000 x 30)			30,00,000
	To Share Allotment A/c			30,00,000
	(Being appl. money transferred, refunded & adjusted)			
	Share Allotment A/c (3,00,000 x 40) Dr.		1,20,00,000	
3	To Share Capital A/c			1,20,00,000
	(Being allotment become due)			
	Bank A/c Dr.		89,00,000	

4	Calls-in-arrears A/c Dr.		1,00,000	
	To Share Allotment A/c (1,20,00,000 – 30,00,000)			90,00,000
	(Being allotment money received with exception)			
	Share First Call A/c Dr.		60,00,000	
5	To Share Capital A/c (3,00,000 x 20)			60,00,000
	(Being 1st Call become due)			
	Bank A/c Dr.		56,00,000	
	Calls-in-arrears A/c (20,000 x 20) Dr.		4,00,000	
6	To Share First Call A/c			60,00,000
	(Being 1st Call money received with exception)			
	Share Capital A/c (20,000 x 90) Dr.		18,00,000	
7	To Calls-in-Arrears A/c (1,00,000 + 4,00,000)			5,00,000
	To Share Forfeiture A/c			13,00,000
	(Being shares forfeited due to non-payment)			

Share Allotment Due on 10,000 shares (10,000 x 40) = 4,00,000

Less: Excess Application money

{20,000 – (20,000*1 / 2)} x 30 i.e. 10,000 x 30 = 3,00,000

Therefore, calls-in-arrears on allotment ₹ 1,00,000.

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c (15,000 x 70) Dr.		10,50,000	
8	Share Forfeiture A/c		3,00,000	
	To Share Capital A/c (15,000 x 90)			13,50,000
	(Being forfeited shares re-issued)			
	Share Forfeiture A/c Dr.		6,50,000	
9	To Capital Reserve A/c			6,50,000
	(Being balance transferred)			

Share forfeiture amount on 10,000 shares of Rakesh (20,000 x 30) = 6 00,000

(160) XY Ltd issued 1,50,000 shares of ₹ 10 each at 20% premium payable on application ₹ 5 per share (including premium ₹ 1 per share), on allotment ₹ 4 per share (including ₹ 1 premium per share) and on 1st & final call – balance.

Application received for 2,00,000 shares and pro-rata allotment was made to all applicants.

Oversubscribed money is to be adjusted towards allotment due. All due money was duly received except from Aman (applied for 10,000 shares) failed to pay allotment and call money and from Biplav, allotted to whom 2,000 shares, failed to pay call money.

Aman's shares was forfeited and re-issued at ₹ 8 per share as fully paid.

Pass necessary Journal entries in the books of XY Ltd.

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c (2,00,000 x 5) Dr.		10,00,000	
1	To Share Application A/c			10,00,000
	(Being application received for shares)			
	Share Application A/c Dr.		10,00,000	

2	To Share Capital A/c (1,50,000 x 4) To Securities Premium A/c (1,50,000 x 1) To Share Allotment A/c (Being appl. money transferred and adjusted)			6,00,000 1,50,000 2,50,000
3	Share Allotment A/c (1,50,000 x 4) To Share Capital A/c (1,50,000 x 3) To Securities Premium A/c (1,50,000 x 1) (Being allotment become due)		6,00,000	4,50,000 1,50,000
4	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Share Allotment A/c (6,00,000 – 2,50,000) (Being allotment money received with exception)		3,32,500 17,500	3,50,000

Share Allotment Due on 7,500 shares (7,500 x 40) = 30,000
Less: Excess Application money

{10,000 – (10,000*15 / 20)} x 5 i.e. 2,500 x 5 = 12,500

Therefore, calls-in-arrears on allotment ₹17,500.

Date	Particulars		Dr. (₹)	Cr. (₹)
5	Share 1st & Final Call A/c (1,50,000 x 3) Dr. To Share Capital A/c (Being call money become due)		4,50,000	4,50,000
6	Bank A/c Dr. Calls-in-Arrears A/c {(7,500 x 3) + (2,000 x 3)} Dr. To Share 1st & Final Call A/c (Being call money received with exception)		4,21,500 28,500	4,50,000
7	Share Capital A/c (7,500 x 10) Dr. Securities Premium A/c (7,500 x 1) Dr. To calls-in-Arrears (17,500 + 22,500) To Share Forfeiture A/c (50,000 – 7,500) (Being shares forfeited due to non-payment)		75,000 7,500	40,000 42,500
8	Bank A/c (7,500 x 8) Dr. Share Forfeiture A/c To Share Capital A/c (7,500 x 10) (Being forfeited shares re-issued)		60,000 15,000	75,000
9	Share Forfeiture A/c (42,500 – 15,000) Dr. To Capital Reserve A/c (Being balance transferred)		27,500	27,500

Analysis of Financial Statements of Companies

(161) Classify the items in the Balance Sheet of a company under Major heads and Sub-heads:

S.N.	Items	Major Heads	Sub Heads

1	Goodwill, Patents Computer Software	Non-Current Assets	Fixed Assets
2	Share Forfeiture A/c	Share Holders Fund	Share Capital
3	Capital Reserve Securities Premium	Share Holders Fund	Reserve & Surplus
4	Loose Tools	Current Assets	Inventories
5	Provision for Tax	Current Liabilities	Short Term Provision
6	Employees Provident Fund	Non-Current Liabilities	Long Term Provision
7	Calls in advance	Current Liabilities	Other Current Liabilities

(162) Limitations of Analysis of Financial Statements:

(a) Not free from bias (b) Window dressing (c) Ignore price level change (d) Qualitative aspects being ignored.

(163) Objectives of Analysis of Financial Statements:

(a) To measure short-term and long-term solvency of firm
(b) To measure operational efficiency and profitability of firm
(c) To compare the intra-firm and inter-firm performance and position of firm
(d) To identify earning capacity and trend of business firm

(164) Prepare "Comparative Income Statement" and "Common Size Statement" from the following:

Particulars	**31-3-2018**	**31-3-2019**
Revenue from operations	**10,00,000**	**15,00,000**
Expenses/Employee benefit expenses	**6,00,000**	**4,00,000**
Other income	**2,00,000**	**3,00,000**
Income Tax	**50%**	**50%**

Solution: (A) Comparative Statement of Profit & loss for the year ended 31st March, 2019

Particulars	Absolute figures		Change (base year 2017-18)	
	31.3.2018 (₹)	31.3.2019 (₹)	Absolute Figures(₹)	(%)
I Revenue from Operations II Add: Other Incomes	10,00,000 2,00,000	15,00,000 3,00,000	5,00,000 1,00,000	50% 50%
Total Revenue (I+II) III Less: Expenses/EBE	12,00,000 6,00,000	18,00,000 4,00,000	6,00,000 (2,00,000)	50% 33.33%
Profit before Tax Less: Tax (50%)	6,00,000 3,00,000	14,00,000 7,00,000	8,00,000 4,00,000	133.33% 133.33%
IV Profit after Tax	3,00,000	7,00,000	4,00,000	133.33%

Solution: (B) Common Size Statement of Profit & loss for the year ended 31st March, 2018 &2019

Particulars	Absolute figures of 2017-18	% with common size (i.e. Revenue from operation)	Absolute figures of 2018-19	% with common size (i.e. Revenue from operation)
I Revenue from Operations II Add: Other Incomes	10,00,000 2,00,000	100% 20%	15,00,000 3,00,000	100% 20%
Total Revenue (I+II) III Less: Expenses/EBE	12,00,000 6,00,000	120% 50%	18,00,000 4,00,000	120% 26.67%
Profit before Tax Less: Tax (50%)	6,00,000 3,00,000	60% 30%	14,00,000 7,00,000	93.33% 46.67%
IV Profit after Tax	3,00,000	30%	7,00,000	46.67%

Solution: (C) Common Size Statement of Profit & loss for the year ended 31st March, 2018

Particulars	Absolute figures of 2011-12	% with common size (i.e. Revenue from operation)

I Revenue from Operations II Add: Other Incomes	10,00,000 2,00,000	100% 20%
Total Revenue (I+II) III Less: Expenses/EBE	12,00,000 6,00,000	120% 50%
Profit before Tax Less: Tax (50%)	6,00,000 3,00,000	60% 30%
IV Profit after Tax	3,00,000	30%

Solution: (D) Common Size Statement of Profit & loss for the year ended 31st March, 2019

Particulars	Absolute figures of 2011-12	% with common size (i.e. Revenue from operation)
I Revenue from Operations II Add: Other Incomes	15,00,000 3,00,000	100% 20%
Total Revenue (I+II) III Less: Expenses/EBE	18,00,000 4,00,000	120% 26.67%
Profit before Tax Less: Tax (50%)	14,00,000 7,00,000	93.33% 46.67%
IV Profit after Tax	7,00,000	46.67%

(165) Following are the balances of X Ltd for the year 2017-18 and 2018-19:

Particulars	As on 31/03/2018	31/03/2019
Machinery Account	4,80,000	5,60,000
Provision for Depreciation Account	90,000	1,30,000

A part of machinery costing ₹90,000 (accumulated depreciation thereon ₹ 52,000 sold at 28,000.

Present the above information into the Cash Flow Statement as on 31.03.2019.

Sol.:

(A) Under Cash Flow from Operating Activity:

(a) Depreciation of ₹92,000 is non-cash & Non-Operating charge. Therefore add to the NPBTD.

(b) Loss on sale of Machinery of ₹10,000 is non-cash & non-operating charge. Therefore add to the NPBTD.

(B) Under Cash Flow from Investing Activity:

(a) Inflow of cash – Sale of machinery of ₹28,000.

(b) Outflow of cash – Purchase of machinery of ₹1,70,000.

Machinery Account

Particulars		Particulars	
Balance b/d Bank A/c * (Purchase as balancing figure)	4,80,000 1,70,000	Provision for Depreciation A/c Bank A/c * Statement of Profit & Loss A/c * Balance c/d	52,000 28,000 10,000 5,60,000
	6,50,000		6,50,000

Provision for Depreciation Account

Particulars		Particulars	
Machinery A/c Balance c/d	52,000 1,30,000	Balance b/d Dep./Statement of Profit & Loss A/c * (Depreciation made in 2018-19, as balancing figure)	90,000 92,000
	1,82,000		1,82,000

(166) Following are the balances of X Ltd for the year 2017-18 and 2018-19:

Particulars	As on 31/03/2018	31/03/2019
Machinery Account	4,80,000	5,60,000

A part of machinery costing ₹90,000 (accumulated depreciation thereon ₹ 52,000 sold at 28,000.

Depreciation made on machinery in the year 2018-19 ₹ 1,10,000.
Present the above information into the Cash Flow Statement as on 31.03.2019.
Sol.:
(A) Under Cash Flow from Operating Activity:
(a) Depreciation made on machinery in the year 2018-19 ₹1,10,000 is non-cash & non-operating charge. Therefore, add into the NPBTD.
(b) Loss on sale of machinery of ₹10,000 is non-cash & non-operating charge. Therefore, add into the NPBTD.
(B) Under Cash Flow from Investing Activity:

Machinery Account

Particulars		Particulars	
Balance b/d	4,80,000	Depreciation A/c *	1,10,000
Bank A/c * (Purchase as balancing figure)	2,80,000	Bank A/c *	28,000
		Statement of Profit & Loss A/c *	10,000
		Balance c/d	5,60,000
	6,50,000		7,08,000

(167) Following are the balances of X Ltd for the year 2017-18 and 2018-19:

Particulars	As on 31/03/2018	31/03/2019
Provision for Tax	25,000	35,000

Show the above information into the Cash Flow Statement as on 31.03.2019.

Sol.:
(A) Under Cash Flow from Operating Activity:
(a) Provided tax in the year 2017-18 (previous year) ₹25,000 paid in the year 2018-19. Therefore, it is a outflow of cash. It will be less at the last calculation of cash flow from operating activity.
(b) Provided tax in the year 2018-19 (current year) ₹ 35,000 was charged in the statement of profit & loss account in 2018-19 BUT payment will be made in 2019-20. Therefore, there was NO FLOW of cash (Non-Cash Charged) and hence it will be add to the difference of 'Reserve & Surplus' to make the NPBTD.

(168) Following are the balances of X Ltd for the year 2017-18 and 2018-19:

Particulars	As on 31/03/2018	31/03/2019
Provision for Tax	25,000	35,000

Provision for Tax made in the year 2018-19 ₹42,000.
Show the above information into the Cash Flow Statement as on 31.03.2019.
Sol.:
(In the above case, we need to prepare 'Provision for Tax Account to find the actual amount of tax paid in the year 2018-19.)

Provision for Tax Account

Particulars		Particulars	
Bank A/c (Tax paid in 2018-19, as balancing figure)	32,000	Balance b/d	25,000
		Statement of Profit & Loss A/c	42,000
Balance c/d	35,000		

	67,000		67,000

(A) Under Cash Flow from Operating Activity:

(a) Tax paid in the year 2018-19 ₹ 32,000. Therefore, it is an outflow of cash. It will be less at the last calculation of cash flow from operating activity.

(b) Provided tax in the year 2018-19 (current year) ₹42,000 was charged in the statement of profit & loss account in 2018-19 BUT payment will be made in 2019-20. Therefore, there was NO FLOW of cash (Non-Cash Charged) and hence it will be added to the difference of 'Reserve & Surplus' to make the NPBTD.

(169) Following are the balances of X Ltd for the year 2017-18 and 2018-19:

Particulars	As on 31/03/2018	31/03/2019
Proposed Dividend	18,000	25,000

Show the above information into the Cash Flow Statement as on 31.03.2019.

Sol.: (Proposed dividend of previous year (2017-18) ₹18,000 taken into account and paid in cash in the year 2018-19 and proposed dividend of current year (2018-19) ₹25,000; neither taken into account nor paid in cash in the year 2018-19. Therefore, only proposed dividend of previous year of ₹18,000 will be used as outflow of cash under financing activity and same amount i.e. ₹ 18,000 will be used to adjust with the difference figures of reserve & surplus for making NPBTD, under cash flow from operating activity)

(A) Under Operating Activity:

* To make NPBTD, ₹18,000 will be added to the difference of reserve & surplus amount.

(B) Under Financing Activity:

* Outflow of cash for ₹18,000.

(170) Following are the balances of X Ltd for the year 2017-18 and 2018-19:

Particulars	As on 31/03/2018	31/03/2019
Proposed Dividend	18,000	25,000

Interim dividend paid in the year 2018-19 ₹22,000.

Show the above information into the Cash Flow Statement as on 31.03.2019.

Sol.: (Proposed dividend of previous year (2017-18) ₹18,000 taken into account and paid in cash in the year 2018-19 and proposed dividend of current year (2018-19) ₹25,000; neither taken into account nor paid in cash in the year 2018-19. Therefore, only proposed dividend of previous year of ₹18,000 will be used as outflow of cash under financing activity and same amount i.e. ₹18,000 will be used to adjust with the difference figures of reserve & surplus for making NPBTD, under cash flow from operating activity.

Similarly, Interim dividend paid in the year 2018-19 is taken into account as well as paid in cash in the year 2018-19)

(A) Under Operating Activity:

* To make NPBTD, ₹40,000 (i.e. 18,000 + 22,000) will be added to the difference of reserve & surplus amount.

(B) Under Financing Activity:

* Outflow of cash for ₹40,000 (i.e. 18,000 + 22,000).

(171) From the following Balance Sheet of Golden Eye Ltd and additional information as on 31st March, 2019, prepare Cash Flow Statement:

Particulars	Note No.	31st March 2019	31st March 2018
I. EQUITY & LIABILITIES			
1. Shareholders' Funds			
a. Share Capital		4,50,000	3,50,000
b. Reserve & Surplus	1	1,25,000	50,000
2. Non-Current Liabilities			

a. Long-Term Borrowings	2	2,25,000	1,75,000
3. Current Liabilities			
a. Short-Term Borrowings	3	75,000	37,500
b. Short-Term Provision	4	1,00,000	62,500
Total		9,75,000	6,75,000
II. ASSETS			
1. Non-Current Assets			
a. Fixed Assets			
i. Tangible	5	7,32,000	4,52,000
ii. Intangible (Goodwill)		50,000	75,000
b. Non-Current Investments		75,000	50,000
2. Current Assets			
a. Trade Receivables		20,000	35,000
b. Inventories (stock-in-trade)		40,000	20,000
c. Trade Investment		21,000	16,000
d. Cash & Cash Equivalents		36,500	26,500
Total		9,75,000	6,75,000

Notes to Accounts:

Note No.	Particulars	31.03.2019	31.03.2018
1	Reserve & Surplus: Statement of Profit & Loss	1,25,000	50,000
2	Long-Term Borrowings 12% Debentures	 2,25,000	 1,75,000
3	**Short-Term Borrowings** Bank Overdraft Creditors	 50,000 25,000	 7,500 30,000
4	**Short-Term Provision** Provision for Tax	 1,00,000	 62,500
5	**Tangible Assets** Machinery Accumulated Depreciation	 8,37,500 1,05,000 7,32,000	 5,22,500 70,000 4,52,500

Additional Information:

1. 12% Debentures were issued on 30th June, 2019.
2. Dividend paid in the year 2018-19 ₹ 25,000.
3. A part of machinery costing ₹ 40,000 (accumulated depreciation ₹ 20,000) was sold at a loss of ₹ 5,000.

CASH FLOW STATEMENT

Particulars	Note No.		
(A) Cash Flow from Operating Activities:			**2,38,000**
Net profit before tax & dividend (NPBTD)		2,00,000	
Add: Non-Cash/Non-Operating items			
Depreciation 55,000			
Loss on sale of asset 5,000			
Amortization of goodwill 25,000			
Interest on 12% Debentures 25,500		1,10,500	
Cash flow before changes in working capital		3,10,500	
Changes in working capital:			

Decrease in Trade Receivable	15,000			
Decrease in Creditors	(5,000)			
Increase in Inventories	(20,000)		(10,000)	
			3,00,500	
Less: Tax paid			(62,500)	
(B) Cash Flow from Investing Activities:				**(3,65,000)**
Sale of Machinery			15,000	
Purchase of Machinery			(3,55,000)	
Investment made			(25,000)	
(C) Cash Flow from Financing Activities:				**1,42,000**
Issue of share capital			1,00,000	
Dividend paid			(25,000)	
12% Debentures issued			50,000	
Interest paid (5,250 + 20,250)			(25,500)	
Bank overdraft			42,500	
Cash flow in the business in year 2018-19				15,000
Add: Opening Cash & Cash Equivalents (26,500 + 16,000)				42,500
Closing Cash & Cash Equivalents (36,500, + 21,000)				57,500

Machinery Account

Particulars		Particulars	
Balance b/d	5,22,500	Provision for Depreciation A/c	20,000
Bank A/c *	3,55,000	Bank A/c *	15,000
(Purchase as balancing figure)		Statement of Profit & Loss A/c *	5,000
		Balance c/d	8,37,500
	8,77,500		8,77,500

Provision for Depreciation Account

Particulars		Particulars	
Machinery A/c	20,000	Balance b/d	70,000
Balance c/d	1,05,000	Dep./Statement of Profit & Loss A/c * (Depreciation made in 2018-19, as balancing figure)	55,000
	1,25,000		1,82,000

NPBTD **2,00,000**

Reserve & Surplus 75,000
Provision for Tax 1,00,000
Dividend 25,000

(172) From the following Balance Sheet of Golden Eye Ltd and additional information as on 31st March, 2019, prepare Cash Flow Statement:

Particulars	Note No.	31st March 2019	31st March 2018
I. EQUITY & LIABILITIES			
1. Shareholders' Funds			
a. Share Capital		4,50,000	3,00,000
b. Reserve & Surplus	1	1,25,000	(25,000)
2. Non-Current Liabilities			
Long-Term Borrowings	2	2,25,000	1,75,000
3. Current Liabilities			

a. Short-Term Borrowings b. Short-Term Provision	3 4	75,000 1,00,000	37,500 62,500
Total		9,75,000	5,50,000
II. ASSETS 1. Non-Current Assets a. Fixed Assets i. Tangible ii. Intangible (Goodwill) b. Non-Current Investments 2. Current Assets a. Trade Receivables b. Inventories (stock-in-trade) c. Marketable Securities d. Cash & Cash Equivalents	 5	 7,32,500 50,000 75,000 20,000 40,000 21,000 36,500	 3,27,500 75,000 50,000 35,000 20,000 16,000 26,500
Total		9,75,000	5,50,000

Notes to Accounts:

Note No.	Particulars	31.03.2019	31.03.2018
1	Reserve & Surplus: Statement of Profit & Loss	1,25,000	(25,000)
2	Long-Term Borrowings: 12% Debentures	2,25,000	1,75,000
3	**Short-Term Borrowings** Bank Overdraft Creditors	 50,000 25,000	 7,500 30,000
4	**Short-Term Provision:** Provision for Tax	1,00,000	62,500
5	**Tangible Assets:** Machinery	7,32,500	3,27,500

Additional Information:

1. Dividend paid in the year 2018-19 ₹ 25,000.
2. A part of machinery costing ₹ 40,000 (accumulated depreciation ₹ 20,000) was sold at a loss of ₹ 5,000.
3. Depreciation made on Machinery in the year 2018-19 ₹ 35,000.

Sol.:

CASH FLOW STATEMENT

Particulars		Note No.		
(D) Cash Flow from Operating Activities:				**2,88,500**
Net profit before tax & dividend (NPBTD)			2,75,000	
Add: Non-Cash/Non-Operating items				
Depreciation	35,000			
Loss on sale of asset	5,000			
Amortization of goodwill	25,000			
Interest on 12% Debentures	21,000		86,000	
Cash flow before changes in working capital			3,61,000	
Changes in working capital:				
Decrease in Trade Receivable	15,000			
Decrease in Creditors	(5,000)			
Increase in Inventories	(20,000)		(10,000)	
			3,51,000	
Less: Tax paid			(62,500)	

(E) Cash Flow from Investing Activities:			**(4,70,000)**
Sale of Machinery		15,000	
Purchase of Machinery		(4,60,000)	
Investment made		(25,000)	
(F) Cash Flow from Financing Activities:			**1,96,500**
Issue of share capital		1,50,000	
Dividend paid		(25,000)	
12% Debentures issued		50,000	
Interest paid		(21,000)	
Bank overdraft		42,500	
Cash flow in the business in year 2018-19			15,000
Add: Opening Cash & Cash Equivalents (26,500 + 16,000)			42,500
Closing Cash & Cash Equivalents (36,500, + 21,000)			57,500

NPBTD		**2,75,000**
Reserve & Surplus	1,50,000	
Provision for Tax	1,00,000	
Dividend	25,000	

Machinery Account

Particulars		Particulars	
Balance b/d	3,27,500	Depreciation A/c	35,000
Bank A/c *	4,60,000	Bank A/c *	15,000
(Purchase as balancing figure)		Statement of Profit & Loss A/c *	5,000
		Balance c/d	7,32,500
	7,87,500		7,87,500

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Objective Based Questions (Ratio Analysis)

(01) The Current Ratio of a company is 3:1. State with reason whether the payment of Rs 20,000 to the creditors will increase, decrease or not change the ratio. (AI 2009 C)

Ans.: The Current Ratio will increase due to payment to the creditors, current assets and current liabilities will be reduced by the same amount.

(02) Quick Ratio of a company is 3:1. State with reason whether the ratio will improve, decline or not change on payment of dividend by the company. (2008 D)

Ans.: Quick Ratio will improve as both liquid assets and current liabilities will decrease by the same amount.

(03) The Stock Turnover Ratio of a company is 3 times. State, giving reason, whether the ratio improves, decline or does not change because of increase in the value of closing stock by Rs 5,000. (AI 2008)

Ans.: Stock Turnover Ratio will decline because the amount of average stock will increase but cost of goods sold will remain same.

(04) The GP Ratio of a company is 50%. State with reason whether the decrease in rent received by Rs 15,000 will increase, decrease or not change the ratio. (D 2009C)

Ans.: Decrease in rent received will not change the gross profit ratio because rent received neither effects the gross profit or the net sales.

(05) The Quick ratio of a company is 1:1. State giving reasons, (for any four) which of the following would improve, reduce or not change the ratio? (AI 2011 C)

(a) Purchase of machinery for cash
(b) Purchase of goods on credit
(c) Sale of furniture at cost
(d) Sale of goods at a profit
(e) Redemption of debentures at a premium

(a) Decrease. As Quick assets decreased but current liabilities remain unchanged.
(b) Decrease. As current liabilities increased but quick assets remain unchanged.
(c) Improve. As Quick assets increased but current liabilities remain unchanged.
(d) Improve. As Quick assets increased but current liabilities remain unchanged.
(e) Decrease. As Quick assets decreased but current liabilities remain unchanged.

(06) The Debt-Equity ratio of a company is 0.8:1. State whether the long term loan obtained by the company will improve, decline or not change the ratio. (2008)

Ans.: Debt-Equity Ratio will improve as the long-term debts will increase but total shareholders' funds remain unchanged.

(07) What will be the operating profit ratio, if operating ratio is 83.64%? (2009)

Ans.: Operating Profit Ratio = 100 – 83.64 = **16.36 %**

3-4 Marks Question (Ratio Analysis)

(08) OM Ltd has Current Ratio is 3.5:1 and Quick Ratio is 2:1. If the excess of Current Assets over the Quick Assets as represented by Stock is ₹ 1,50,000.
Calculate Current Assets and Current Liabilities. (2012)

Ans.:

Let's Current Liabilities be X, therefore, Current Assets = 3.5X and Quick Assets = 2X
Stock = Current Assets – Quick Assets;

1,50,000 = 3.5X – 2X; 1.5X = 1,50,000; X = 1,00,000

(09) (a) A business has a Current ratio of 3:1 and a Quick ratio of 1.2:1. If the Working capital is ₹ 1,80,000, calculate the total current liabilities value of stock. (2 marks 2010)

Ans.:

Let's Current Liabilities be X, therefore, Current Assets = 3X and Quick Assets = 1.2X

Working Capital = Current Assets – Current Liabilities
1,80,000 = 3X – X; 2X = 1,80,000; X = 90,000 i.e. current liabilities
Current Assets = 2,70,000; Quick Assets = 1,08,000; Stock = Current Asset – Quick Assets
Stock = 2,70,000 – 1,08,000 = 1,62,000.

(b) From the given information calculate the Stock turnover ratio: Sales ₹ 2,00,000; GP 25% on cost; Stock at the beginning is 1/3 of the stock at the end which was 30% of Sales. (2 marks 2010)

Ans.:

Cost = X; Gross Profit = 25% on X; GP = X/4

Sales = Cost + Gross Profit; 2,00,000 = X + X/4; 2,00,000 = 5X/4; 5X = 8,00,000; X(Cost) =1,60,000.

Stock at the end = 30% on Sales; = 60,000; Opening Stock = 1/3 of 60,000 = 20,000
Average Stock = (60,000 + 20,000) / 2 = 40,000

(10) Assuming that the debt-Equity ratio is 2. State giving reasons whether this ratio would increase, decrease or remain unchanged in the following cases (Any four): (2010)

(a) Purchase of fixed asset on a credit of 2 months.
(b) Purchase of fixed asset on a long-term deferred payment basis.
(c) Issue of new shares for cash.
(d) Issue of bonus shares.
(e) Sale of fixed asset at a loss of ₹ 3,000.

Solution:

(a) No change. Neither equity nor the debts are affected.
(b) Increase. As the debts are increasing.
(c) Decrease. As Shareholders' Funds will increase.
(d) No change. Neither the total long-term debt nor the total shareholders' funds are affected.
(e) No change. Shareholders' funds are decreased by loss but LT debts remain unchanged.

(11) (a) Net profit after interest but before Tax ₹ 1,40,000. 15% long term debts ₹ 4,00,000, Share holders funds ₹2,40,000; Tax Rate 50%. Calculate Return on Capital Employed (Investment) (2009)

ROI = Net Profits before Interest, Tax & Dividend / Capital Employed X 100
NPBI&T = 1,40,000 + 60,000 = 2,00,000

Capital Employed = Shareholders' funds + Lon-term Debts + Reserve & Surplus

= 2,40,000 + 4,00,000 + (1,40,000 – 70,000 Tax) = 6,40,000 + 70,000 = 7,10,000.

(b) Opening Stock ₹60,000; Closing Stock ₹ 1,00,000; Stock turn over ratio 8 times; Selling price 25% above cost. Calculate the Gross Profit Ratio. (2009) {2+2=4 marks}

Gross Profit Ratio = Gross Profit / Net Sales X 100; Gross Profit = Sales – Cost of goods sold
Stock Turnover Ratio = Cost of goods sold / Average Stock

Average Stock = Opening stock + Closing stock / 2; = 60,000 + 1,00,000 / 2 = 80,000
8 = Cost of goods sold / 80,000; Cost of goods sold = 6,40,000

Selling price 25% above cost, therefore Gross profit = 25% of 6,40,000 = 1,60,000

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Objective Based Questions (Cash Flow Statement)

(01) H What is meant by a Cash Flow Statement? (D 2005, AI 2005, 2006C)

Ans.: Cash flow statement shows inflows (receipts) and outflows (payments) of cash and cash equivalents of an enterprise during a specified period of time.

(02) State any two objectives of preparing a cash flow statement. (2007D)

Ans.: (a) it provides information about cash flow from operating, investing and financing activities during a specific period.

(b) [illegible]

(03) X Ltd. is a Mutual Fund Company. The company invested ₹50 lakhs in the shares of Y Ltd. State with reason whether the dividend received on the shares of Y Ltd. will be cash flow from operating activities or from investing activities. (2007 F)

Ans.: A Mutual fund company is a financial enterprise and investing of funds into profitable securities is an operation activity, therefore X Ltd investment of ₹ 50 lakhs in the shares of Y Ltd is an Operating activity for preparing the cash flow statement.

(04) Fine Garments Ltd. is engaged in the export of readymade garments. The company purchased a machinery of ₹10,00,000 for the use in packaging of such garments. State giving reason whether the cash flow due to the purchase of machinery will be cash flow from operating activities, investing activities or financial activities? (2007D)

Ans.: Fine Garments Ltd is a manufacturing company therefore to produce the garments; purchase of machinery is an investment activity for preparing the cash flow statement.

(05) State whether depreciation charged by a company will result in inflow, outflow or not flow of cash. (2008)

Ans.: Depreciation charged by a company is non-cash charge therefore, no flow of cash.

(06) Interest paid by an investment company will come under which activity while preparing cash flow statement? (2008)

Ans.: Interest paid by an investment company will come under Operating activity while preparing cash flow statement.

(07) State why non-cash transactions are ignored while preparing a cash flow statement? (2009)

Ans.: No any flow of cash from non-cash transaction, therefore, it must be ignored while preparing a cash flow statement.

(08) When Dividend is received considered as operating activity? (2009)

Ans.: Dividend received considered as Operating activity when it has been received by Financial company.

(09) Under which type of activity will you classify 'Proceeds from sale of Buildings' while preparing cash flow statement? (2010)

Ans.: Proceeds from sale of Buildings will be classified under Investing activity while preparing cash flow statement.

(10) Redemption of debentures would results in inflow, outflow or no flow of cash? Give your answerwith reason. (2010)

Ans.: Redemption of debentures would results in Outflow of cash due to repayment of debentures in cash to its holders.

(11) Why is Cash Flow Statement prepared? (D2010C) * *Follow the answer for objectives of CFS.*

(12) Give the meaning of Cash Flow. (2011) * *Follow the answer as stated above.*

(13) State the reason whether deposit of cash into bank will result in inflow, outflow or no flow of cash.(2011)

Ans.: Deposit of cash into bank will no flow of cash because it's part of 'cash & cash equivalents'.

(14) Define the Cash Equivalents & Cash as per Accounting Standard – 3. (AI 2008C, AI 2011 C)

Ans.: As per Accounting Standard – 3, Cash Equivalents & Cash shall be classified as:

(a) Balance with banks (b) Cheques, drafts on hand (c) Cash on hand

(15) Distinct between Operating and Investing / Financing Activities. (F 2010, AI 2010 C)

Operating Activity is the principal revenue producing activity of the enterprise, Financing Activity is that activity which changes the size & composition of owner's capital & borrowing of the enterprise whereas Investing Activity include the acquisition and disposal of long-term assets.

(16) Under which type of activity will you classify 'sale of shares of another company' while preparing the cash flow statement? (F 2010)

Ans.: 'Sale of shares of another company' will be classified under Investing Activity while preparing the cash flow statement.

(17) State whether cash withdrawn from bank for office use will use result in inflow, outflow or no flowof cash. (F 2011)

Ans.: Cash withdrawn from bank for office use result in no flow of cash.

(18) State the purpose of preparing a Cash Flow Statement. (2012). *As the ans. of the question of 02.*

(19) Bank overdraft will be classified under which activities, while preparing cash flow statement?

Ans.: Financing Activities

(20) While preparing a cash flow statement what type of activity is, 'Payment of cash to acquiredebentures by an Investment Company'? (2012)

Ans.: Payment of cash to acquire debentures by an Investing Company will be classified under Operating Activity while preparing cash flow statements.