ACCOUNTANCY

कक्षा/Class: XII
2024-25

विद्यार्थी अध्ययन सामग्री
Student Support Material

तत् त्वं पूषन् अपावृणु
केन्द्रीय विद्यालय संगठन

केन्द्रीय विद्यालय संगठन
Kendriya Vidyalaya Sangathan

संदेश

विद्यालयी शिक्षा में शैक्षिक उत्कृष्टता प्राप्त करना केन्द्रीय विद्यालय संगठन की सर्वोच्च वरीयता है। हमारे विद्यार्थी, शिक्षक एवं शैक्षिक नेतृत्व कर्ता निरंतर उन्नति हेतु प्रयासरत रहते हैं। राष्ट्रीय शिक्षा नीति 2020 के संदर्भ में योग्यता आधारित अधिगम एवं मूल्यांकन संबन्धित उद्देश्यों को प्राप्त करना तथा सीबीएसई के दिशा निर्देशों का पालन, वर्तमान में इस प्रयास को और भी चुनौतीपूर्ण बनाता है। केन्द्रीय विद्यालय संगठन के पांचों **आंचलिक शिक्षा एवं प्रशिक्षण संस्थान** द्वारा संकलित यह 'विद्यार्थी सहायक सामाग्री' इसी दिशा में एक आवश्यक कदम है । यह सहायक सामग्री कक्षा 9 से 12 के विद्यार्थियों के लिए सभी महत्वपूर्ण विषयों पर तैयार की गयी है । केन्द्रीय विद्यालय संगठन की 'विद्यार्थी सहायक सामग्री' अपनी गुणवत्ता एवं परीक्षा संबंधी सामाग्री-संकलन की विशेषज्ञता के लिए जानी जाती है और अन्य शिक्षण संस्थान भी इसका उपयोग परीक्षा संबंधी पठन सामग्री की तरह करते रहे हैं । शुभ-आशा एवं विश्वास है कि यह सहायक सामग्री विद्यार्थियों की सहयोगी बनकर सतत मार्गदर्शन करते हुए उन्हें सफलता के लक्ष्य तक पहुंचाएगी ।

शुभाकांक्षा सहित ।

निधि पांडे
आयुक्त, केन्द्रीय विद्यालय संगठन

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INDEX

Accountancy (Code No. 055)

Class-XII (2024-25)

Theory: 80 Marks **3 Hours**
Project: 20 Marks

Units			**Periods**	**Marks**
Part A	**Accounting for Partnership Firms and Companies**			
	Unit 1. Accounting for Partnership Firms		105	36
	Unit 2. Accounting for Companies		45	24
			150	**60**
Part B	**Financial Statement Analysis**			
	Unit 3. Analysis of Financial Statements		30	12
	Unit 4. Cash Flow Statement		20	8
			50	**20**
Part C	**Project Work**		20	20
	Project work will include:			
	Project File	12 Marks		
	Viva Voce	8 Marks		
OR				
Part B	**Computerized Accounting**			
	Unit 4. Computerized Accounting		50	20
Part C	**Practical Work**		20	20
	Practical work will include:			
	Practical File 12 Marks			
	Viva Voce 8 Marks			

Part A: Accounting for Partnership Firms and Companies

Unit 1: Accounting for Partnership Firms

Units/Topics	Learning Outcomes
• Partnership: features, Partnership Deed. • Provisions of the Indian Partnership Act 1932 in the absence of partnership deed. • Fixed v/s fluctuating capital accounts. Preparation of Profit and Loss Appropriation account- division of profit among partners, guarantee of profits. • Past adjustments (relating to interest on capital, interest on drawing, salary and profit-sharing ratio). • Goodwill: meaning, nature, factors affecting and methods of valuation - average profit, super profit and capitalization. ***Note:*** *Interest on partner's loan is to be treated as a charge against profits.* Goodwill: meaning, factors affecting, need for valuation, methods for calculation (average profits, super profits and capitalization), adjusted through partners capital/ current account. **Accounting for Partnership firms - Reconstitution and Dissolution.** • **Change in the Profit-Sharing**	**After going through this Unit, the students will be able to:** • state the meaning of partnership, partnership firm and partnership deed. • describe the characteristic features of partnership and the contents of partnership deed. • discuss the significance of provision of Partnership Act in the absence of partnership deed. • differentiate between fixed and fluctuating capital, outline the process and develop the understanding and skill of preparation of Profit and Loss Appropriation Account. • develop the understanding and skill of preparation profit and loss appropriation account involving guarantee of profits. • develop the understanding and skill of making past adjustments. • state the meaning, nature and factors affecting goodwill • develop the understanding and skill of valuation of goodwill using different methods. • state the meaning of sacrificing

Ratio among the existing partners - sacrificing ratio, gaining ratio, accounting for revaluation of assets and reassessment of liabilities and treatment of reserves, accumulated profits and losses. Preparation of revaluation account and balance sheet. • **Admission of a partner** - effect of admission of a partner on change in the profit-sharing ratio, treatment of goodwill (as per AS 26), treatment for revaluation of assets and re-assessment of liabilities, treatment of reserves, accumulated profits and losses, adjustment of capital accounts and preparation of capital, current account and balance sheet. • **Retirement and death of a partner:** effect of retirement / death of a partner on change in profit sharing ratio, treatment of goodwill (as per AS 26), treatment for revaluation of assets and reassessment of liabilities, adjustment of accumulated profits, losses and reserves, adjustment of capital accounts and preparation of capital, current account and balance sheet. Preparation of loan account of the retiring partner. • Calculation of deceased partner's share of profit till the date of death. Preparation of deceased	ratio, gaining ratio and the change in profit sharing ratio among existing partners. • develop the understanding of accounting treatment of revaluation assets and reassessment of liabilities and treatment of reserves and accumulated profits by preparing revaluation account and balance sheet. • explain the effect of change in profit sharing ratio on admission of a new partner. • develop the understanding and skill of treatment of goodwill as per AS-26, treatment of revaluation of assets and re-assessment of liabilities, treatment of reserves and accumulated profits, adjustment of capital accounts and preparation of capital, current account and balance sheet of the new firm. • explain the effect of retirement / death of a partner on change in profit sharing ratio. • develop the understanding of accounting treatment of goodwill, revaluation of assets and re-assessment of liabilities and adjustment of accumulated profits, losses and reserves on retirement / death of a partner and capital adjustment.

partner's capital account and his executor's account. - **Dissolution of a partnership firm:** meaning of dissolution of partnership and partnership firm, types of dissolution of a firm. Settlement of accounts - preparation of realization account, and other related accounts: capital accounts of partners and cash/bank a/c (excluding piecemeal distribution, sale to a company and insolvency of partner(s)). **Note:** (i) If the realized value of tangible assets is not given it should be considered as realized at book value itself. (ii) If the realized value of intangible assets is not given it should be considered as nil (zero value). - (ii) In case, the realization expenses are borne by a partner, clear indication should be given regarding the payment thereof.	- develop the skill of calculation of deceased partner's share till the time of his death and prepare deceased partner's and executor's account. - discuss the preparation of the capital accounts of the remaining partners and the balance sheet of the firm after retirement / death of a partner. - understand the situations under which a partnership firm can be dissolved. - develop the understanding of preparation of realisation account and other related accounts.

Unit-2 Accounting for Companies:

Units/Topics	Learning Outcomes
Accounting for Share Capital • Features and types of companies. • Share and share capital: nature and types.	After going through this Unit, the students will be able to: • state the meaning of share and share capital and differentiate between equity shares and preference shares and different types of share capital.
• Accounting for share capital: issue and allotment of equity and preferences shares. Public subscription of shares - over subscription and under subscription of shares; issue at par and at premium, calls in advance and arrears (excluding interest), issue of shares for consideration other than cash. • Concept of Private Placement and Employee Stock Option Plan (ESOP), Sweat Equity. • Accounting treatment of forfeiture and re- issue of shares. • Disclosure of share capital in the Balance Sheet of a company. Accounting for Debentures • Debentures: Meaning, types, Issue of debentures at par, at a premium and at a discount. Issue of debentures for consideration other than cash; Issue of debentures with terms of redemption; debentures as	• understand the meaning of private placement of shares and Employee Stock Option Plan. • explain the accounting treatment of share capital transactions regarding issue of shares. • develop the understanding of accounting treatment of forfeiture and re-issue of forfeited shares. • describe the presentation of share capital in the balance sheet of the company as per schedule III part I of the Companies Act 2013. • explain the accounting treatment of different categories of transactions related to issue of debentures. • develop the understanding and skill of writing of discount / loss on issue of debentures. • understand the concept of collateral security and its presentation in balance sheet. • develop the skill of calculating interest on debentures and its accounting treatment.

collateral security-concept, interest on debentures (concept of TDS is excluded). Writing off discount / loss on issue of debentures. Note: Discount or loss on issue of debentures to be written off in the year debentures are allotted from Security Premium Reserve (if it exists) and then from Statement of Profit and Loss as Financial Cost (AS 16)	• state the meaning of redemption of debentures.

Part B: Financial Statement Analysis

Unit 3: Analysis of Financial Statements:

Units/Topics	Learning Outcomes
Financial statements of a Company: Meaning, Nature, Uses and importance of financial Statement. Statement of Profit and Loss and Balance Sheet in	After going through this Unit, the students will be able to: • develop the understanding of major headings and sub-headings (as per Schedule III to the
prescribed form with major headings and sub headings (as per Schedule III to the Companies Act, 2013) Note: Exceptional items, extraordinary items and profit (loss) from discontinued operations are excluded. • Financial Statement Analysis: Meaning, Significance Objectives, importance and limitations. • Tools for Financial Statement Analysis: Comparative statements, common size statements, Ratio analysis, Cash flow analysis. • Accounting Ratios: Meaning, Objectives, Advantages, classification and computation. • Liquidity Ratios: Current ratio and Quick ratio. • Solvency Ratios: Debt to Equity Ratio, Total Asset to Debt Ratio, Proprietary Ratio and Interest Coverage Ratio. Debt to Capital Employed Ratio. • Activity Ratios: Inventory Turnover Ratio, Trade Receivables Turnover Ratio, Trade Payables Turnover Ratio, Fixed Asset Turnover Ratio, Net Asset Turnover Ratio and Working Capital Turnover Ratio. • Profitability Ratios: Gross Profit Ratio, Operating Ratio, Operating Profit Ratio, Net Profit Ratio and Return on Investment.	Companies Act, 2013) of balance sheet as per the prescribed norms / formats. • state the meaning, objectives and limitations of financial statement analysis. • discuss the meaning of different tools of 'financial statements analysis'. • develop the skill of preparation of preparation of comparative and common size statement, understand their uses and difference between the two. • state the meaning, objectives and significance of different types of ratios. • develop the understanding of computation of current ratio and quick ratio. • develop the skill of computation of debt equity ratio, total asset to debt ratio, proprietary ratio and interest coverage ratio. • develop the skill of computation of inventory turnover ratio, trade receivables and trade payables ratio and working capital turnover ratio and others. • develop the skill of computation of gross profit ratio, operating ratio, operating profit ratio, net profit ratio and return on investment.

Note: Net Profit Ratio is to be calculated on the basis of profit before and after tax.

Unit 4: Cash Flow Statement:

Units/Topics	Learning Outcomes
• Meaning, objectives Benefits, Cash and Cash Equivalents, Classification of Activities and preparation (as per AS 3 (Revised) (Indirect Method only) Note: • Adjustments relating to depreciation and amortization, profit or loss on sale of assets including investments, dividend (both final and interim) and tax. • Bank overdraft and cash credit to be treated as short term borrowings. • Current Investments to be taken as Marketable securities unless otherwise specified.	After going through this Unit, the students will be able to: • state the meaning and objectives of cash flow statement. • develop the understanding of preparation of Cash Flow Statement using indirect method as per AS 3 with given adjustments.

Note: Previous years' Proposed Dividend to be given effect, as prescribed in AS-4, Events occurring after the Balance Sheet date. Current years' Proposed Dividend will be accounted for in the next year after it is declared by the shareholders.

Project Work

One specific project based on financial statement analysis of a company covering any two aspects from the following:

1. Comparative and common size financial statements
2. Accounting Ratios
3. Segment Reports
4. Cash Flow Statements

Part B: Computerised Accounting

Unit 5: Computerised Accounting

Overview of Computerised Accounting System

- Introduction: Application in Accounting.
- Features of Computerised Accounting System.
- Structure of CAS.
- Software Packages: Generic; Specific; Tailored.

Accounting Application of Electronic Spreadsheet.

- Concept of electronic spreadsheet.
- Features offered by electronic spreadsheet.
- Application in generating accounting information - bank reconciliation statement; asset accounting; loan repayment of loan schedule, ratio analysis
- Data representation- graphs, charts and diagrams.

Using Computerized Accounting System.

- Steps in installation of CAS, codification and Hierarchy of account heads, creation of accounts.
- Data: Entry, validation and verification.
- Adjusting entries, preparation of balance sheet, profit and loss account with closing entries and opening entries.
- Need and security features of the system.

Part C: Practical Work

CBSE Suggested Question Paper Design

Accountancy (Code No. 055) Class XII (2024-25)

Theory: 80 Marks
3 hrs.

Project: 20 Marks

S NO	**Typology of Questions**	**Marks**	**Percentage**
1	**Remembering and Understanding**: Exhibit memory of previously learned material by recalling facts, terms, basic concepts, and answers. Demonstrate understanding of facts and ideas by organizing, comparing, translating, interpreting, giving descriptions, and stating main ideas	44	55%
3	**Applying**: Solve problems to new situations by applying acquired knowledge, facts, techniques and rules in a different way.	19	23.75%
4	**Analysing, Evaluating and Creating:** Examine and break information into parts by identifying motives or causes. Make inferences and find evidence to support generalizations. Present and defend opinions by making judgments about information, validity of ideas, or quality of work based on a set of criteria. Compile information together in a different way by combining elements in a new pattern or proposing alternative solutions.	17	21.25%
	TOTAL	**80**	**100%**

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Unit 1: Accounting for Partnership Firms
Basic Concepts/ Fundamentals – including goodwill

Learning objectives: -

Students can able to understand after reading this chapter: -

1. State the meaning of partnership, partnership firm and partnership deed,
2. Describe the characteristic features of partnership and the contents of partnership deed
3. Explain the significance of provision of partnership Act in the absence of partnership deed
4. Differentiate between fixed and fluctuating capital, outline the process develop the understanding of preparation of profit and loss appropriation account
5. Develop the understanding of making past adjustments.
6. State the meaning, nature and factors affecting goodwill
7. Develop the understanding of valuation of goodwill using different method of valuation of goodwill
8. Describe the meaning of sacrificing ratio, gaining ratio and the change in profit sharing ratio among existing partners.

Meaning:

● Partnership is an association between two or more persons who agree to do business and share its profits and losses.

● Partnership is a business relationship among two or more persons to share profits and losses of the business, carried on by all or any of them acting for all.

Definition:

● Partnership is defined by Indian Partnership Act, 1932, Section 4 as follows: "Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all."

Characteristics of Partnership: -

i. Two or more persons: To form a partnership, there must be at least 2 partners who are competent to contract and who are not minor, persons of unsound mind and persons disqualified by any law. The maximum number of the partners in the firm cannot exceed 50 vide Rule 10 of the Companies Rules, 2014 as prescribed by the Central Government

_**ii. Agreement:** It is a legal document signed by all the partners. A written agreement containing the terms and conditions of partnership and because of which the partnership comes into existence is known as Partnership Deed.

iii. Lawful Business: A partnership is formed to do a lawful business which includes trade, vocation and profession. Any type of charitable institution running as a not-for-profit organization will not be considered as a business. iv. Profit-Sharing:

A partnership agreement specifies how the profits and losses of the firm will be shared by the partners.

v. Business can be carried on by all or any of the partners acting for all: Since, the partners are the agents as well as principals of the firm; such business of the partnership firm can be carried on by all or any of the partners acting for all.

Partnership Deed: A written document containing the terms and conditions of partnership and because of which the partnership comes into existence is known as Partnership Deed. It is a legal document signed by all the partners. Which contain the following.

Accounting Rules in the Absence of Partnership Deed

1) Sharing of Profits/Losses: Profits/Losses are shared equally by the partners.

2) Interest on Capital: No such interest on capital is allowed to partners.

3) Interest on Drawings: No such interest on drawings is charged from partners.

4) Interest on Advance/Loan by a Partner: Interest shall be paid at the rate of 6%p.a.

5) Remuneration to Partners: No partner shall be paid such remuneration as salary, commission, etc. if the partnership deed is silent on such matter.

Special Aspects of Partnership Accounts:

1) Partners' Capital Accounts:
2) Remuneration to the partners (Salary or commission)
3) Interest on partners' capital
4) Interest on partners Drawings
5) Adjustments for incorrect Appropriations no9f profits in the past
6) Guarantee of profit.

1) **Partners' Capital Accounts:** In a partnership firm, separate Capital Accounts are maintained for each partner as each of the partners is the owner and has separate transactions with the firm. These Partners' Capital Accounts can be maintained by following any of the 2 methods:

1) **Fixed Capital Account: -:** Under this method, the capital amount invested by each of the partner in the firm remains fixed or unaltered, unless a partner introduces additional capital or withdraws out of his or her capital. Such fixed capital is recorded in the Capital Account and for recording all other transactions like drawings, interest on capital, interest on drawings, salary, commission, share of profit/losses, etc. will be recorded in Current Accounts

2) **Fluctuating Capital Accounts Method:** - Under this method, only one account is maintained which is the Capital Account. All the transactions related to the addition or withdrawal of

capital, salary, commission, interest on capital, interest on drawings, share of profits or losses, etc. are recorded in this Capital Account only.

Differences between Fixed Capital Account and Fluctuating Capital Account

Basis	Fixed Capital Account	Fluctuating Capital Account
Meaning	The Capital Account, whose opening and closing balance remain unchanged is called Fixed Capital A/c.	The Capital Account whose balance goes on changing is known as fluctuating Capital Account.
Adjustment	No adjustment regarding salary, interest and commission is made.	Adjustments are made.
Capital balance	The balance of Capital A/c will always remain positive. It will never be negative.	The balance of capital may be negative.
Change in the balance	The balance of Fixed Capital Account remains fixed.	The balance of fluctuating Capital Account changes from period to period.
Preparation of current a/c	In case of fixed capital account partners' Current Accounts are also prepared.	Partners' current account need not be prepared.
Preparation in balance sheet	Both capital and current accounts are shown in the balance sheet.	Only Capital Accounts are shown in the balance sheet.

Interest or capital to be allowed to Ravi will be calculated as follows:

On 40,000 for full year = 40,000 x 6/100 = 2,400

On 5,000 for 5 months = 5,000 x 6/1 00 x 5/12 = 125

OnRs. 5,000 for 1 ½ months = 5,000 x 6/100 x 1.5/12 = 37.50

Total interest allowed =2,562.50

Illustration 2

(Interest on capital). A and B started business on 1st Jan. 2014 with capital of 60,000 and 40,000 respectively. During the year A introduced 10,000 as additional capital on 1.7.2014. They withdrew 500 p.m. for household expenses in lien of profits, Interest on capital is to be allowed @10% p.a. Calculate the Interest in capital payable to A and B for the year ending 31st December 2014.

Solution.

Interest on A’s Capital=60,000×10/100 = 6,000

For half year = 10,000×10/100×6/12 = 500

= 6,500

Interest on B’s Capital =40, 00×10/100×1 = 4,000

Total = 17,000

Calculation of Interest on Drawing

Interest on drawing is not charged, unless the partnership deed specifically mentions that interest on amount drawn by the partners is to be charged. The rate of interest should also be specified. In the absence of any provisions as to the interest on drawing, no interest on drawing will be charged.

Interest on drawing is a gain to the firm, but for partner it is a loss.

(i) Interest will be charged for six months, if date of withdrawals is not specified.

(ii) Interest will be charged on the basis of product method, if different amounts are withdrawn on different dates.

(iii) Interest will be charged for 6.5 months, if equal amounts are withdrawn on 1st day of every month throughout the year.

S.N.	Basis	Drawing against the capital	Drawing against the profit
1	Meaning	The Drawing is made out of capital. It may be known as part of capital.	The Drawing is made out of profit. It may be known as the part of prospective profit.
2	Calculation of interest	This Drawing is taken into consideration for the calculation of interest on capital.	Drawing is not considered for the calculation of interest on capital.
3	Accounting treatment	This Drawing is debited to Capital A/c.	The Drawing is debited to Drawing A/c.
4	Effect on capital	It reduces capital.	This Drawing do not reduce capital.

Methods of calculating interest on drawings

1) **When unequal amounts are withdrawn at different dates, there are two methods for calculating interest on drawings:**

a) Simple Method: Under this method, calculation of interest on drawings is done for the period, the amount has been utilized.

Interest on Drawings = Drawings amount × Rate/100 × No. of Months/12

b) Product method: When unequal amounts are withdrawn at unequal interval of time, product method is also used for calculating interest on drawings. Under this method, first we calculate the period of each drawing. After that each drawing is multiplied with the period to get the product.

Interest on drawings= Total of Products × Rate/100 × 1/12

2) **When equal amounts are withdrawn at regular/equal interval of time, interest on drawing can be calculated on the total of the amount drawn, for the average of the period applicable to the first and last instalment.**

Interest on Drawings= Total amount of drawings × Rate/ 100 × Average Period/12

Average Period = (No. of months left after first drawings+ No. of months left after last drawings)/2

<u>Monthly Drawings</u>

A) When equal amounts are withdrawn in the beginning of every month throughout the year:

Average period = (12+1)/2 = 6.5 months

Interest on Drawings = Total of drawings × Rate/100 × 6.5/12

B) When equal amounts are withdrawn at the end of every month throughout the year:

Average period = (11+0)/2 = 5.5 months

Interest on Drawings = Total of drawings × Rate/100 × 5.5/12

C) When equal amounts are withdrawn in the middle of every month throughout the year:

Average period = (11.5+0.5)/2 = 6 months

Interest on Drawings = Total of drawings × Rate/100 × 6/12

D) When equal amounts are withdrawn in the beginning of every month for 9 months:

Average period = (9+1)/2 = 5 months

Interest on Drawings = Total of drawings × Rate/100 × 5/12

Quarterly Drawings:

A) When equal amounts are withdrawn in the beginning of each quarter throughout the year:

Average period = (12+3)/2 = 7.5 months

Interest on Drawings = Total of drawings × Rate/100 × 7.5/12

B) When equal amounts are withdrawn in the middle of each quarter throughout the year:

Average period = (10.5+1.5)/2 = 6 months

Interest on Drawings = Total of drawings × Rate/100 × 6/12

C) When equal amounts are withdrawn at the end of each quarter throughout the year:

Average period = (9+0)/2 = 4.5 months

Interest on Drawings = Total of drawings × Rate/100 × 4.5/12

When Date of withdrawal is not specified:

Sometimes when date of drawing is not mentioned in the question. In such a case it is assumed that the amount is withdrawn evenly throughout the year and interest on drawings will be charged for the average period which is to be assumed as 6 months.

Interest on drawings = Total of drawings × Rate/100 × 6/12

Profit and Loss Appropriation Account

Profit and Loss Appropriation Account is an extension of the Profit and Loss Account of the firm. It shows how the profits are appropriated or distributed among the partners. All adjustments in respect of the partner's salary, partner's commission, interest on capital, interest on drawings, etc. are made through this account. It starts with the net profit/net loss as per the Profit and Loss Account.

Guarantee of profit to a partner:-

Sometimes a partner is admitted into the firm with a guarantee of a certain minimum amount by way of his share of profits of the firm. Such assurance may be given by all the old partners in a certain ratio or by any of the old partners, individually to the new partner. The minimum guaranteed amount shall be paid to such a new partner when his share of profit as per the profit-sharing ratio is less than the guaranteed amount.

Guarantee of Profit to the Partner/Firm

It is just possible that partners may agree to guarantee the minimum profit payable le to a partner. It may be agreed that the partner having the least share may be guaranteed the minimum profit payable to him in case his share of profit falls below the minimum guaranteed amount

Classification of Guarantee

(a) Guarantee by the firm to s partner.

(b) Guarantee by the partner to a partner.

(c) Guarantee by the partner to the firm

(d) Simultaneous guarantee by the firm to a partner and by the partner to firm. S

(a) Guarantee by the Firm to a Partner

If the share of a specific partner is guaranteed to a certain amount, he must be paid at least that much amount. He may get more, if his share of profit according to the profit-sharing ratio is more. Guaranteed amount is the minimum to be paid

Illustration 3: - (Guarantee to partner). A, B and C are partners sharing profit and losses in the ratio of 3:2:1. However, A and B have guaranteed that C's share in no year shall be lesser than for the year amounted to Rs.30.000. The net profit of the Mr.C is not lesser than Rs.10,000. Prepare Profit and Loss Appropriation Account.

Solution: -

Dr **Profit and Loss Appropriation Account** **Cr**

Date	Particulars	Rs.	Date	Particulars	Rs.
	To,A's Capital A/c 12,000 To,B's Capital A/c 8,000 To,C's Capital A/c 10,000	30,000		By P/L A/c (Net Profit)	30,000
		30,000			30,000

(b) Guarantee by One Partner to another Partner

Illustration 4:- (Guarantee by the partner of another partner). A, B and C are partners in a firm sharing profits in the ratio of 2:2:1. C has to get a minimum of Rs.6.000 irrespective of the profit of the firm. Any excess payable to C on account of such guarantee shall be borne by A. Profit earned during the year 2015 were Rs.25,000. Pass journal entries in the books of A, B and C.

Solution: -

Journal Entries

Date	Particulars	L.F	Debit	Credit
	P/L Appropriation A/c Dr.		25,000	
	To A's Capital A/C			10,000
	To B's Capital A/C			10,000
	To C's Capital A/C			5,000
	(Being profit distributed among partners if there is not guarantee)			
	A's Capital A/C Dr.		1,000	
	To C's Capital A/C			1,000
	(Being deficit profit of C being paid from A 's capital)			

Illustration 5:- (Guarantee by one partner to another partners). A, B and C are partners in a firm. Their profit-Sharing ratio is 3:2:1. However. C is guaranteed a minimum amount of Rs.10,000 as share of profit every year any deficiency arising on that account shall be met by A. The profit for the year ending 31st December 2013 were Rs.30,000. Prepare Profit and Loss Appropriation Account

Solution: -

Profit and loss appropriation a/c

Particulars	Rs.	Particulars	Rs.
To, A's capital A/c	10,000	By Net profit	30,000
To, B's capital A/c	10,000		
To, C's capital A/c 5,000			
+ A capital 5000	10000		
	30,000		**30,000**

Past Adjustment

Sometimes after the final accounts have been prepared and the Partners Capital Accounts are closed, it is found that certain items have been omitted by mistake or have been wrongly treated.

Such omissions/mistakes usually related to the:

- ➢ Interest on Capital
- ➢ Interest on drawings
- ➢ Salary/ Commission to partners
- ➢ Wrong profit distribution

Where errors have been discovered after closing the accounts, then instead of altering the closed accounts, an adjustment entry for such errors or omissions is made in the beginning of the next year. For this purpose, Partner's Capital Account will be debited with the amount, if it has been over credited and other Partner's Capital Accounts will be credited with the amount, if it has been over debited.

Illustration 6:- (Past Adjustments), Wahid and Shaheed are equal partners. Their capitals are Rs.40,000 and Rs.80,000 respectively. After the accounts for the year are prepared, it is discovered that interest at 10% p.a. as provided in the partnership agreement has not been credited in the capitol accounts before distribution of profits. It is decided to make an adjusting entry at the beginning of the next year. Give the necessary Journal Entry.

Solution. - **Journal Entry**

Particulars	L.F	Debit (Rs.)	Credit (Rs.)
Wahid 'Capital A/c Dr To Shaheed's Capital A/c (Being adjustment of interest on capital, which was not credited)		2,000	 2000

Working Note:

Interest on Wahid's Capital @ 10% on Rs. 40,000 = 4,000

Interest on Shaheed's Capital @ 10% on 80,000 = 8,000

Total Interest = 12,000

As the interest has not been allowed to partners on their capital, the net profit must have increased by Rs.12,000, the total interest would have been divided equally between Wahid and Shaheed as Rs. 6,000 each. Now, the adjustment will be made as under:

	Wahid	Shaheed	Total
Interest to be allowed	+4,000	+8,000	12,000
Profit wrongly credited	(-)6,000	(-)6,000	(-) 12,000
Adjustment	(+)2,000	(-)2,000	Nil

Illustration 7:- Ram, Mohan and Sohan were partners sharing profit in the ratio of 2:1:1.Ram withdrew Rs.3,000 every month and Mohan withdrew Rs.4,000 every month. Interest on drawings @ 6%p.a was charged whereas the partnership deed was silent about interest on drawings. Showing your working clearly, pass the adjustment entry.

Solution: **Journal**

Particulars	L.F	Debit (Rs.)	Credit (Rs.)
Ram's Capital A/c Dr. Shona's Capital A/c Dr. To Mohan's Capital A/c (Adjustment entry for interest on capital)		180 630	 810

Workings Notes:

Particulars	Ram (Rs.)	Mohan (Rs.)	Sohan (Rs.)	Total
Interest on drawings, wrongly debited, now credited	1,080	1,440	-	2,520
Loss to be debited	(1,260)	(630)	(630)	(2,520)
Net Effect	(180) Dr.	810 Cr.	(630) Dr.	-

Interest on Ram’s drawings = (Rs.3,000 x 12) x 6/100 x 6/12 = Rs.1,080

Interest on Mohan’s drawings = (Rs.4,000 x 12) x 6/100 x 6/12 = Rs.1,440

Illustration 8:- A and B are partners sharing profit and losses in the ratio of 3:2. Their capital on 31st March 2022 after all the adjustments stood at Rs.1, 65,500 and Rs.1, 27,600 respectively. Profits amounting to Rs.50,000 for the year 2021-22 were distributed after allowing interest on drawings @ 12% p.a. During the year A withdrew Rs.15,000 at the beginning of every quarter and B withdrew Rs.40,000 during the year. Partnership deed is silent on the interest on drawing but provides for interest on Capital @ 5% p.a. Interest on capital has not been provided. Showing your workings, pass the adjustment entry to rectify the above errors.

Solution. - **JOURNAL**

Particulars	L.F	Debit (Rs.)	Credit (Rs.)
A’s Capital A/c To B’s Capital A/c (Omission of interest on capital, now rectified)		140	 140

Adjustment Table

Particulars		A (Rs.)	B(Rs.)	Total (Rs.)
Omission of interest on capital	Cr.	10,000	7,500	17,500
Cancellation of interest on drawings	Cr.	4,500	2,400	6,900
Total amount of profit to be credited	Cr.	14.500	9,900	24,400
Loss to be debited (3:2)	Dr.	14,640	9,760	24,400

Net effect/ Adjustment		140 Dr.	140Cr	-

Illustration 9:- The partners of a firm, Alia, Bhanu and Chand distributed the profits for the year ended 31st March, 2019, Rs. 80,000 in the ratio of 3: 3:2 without providing for the following adjustments:

(a) Alia and Chand were entitled to a salary of Rs. 1,500 each p.m.

(b) Bhanu was entitled for a salary of Rs. 4,000 p.a.

Pass the necessary Journal entry for the above adjustments in the books of the firm. Show workings clearly.

Solution :-

Table showing adjustments

Particulars	Ali	Bhanu	Chand	Total
Salary (Cr.) Division of 40,000 in 3:3:2 (Dr.)	18,000 15,000	4,000 15,000	18,000 10,000	40,000 40,000
	3,000 Cr.	11,000 Dr.	8,000 Cr.	………

Rectifying Journal entry

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
31/03/19	Bhanu's Capital A/c Dr. To Alias's Capital A/c To Chand's Capital A/c		11,000	3,000 8,000

Illustration 10. : - A, B and C are partners in a firm. They have omitted interest on capital (@ 10% p.a. for three years ended 31st March, 2022. Their fixed capitals on which interest was to be calculated throughout were: A Rs. 1, 00,000; B Rs. 80,000 and C Rs. 70,000

Give the necessary adjusting journal entry with working notes.

Solution:

Calculation of interest for three years

A = 1, 00,000 x 10% for three years = Rs. 30,000

B = 80,000 x 10% for three years = Rs. 24,000

C = 70,000 x 10% for three years = Rs. 21,000 Total = Rs. 75,000

Table showing adjustments

Particulars	A	B	C	Total
Interest on Capital (Cr.) Division of 75,000 in 1:1:1 (Dr.)	30,000 25,000	24,000 25,000	21,000 25,000	75,000 75,000
	5,000 Cr.	1,000 Dr.	4,000 Dr.	………

Rectifying Journal entry

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
31/03/22	B's Current A/c Dr		1,000	
	C's Current A/c Dr		4,000	
	To A's Current A/c			5,000

The profit and losses of the firm are distributed among the partners in an agreed ratio. However, if the partnership deed is silent, the firm's profit and losses are to be shared equally by all the partners.

Profit and Losses Appropriation Account

Profit and Losses Appropriation Account is merely an extension of the Profit and Losses Account of the firm. It is show how the profits are appropriated or distribution among partners. All adjustments in respect of the partner's salary, partner's commission, interest on capital and drawings, etc. are made through this account. It starts with the net profit/net losses as per Profit and Losses Account.

Purpose of Profit & Loss Appropriation Account:

• The main purpose of preparing Profit & Loss Appropriation Account of a Partnership concern is to calculate and distribute the divisible Profit & Loss. The Income Tax Act and the audit rule does not permit the partnership firm to consider the amount as business expenditure which is payable to the partners

Journal Entries

1. **Transfer of the balance of Profit and Losses Account and Profit and Losses Appropriation account:**

a. If Profit and Loss shows a credit balance (net profit):

Profit and Loss A/C Dr.

To Profit and Loss Appropriation A/C

b. If Profit and Loss shows a debit balance (net loss):

Profit and Loss Appropriation A/C Dr.

To Profit and Loss A/C

2. **Interest on Capital:**

a. For Allowing interest on capital:

Interest on capital A/c

To Partner's Capital/Current A/C

b. For transferring interest on capital to Profit and Loss Appropriation A/C:

Profit and Loss Appropriation A/c Dr.

To interest on capital A/C

3. **Interest on Drawing :**

a. For changing interest on drawing to partner's capital account:

Partner's Capital/Current A/c Dr.

To interest on drawing A/C

b. For transferring interest on drawings to profit and loss appropriation account:

Interest on drawing A/C Dr

To Profit and Loss Appropriation A/C

4. **Partner's Salary:**

a. For Allowing partner's salary to partner's capital account:

Salary to Partner A/C Dr

To Partner's Capital/ Current A/C

b. For transferring partner's salary to Profit and Loss Appropriation A/C:

Profit and Loss Appropriation A/C Dr

To Salary to Partner's A/C

5. **Partner's Commission:**

(a) For crediting commission allowed to a partner's capital account:

Commission to Partner A/C Dr.

To Partner's Capital/Current A/C

b) For transferring commission allowed to partner to Profit and Loss Appropriation A/C:

Profit and Loss Appropriation A/C Dr.

To Commission to Partner's capital/current A/C

6. Share of Profit or Loss after appropriations:

(A) For Profit: Profit and Loss Appropriation A/C Dr.

To Partner's capital/current A/C

(b)For Loss: Partner's Capital /Current A/C Dr.

To Profit and Loss Appropriation A/c

Note: In case firm suffers a loss, no interest on capital, salary, remuneration is to be allowed to partners.

Format of Profit and Losses Appropriation Account

Particular	Rs	Particular	Rs
To P/L (if there is loss)	xxxx	By P/L	xxxx
To interest on capital	xxxx	(if there is profit)	xxxx
To salary to partner	xxxx	By interest on drawing	xxxx
To commission to partner	xxxx	By Partner's	xxxx
To Partner's capital/ current A/C	xxxx	By Capital/Current A/c	xxxx
	xxxx		xxxx

GOODWILL: NATURE AND VALUATION

Goodwill is also one of the special aspects of partnership accounts which requires adjustment (also valuation if not specified) at the time of reconstitution of a firm viz., a change in the profit-sharing ratio, the admission of a partner or the retirement or death of a partner.

Meaning of goodwill Goodwill can be defined as "the present value of a firm's anticipated excess earnings or as "the capitalised value attached to the differential profit capacity of a business .Thus, goodwill exists only when the firm earns super profits. Any firm that earns normal profits or is incurring losses has no goodwill.

Factors affecting the value of goodwill

The main factors affecting the value of goodwill are as follows:

1. Nature of business: A firm that produces high value added products or having a stable demand is able to earn more profits and therefore has more goodwill.

2. Location: If the business is centrally located or is at a place having heavy customer traffic, the goodwill tends to be high.

3. Efficiency of management: A well-managed concern usually enjoys the advantage of high productivity and cost efficiency. This leads to higher profits and so the value of goodwill will also be high.

4. Market situation: The monopoly condition or limited competition enables the concern to earn high profits which leads to higher value of goodwill. 5. Special advantages: The firm that enjoys special advantages like import licences, low rate and assured supply of electricity, long-term contracts.

5. Special advantages: The firm that enjoys special advantages like import licences, low rate and assured supply of electricity, long-term contracts for supply of materials, well-known collaborators, patents, trademarks. Enjoy higher value of goodwill.

Normally, the need for valuation of goodwill arises at the time of sale of a business. But in the context of a partnership firm, it may also arise in the following circumstances:

1. Change in the profit-sharing ratio amongst the existing partners;
2. Admission of new partner;
3. Retirement of a partner;
4. Death of a partner and

5. Dissolution of a firm involving sale of business as a going concern.

6. Amalgamation of partnership firms

Methods of valuation of goodwill

Since goodwill is an intangible asset it is very difficult to accurately calculate its value. Various methods have been advocated for the valuation of goodwill of a partnership firm. Goodwill calculated by one method may differ from the goodwill calculated by another method. Hence, the method by which goodwill is to be calculated, may be specifically decided between the existing partners and the Incoming partner.

The Important methods of valuation of goodwill are as follows:

1. Average Profits Method
2. Super Profits Method
3. Capitalisation Method

Average profits method

Under this method, the goodwill is valued at agreed number of years' purchase of the average profits of the past few years. It is based on the assumption that a new business will not be able to earn any profits during the first few years of its operations. Hence, the person who purchases a running business must pay in the form of goodwill a sum which is equal to the profits he is likely to receive for the first few years.

Illustration: 11 - Average profit earned by a firm is Rs. 1, 50,000 which include undervaluation of stock of Rs. 10,000 on an average basis. Capital invested in the business is Rs. 14, 00,000 and normal return is 7%. Calculate goodwill on the basis of 3 years' super profit. Average Profit = Rs. 1, 50,000

Solution: - Add: Profit decreased due to under valuation of stock = Rs. 10,000

Adjusted average profit = Rs. 1, 60,000

Normal Profit = 14, 00,000 x 7/100= Rs. 98,000

Super profit = 1, 60,000- 98,000 = Rs. 62,000

Goodwill = Rs. 62,000 x 3 = Rs. 1, 86,000

Illustration :- 12

The profit for the five years of a firm are as follows – year 2013 Rs. 4,00,000; year 2014 Rs. 3,98,000; year 2015 Rs. 4,50,000; year 2016 Rs. 4,45,000 and year 2017Rs. 5,00,000. Calculate goodwill of the firm the basis of 4 years purchase of 5 years average profits.

Solution :- Average Profit = Total Profit of Last 5 Years / No. of years

= 21,93,000 /5

= Rs. 4,38,600

Goodwill = Average Profits × No. of years purchased

= 4,38,600 × 4

= Rs. 17,54,400

Super Profits Method

The superiority and excellence of the firm lies in earning profit more than the normal profit earned by the other firms. The excess profit is the super profit and the super profit may be assumed to be goodwill or it may be certain number of times of Super Profit. We may use the following methods based on Super Profit for the calculation of goodwill.

Goodwill =Super profit X No years purchase

Super profit =Actual Profit Earned - Normal Profit

Normal Profit = Capital employed & Normal rate of return

Illustration13: - The average net profits expected by the firm in future are Rs. 68,000

per year and capital Invested in the business by the firm is Rs. 3, 50,000. The rate of interest expected from Capital invested in this class of business is 12%. The remuneration of the partners is estimated to be Rs. 8,000 for the year. You are required to find out the value of goodwill on the basis of 2 years purchase of super profits.

Solution: - Average profit = 68,000-8000 = 60,000

Normal profit = 3,50,000 X 12/100 = 42,000

Super profit = 60,000 - 42,000 =18,000

Goodwill = 18,000 X 2 = 36,000

Illustration 14 :- A firm earned net profits during the last five years 1-Rs.7,000: 11 - 6,500: 111-Rs.8,000; IV-Rs.7,500; V- Rs.6,000 The capital investment of the firm is Rs.40.000. A fair return on capital in the market is 12%. Find out the value of goodwill of the business, if it is based on 3 years purchase of average super profits of the past five years.

Solution: - Total profit of 5 years = 7,000 + 6,500 + 8,000 + 7,500 + 6,000 = 35.000

Actual average profit = 35,000 /5 = 7000

Normal profit = 40,000 × 12 /100 = Rs.4,800

Super profit = Actual profit - Normal profit 7,000-4,800 = 2,200

Goodwill = 2.200 × 3 = Rs.6,600,

_**Illustration 15 :-** 1st April 2010, an existing firm had assets of Rs. 75,000 including cash of Rs.5,000. Its creditors amounted to Rs. 5.000 on that date. The firm had a Reserve Fund of Rs.10,000 while partners' Capital accounts showed a balance of Rs.60.000 .The Normal Rate of Return is 20% and the goodwill of the firm is valued at Rs. 24,000 at four years purchase of super profit. Find the average profits per year, of the existing firm.

Solution: - Capital employed = Assets -Creditors = 75,000 - 5,000 = Rs.70,000

Alternative capital employed Capital + Reserve fund = 60,000 + 10,000

= 70,000

Goodwill = 24,000 =4 times of super profits

Super profit = 24,000 x ¼ = Rs.6,000

Normal profit =70,000 x 20 / 100 = Rs.14,000

Average profit = Normal profit + Super profit

= 14,000+ 6,000 = Rs.20,000.

Illustration 16 :- The books of Ram and Bharat showed that the capital employed on 31.12.2002 was Rs. 5, 00,000 and the profit for the last 5 years: 2002 Rs.40,000; 2003 Rs.50,000: 2004 Rs.55,000; 2005Rs. 70,000 and 2006Rs. 85,000. Calculate the value goodwill on the basis of 3 years purchase of the average super profits of the last 5 years assuming that the normal rate of return is 10%.

Solution: - Capital Employed = 5, 00,000

Normal Rate of return = 10%

Therefore, Normal Profit = 5, 00,000 x 10/100 =Rs.50,000

Average Profit = Sum of 5 years profit / No. of years 5

= Rs.3, 00,000 / 5 = Rs. 60,000

Super Profit = Rs.60,000-50,000 = Rs. 10,000

Goodwill = 3 × Rs.10,000 =Rs. 30,000

3) Capitalisation Method:-

Capitalisation Method. According to this method, goodwill is the amount of capital saved. Every business has to invest capital to commence and operate its business activities, and earns profit with the efficient utilisation of capital. If the firm earns more profit by investing lesser amount of capital as compared to other firms, who have been earning the same amount of profit with more amount of capital, the capital saved will be assumed to be goodwill.

Please Remember

Goodwill = capital normally required - capital actually employed

According to this method goodwill can be calculated in two ways:

a) By Capitalisation of average profit

b) By Capitalisation of super profit

(a) Capitalisation of Average Profit: - According to this method goodwill is assumed to be excess of the capitalised value of average profit over the actual capital employed. In other words, actual capital employed, i.e., net assets is deducted from the capitalised value of average profit.

Calculation of capital employed. Capital employed is separately given. If it is not so, we may apply the following formula for its calculation:

Capital employed... = Assets (excluding goodwill and fictitious assets) – outside Liabilities

Calculation of capitalised value. We may use the following formula for its calculation:

Capitalized value of the average profits = average profits x 100/ NRR

Illustration: -17 The firm earns a profit of Rs. 20,000 and has invested capital amounting to Rs. 1, 50,000. In the same class of business normal rate of earning is 10%. Calculate goodwill, according to capitalization method.

Solution: - Actual profit = 20,000

Normal rate of earning = 10%

Capitalised value of Profit:

For a profit of Rs.10 capital normally required = 100

100 For a profit of Rs.1 capital normally required = 10

For a profit of Rs.20,000 capital normally required

= 100 /10 x 20,000 = 2, 00,000

Actual capital employed = Rs.1, 50,000

Goodwill or Capital saved = Capital normally required - Capital actually invested

= 2, 00,000 -1, 50,000 = 50,000.

Alternatively:

Goodwill =Super profit X 100 / Normal rate of return = 5,000/10 X 100 = 50,000.

Illustration 18 :-_Rajans and Rajang are partners in a firm. Their capitals were Rajang Rs. 3, 00, 000, Rajani Rs. 2, 00,000. During the year 2009 the firm earned a profit of Rs. 1, 50,000. Calculate the value of goodwill of the firm assuming that the normal rate of return is 20%.

Solution: - Rajan's capital =Rs.3, 00,000

Rajani's capital =Rs.2, 00,000

Total capital employed=Rs.5, 00,000

Normal rate of return = 20%

Normal Profit 20% × Rs.5, 00,000 =1, 00,000

Super Profit =Rs.1, 50,000-Rs. 1,00,000=Rs.50,000

Goodwill= Super profit X 100/Normal rate of return

= Rs.50,000 × 100/20 = Rs.2, 50,000

DO IT YOURSELF

1. A firm's profits for the last three years are Rs. 5, 00,000; Rs.. 4.00.000 and

   Rs. 6.00.000. Calculate value of firm's goodwill on the basis of four years purchase of the average profits for the last three years.

2. A firm's profits for the last five years were Rs. 20,000, Rs. 30,000, Rs.. 40,000,

   Rs.. 50.000 and Rs.. 60.000. Calculate the value of firm's goodwill on the basis of three years' purchase of weighted average profits after using weight of 1.2.3.4 and 5 respectively.

3. A firm's profits during 2013, 2014, 2015 and 2016 were Rs. 16,000: Rs. 20.000:

Rs. 24.000 and Rs. 32,000 respectively. The firm has capital investment of Rs. 1,00,000. A fair rate of return on investment is 18% p.a. Compute goodwill based on three years' purchase of the average super profits.

4. Based on the data given in the above question, calculate goodwill by capitalisation of super profits method. Will the amount of goodwill be different If it is computed by capitalisation of average profits? Confirm your answer by numerical verification.

MULTIPLE CHOICE QUESTIONS

S NO	Question:
1	**Which of the following is not the need for valuation of goodwill?** (A) Admission of the partner (B) Retirement of a partner (C) Death of a partner (D) Dissolution of partnership firm
2	**Capital employed in a business is Rs. 2,00,000. Normal Rate of Return on capital employed is 15%. During the year, the firm earned a profit of Rs. 48,000. Calculate goodwill on the basis of 3 years' purchase of super Profit.** (A) Rs. 54,000 (B) Rs. 60,000 (C) Rs. 50,000 (D) None of these
3	**Galib & Jakib are partners in a firm. Galib is to get commission of 10% of net profit before charging any commission. Jakib is to get a commission of 10% on net profit after charging all commissions. Net Profit for the year ended 31st March, 2021 was Rs.55,000. What will be amount of Profit to be distributed to each?** (A) Rs.5,500 to Galib& Rs.4,500 to Jakib. (B) Rs.27,500 each. (C) Rs.22,500 each. (D) None of the above
4	**If the guarantee is given to the partner by some partners, deficiency on such will be borne by**

	(A) Partnership firm. (B) All of the other partners. (C) Partners who had given the guarantee. (D) None of the above
5	**If the Partners are maintaining the capital account on Fixed basis, partner’s capital account will have:** (A) Credit balance. (B) Debit balance. (C) Credit or Debit balance. (D) May have Nil balance
6	**If the partnership deed is silent interest on drawings will be charged @** (A) 6% Pa (B) 6% P.m. (C) Any other Rate. (D) Will not be charged
7	**Which is not the clause of the Partnership Deed?** (A) Business can be carried on by all or any of the partner’s acting for all. (B) Commencement of business. (C) Rights & Duties of Partner. (D) None of the above
8	**The Net profits of Kamini were** Rs.**20,000. Gulafsa the manager was to be given the commission of Rs 6,000; the distribution of profits will be done as:** (A) Rs. 10,000 to each. (B) Rs.. 7,000 to each. (C) Rs. 13,000 to each. (D) None of the above
9	**Shalu, Shan& Julie are partners sharing profits in the ratio of 6: 4: 1. Julie is guaranteed a minimum profit of** Rs.. **20,000. The firm incurred a loss of** Rs.**2,20,000 for the year ended 31st March, 2021. What amount of deficiency will be borne by Shalu and Shan.**

	(A) Rs.10,000 each. (B) Rs.20,000 each. (C) Rs.24,000 by Shalu& Rs.16,000 by Shan. (D) Rs.12,000 by Shalu & Rs.. 8,000 by Shan.
10	**Om& Prakash were partner's without any deed where Prakash invested the total capital and Om had the complete hold on the business as Prakash was the sleeping partner, but as Prakash invested complete capital demanded to share the profits in the Ratio of 5: 1 and Om object's to this.** (A) Om's objection is correct. (B) Prakash's demand is correct. (C) Both are wrong. (D) As investment is of Prakash he should be given interest on capital.
11	**Following are essential elements of a partnership firm except:** (A) At least two persons. (B) There is an agreement between all partners. (C) Equal share of profits and losses. (D) Partnership agreement is for some business.
12	**Which of the following items is not dealt through Profit and Loss Appropriation Account?** (A) Interest on Partner's Loan (B) Partner's Salary (C) Interest on Partner's Capital (D) Partner's Commission
13	**A partner withdrew Rs.4,000 per month from 1st July, 2016, on beginning of every month. Accounts are closed at 31st March, 2017. Calculate interest on drawings while rate of interest is 10% per annum.** (A) Rs.. 1,600 (B) Rs.. 1,800 (C) Rs. 1,500 (D) Rs.2,200

14	**A, B and C sharing profits in the ratio of 2: 2: 1 have fixed capitals of Rs. 3,00,000, Rs. 2,00,000 and Rs. 1,00,000 respectively. After closing the accounts for the year ending 31st March 2019 it was discovered that interest on capitals was provided @ 12% instead of 10% p.a. In the adjusting entry:** (A) Cr. A Rs.1,200; Dr. B Rs.800 and Dr. C Rs.. 400 (B) Dr. A Rs.1,200; Cr. B Rs. 800 and Cr. C Rs.. 400 (C) Cr. A Rs.800; Cr. B Rs.. 400 and Dr. C Rs. 1,200 (D) Dr. A Rs.800; Dr. B Rs.. 400 and Cr. C Rs.1,200
15	**A partner withdraws Rs.8,000 each on 1st April and 1st Oct. Interest on his drawings @ 6% p.a. on 31st March will be:** (A) Rs.480 (B) Rs.720 (C) Rs.240 (D) Rs.960
16	[**A&E] If Goodwill is Rs.1, 20, 000, Average Profit is Rs.. 60,000 Normal. Rate of Return is10% on Capital Employed Rs.4, 80, 000. Calculate capitalized value of the firm:-** (A) Rs.4,00,000 (B) Rs.5,00,000 (C) Rs.6,00,000 (D) Rs. 7,00,000
17	**A business has earned Super profit of Rs. 1,00,000during the last few years and Normal rate of returns in 10% Calculate goodwill** (A) Rs. 10,00,000 (B) Rs. 54,000 (C) Rs.20,000 (D) Rs.36,000

18	**Rani and Shyam are partners in a firm. They are entitled to interest on their capital but the net profit was not sufficient for paying his interest, then the net profit will be disturbed among partner in** (A) 1:2 (B) profit sharing ratio (C) capital ratio (D) equally
19	**Which one of the following items is recorded in the Profit and Loss appropriation account** (A) Interest on loan (B)Partner Salary (C)Rent paid to Partner (D)Managers commission
20	**Salary to a partner under fixed capital account is credited to** (A) Partner's Capital A/c (B) Partner's current A/c (C) Profit & Loss A/c (D) Partner's Loan A/c
	ANSWERS 1. D, 2.A ,3.C, 4.C, 5.A,6.D, 7.A, 8.B, 9.C, 10.A, 11.C, 12.A ,13.C, 14.B,15.B ,16.A, 17.A18.C ,19.A , 20.B,

Assertion reasoning questions

Q NO	QUESTION
1	Assertion: Ram spends thrice the time that Yama devoted to business. Ram claims that he should get salary of Rs.. 5, 000/- p.m. for extra time spent.

	Reason: As there is no partnership deed Partnership Act 1932 applies and as per the Act partners will not be allowed any salary or remuneration. (A)Both A and R true and R is the correct explanation of A. (B)Both A and R are true but R is not the correct explanation of A (C)A is true and R is false (D)A is false and R is true
2	Assertion: In case of losses interest on capital will not be provided. Reason: As interest on capital is treated as the appropriation of the profits and there are no profits but interest on capital can be provided in case of losses if it is to be treated as charge. (A) Both A and R true and R is the correct explanation of A. (B) Both A and R are true but R is not the correct explanation of A (C) A is true and R is false (D) A is false and R is true
3	Assertion: Y wants that profits should be distributed in the ratio of capitals as he has invested more capital than X this dispute arises as the partnership deed was not there. Reason: As there is no partnership deed Indian Partnership Act, 1932 applies and as per the Act, Profits are to be distributed equally. (A) Both A and R true and R is the correct explanation of A. (B) Both A and R are true but R is not the correct explanation of A (C) A is true and R is false (D) A is false and R is true
4	Assertion: Average Normal Profit as Calculated is multiplied by number of years' purchase to determine the value of goodwill. Reason: Number of years' purchase means the number of years for which the firm is likely to earn same amount of profit after change in ownership becomes of the efforts put in the past. (A) Both A and R true and R is the correct explanation of A. (B) Both A and R are true but R is not the correct explanation of A (C) A is true and R is false (D) A is false and R is true
5	Assertion: Rent paid to the partner is not to be shown in Profit & Loss Appropriation A/c. Reason: Rent paid to the partner is

	treated as the charge against profit and not the appropriation of the profits. (A) Both A and R true and R is the correct explanation of A. (B) Both A and R are true but R is not the correct explanation of A (C) A is true and R is false A is false and R is true
6	Assertion (A): Goodwill is the good name or reputation of the Business which brings benefit to the business. Reason(R): It is an intangible asset as it has no physical existence. (A) Both A and R are true and R is the Correct explanation of A (B) Both A and R are true and R is not the correct explanation of A (C) A is true but R is false (D) A is false but R is true
7	Assertion (A) : In order to compensate a partner for contributing capital to the firm in excess of the profit sharing ratio, firm pays such interest on Partners' Capital. Reason (R): Interest on Capital is treated as a charge against profits. (A) Both A and R are true and R is the Correct explanation of A (B) Both A and R are true and R is not the correct explanation of A (C) A is true but R is false (D) A is false but R is true
8	Assertion (A): Fixed Capital Accounts of a partner never shows a debit balance in spite of regular and consistent losses year after year. Reason (R): When Capital Accounts are fixed, losses are recorded in Partners' Current Account. (a) Both A and R are true and R is the Correct explanation of A (b) Both A and R are true and R is not the correct explanation of A (c) A is true but R is false A is false but R is true

9	Assertion(A): Both purchase and shelf generated goodwill are accounted in the books of account Reason(R): According to AS-26 only purchase goodwill is accounted in the books of account. Shelf generated goodwill is not accounted in the books of account. (A) Both A and R are true and R is the Correct explanation of A (B) Both A and R are true and R is not the correct explanation of A (C) A is true but R is false (D) A is false but R is true
10	Assertion (A): A Firm should have a Partnership Deed. Reason (R): In case of dispute or any misunderstanding among partners, partnership deed acts as evidence in the court of law. (A) Both A and R are true and R is the Correct explanation of A (B) Both A and R are true and R is not the correct explanation of A (C)A is true but R is false (D)A is false but R is true

Q.NO.	ANSWER
1.	D
2.	A
3.	D
4.	D
5.	A
6	D
7	C
8	B
9	B
10	D

Self-Assessment Test – 1

Q.NO	QUESTION	MARKS
1	By virtue of Section 464 of the Companies Act, 2013 the Central Government is empowered to prescribe maximum number of partners in a firm but the number of partners cannot be more than (a) 50 (b) 100 (c) 20 (d)10	1
2	Dev withdrew Rs.. 10,000 on 15th day of every month. Interest on drawings was to be charged @ 12% per annum. Interest on Dev's drawings will be: (a) Rs. 14,400 (b) Rs.. 7,200 (c) Rs.. 1,200 (d) None of these	1
3	Persons who have entered into partnership with one another are individually called _________ and collectively (Fill in the blanks)	1
4	Amit, Sumit and Samiksha are in partnership sharing profits in the ratio of 3:2:1. Samiksha's share in profit has been guaranteed by Amit and Sumit to be a minimum sum of Rs.. 8,000. Profits for the year ended March 31, 2020 was 36,000. The share of profits of the partners will be: (a) Amit 18,000; Sumit, 12,000; Samiksha, 6,000 (b) Amit 17,000; Sumit, 11,000; Samiksha, "8,000 (c) Amit 16,800; Sumit, 11,200; Samiksha, "8,000 (d) None of the above	1
5	Karam Singh and Suleman decided to start a partnership firm. They contributed capitals of Rs.. 2, 00,000 and 1,00,000 respectively. On 1st April, 2019. Suleiman expressed his willingness to admit Inderjeet, a very creative and intelligent person, as a partner without	3

	capital in the firm. Karam Singh agreed to this. It was decided that Karam Singh, Suleman and Inderjeet will share profits in the ratio of 2: 2: 1. Interest on capital will be provided @6% p.a. Due to shortage of capital, Karam Singh introduced 50,000 on 30th September, 2016 and Suleman contributed 20,000 on 1st January 2020 as additional capital. The profit of the firm for the year ended 31st March, 2020 was 2, 00,300. Prepare profit and Loss Appropriation Account	
6	Raj and Suri are partners in a firm sharing profits equally. Their capitals as on April 1, 2019 were 2, 50,000 and 1, 50,000 respectively. On July 1, 2019. They decided that their capitals should be 2, 00,000 each. The necessary adjustment in the capitals were made by introducing or withdrawing cash by the partners. Interest on capital is allowed @8% p.a. Pass the necessary Journal Entries on July 1, 2019 and compute interest on partner's capitals for the year ending March 31, 2020.	3
7	Pinki. Deepti and Kaku are partner's sharing profits in the ratio of 5:4:1. Kaku is given a guarantee that his share of profits in any given year would not be less than 5,000. Deficiency, if any, would be borne by Pinki and Deepti equally. Profits for the year amounted to 40,000. Record necessary journal entries in the books of the firm showing the distribution of profit.	3
8	Ajit, Choudhary and Vishal set up a partnership firm on January 1, 2020. They contributed 50,000, 40,000 and 30,000 respectively as their capitals and decided to share profits in the ratio of 3: 2: 1. The partnership deed provided that Ajit is to be paid a salary of "1,000 p.m. and Choudhary a commission of "5,000. It also provided that interest on capital be allowed @ 6% p.a. The drawings for the year were: Ajit 6,000, Choudhary 4,000 and Vishal 2,000. Interest on drawings 270 on Ajit's drawings, 180 on Choudhary's drawings and 90 on Vishal's drawings. The net amount of profit as per the profit and loss account for the year ended 2020 was You are required to record the necessary journal entries relating to appropriation of profit. 35.660	4
	<u>ANSWERS</u>	
1	B	1

2	B	1
3	1 PARTNERS 2 FIRM	1
4	B	1
5	I. Part: Share of divisible profit: Karam Singh Rs.72,200; Suleman Rs.72,200 and Inderjeet Rs.36,100	3
6	Part: Raj will withdraw Rs.50,000 from his capital and Suri will bring additional capital of Rs.50,000. Interest on Capitals: Raj Rs.17,000 and Suri Rs.15,000.	3
7	Deficiency borne by Pinki and Deepti Rs.500 each	3
8	Devisable profit of Ajit, Choudhary and Vishal are Rs. 6000 Rs.4000 Rs. 2000 respectively	3

RECONSTITUTION OF PARTNERSHI AND CHANGE IN PSR

Learning Outcomes (Los)

- state the meaning of sacrificing ratio, gaining ratio and the change in profit sharing ratio among existing partners.
- develop the understanding of accounting treatment of revaluation assets and reassessment of liabilities and treatment of reserves and accumulated profits by preparing revaluation account and balance sheet.
- explain the effect of change in profit sharing ratio on admission of a new partner.

Any change in the partnership agreement brings to an end the existing agreement and a new agreement comes into force. The change in the agreement results in changes in the relationship among the partners. In such a case, although the firm continues, it amounts to the reconstitution of the partnership firm.

Reconstitution of the firm may happen in the following circumstances: (Modes of reconstitution)

(i) Change in the profit-sharing ratio among the existing partners:

(ii) Admission of a new partner

(iii) Retirement of an existing partner

(iv) Death of a Partner:

(v) Amalgamation of two partnership firms:

(CARD-A) TO REMEMBER EASILY

Change in the profit-sharing ratio among the existing partners:

Sometimes, the partners of a firm decide to change their existing profit-sharing ratio without any admission or retirement of a partner. This results in a gain of additional share in future profits of the firm for some partners while a loss of a part thereof for other partners. Any change, in the profit-sharing ratio, like admission of partner, may also involve adjustments in respect of revaluation of assets and liabilities, transfer of accumulated profit and losses to partners' capital accounts in the old profit-sharing ratio and adjustment of partners' capitals, if specified, so as to make them proportionate to the new profit-sharing ratio. All this is done in the same
way as in case of admission of a partner.

Sacrificing Ratio :

The ratio in which the old partners agree to sacrifice their share of profit in

favour of the incoming partner is called sacrificing ratio. The sacrifice by a partner is equal to:

Old Share of Profit – New Share of Profit

Gaining Ratio:

When a partner's new share is more than old share it is called gain to the partner.
New Share of Profit – Old Share of Profit

For example: A, B and C are partners in a firm sharing profits in the ratios of 8:5:3 It is felt that A will no more be able to actively participate in the affairs of the firm. Hence, with effect from April 1, 2007, they decided that, in future they will share the profits in the ratio of 5 : 6 : 5.

This results in A losing $3/16 \left(\frac{8}{16} - \frac{5}{16}\right)$ share in profits while B and C gaining $1/16 \left(\frac{6}{16} - \frac{5}{16}\right)$ and $2/16 \left(\frac{5}{16} - \frac{3}{16}\right)$.

In such a situation, the loss and gain in the value of goodwill (if any) will have to be adjusted. This is done by crediting sacrificing partner's and debiting gaining partner's with appropriate amounts, as is explained earlier in the context of the admission of a new partners.

Highlights:
1. When only goodwill-based questions are given:

Gaining Partners' Capital/ Current a/c Dr. xxx
To Sacrificing Partners' Capital / Current a/c xxx

2. In all other occasions the way various items are treated in admission of a partner the same accounting treatment needs to followed in this case also.

Warning: When partners decide not to alter the book values of various items even after change in their PSR then students should be more cautious and follow this treatment.

All benefits of a partner – all losses of partner = net gain
All losses of a partner – all benefits of a partner = net loss
Out of the net gain proportionate gain or loss should be adjusted among the partners capital / current accounts without closing any of the accounts or altering the values of accounts. In such cases the following entry needs to be passed.

For adjusting proportionate gain:

Gaining Partners' Capital/ Current a/c Dr. xxx
To Sacrificing Partners' Capital / Current a/c xxx

For adjusting the proportionate net loss:

Sacrificing Partners' Capital / Current a/c Dr. xxx
To Gaining Partners' Capital / Current a/c xxx

MCQ Questions and answers on Change of PSR:

Q NO	QUESTIONS
1	The ratio in which a partner receives a rise in his share of profits is known as: A. New Ratio B. Sacrificing Ratio C. Capital Ratio D. Gaining Ratio
2	Sacrificing ratio is the difference between: A. New ratio and old ratio B. Old ratio and new ratio C. New ratio and gaining ratio D. Old ratio and gaining ratio
3	In case of change in profit-sharing ratio, the accumulated profits are distributed to the partners in A. new ratio B. old ratio C. sacrificing ratio D. equal ratio
4	Ajay, Bijay and Sujay are partners sharing profits and losses in the ratio of 5:3:2. They decide to share the future profits in the ratio of 3:2:1. Workmen compensation reserve appearing in the balance sheet on the date if no information is available for the same will be: A. Distributed among the partners in old profit-sharing ratio B Distributed among the partners in new profit-sharing ratio C. Distributed among the partners in capital ratio D.Carried forward to new balance sheet without any adjustment
5	Alok and Bhupesh are partners in a firm sharing profits in the ratio of 3 : 2. They decided to share future profits equally. Calculate Alok's gain or sacrifice A. 2/10 (sacrifice) B. 5/10 (gain) C.1/10 (Gain) D.1/10 (sacrifice)
6	A, B and Care partner sharing profits in the ratio of 2 : 4 : 6. On 1-4-2022 they decided to share the profits equally. On the date there was a credit balance of Rs.1,20,000 in their Profit and Loss Account and a balance of Rs.1,80,000 in General Reserve Account. Instead of closing the General Reserve Account and Profit and Loss Account, it is decided to record an adjustment entry for the same. In The necessary adjustment entry to give effect to the above arrangement:

	A. Dr. A by Rs. 50,000; Cr. B by Rs. 50,000 B. Cr. A by Rs. 50,000; Dr. B by Rs. 50,000 C. Dr. A by Rs. 50,000; Cr. C by Rs. 50,000 D. Cr. A by Rs. 50,000; Dr. C by Rs. 50,000
7	Which section of Indian Partnership Act, 1932 defines partnership as "Partnership is the relation between persons who have agreed to share the profits of a business carried by all or any of them acting for all." A. Section 4 B. Section 2 C. Section 40 D. Section 42
8	Feature of a partnership firm: A. Two or more persons are carrying common business under an agreement. B. They are sharing profits and losses in the fixed ratio. C. Business is carried by all or any of them acting for all as an agent. D. All of these
9	Which one from the below is not a right of a partner? A. Right to inspect the books of accounts B. Right to take part in the management of the firm C. Right to share the profit/losses with other partners in agreed ratio D. Right to receive salary at the end of every year
10	P, Q, and R are partners in 6 : 4 : 2. R is guaranteed that his share of profit will not be less than rs.70,000. Any deficiency will be borne by P and Q in the ratio of 4 : 2. Firm's profit was rs.2,40,000. Share of P will be : A. Rs.1,00,000 B. Rs.1,10,000 C. Rs.1,20,000 D. Rs.1,02,000
	(A) Retained earnings (B) General Reserve (C) Employees Provident Fund (D) Contingency Reserve
13	State the ratio in which the partners share all the accumulated profits, reserves, losses at the time of change in profit sharing ratio. (A) Old profit-sharing ratio (B) New profit-sharing ratio (C)Sac ricing ratio (D) Gaining ratio
14	Which of the following statement is correct for Revaluation account? (A) Increase in the value of an asset is credited to Revaluation account (B) Increase in the amount of a liability is debited to Revaluation account (C) Decrease in the value of an asset is credited to Revaluation account (D) Decrease in the amount of a liability is credited to Revaluation account

15 Sacrificing ratio is calculated as

(A) New ratio – Old ratio

(B) Old ratio – Gaining ratio

(C) Gaining ratio – Old ratio

(D) Old ratio – New ratio

16 Ankita and Neha are sharing profits in the ratio of 2:1. Now they have decided that new profit-sharing ratio will be equal. What will be the Gain/Sacrifice ratio?

(A) Ankita gain 1/6 and Neha sacrifice 1/6

(B) Ankita sacrifice 1/6and Neha gain 1/6

(C) Ankita gain 4/5 and Neha sacrifice 4/5

(D)Ankita sacrifice 2/3 and Neha gain 1/6

17 Sanjeev and Shalu were partners sharing profits in the ratio of 3:2. From 1stApril 2020, they decided to change it to 3:1. For this purpose the goodwill was valued at Rs. 1,20,000. Journal entry for the above transaction will be

(A) Sanjeev capital A/c debit Rs.20,000 and Shalu capital A/c credit Rs.20,000

(B) Shalu capital A/c debit Rs.20,000 and Sanjeev capital A/c credit Rs.20,000

(C) Sanjeev capital A/c debit Rs.18,000 and Shalu capital A/c credit Rs.18,000

(D) Shalu capital A/c debit Rs.18,000 and Sanjeev capital A/c credit Rs.18,000

18 Sun, Moon and Star are partners sharing profits in the ratio of 5:3:2. With effect from 1st July 2020, they agreed to share future profits 2:3:5. They decided to record the following with affecting the values.

Profit & Loss A/c (Cr.) - Rs.24,000 Advertisement Suspense A/c - Rs.12,000

What is the impact of the above adjustments on Moon?

(A) No effect on Moon

(B) Moon debit by Rs. 3,600

(C) Moon credit by Rs. 3,600

(D) Moon debit by Rs. 12,000

19 Amar, Akbar and Anthony are partners in the ratio of 2:2:1. On 31stMarch, 2021 they decided to share equally in future.

Balance Sheet (Extract)

As on 31st March, 2021

Liabilities	₹	Assets	₹
Investment Fluctuation Reserve	12,000	Investments	1,00,000

Market value of Investments is Rs.93,000. What amount will be debited/credited to partner’s capital account?

(A) Investment Fluctuation Reserve credited as Rs.2,000: Rs.2,000: Rs.1,000

	(B) Investment Fluctuation Reserve debited as Rs.2,000: Rs.2,000: Rs.1,000 (C) It will not be debited to capitals (D) It will not be credited to capitals
20	P, Q and R were partners in the ratio of 3:2:1. As on 1st July 2020, they decided to alter their ratio. For this purpose P decided to give ¼ of his share to Q, and Q decided to give ½ of his share to P and R equally. What will be the Sacrifice/Gain of P? (A) 3/24 Sacrifice (B) 1/24 Sacrifice (C) 2/24 Gain (D) 1/24 Gain
21	Which of the following does not result into reconstitution of partnership? (A) Dissolution of partnership firm (B) Dissolution of partnership (C) Change in profit sharing ratio of existing partners (D) Death of a partner
22	Any change in the relationship of existing partners which results in an end of the existing agreement and enforces making of new· agreement is called: (A)Revaluation of partnership (B) Reconstitution of partnership (C) Realisation of partnership (D)Dissolution of firm
23	A and B are partners in a firm sharing profits in the ratio of 3 : 2. They decided to share future profits equally. Calculate A's gain or sacrifice (a) 2/10 (sacrifice) (b) 5/10 (gain) (c) 1/10 (Gain) (d) 1/10 (sacrifice)
24	Increase and decrease in the value of assets and liabilities are recorded through: (a) Partners' Capital Accounts (b) Revaluation Account (c) Profit and Loss Appropriation Ne (d) Profit and loss account
25	Pawan and Gourav were partners in a firm sharing profits in the ratio of 2 : 1. With effect from 1st January, 2021, they decided to share profits and losses equally. Individual partner's gain or sacrifice due to change in the ratio will be: a. Gain by Pawan 1/6, sacrifice by Gaurav 1/6 b. Sacrifice by Pawan 1/6, gain by Gaurav 1/6 c. Gain by Pawan 1/2, sacrifice by Gaurav 1/2

	d. Sacrifice by Pawan 1/2, gain by Gaurav 1/2
26	In case of change in profit-sharing ratio, the gaining partner must compensate the sacrificing partners by paying the proportional amount of (a)capital (b)cash (c)goodwill (d) profits
27	R, S and T sharing profits and losses in the ratio of 1:2:3, decided to share future profit and losses equally. They also decided to adjust the following accumulated profits, losses and reserves without affecting their book figures, by passing a single adjustment entry: General Reserve 40000 Profit and Loss A/c 30000 Deferred revenue expenditure 10000 The necessary. adjustment entry will be: A. Dr. R and Cr. T by 10,000 B. Dr. T and Cr. R by 10,000 C. Dr. S and Cr. R by 10,000 D. Dr.R and Cr. S by 10,000
28	X,Y and Z are partners sharing profits and losses in the ratio of 5:3:2.They decide to share the future profits in the ratio of 3:2:1. Workmen compensation reserve appearing in the balance sheet on the date if no information is available for the same will be: a) Distributed among the partners in capital ratio b) Distributed among the partners in new profit-sharing ratio c) Distributed among the partners in old profit-sharing ratio d) Carried forward to new balance sheet without any adjustment
29	A, B and C were partners in a firm sharing profits in the ratio of 3:4:1. They decided to share profits equally w.e.f from 1 .4.2019. On that date the profit and loss account showed the credit balance of 96,000. instead of closing the profit and loss account, it was decided to record an adjustment entry reflecting the change in profit sharing ratio. In the journal entry: a) Dr. A by 4,000; Dr. B by 16,000; Cr C by 20,000 b) Cr. A by 4,000; Cr. B by 16,000; Dr C by 20,000 c) Cr. A by 16,000; Cr. B by 4,000; Dr C by 20,000 d) Dr. A by 16,000; Dr. B by 4,000; Cr C by 20,000
30	Komal and Sunita are partners with capitals of Rs.3,00,000 and Rs.2,00,000 respectively. Normal rate of return is 15% and goodwill calculated at 2 years purchase of Super profits is valued at Rs.1,00,000. What were the average profits of the firm? (a) Rs.80,000 (b) Rs.1,25,000 (c) Rs.2,75,000 (d) Rs.95,000

Answers:	
1	D
2	B
3	D
4	A
5	D
6	C
7	A
8	B
9	D
10	A
11	(D) Reconstitution of partnership
12	(C) Employees Provident Fund
13	(A) Old profit sharing ratio
14	(C) Decrease in the value of an asset is credited to Revaluation account
15	(D) Old ratio – New ratio
16	(B) Ankita sacrifice 1/6and Neha gain 1/6
17	(D) Shalu capital A/c debit Rs.18,000 and Sanjeev capital A/c credit Rs.18,000
18	(A) No effect on Moon
19	(A) Investment Fluctuation Reserve credited as Rs.2,000: Rs.2,000:Rs.1,000
20	(B) 1/24 Sacrifice
21	A
22	B
23	D
24	B
25	B

26	C
27	A
26	C
29	B
30	B

Assertion Reason questions in change in PSR (MCQ)

1	Assertion (A): Whenever there a change in PSR the gaining partner should compensate the sacrificing partner in the value proportionate to the value of Firm's goodwill. Reason (R): In future the gaining partner is going to share higher profits of the firm to the extent of his gain. (A) Both Assertion and reason are true and reason is correct explanation of assertion. (B) Assertion and reason both are true but reason is not the correct explanation of assertion. (C) Assertion is true, reason is false. (D) Assertion is false, reason is true.
2	Assertion (A) : In absence of a deed , a sleeping partner who contributed 75% of total capital would get 75% of the profit earned. Reason (R) : A sleeping partner , in absence of a deed , gets equal share of profit , irrespective of his capital share. (A) Both A and R are true and R is the correct explanation of A (B) Both A and R are true and R is not the correct explanation of A (C) A is true, but R is false (D A is false, but R is true
3	Assertion: Revaluation of assets is necessary at the time of change in profit sharing ratio as their current value differs from their book value. Reason: The difference arising out of change in value should be recorded in the books of accounts. (A) Both Assertion and reason are true and reason is correct explanation of assertion. (B) Assertion and reason both are true but reason is not the correct explanation of assertion. (C) Assertion is true, reason is false. (D) Assertion is false, reason is true.
4	Assertion (A): Atul, Baral and Chetak are partners sharing profits equally. They change their profit-sharing ratio to 5:3:2. On the date there was a debit balance in profit and loss a/c. it will be carried forward and not debited to the partners' capital accounts but will be set off against profits in future. Reason (R) : Debit balance in profit and loss account is a fictitious asset and all fictitious assets are written off at the time of reconstitution of the firm in the old profit sharing ratio of the partners. (A) Both Assertion and reason are true and reason is correct explanation of assertion. (B) Assertion and reason both are true but reason is not the correct explanation of assertion.

	(C) Assertion is true, reason is false. (D) Assertion is false, reason is true.
5	Assertion: The old balances of reserves need not be transferred to capital account of partners in case of change in profit ratio. Reason: If partners decide not to distribute the reserves, then adjusting entry can be passed in sacrificing /gaining ratio. (A) Both Assertion and reason are true and reason is correct explanation of assertion. (B) Assertion and reason both are true but reason is not the correct explanation of assertion. (C) Assertion is true, reason is false. (D) Assertion is false, reason is true.
6	Assertion: Purchased goodwill appearing on the assets side of the balance sheet need to be written off in old ratio on change in profit sharing ratio. Reason: As per AS-26, existing goodwill must be written off by crediting it to capital account of partners. (A) Both Assertion and reason are true and reason is correct explanation of assertion. (B) Assertion and reason both are true but reason is not the correct explanation of assertion. (C) Assertion is true, reason is false. (D) Assertion is false, reason is true.
7	Assertion(A): Investment Fluctuation Reserve is a reserve which is set aside out of the profits to meet a fall in the market value of investments. Reason(R): When increase in the value of Investment is more than the balance in Investment Fluctuation Reserve, excess is debited to Partners Capital A/c. (A) Both Assertion and reason are true and reason is correct explanation of assertion. (B) Assertion and reason both are true but reason is not the correct explanation of assertion. (C) Assertion is true, reason is false. (D) Assertion is false, reason is true.
8	Assertion (A): A and B are partners in a firm. They decided to share future profits in the ratio of 3:2. Goodwill of the firm was Rs.1,00,000. Partners recorded the following entry: A' Capital a/c Dr.10,000 To B's Capital a/c 10,000 Reason (R) A's gain is 1/10 and B's sacrifice is 1/10 when old ratio is taken as equal. (A) Both Assertion and reason are true and reason is correct explanation of assertion. (B) Assertion and reason both are true but reason is not the correct explanation of assertion. (C) Assertion is true, reason is false. (D) Assertion is false, reason is true.
9	Assertion (A): Accumulated profits should be distributed to old partners in old ratio when there is a change in PSR. Reason (R) : Otherwise in future the gaining partner will get higher share in the past accumulated profits. (A) Both Assertion and reason are true and reason is correct explanation of assertion.

(B) Assertion and reason both are true but reason is not the correct explanation of assertion.
(C) Assertion is true, reason is false.
(D) Assertion is false, reason is true.

10 Assertion(A) : Sacrificing ratio is the ratio in which one or more partners of the firm sacrifice their share of profits in favour of one or more partners of the firm.
Reason (R): The partner whose share of profit decreases should be compensated by the Partners whose share has increased i.e. gaining partners should compensate sacrificing partners.

(A)Both Assertion and Reason are true and Reason is correct explanation of Assertion.
(B) Assertion and Reason both are true but Reason is not the correct explanation of Assertion.
(C)Assertion is true, Reason is false.
(D)Assertion is false, Reason is true.

Answers:

1	2	3	4	5	6	7	8	9	10
A	D	B	D	D	C	C	A	A	B

Short answer type questions (3-4 marks) Change in PSR

1. A, B and C were partners sharing profits and losses in the ratio of 7:5:4. From 1st April,2024, they decided to share profits and losses in the ratio of 3:2:1. You are required to fill up the following journal entry:

A's Capital A/c Dr ------------
B's Capital A/c Dr ------------
To C's Capital A/c 7200
(Adjustment for goodwill due to change in Profit sharing ratio)

Ans:

Date	Particulars	LF	Amount (Dr)	Amount (Cr)
2024 April 1	A's Capital A/c Dr B's Capital A/c Dr To C's Capital A/c (Adjustment for goodwill due to change in Profit sharing ratio)		5400 1800	 7200

Working note:
Old ratio of A, B and C = 7:5:4
New ratio of A,B and C = 3:2:1
Sacrifice or Gain =
A = 7/16 – 3/6 = 3/48(gain)
B = 5/16-2/6 = 1/48(gain)
C= 4/16-1/16 = 4/48(sacrifice)

2 Nithya and Anand are partners in a firm sharing profits and losses equally. With effect from 1st April,2024, they decided to share profits in the ratio of 3:2. On the

date of change in the profit-sharing ratio, the profit and loss A/c had a credit balance of Rs.1,50,000.

Pass necessary journal entry for the distribution of the balance in the profit & loss A/c before the change in the profit-sharing ratio.

Ans:

Date	Particulars	LF	Amount (Dr)	Amount (Cr)
2024 April 1	Profit & Loss A/c Dr		1,50,000	
	To Nithya's capital A/c			75,000
	To Anand's capital A/c			75,000
	(Undistributed profit distributed on change in profit sharing ratio)			

3 Mohan and Sohan, two college friends started a restaurant business in partnership sharing profit and loss in the ratio of 3:2 in the year 2019. Mohan also had a family business of garments, which he took over after his father's death. As a result, he devoted less time to the restaurant. Sohan, being his best friend understood this and supported him fully.

However, in the year 2020, due to Covid-19, the restaurant business slowed down Sohan approached Mohan and suggested that they share profits equally.

Mohan readily agreed to it.

The Goodwill of the firm was valued at Rs. 30,000. Also, there is a Workmen Compensation Reserve and General Reserve of Rs. 90,000 and Rs.12,000 respectively.

1.What single adjusting entry will be passed for goodwill adjustment?

2. What journal entry will be passed in case there is a claim on Workmen Compensation Reserve of Rs. 45,000?

3. What journal entry will be used for General Reserve?

Ans:

Date	Particulars	LF	Amount (Dr)	Amount (Cr)
1)	Sohan's Capital A/c…………… Dr		3,000	
	To Sohan's Capital			3,000
	(adjustment of Goodwill on change in profit sharing ratio)			
2	Workmen Compensation Reserve A/c Dr		90,000	
	To Claim on WC Reserve			45,000
	To Mohan's Capital			27,000
	To Sohan's Capital			18,000
	(Distribution of WC Reserve over the claim)			
3	General Reserve A/c-------------------- Dr		12,000	
	To Mohan's Capital			7,200
	To Sohan's Capital			4,800
	(Distribution of General Reserve on change in profit sharing ratio)			

4 X, Y and Z are partners sharing profits in the ratio of 4:3:2. From April1 2023, they decided to share the profits equally. On that date their books showed the following items:

Profit & Loss Account (Cr)	Rs.1,20,000
General Reserve	Rs. 45,000
Workmen compensation Reserve	Rs. 60,000
Advertisement Suspense Account (Dr)	Rs.90,000

Record the necessary journal entries.

Ans:

Date	Particulars	LF	Amount (Dr)	Amount (Cr)
2023 April.1	Profit & Loss A/c Dr		1,20,000	
	General Reserve A/c Dr		45,000	
	Workmen compensation Reserve Dr		60,000	
	To X's capital A/c(4/9)			1,00,000
	To Y's capital A/c (3/9)			75,000
	To Z's capital A/c(2/9)			50,000
	(Transfer of undistributed profit and General reserve on change in profit Sharing ratio)			
	X's capital A/c Dr		40,000	
	Y's Capital A/c Dr		30,000	
	Z's Capital A/c Dr		20,000	
	To Advertisement Suspense A/c			90,000
	(Transfer of advertisement suspense A/c on Change in profit sharing ratio)			

5 Anand and Vikas were partners in a firm sharing profits and losses in the ratio of 2:1. With effect from 1st April 2019, they agreed to share the profits equally. On that date, the Balance Sheet of the firm showed Rs.75,000 as workmen compensation Reserve against which there was no liability. Vikas expressed his opinion that it should be credited to the capital accounts equally. However, Anand was of the opinion that it should be credited to the capital accounts in the ratio of 2:1. Anand was able to convince Vikas. Explain what argument must have been put forward by Anand to which Vikas agreed?

Ans:

Anand would have given the argument that workmen compensation reserve was created out of profits when their profit-sharing ratio was 2:1. Hence it should be credited in the old profit-sharing ratio.

6 A, B and C were partners in a firm. From 1st April,2019 they decided to share the profits in the ratio of 2:3:5. On this date the Balance Sheet of the firm showed a balance of Rs.60,000 in contingency reserve and debit balance of Rs.1,20,000 in profit & loss a/c. The goodwill of the firm was valued at Rs.3,60,000.

Pass journal entries for the above transactions in the books of the firm.

Ans:

Date	Particulars	LF	Amount (Dr)	Amount (Cr)
	Contingency reserve A/c Dr To A's capital A/c To B's capital A/c To C's capital A/c (Contingency reserve transferred in old ratio)		60,000	 20,000 20,000 20,000
2.	A's capital A/c Dr B' capital A/c Dr C's capital A/c Dr To Profit & Loss A/c (Debit balance of profit & loss a/c transferred in old ratio)		40,000 40,000 40,000	 1,20,000
3	C's capital A/c Dr To A's capital A/c To B's capital A/c (Adjustment for goodwill)		60,000	 48,000 12,000

Calculation of Gaining/Sacrificing Ratio

A = 1/3 – 2/10 = 4/30(sacrifice)
B = 1/3 -3/10 = 1/30(sacrifice)
C= 1/3-5/10 = 5/30 (gain)

7 A and B are partners in a firm having2:1 profit sharing ratio. On April2013, they agreed to share profits and losses equally. On this date, they decided to revalue assets as follows:

	Book value	Revised Value
Land and Building	400000	550000
Machinery	200000	220000
Furniture	50000	40000
Debtors	60000	55000

Partners also decided to record net effect of the revaluation of assets and reassessment of liabilities without affecting their book value by passing a single adjustment entry.

Pass the adjustment entry

Ans:

	Particulars	LF	Amount	Amount
	B's capital A/c To A's Capital A/c (Adjustment made for revaluation without effecting the market value)		25833	 25833

Working Note

Rs.1,55,000 x 1/6 = Rs.25,833
Sacrificing ratio = Old ratio – New Ratio
A= 2/3 -1/2 = 1/6 (sacrifice)
B = 1/3- ½ = - 1/6(gain)

Increase in value of land and building	150000
Increase in value of Machinery	20000
Decrease in value of Furniture	- 10000
Decrease in value of Debtors	- 5000
Net effect	1,55,000 (profit)

8 Karan and Varun were partners in a firm sharing profits and losses in the ratio of 1 : 2. Their fixed capitals were Rs. 2,00,000 and Rs. 3,00,000 respectively. On 1st April, 2016 Kishore was admitted as a new partner for 1/4th share in the profits. Kishore brought Rs. 2,00,000 for his capital which was to be kept fixed like the capitals of Karan and Varun. Kishore acquired his share of profit from Varun.

Calculate goodwill of the firm on Kishore's admission and the new profit-sharing ratio of Karan, Varun and Kishore. Also, pass necessary Journal Entry for the treatment of Goodwill on Kishore's admission considering that Kishore did not bring his share of goodwill premium in Cash.

Ans: **Books of the firm**

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Kishore's Current A/c Dr. To Varun's Current A/c		25,000	25,000

a) Calculation of Hidden Goodwill:

Kishore's share = ¼

Kishore's Capital = 2,00,000

(a) Total capital of the new firm = 2,00,000 X 4 = **8,00,000**

(b) Existing total capital of Karan, Varun and Kishore = ` 2,00,000 + ` 3,00 000 + ` 2,00,000 = **7,00,000**

Goodwill of the firm = 8,00,000-7,00,000 = **1,00,000**

Thus, Kishore's share of goodwill = ¼ X 1,00,000 = **25,000**

(b) Calculation of New Profit Sharing ratio:

Karan's new share = 1/3 i.e. 4/12

Varun's new share = 2/3 - 1/4 = 5/12

Kishore's share = ¼ X 3/3 = 3/12

New Ratio = 4:5:3

9 Pankaj and Naresh were partners in a firm sharing profits in the ratio of 3: 2. Their fixed capitals were Rs. 5,00,000 and Rs. 3,00,000 respectively. On 1.1.2017, Saurabh was admitted as a new partner for 1/5th share in the profits. Saurabh acquired his share of profit from Pankaj. Saurabh brought Rs. 3,00,000 as his capital which was to be kept fixed like the capitals of Pankaj and Naresh.

Calculate the goodwill of the firm on Saurabh's admission and the new profit-sharing ratio of Pankaj, Naresh and Saurabh. Also, pass necessary journal entry for the treatment of goodwill.

Books of the firm
Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Saurabh's Current A/c Dr. To Pankaj's Current A/c (Adjustment of goodwill on change in profit sharing ratio)		80,000	80,000

a) Calculation of Hidden Goodwill:

Saurabh's share = 1/5

Saurabh's Capital = 3,00,000

(a) Total capital of the new firm = 3,00,000 X 5 = 15,00,000

(b) Existing total capital of Pankaj, Naresh and Saurabh = 5,00,000 + 3,00 000+ 3,00,000

= **11,00,000**

Goodwill of the firm = 15,00,000-11,00,000 = **4,00,000**

Thus, Saurabh's share of goodwill = 1/5 X 4,00,000 = 80,000

(b)Calculation of New Profit-Sharing ratio:

Pankaj's new share = 3/5 – 1/5 = 2/5

Naresh's new share = 2/5

Saurabh's share = 1/5

New Ratio = 2:2:1

10 Jay, Vijay and Ajay are sharing profits and losses in the ratio of 5:3:2. They decided to share profits and losses in the ratio of 2:3:5 with effect from 1st April, 2023. They also decide to record the effect of the following revaluations without affecting the book values of the assets and liabilities by passing and Adjustment Entry:

	Book Values (Rs.)	Revised Values (Rs.)
Land and Building	10,00,000	11,00,000
Plant and Machinery	5,00,000	4,80,000
Sundry Creditors	1,20,000	1,10,000
Outstanding Expenses	1,20,000	1,50,000

Pass the necessary Adjustment Entry.

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Ajay's Capital A/c Dr To Jay's Capital A/c (Adjustment of the net effect of gain/loss on change in profit sharing ratio)		18,000	18,000

Calculation of Net Effect of Revaluation:

Increase in value of Land and Building	1,00,000
Decrease in the value of sundry Creditors	10,000
Decrease in value of Plant and Machinery	(20,000)
Increase in the amount of outstanding Expenses	(30,000)
Gain in the amount of Outstanding Expenses	60,000

Calculation of Sacrificed (Gained) Profit Share:

	Jay	Vijay	Ajay
Old Profit Share	5/10	3/10	2/10
New Profit Share	2/10	3/10	5/10
Sacrificed (Gained) Profit Share	3/10	…..	-3/10

Calculation of Proportionate of share of Gain on Revaluation:
Jay’s Sacrificed=3/10*60,000=18,000
Ajay’s Gain= 3/10*60,000=18,000

LONG ANSWER TYPE QUESTIONS Change in PSR

1 A, B and C were partners in a firm sharing profits in the ratio of 3:2:1. Their Balance Sheet as on 31st March,2015 was as follows:

Balance Sheet of A,B and C
As at 31st March,2015

Liabilities	Amount	Assets	Amount
Sundry Creditors	100000	Land	100000
Bills Payable	40000	Building	100000
General Reserve	60000	Plant	200000
A’s capital	200000	Stock	80000
B’s capital	100000	Debtors	60000
C’s capital	50000	Bank	10000
	550000		550000

A, B and C decided to share the future profits equally, w.e.f 1st April,2015.For this it was agreed that:

(i) Goodwill of the firm be valued at Rs.300000
(ii) Land be revalued at Rs.1,60,000 and building be depreciated by 6%
(iii) Creditors of Rs.12,000 were not likely to be claimed and hence written off.

Prepare Revaluation A/c, Partner’s Capital A/c and Balance sheet of the reconstituted firm.

Ans:

Revaluation A/c

Particulars	Amount	Particulars	Amount
To Building A/c	6,000	By Land	60000
To Partner’s capital A/c		By Creditors A/c	12000
A 33000			
B 22000			
C 11000	66,000		

	72000		72000

Partners Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
To A’s capital A/c			50000	By Balance c/d	200000	100000	50000
To Balance C/d	313000	142000	21000	By Revaluation	33000	22000	11000
				By General Reserve	30000	20000	10000
				By C’s Capital	50000		
	313000	142000	71000		313000	142000	71000

Balance Sheet of A, B ,C as at March 31st 2015

Liabilities	Amount	Assets	Amount
Sundry Creditors	88,000	Land	160000
Bills payable	40,000	Building	94000
Partners capital A/c		Plant	200000
A 313000		Stock	80000
B 142000		Debtors	60000
C 21000	476000	Bank	10000
	604000		604000

2 A, B and C are partners sharing profits and losses in the ratio 5:3:2. Their Balance Sheet as at 31st March,2022 stood as follows:

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

Liabilities	Amount	Assets	Amount
Capital A/c's		Land& Building	260000
A 350000		Machinery	350000
B 250000		Stock	90000
C 300000	900000	Bills Receivable	70000
General Reserve	20000	Debtors	100000
Workmen compensation Reserve	30000	Cash in Hand	25000
Sundry Creditors	50000	Cash at Bank	105000
	10,00,000		10,00,000

They agreed to share profits and losses in the ratio of 2:2:1 w.e.f ist April 2022. on the following terms.

(i) Land & Building be appreciated by 10%
(ii) Machinery be reduced by 15%
(iii) Stock be increased to Rs.1,00,000
(iv) Provision for doubtful debts be created @ 5% on sundry debtors
(v) A creditor of Rs.5000 is not to claim his dues
(vi) A claim on account of workmen compensation is Rs.10000
(vii) An expense of Rs.2000 was paid by the firm for getting the value of Land and Building certified from a Chartered Engineer.

Pass the journal entry

Date	Particulars	LF	Amount (Dr)	Amount (Cr)
	General Reserve A/c Dr To A's capital A/c To B's capital A/c To C's capital A/c (General Reserve credited to capital accounts in their old ratio)		20,000	10,000 6,000 4,000
	Workmen Compensation Reserve A/c Dr To Workmen compensation claim A/c To A's capital A/c To B's capital A/c To C's capital A/c (Workmen compensation Reserve, after adjusting claim, credited to partners capital A/c in their old ratio)		30,000	10,000 10,000 6,000 4,000
	Land & Building A/c Dr Stock A/c Dr To Revaluation A/c (Increase in value of land & building and stock recorded)		26,000 10,000	36,000
	Revaluation A/c Dr To Machinery A/c To provision for doubtful debts (Decrease in value of machinery recorded and provision for doubtful debts made)		57,500	52,500 5,000
	Sundry Creditors A/c Dr To Revaluation A/c (Amount not payable written back)		5,000	5,000
	Revaluation A/c Dr To cash/Bank A/c (Expense for valuation of Land and Building)		2,000	2,000
	A's capital A/c Dr B's capital A/c Dr C's capital A/c Dr To Revaluation A/c (Loss on revaluation debited to partners capital accounts in their old profit sharing ratio)		9,250 5,550 3,700	18,500

Revaluation A/c

Particulars	Amount	Particulars	Amount
To Machinery A/c	52500	Land&Building	26000
To Provision for doubtful debtsA/c	5000	By Stock A/c	10000
To cash/Bank A/c	2000	By Sundry creditors A/c	5000
		By Loss trfd to A's capital A/c	
		B's capital A/c	9250
		C's Capital A/c	5550
			3700

	-------- 72000		72000

3 S, T, U and V were partners in a firm sharing profits in the ratio of 4 : 3 : 2 : 1. On 1-4-2016 their Balance Sheet was as follows :

Balance Sheet of S, T, U and V as on 1-4-2016

Liabilities	Amount Rs.	Assets	Amount Rs.
Capitals :		Fixed Assets	4,40,000
S 2,00,000		Current Assets	2,00,000
T 1,50,000			
U 1,00,000			
V 50,000	5,00,000		
Sundry Creditors	80,000		
Workmen Compensation Reserve	60,000		
	6,40,000		**6,40,000**

From the above date partners decided to share the future profits in 3 : 1 : 2 : 4 ratio. For this purpose, the goodwill of the firm was valued at ` 90,000. The partners also agreed for the following:

(i) The claim for workmen compensation has been estimated at Rs. 70,000.

(ii) To adjust the capitals of the partners according to new profit-sharing ratio by opening partners current accounts.

Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.

4 Ans:

Revaluation A/c

Particulars	Amount	Particulars	Amount
To Claim for Workmen Compensation	10,000	By loss on revaluation transferred to Partners' Capital A/cs S 4,000 T 3,000 U 2,000 V 1,000	10,000
	10,000		10,000

Partners' Capital Accounts

Particulars	S	T	U	V	Particulars	S	T	U
Revaluation. A/c	4,000	3,000	2,000	1,000	Balance b/d	2,00,000	1,50,000	1,00,
S's Capital				9,000	V's Capital	9,000	18,000	
T's Capital				18,000	V's Current A/c			
Current A/cs	58,000	1.,16,000						
Balance C/d	1,47,000	49,000	98,000	1,96,000				
Total	**2,09,000**	**1,68,000**	**100000**	**2,24,000**	**Total**	**2,09,000**	**1,68,000**	**1000**

Balance sheet of S,T,U &V

Liabilities	Amount	Assets	Amount

Sundry Creditors	80,000	Fixed Assets	4,40,000
Partners' Capital A/c:		Current Assets	2,00,000
S 1,47,000		V's Current A/c	1,74,000
T 49,000			
U 98,000			
V 1,96,000	4,90,000		
Claim for Workmen Compensation	70,000		
Partners' Current A/c:			
S 58,000			
T 1,16,000	1,74,000		
	8,14,000		8,14,000

Ram, Shyam and Hari were in partnership sharing profits in the ratio of 3 : 2 : 1. The Balance Sheet as at 31.3.2013 was as follows :

Liabilities	Amount	Assets	Amount
Bills Payable	20,000	Cash	40,000
Creditors	20,000	Bills Receivable	5,000
General Reserve	30,000	Debtors	15,000
Capitals		Stock	50,000
Ram	50,000	Furniture	20,000
Shyam	30,000	Machinery	30,000
Hari	25,000	Goodwill	15,000
Total	1,75,000	Total	1,75,000

On 1.4.2013 partners decided to share profits equally. For this purpose it was further agreed that.

Goodwill of the firm should be valued at Rs 30,000.
Furniture and Machinery is to be revalued at Rs 25,000 and Rs 35,000 respectively.
Value of Stock is to be reduced by Rs 4,000.
You are required to give necessary journal entries to give effect to the above arrangement and prepare Revaluation Account, Partners' Capital Accounts and Balance Sheet of the firm after reconstitution.

Ans

Revaluation A/c

Particulars	Amount	Particulars	Amount
Stock A/c	4,000	Machinery	5,000
Profit transferred to:		Furniture	5,000
Ram's Capital A/c	3,000		
Shyam's Capital A/c	2,000		
Hari's Capital A/c	1,000		
Total	10,000	Total	10,000

Partners' Capital Accounts

Particulars	Ram	Shyam	Hari	Particulars	Ram	Shyam	Hari
Goodwill	7,500	5,000	2,500	Balance B/d	50,000	30,000	25,000
Ram's Capital A/c			5,000	G. Reserve	15,000	10,000	5,000
Balance c/d	65,500	37,000	23,500	Hari's Capital	5,000		
				Revaluation	3,000	2,000	1,000
Total	72,000	42,000	31,000	Total	72,000	42,000	31,000

Balance sheet

Liabilities	**Amount**	**Assets**	**Amount**
		Cash	40,000
Bills Payable	20,000	Bills Receivable	5,000
Creditors	20,000	Debtors	15,000
Capitals		Stock	46,000
Ram	65,500	Furniture	25,000
Shyam	37,000	Machinery	35,000
Hari	23,500		
Total	1,66,000	Total	1,66,000

5 A, B and C were partners in a firm sharing profits in the ratio of 3:2:1. Their Balance Sheet as on 31st March,2015 was as follows:

Balance Sheet of A,B and C
As at 31st March,2015

Liabilities	Amount	Assets	Amount
Sundry Creditors	100000	Land	100000
Bills Payable	40000	Building	100000
General Reserve	60000	Plant	200000
A's capital	200000	Stock	80000
B's capital	100000	Debtors	60000
C's capital	50000	Bank	10000
	550000		550000

A, B and C decided to share the future profits equally,w.e.f 1st April,2015.For this it was agreed that:

(iv) Goodwill of the firm be valued at Rs.300000
(v) Land be revalued at Rs.1,60,000 and building be depreciated by 6%
(vi) Creditors of Rs.12,000 were not likely to be claimed and hence written off.

Prepare Revaluation A/c, Partner's Capital A/c and Balance sheet of the reconstituted firm.

Ans:

Revaluation A/c

Particulars	Amount	Particulars	Amount
To Building A/c	6,000	By Land	60000
To Partner's capital A/c		By Creditors A/c	12000
A 33000			
B 22000			
C 11000	66,000 --------		
	72000		72000

Partners Capital Accounts

Particulars	A	B	C	Particulars	A	B	C
To A's capital A/c			50000	By Balance c/d	200000	100000	50000
To Balance C/d	313000	142000	21000	By Revaluation	33000	22000	11000
				By General Reserve	30000	20000	10000
				By C's Capital	50000		
	313000	142000	71000		313000	142000	71000

Balance Sheet of A, B ,C
As at March 31st 2015

Liabilities	Amount	Assets	Amount
Sundry Creditors	88,000	Land	160000
Bills payable	40,000	Building	94000
Partners capital A/c		Plant	200000
A 313000		Stock	80000
B 142000		Debtors	60000
C 21000	476000	Bank	10000
	604000		604000

ADMISSION OF A PARTNER

Explain the effect of change in profit sharing ratio on admission of a new partner.

Develop the understanding and skill of treatment of goodwill as per AS-26, treatment of revaluation of assets and reassessment of liabilities, treatment of reserves and accumulated profits, adjustment of capital accounts and preparation of capital, current account and balance sheet of the new firm.

When a firm requires additional capital or managerial help or both for the expansion of its business a new partner may be admitted to supplement its existing resources. Admission of a partner is one of the modes of reconstitution of a partnership, under which existing agreement comes to an end and a new one comes into existence.

According to the Partnership Act 1932, a new partner can be admitted only with the consent of all the existing partners.

- **Rights of a New Partner:**

1. Right to share future profits of the firm.
2. Right to share the assets of the firm.

- **Following Adjustments are needed at the time of admission of a New Partner:**

1. Calculation of New Profit-Sharing Ratio
2. Calculation of Sacrificing Ratio
3. Accounting treatment of Goodwill
4. Accounting treatment for revaluation of assets and liabilities
5. Accounting treatment of reserves and accumulated profits
6. Adjustment of Partners' Capitals

- **New Profit-Sharing Ratio:**

The ratio in which all the partners (including incoming partner) share the future profits and losses is known as the new profit-sharing ratio.

New Profit-Sharing Ratio =k Old Share — Sacrificing Share

- **Sacrificing Ratio:**

The ratio in which old partners agree to sacrifice their share of profit in favour of the new partner is called the sacrificing ratio.

Sacrificing Ratio = Old Share — New Share

➢ Treatment of Goodwill:

Case 1:	**When premium for goodwill is paid privately by a new partner** No entry
Case 2:	**When premium for goodwill is brought in business by new partner and retained in the business**

	Cash/Bank A/c Dr. To Premium for Goodwill A/c Premium for Goodwill A/c Dr. To Old Partner's Capital A/cs
Case 3:	**When premium for goodwill is brought in kind** Assets A/c Dr. To Premium for Goodwill A/c To New Partner's Capital A/c
	Premium for Goodwill A/c Dr. To Sacrificing Partner's Capital/Current A/c
Case 4:	**For withdrawing of premium by old partners** Old Partner's Capital/Current A/c Dr. To Cash/Bank A/c
Case 5:	**When the new partner is unable to bring his share of premium for goodwill in cash** New Partner's Current A/c Dr. To Old Partner's Capital/Current A/c

➢ Revaluation Account:

Revaluation of assets and liabilities is done with the help of a new account called 'Revaluation Account'. Sometimes this account is called as 'Profit & Loss Adjustment' account. This account is a nominal account in nature.

Following entries are passed for the purpose of Revaluation:

1. **For decrease in the value of assets:**
   Revaluation A/c or Profit & Loss Adjustment A/c Dr.
   To Assets A/c
   (Decrease in the value of assets)
2. **For increase in the value of assets:**
   Assets A/c Dr.
   To Revaluation A/c or Profit & Loss Adjustment A/c (Increase in the value of assets)
3. **For increase in the value of liabilities:**
   Revaluation A/c or Profit & Loss Adjustment A/c Dr.
   To Liabilities A/c

(Increase in the value of Liabilities)

4. **For decrease in the value of liabilities:**

Liabilities A/c Dr.
To Revaluation A/c or Profit & Loss Adjustments A/c
(Decrease in the value of liabilities)

5. **When Revaluation Account Shows Profit:**

Revaluation Account Dr.
To Old Partner's Capital A/c's
(Profit on Revaluation credited to Old Partner's Capital A/cs)

6. **When Revaluation Account shows loss:**

Old Partner's Capital A/c's Dr.
To Revaluation A/c
(Loss on Revaluation debited to Old Partner's Capital A/cs)

Treatment of Revaluation of Assets and Liabilities:

REVALUATION ACCOUNT

Particulars	Amt.	Particulars	Amt.
To Decrease in value of Assets (Loss)	XXX	By Increase in value of Assets (Profit)	XXX
To Increase in value of Liabilities (Loss)	XXX	By Decrease in value of Liabilities (Profit)	XXX
To Unrecorded Liabilities (At an Agreed Value)	XXX	By Unrecorded Assets (At an Agreed Value)	XXX
To Profit Transferred to Old Partners Capital/Current A/c (In old ratio)	XXX	By Loss Transferred to old Partners Capital / Current A/c (In old ratio)	XXX
	XXX		XXX

➢ Accounting Treatment of Reserves & Accumulated Profits & Losses:

At the time of admission of partner, all the accumulated profits/Losses and Reserves are to be distributed to the old partners in their old profit-sharing Ratio.

❖ **For distribution of Accumulated Profits/Reserves:**

Reserve A/c Dr.
Reserve Fund A/c Dr.
Profit and Loss A/c Dr.
Workmen Compensation Reserve a/c Dr.
To Old Partners' Capital/Current A/c
(Accumulated profits and reserves are credited to partners' capital account in their old ratio)

- **For distribution of Accumulated losses/Fictitious Assets:**

Partners' Capital/ Current A/c Dr.
To Profit and loss A/c
To Preliminary Expenses A/c
To Advertisement Suspense A/c
(Accumulated losses and fictitious assets debited to old partners in old profits sharing ratio)

Accounting Treatment of Workmen Compensation Reserve:

This reserve is created out of the Firm's profit to pay compensation to employees.

Case 1: If there is no claim against Workmen Compensation Reserve:

Workmen Compensation Reserve A/c Dr.
To Partners' Capital/Current A/c
(WCR credited to Partners' Capital Account in old profit-sharing ratio)

Case2: If the claim for Workmen Compensation is lower than the amount of Workmen Compensation Reserve (Claim for WCR is less than WCR):

Workmen Compensation Reserve A/c Dr.
To Provision for Workmen Compensation Claim A/c
To Partners' Capital/Current A/c
(amount of claim transferred to liability and balance to Partners' Capital A/c in old profit-sharing ratio)

Case3: If the claim is equal to Workmen Compensation Reserve:

Workmen Compensation Reserve A/c Dr.
To Provision for Workmen Compensation Claim A/c
(provision made for workmen compensation claim)

Case 4: If the claim is more than the amount of Workmen Compensation Reserve:

Workmen Compensation Reserve A/c Dr.
Revaluation A/c Dr.

To Provision for Workmen Compensation Claim A/c

(amount of claim debited to Workmen Compensation Reserve and Revaluation A/c)

Partners' Capital A/c Dr.

To Revaluation A/c

(loss on Revaluation transferred to Partners' Capital Account in old ratio)

- **Accounting Treatment of Investment Fluctuation Reserve:**

Case 1: When Book value and Market value of Investment is same:

Investment Fluctuation Reserve A/c Dr.

To Partners' Capital/Current A/c

(IFR transferred to Partners' Capital Account in old ratio)

Case2: When market value of investment is less than the Book value:

a) Fall in the value of Investment is less than Investment Fluctuation Reserve:

Investment Fluctuation Reserve A/c Dr.

To Investment A/c (Book value — Market value)

To Partners' Capital/Current A/c (Old ratio)

b) Fall in the value of Investment is equal to Investment Fluctuation Reserve:

Investment Fluctuation Reserve A/c Dr.

To Investment A/c

c) Fall in the value of Investment is more than Investment Fluctuation Reserve

Investment Fluctuation Reserve A/C Dr.

Revaluation A/c Dr.

To Investment A/c

Partners' Capital/Current A/c (Old ratio) Dr.

To Revaluation A/c

Case3: When Market value of Investment is more than the Book Value:

Investment Fluctuation Reserve A/c Dr. (Full amount of IFR)

To Partners' Capital/Current A/c

(IFR credited to Partners' Capital Account)

Investment Account Dr. (Excess of Market value over Book value)

To Revaluation A/c

(increase in the value of investment is credited to Revaluation Account)

Revaluation Account Dr.

To Partners' Capital/Current A/c (old ratio)

(Increased value of investment is credited to Partners' capital Account)

➢ Adjustment of Capital:

Case 1: Adjustment of old partner's capital on the basis of new or incoming partner's capital:

❖ When present capital is less than the new capital:

Cash or Bank A/C Dr. (if amount is brought in)

Concerned Partner's Current A/c Dr. (if amount is not brought in)

To Concerned Partner's Capital A/C

❖ When present capital is more than the new capital:

Concerned Partner's Capital A/C Dr.

To Cash or Bank A/C (if the amount is withdrawn)

To Concerned Partner's Current a/c(if the amount is not withdrawn)

Case 2: Calculating the capital of new partner on the basis of capitals of old partners:

a. Determine the total adjusted capital of old partners.
b. Determine the total capital of the new firm:
   Total adjusted capital of old partners X Reciprocal of combined new share old partners.
c. Determine the capital of the new partner:
   Total capital (as per b) X Share of new partner

MCQ's

1. **On the admission of a new partner:**
   - (A) Old firm is dissolved
   - (B) Old partnership is dissolved
   - (C) Both old partnership and firm are dissolved
   - (D) Neither partnership nor firm is dissolved
2. **A and B are partners in a firm sharing profits and losses in the ratio of 3 :2. A new partner C is admitted. A surrenders 1/15th share of his profit in favour of C and B surrenders 2/15th of his share in favour of C. The new ratio will be:**
   - (A) 8:4:3
   - (B) 42:26:7
   - (C) 4:8:3
   - (D) 26:42:7
3. **A, B and C are partners sharing in the ratio of 5:4:3. They admit D for 1/7th share. It is agreed that B would retain his original share. Sacrificing ratio will be:**
   - (A) A, B and C - 5:4:3
   - (B) A and C - 4:3
   - (C) A and C - 5:4
   - (D) A and C - 5:3
4. **When a new partner brings his share of goodwill in cash, the amount is debited to:**
   - (A) Goodwill A/c
   - (B) Capital A/c of the new partner
   - (C) Cash A/c
   - (D) Capital A/c's of the old partners
5. **Goodwill of a firm of A and B is valued at books at Rs. 30,000. It is appearing in the books at Rs. 12,000. C is admitted for 1/4 share. What amount he is supposed to bring for goodwill?**
   - (A) Rs. 3,000
   - (B) Rs. 4,500
   - (C) Rs. 7,500
   - (D) Rs. 10,500
6. **A and B are partners in a firm having capitals of Rs. 54,000 and Rs. 36,000 respectively. They admitted C for 1/3rd share in the profits. C brought proportionate amount of capital. The Capital brought in by C would be:**
   - (A) Rs. 90,000
   - (B) Rs. 45,000
   - (C) Rs. 54,000
   - (D) Rs. 36,000
7. **A and B are partners sharing profits and losses as 2:1. C is admitted and profit-sharing ratio becomes 4:3:2. Goodwill is valued at Rs. 94,500. C brings required goodwill in cash. Goodwill amount will be Credited to:**
   - (A) A Rs. 14,000 and B Rs. 7,000
   - (B) A Rs. 12,000 and B Rs. 9,000
   - (C) A Rs.21,000

(D) A Rs. 94,500

8. **X and Y are partners sharing profits and losses in the ratio of 3:2. They admit Z into partnership with 1/5th share in profits which he acquires equally from X and Y. Z brings in Rs. 40,000 as goodwill in cash. Goodwill amount will be credited to:**
   (A) X Rs. 20,000; Y Rs. 20,000
   (B) X Rs. 25,000; Y Rs. I5,000
   (C) X Rs. 24,000; Y Rs. 16,000
   (D) X Rs. 4,000; Y Rs. 4,000

9. **Veena and Soma are partners in a firm. They admit Sara on 1st April,2020, for 1/4 share in the profits of the firm. Sara acquired her share as 1/12 from Veena and the remaining from Soma.**
   The sacrificing ratio of the old partners will be:
   (A) 11: 12
   (B) 1: 1
   (C) 1: 2
   (D) 1:11

10. **A and B are partners sharing profits in the ratio of 2:1. Their Balance Sheet shows Machinery at Rs. 3,00,000; Stock at Rs. 80,000 and Debtors at Rs. 1,60,000. C is admitted and new profit-sharing ratio is agreed at 6:9:5. Machinery is revalued at Rs. 2,40,000 and a provision is made for doubtful debts @ 5%. A's share in loss on revaluation amount to Rs. 20,000. Revalued value of Stock will be:**
   (A) Rs. 42,000
   (B) Rs. 1,28,000
   (C) Rs. 38,000
   (D) Rs. 1,18,000

ANSWERS:

1.	B
2.	B
3.	D
4.	C
5.	C
6.	B
7.	C
8.	A
9.	C
10.	D

➢ CASE BASED QUESTIONS

A and B are partners sharing profits and losses in the ratio of 3:2. They admitted C with effect from 1st April, 2024. New profit-sharing ratio is agreed at 4:3:3. An extract of their Balance Sheet as at 31st March, 2024 is as follows:

Liabilities	Rs.	Assets	Rs.
Workmen Compensation Reserve	90,000		

Based on the above information you are required to answer the following questions (11,12 and 13):

11. If there is no other information in respect of Workmen Compensation Reserve:

(A) Cr. A's Capital A/c with Rs. 60,000 and B's Capital A/c with Rs. 30,000

(B) Cr. A's Capital A/c with Rs. 54,000 and B's Capital A/c with Rs. 36,000

(C) Dr. A's Capital A/c with Rs. 54,000 and B's Capital A/c with Rs. 36,000

(D) Cr. A's Capital A/c with Rs. 36,000 and B's Capital A/c with Rs. 27,000 and C's Capital A/c Rs. 27,000

12. If a claim for Workmen Compensation is estimated at Rs. 60,000:

(A) Cr. A's Capital A/c with Rs. 20,000 and B's Capital A/c with Rs. 10,000

(B) Dr. A's Capital A/c with Rs. 18,000 and B's Capital A/c with Rs. 12,000

(C) Cr. A's Capital A/c with Rs. 18,000 and B's Capital A/c with Rs. 12,000

(D) Cr. A's Capital A/c with Rs.12,000 and B's Capital A/c with Rs. 9,000 and C's Capital A/c with Rs. 9,000

13. If a claim for Workmen Compensation is estimated at Rs. 1,50,000

(A) Dr. C's Capital with Rs. 60,000

(B) Dr. C's Capital A/c with Rs. 18,000

(C) Dr. Workmen Compensation Reserve A/c with Rs. 90,000 and Revaluation A/c with Rs. 60,000

(D) Dr. Revaluation A/c with Rs. 60,000

A, B and C are partners sharing profits in 2:2:1. D was admitted with 1/5th share of profits and it was agreed that A would retain his original share. D brings his share of goodwill Rs. 1,20,000 in Cash. Following balances appeared in their books at this date:

	Rs.
Plant	3,00,000

Investments		2,00,000
Investment Fluctuation Reserve		20,000
Advertisement Suspense Account		60,000
Contingency Reserve		90,000
Capitals: A		4,00,000
B		3,00,000
C		2,00,000
Sundry Debtors	1,26,000	
Less: Provision for Doubtful Debts	8,000	1,18,000

It was agreed that:

(i) Plant is overvalued by 25%.
(ii) Market value of Investments is Rs. 1,50,000.
(iii) Bad-debts Rs. 6,000 be written off and provision for doubtful debts be maintained @ 10% on debtors.

Based on the above information you are required to answer the following questions (14,15 and 16):

14. Loss on Revaluation will be:

(A) Rs. 1,20,000
(B) Rs. 1,00,000
(C) Rs. 1,06,000
(D) Rs. 1,15,000

15. New Profit-Sharing Ratio will be:

(A) 2:2:1:1
(B) 2:4:2:1
(C) 6:4:2:3
(D) 6:4:2:1

16. In respect of goodwill:

(A) Rs. 1,20,000 will be credited to A, B and C in 2:2:1.
(B) Rs. 1,20,000 will be credited to B and C in 2:1.
(C) Rs. 24,000 will be credited to B and C in 2:1.
(D) Rs. 1,20,000 will be credited to A, B and C in 6:4:2.

A, B and C are partners sharing profits in 3:2:1. They admitted D as a new partner for 1/4th share in the profits and he brought in Rs. 3,00,000 as his share of goodwill which was credited to the Capital Accounts of B and C respectively with Rs. 2,50,000 and Rs. 50,000. Their Balance Sheet as at date was as under:

Liabilities	Rs.	Assets	Rs.
A's Capital	4,00,000	Goodwill	1,20,000

B's Capital	2,00,000	Land and Building		5,00,000
C's Capital	2,00,000	Machinery		1,00,000
Creditors	1,50,000	Furniture		40,000
General Reserve	30,000	Debtors	2,00,000	
		Less: Provision for Doubtful Debts	8,000	1,92,000
		Cash at Bank		28,000
	9,80,000			9,80,000

Following adjustments are agreed upon:

(i) Machinery is reduced by Rs. 60,000.

(ii) Furniture is reduced to Rs. 15,000.

(iii) An unrecorded accrued income of Rs. 10,600 is to be accounted.

(iv) A debtor whose dues of Rs. 50,000 were written off as bad debts, paid Rs. 30,000 in full settlement.

(v) Bad debts amounting to Rs. 10,000 are to be written off and provision for doubtful debts is to be maintained at the existing rate.

Based on above information, you are required to answer the following questions (17,18,19 and 20):

17. Loss on revaluation will be:

(A) Rs.56,000
(B) Rs. 24,000
(C) Rs. 84,000
(D) Rs. 54,000

18. New Profit-Sharing Ratio will be:

(A) 3:2:1:1
(B) 9:6:3:4
(C) 4:1:1:2
(D) 3:5:1:1

19. A's Capital Account Balance will be

(A) Rs. 3,13,000
(B) Rs. 3,28,000
(C) Rs. 3,43,000
(D) Rs. 3,88,000

20. C's Capital Account Balance will be:

(A) Rs. 2,26,000
(B) Rs. 2,21,000
(C) Rs. 2,46,000
(D) Rs. 2,31,000

ANSWERS:

11.	B
12.	C
13.	C
14.	B
15.	C
16.	B
17.	D
18.	C
19.	B
20.	A

➢ ASSERTION REASON QUESTIONS:

21. Assertion (A): A new partner becomes entitled to share future profits of the firm and also becomes liable for past losses of the firm.

Reason (R): A new partner acquires rights in the assets and also becomes liable to any liability incurred by the firm after his admission.

(A) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(B) Both (A) and (R) are true and (R) is the correct explanation of (A).
(C) (A) is false but (R) is true.
(D) (A) is true but (R) is false.

22. Assertion (A): In case of admission of a partner, the old firm is dissolved and a new firm comes into existence.

Reason (R): After admission of a new partner, old partners along with the new partner constitute the new firm. As such, the old firm is dissolved and a new firm comes into existence.

(A) Both (A) and (R) are correct and (R) is the correct reason for (A).
(B) Both (A) and (R) are correct but (R) is not the correct reason for (A).
(C) Only (R) is correct.
(D) Both (A) and (R) are wrong.

23. Assertion (A): Admission of a partner does not mean dissolution of the firm but dissolution of old partnership.

Reason (R): Admission of a partner means reconstitution of the partnership whereby old partnership ceases to exist and new partnership comes into existence However, the firm continues.

(A) (A) and (R) both are correct and (R) correctly explains (A).

(B) Both (A) and (R) are correct and (R) does not explain (A).
(C) Both (A) and (R) are incorrect.
(D) (A) is correct but (R) is incorrect.

24. Assertion (A): Revaluation A/c is prepared at the time of admission of a partner.

Reason (R): It is required to adjust the values of assets and liabilities at the time of admission of a partner, so that the true financial position of the firm is reflected.

(A) Both (A) and (R) are correct and (R) is the correct reason for (A).
(B) Both (A) and (R) are correct but (R) is not the correct reason for (A).
(C) Only (R) is correct.
(D) Both (A) and (R) are wrong.

25. Assertion (A): New partner should bring in his share of goodwill in cash so that the sacrificing partners may be compensated.

Reason (R): New partner may or may not bring his share of goodwill in cash. New Partner's Current Account may be debited and sacrificing partners' Capital Accounts credited to compensate them.

(A) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(B) Both (A) and (R) are true and (R) is the correct explanation of (A).
(C) Both (A) and (R) are false.
(D) (A) is false, but (R) is true.

26. Assertion (A): Admission of a partner is one of the modes of reconstitution of the partnership whereby old partnership ceases to exist and a new partnership comes into existence.

Reason (R): In case of admission of a partner the number of partners increase and as a result profit sharing ratio also changes. But the firm continues. As such, it is the reconstitution of partnership.

(A) Both (A) and (R) are correct and (R) is the correct reason for (A).
(B) Both (A) and (R) are correct but (R) is not the correct reason for (A).
(C) Only (R) is correct.
(D) Both (A) and (R) are wrong.

27. Assertion (A): When market value of Investments is more than the book value, the entire amount of Investment Fluctuation Reserve is credited to old partners in their old profit-sharing ratio.

Reason (R): Investment Fluctuation Reserve is a reserve created out of past profits and hence distributed among old partners in their old ratio.

(A) (A) and (R) both are correct and (R) correctly explains (A).
(B) Both (A) and (R) are correct but (R) does not explain (A).
(C) Both (A) and (R) are incorrect.
(D) (A) is correct but (R) is incorrect.

28. Assertion (A): If there are seven partners in a firm, a new partner cannot be admitted even if one partner does not agree to this.

Reason (R): A new partner can be admitted if the majority of partners agree on his admission.

(A) (A) and (R) both are correct and (R) correctly explains (A).
(B) Both (A) and (R) are correct but (R) does not explain (A).
(C) Both (A) and (R) are incorrect.
(D) (A) is correct but (R) is incorrect.

29. Assertion (A): Goodwill appearing in the books is not written off and is carried forward to the new Balance Sheet.

Reason (R): Goodwill existing in the books is purchased goodwill and hence, is not written off.

(A) Both (A) and (R) are correct and (R) is the correct reason for (A).
(B) Both (A) and (R) are correct but (R) is not the correct reason for (A).
(C) Both (A) and (R) are wrong.
(D) Only (R) is correct.

30. Assertion (A): X and Y are partners with a profit sharing ratio of 5:3. They admit Z for 1/6th share of profits. There is a balance of Advertisement Suspense Account on that date for Rs. 1,80,000. It is carried forward to the new Balance Sheet.

Reason (R): Since it is likely to give benefits in the near future Advertisement Suspense Account is carried forward to the new Balance Sheet.

(A) Both (A) and (R) are correct and (R) is the correct reason for (A).
(B) Both (A) and (R) are correct but (R) is not the correct reason for (A).
(C) Only (A) is correct.
(D) Both (A) and (R) are wrong.

ANSWERS:

21.	C
22.	D
23.	A
24.	A
25.	D
26.	A
27.	A
28.	D
29.	C
30.	D

3 MARK QUESTIONS

31. Niti and Aditi were partners in a firm sharing profits and losses in the ratio of 2:3. They admitted John into partnership for 1/4th share in the profits of the firm, which he acquired equally from Niti and Aditi. John brought Rs. 5,00,000 as his capital and Rs. 1,00,000 as premium for goodwill. One-fourth of the goodwill was withdrawn by the old partners. Pass necessary journal entries for the above transactions in the books of the firm. Also calculate new profit-sharing ratios.

SOL:

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. To John's Capital A/c To Premium for Goodwill A/c (The amount of capital and share of premium for goodwill brought in cash)		6,00,000	 5,00,000 1,00,000
	Premium for Goodwill A/c Dr. To Niti's Capital A/c To Aditi's Capital A/c (Premium for goodwill transferred to old partners in sacrificing ratio i.e., equally)		1,00,000	 50,000 50,000
	Niti's Capital A/c Dr. Aditi's Capital A/c Dr. To Bank A/c (one-fourth of premium for goodwill withdrawn by the old partners)		12,500 12,500	 25,000

JOURNAL

Calculation of new profit-sharing ratios:

John's share is 1/4 which he acquires equally from Niti and Aditi. Therefore,

John gets his share from Niti = ½ of ¼ = 1/8

John gets his share from Aditi = ½ of ¼ = 1/8

New ratio of Niti = 2/5-1/8 = (16-5)/40 = 11/40

New ratio of Aditi =3/5-1/8 = (24-5)/40 = 19/40

New ratio of Niti, Aditi and John

11/40:19/40:1/4 = (11:19:10)/40 = 11:19:10

32. A and B are partners sharing profits and losses in the ratio of 3:2. They admitted C into partnership for ¼ share. Goodwill of the firm was to be valued at 3 years' purchase of super profits. Average net profits of the firm were Rs. 20,000. Capital invested in the business was Rs. 50,000 and Normal Rate of Return was 10%. Calculate the amount of goodwill C has to bring.

SOL:

Super profit = Average Profit – Normal Profit. Normal profit = 50,000 x 10% = 5,000

= 20,000 – 5,000 = 15,000

Goodwill = super profit x No. of years' purchase = 15,000 x 3 = 45,000

C's share of goodwill = 45,000 x ¼ = Rs. 11,250

33. A and B are partners sharing profits in the ratio of 3:2. They admit C into the partnership with 1/4th share in future profits. The new profit-sharing ratio is 5:4:3. C brings into the business Rs. 50,000 for his capital but could not bring any amount for goodwill. The firm's goodwill on C's admission was valued at Rs. 48,000. Pass journal entries.

SOL:

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. To C's Capital A/c (The amount of capital brought in cash)		50,000	 50,000
	C's Current A/c Dr. To A's Capital A/c To B's Capital A/c (Current account of new partner debited from his share of goodwill and Capital account of Old		12,000	 8,800 3,200

	Partner's credited in their sacrificing ratio)			

Calculations:

(1) Value of total goodwill of the firm= Rs. 48,000

C's share of goodwill= 48,000 x 1/4 = Rs. 12,000

(2) Calculation of Sacrificing ratio:
Sacrifice Ratio = Old ratio – New Ratio
A = 3/5 – 5/12 = (36-25)/60 = 11/60
B = 2/5 – 4/12 = (24-20)/60 = 4/60

Sacrifice Ratio = 11:4

34. Rohit and Mohit were partners in a firm sharing profits and losses in the ratio of 3:2. Rahul was admitted into partnership for 1/3rd share in profits. Goodwill of the firm was valued at Rs. 3,00,000. Rahul brought Rs. 4,00,000 as capital and Rs. 70,000 out of his share of goodwill premium in cash. At the time of Rahul's admission, goodwill was appearing in the books of the firm at Rs. 1,50,000. Pass necessary journal entries for the above transactions in the books of the firm on Rahul's admission.

SOL:

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Rohit's Capital A/c Dr. Mohit's Capital A/c Dr. To Goodwill A/c (Goodwill appearing in books written off in old ratio 3:2)		90,000 60,000	 1,50,000
	Bank A/c Dr. To Rahul's Capital A/c To Premium for Goodwill A/c (Capital and part of premium for Goodwill brought in by Rahul)		4,70,000	 4,00,000 70,000
	Premium for Goodwill A/c Dr. Rahul's Current A/c Dr.		70,000 30,000	

	To Rohit's Capital A/c To Mohit's Capital A/c (Premium for goodwill credited to old partners in sacrificing ratio of 3:2)			60,000 40,000

35. A, B and C are sharing profits and losses in the ratio of 3:2:1. They decided to admit D for 1/5th share with effect from 1st April, 2024. An extract of their Balance Sheet as at 31st March, 2024 is:

Liabilities	Rs.	Assets	Rs.
Investments Fluctuation Reserve	30,000	Investments (At cost)	5,00,000

Show the accounting treatment if the market value of investments is Rs. 5,24,000.

SOL:

Date	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
2024 April 1st	Investments Fluctuation Reserve A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Investments fluctuation reserve credited to partners' Capital Accounts in their old profit-sharing ratio)		30,000	 15,000 10,000 5,000
	Investments A/c Dr. To Revaluation A/c (Value of Investments brought up to market value)		24,000	 24,000
	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c		24,000	 12,000 8,000 4,000

	(profit on revaluation credited to partner's Capital Accounts in their old profit-sharing ratio)			

36. A and B are equal partners with fixed capitals of Rs. 90,000 and Rs. 60,000 respectively. They admit C as a partner with 1/4th share in the profit of the firm. C brings Rs. 16,000 to acquire his right to share profits of the business and Rs. 80,000 to acquire the right to share the firm's assets. Give Journal Entries at the time of C's admission.

SOL: JOURNAL

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Cash A/c Dr. To C's Capital A/c To Premium for Goodwill A/c (capital and premium for goodwill brought in cash)		96,000	 80,000 16,000
	Premium for Goodwill A/c Dr. To A's Current A/c To B's Current A/c (premium for goodwill credited to old partners' current account in their sacrificing ratio)		16,000	 8,000 8,000

37. A, B and C were partners in a firm sharing profits in a 3:3:2 ratio. They admitted D as a new partner for 4/7 profit. D acquired his share 2/7 from A, 1/7 from B and 1/7 from C. Calculate new profit-sharing ratio.

SOL: A's Share = 3/8-2/7 = (21-16)/56 = 5/56

B's Share = 3/8-1/7 = (21-8)/56 = 13/56

C's Share = 2/8-1/7 = (14-8)/56 = 6/56

D's Share = 4/7 X 8/8 = 32/56

Therefore, new profit-sharing ratio for A, B, C and D will be 5:13:6:32

38. A and B are partners in a firm sharing profits in the ratio of 7:3. C is admitted as a new partner. A sacrifices 2/7th of his share in profits in favour of C and B sacrifices 1/3rd of his share in favour of C. Calculate the new profit-sharing ratio between A, B and C.

SOL: Calculation of Surrendered Share:

A's old share = 7/10; A surrenders 2/7th of 7/10 in favour of C, i.e., 2/7 x 7/7=2/10

B's old share = 3/10; B surrenders 1/3rd of 3/10 in favour of C, i.e., 1/3 x3/10=1/10

Calculation of New Ratios:

A's new share after surrendering 2/10 in favour of C = 7/10 – 2/10 = 5/10

B's new share after surrendering 1/10 in favour of C = 3/10 – 1/10 = 2/10

C's share is the total of 2/10 from A and 1/10 from B = 3/10

Therefore, New ratio of A, B and C =5:2:3

39. A, B and C are partners sharing profits and losses in the ratio of 9:6:5. D is admitted as a new partner for 1/4th share. B sacrifices 1/20th from his share in favour of D and the rest of the sacrifice was made by A and C in the ratio of 3:1. Calculate sacrificing ratio and new profit-sharing ratio.

SOL:

(i) Calculation of Sacrificing ratio:
D's share = 1/4, Out of which 1/20 is given by B.
Remaining share of D =1/4 – 1/20 = (5-1)/20 = 4/20
This 4/20 share is sacrificed by A and C in the ratio of 3:1
Therefore, A's sacrifice = 4/20 x 3/4 = 3/20
C's sacrifice = 4/20 x 1/4 = 1/20
Sacrifice ratio of A, B and C = 3/20:1/20:1/20 or 3:1:1

(ii) Calculation of new ratio:
A = 9/20-3/20 = 6/20
B = 6/20-1/20 = 5/20
C = 5/20-1/20 = 4/20
D = 1/4 or 5/20
New ratio of A, B, C and D = 6:5:4:5

40. A and B are partners sharing profits in the ratio of 3 :2. They admit C into the firm for 3/7th profit which he takes 2/7th from A and 1/7th from B. C brings Rs. 60,000 for his share of goodwill and Rs. 2,00,000 for his capital. Give necessary Journal entries.

SOL: JOURNAL

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. To C's Capital A/c To Premium for Goodwill A/c (The amount of Capital and goodwill brought in Cash)		2,60,000	 2,00,000 60,000
	Premium for Goodwill A/c Dr. To A's Capital A/c To B's Capital A/c (Goodwill/premium transferred to old partners capitals in sacrifice ratio i.e., 2:1)		60,000	 40,000 20,000

➢ 4 MARK QUESTIONS

41.

(a) L and Z were partners in a firm sharing profits in 4:3 ratio. They admitted A as a new partner for 20% of share in the profits. A acquired his share of profits in the ratio of 1:2 from L and Z. Calculate the new profit-sharing ratio of L, Z and A.

(b) A, B and C are partners sharing profits in a 3:2:2 ratio. They admitted D as a new partner for 1/5 share which he acquired from A, B and C in 2:2:1 ratio respectively. Calculate new profit-sharing ratio.

SOL:

(a) A acquired her share of profit (20% or 1/5) from L and Z in the ratio of 1:2. This means

A gets 1/3 of 1/5 = 1/15 from L
A gets 2/3 of 1/5 = 2/15 from Z

The new ratio of L = 4/7-1/15 = (60-7)/105 = 53/105

New ratio of Z = 3/7-2/15 = (45-14)/105 = 31/105

Therefore, new profit-sharing ratio L, Z and A will be:

53/105:31/105:1/5 or (53:31:21)/105 = 53:31:21

(b) D's share is1/5 which he acquired from A, B and C in 2:2:1 This means

D gets 2/5 of 1/5 = 2/25 from A
D gets 2/5 of 1/5 = 2/25 from B
D gets 1/5 of 1/5 = 1/25 from C

New ratio of A = 3/7-2/25 = (75-14)/175 = 61/175

New ratio of B = 2/7-2/25 = (50-14)/175 = 36/175

New ratio of C = 2/7-1/25 = (50-7)/175 = 43/175

D's share = 1/5

New profit-sharing ratio of A, B, C and D will be:

61/175:36/175: 43/175: 1/5 or (61:36:43:35)/175 or 61:36:43:35

42. X and Y are partners in a firm sharing profits in the ratio of 5:3. On March 1st, 2021 they admitted Z as a new partner. The new profit-sharing ratio will be 4:3:2. Z brought in **Rs.** 1,00,000 in cash as his share of capital but could not bring any amount for goodwill in cash. The firm's goodwill on Z's admission was valued at **Rs.** 1,80,000. X and Y decided that Z can bring his share of premium for goodwill later or it can be adjusted against his share of profits. At the time of Z's admission goodwill existed in the books of the firm at **Rs.** 2,40,000.

You are required to pass necessary journal entries in the books of the firm on Z's admission.

SOL: JOURNAL

Date	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
2021				
March1	X's Capital A/c Dr. Y's Capital A/c Dr. To Goodwill A/c (Goodwill already existing in the books, now written off in old ratio i.e. 5:3)		1,50,000 90,000	 2,40,000
March1	Bank A/c Dr. To Z's Capital A/c (Amount brought in by Z as his Capital)		1,00,000	 1,00,000
March1	Z's Current A/c(2/9 of 1,80,000) Dr. To X's Capital A/c		40,000	 32,500

	To Y's Capital A/c (Z's share of goodwill credited to X and Y in their sacrificing ratio i.e. 13:3)			7,500

Calculation of sacrificing ratio:

X's sacrifice = 5/8 – 4/9 = (45-32)/72 = 13/72

Y's Sacrifice = 3/8-3/9 = (27-24)/72 = 3/72

Sacrificing ratio between X and Y = 13:3

43. Leeta and Meeta were partners in a firm sharing profits and losses in the ratio of 5:3. On 1st April, 2024 they admitted Omi as a new partner. On the date of Omi's admission, the balance sheet of Leeta and Meeta showed a balance of Rs. 1,60,000 in General reserve and Rs. 2,40,000 (Cr.) in Profit and Loss Account. Record necessary journal entries for the treatment of these items on Omi's admission. The new profit-sharing ratio between Leeta, Meeta and Omi was 5:3:2.

SOL: JOURNAL

Date	Particulars	L.F.	Dr. (Rs.)	Cr.(Rs.)
2024				
April 1	General reserve A/c Dr. To Leeta's Capital A/c To Meeta's Capital A/c (The transfer of the balance of General reserve to old partner's capital accounts in old ratio on the admission of Omi)		1,60,000	 1,00,000 60,000
April 1	Profit & Loss A/c Dr. To Leeta's Capital A/c To Meeta's Capital A/c (The transfer of the balance of Accumulated profits to old Partner's capital accounts in old ratio on the admission of Omi)		2,40,000	 1,50,000 90,000

44. A and B are partners sharing profits equally with capitals of Rs. 50,000 each. They admitted C as a new partner for ¼ share in profits. C brings

Rs. 60,000 as his capital, but is unable to bring the premium in cash. Find firm's hidden goodwill. Pass journal entries for the same.

SOL: Hidden goodwill = Desired total capital of new firm- Existing capital of all partners.
Desired total capital of new firm = capital of new partner / share of new partner
= 60,000 / ¼ = 60,000 x 4/1 = 2,40,000.
Existing capital of new firm = 50,000 + 50,000 + 60,000 = 1,60,000
Hidden goodwill = 2,40,000 – 1,60,000 = Rs. 80,000
C's share of goodwill = 80,000 x ¼ = Rs.20,000.

Date	Particulars	LF	Dr. Rs.	Cr. Rs.
1	Cash a/c Dr. To C's Capital a/c (C bought his capital in cash)		60,000	 60,000
2	C's Current a/c Dr. To A's Capital a/c To B's capital a/c (C's share of goodwill transferred from his capital balance in their sacrifice share}		20,000	 10,000 10,000

45. A, B and C are partners sharing profits and losses in the ratio of 2:2:1. They admitted D for 1/4th share with effect from 1st April, 2024. An extract of their Balance Sheet as at 31st March, 2024 is as follows:

Liabilities	Rs.	Assets	Rs.
Workmen Compensation Reserve	80,000		

Show the accounting treatment under the following alternative cases:

1. If there is no other information.
2. If a claim for workmen compensation is estimated at Rs. 50,000.
3. If a claim for workmen compensation is estimated at Rs. 80,000.
4. If a claim for workmen compensation is estimated at Rs. 1,00,000.

SOL:

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2024 April 1 1	Workmen Compensation Reserve Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Workmen Compensation Reserve credited to old Partners' Capital Accounts in their old profit-sharing ratio)		80,000	 32,000 32,000 16,000
2	Workmen Compensation Reserve a/c Dr. To Provision for Workmen Compensation Claim A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c (Surplus workmen compensation reserve credited to old Partners' Capital Accounts in their old profit-sharing ratio)		80,000	 50,000 12,000 12,000 6,000
3	Workmen Compensation Reserve A/c Dr. To Provision for Workmen Compensation Claim A/c (Provision made for Workmen Compensation Claim)		80,000	 80,000
4 a	Workmen Compensation Reserve A/c Dr. Revaluation A/c Dr. To Provision for Workmen Compen Claim A/c (Provision made for workmen claim and shortfall charged to Revaluation Account)		80,000 20,000	 1,00,000
4 b	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Revaluation A/c (Loss on revaluation debited to Partners Capital Accounts in their old profit-sharing ratio)		8,000 8,000 4,000	 20,000

46. A, B and C sharing profits and losses in the ratio of 3:2:1 decide to admit D for 1/5th share with effect from 1st April, 2024. An extract of their Balance Sheet as at 31st March, 2024 is:

Liabilities	Rs.	Assets	Rs.
Investments Fluctuation Reserve	30,000	Investments (At cost)	5,00,000

Show the accounting treatment under the following alternative cases:

1. If there is no other information.
2. If the market value of investments is Rs. 4,82,000.
3. If the market value of investments is Rs. 4,55,000.

SOL:

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2024 April 1 1.	Investment Fluctuation Reserve A/c Dr. To A's Capital A/c To B's Capital A/c To C's Capital A/c (Investments fluctuation reserve credited to Partners Capital Accounts in their old profit-sharing ratio))		30,000	15,000 10,000 5,000
2.	Investment Fluctuation Reserve A/c Dr. To Investments A/c To A's Capital A/c To B's Capital A/c To C's Capital A/c (Excess investments fluctuation reserve credited to Partners Capital Accounts in their old profit-sharing ratio)		30,000	18,000 6,000 4,000 2,000
3.	Investment Fluctuation Reserve A/c Dr. Revaluation A/c Dr. To Investment A/c		30,000 15,000	

	(Fall in book value of investments credited to investments account and excess fall charged to Revaluation Account)			45,000
	A's Capital A/c Dr. B's Capital A/c Dr. C's Capital A/c Dr. To Revaluation A/c. (Loss on revaluation debited to partners' Capital Accounts in their old profit-sharing ratio)		7,500 5,000 2,500	15,000

47. A and B are partners in a firm. They admit C as a partner with 1/4th share in the profits of the firm. C brings Rs. 2,00,000 as his share of capital. The value of the total assets of the firm is Rs. 5,40,000 and outside liabilities are valued at Rs. 1,00,000 on that date. Give the necessary entry to record goodwill at the time of C's admission. Also show your working notes.

SOL: Combined Capital of A and B will be equal to the net worth of the business.

Net Worth = Sundry Assets – Outside Liabilities

= Rs. 5,40,000 - Rs. 1,00,000

Hence, combined capital of A and B is Rs. 4,40,000

Calculation of Hidden Goodwill

Based on C's share, total capital of the new firm should be:
Rs. 2,00,000 x 4/1 = 8,00,000

Less: Net worth or Combined Capital of A and B (4,40,000)

Capital of C (2,00,000)

Value of Firm's Goodwill 1,60,000

C's Share of Goodwill = Rs. 1,60,000 x1/4 = Rs. 40,000

JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr.		2,00,000	

	To C's Capital A/c (Cash brought in by C as his Capital)			2,00,000
	C's Current A/c Dr. To A's Capital A/c To B's Capital A/c (Credit given for goodwill to A and B on C's admission)		40,000	 20,000 20,000

48. A and B were partners sharing profit and losses in the ratio of 3:2. Their Balance Sheet as at 31st December, 2023 was:

Liabilities		Amt. (Rs.)	Assets	Amt. (Rs.)
Creditors		40,000	Cash at Bank	70,000
Bills Payable		60,000	Debtors	80,000
Capital A/cs:			Furniture	50,000
A	2,00,000		Stock	65,000
B	1,00,000	3,00,000	Machinery	1,35,000
		4,00,000		4,00,000

On 1st January, 2024, they agreed to admit C into partnership on the following terms:

(a) C will bring Rs. 80,000 as capital and Rs. 20,000 for his share of goodwill in cash.
(b) The value of Furniture would be increased to Rs. 68,000.
(c) The value of stock would be decreased by Rs. 4,000.
(d) Machinery is to be appreciated by 10%.
(e) There is a liability of Rs. 5,000 included in creditors, that is not likely to arise.

Pass the necessary Journal Entries.

SOL:

Date	Particulars	LF.	Dr. (Rs.)	Cr.(Rs.)
01.01.24	Cash A/c Dr.		1,00,000	80,000

	To C's Capital A/c To Premium for Goodwill A/c (capital and premium for goodwill brought in cash)			20,000
01.01.24	Premium for Goodwill A/c Dr. To A's Capital A/c To B's Capital A/c (premium for goodwill credited to old partners in their sacrificing ratio of 3:2)		20,000	12,000 8,000
01.01.24	Furniture A/c Dr. Machinery A/c Dr. To Revaluation A/c (increase in the value of assets recorded)		18,000 13,500	31,500
01.01.24	Creditors A/c Dr. To Revaluation A/c (increase in the amount of creditors recorded)		5,000	5,000
01.01.24	Revaluation A/c Dr. To Stock A/c (decrease in the value of stock recorded)		4,000	4,000
01.01.24	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c (profit on revaluation transferred to old partners in their old ratio of 3:2)		32,500	19,500 13,000

49. X and Y are partners in a firm, sharing profits and losses in the ratio of 3:1. They admit Z for one-third share of the profits. As between themselves, X and Y agree to share future profits and losses equally. The goodwill of the firm has been valued at Rs. 60,000. Z brings in Rs. 50,000 as his share of capital, but is unable to bring in the necessary amount as his share of goodwill. Pass the necessary Journal Entries assuming

that the capitals are fixed and goodwill appears in the books at Rs. 30,000.

SOL:

S.No.	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
(i)	X's Current A/c Dr. Y's Current A/c Dr. To Goodwill A/c (existing goodwill written off among the old partners in their old ratio of 3:1)		22,500 7,500	 30,000
(ii)	Bank A/c Dr. To Z's Capital A/c (the amount of capital brought in by Z)		50,000	 50,000
(iii)	Z's Current A/c (Rs. 60,000 x 1/3) Dr. To X's Current A/c (Z's share of goodwill credited to the sacrificing partner X's Current A/c)		20,000	 20,000
(iv)	Y's Current A/c Dr. To X's Current A/c (premium for goodwill credited to X's Current A/c)		5,000	 5,000

Working Notes:

1. Calculation of Sacrificing Ratio
   Let the total share of the Firm = 1
   Z's share =1/3
   Remaining Share =1-1/3=2/3
   Distribute this remaining share of 2/3 in the future ratio of 1:1 between X and Y

X's New Share	½ x 2/3 = 2/6
Y's New Share	½ x 2/3 = 2/6
X's Sacrifice [old share-new share]	¾-2/6 =5/12 (Sacrifice)
Y's Sacrifice [old share-new share]	¼ - 2/6 =(1/12) (Gain)
Sacrificing Ratio	Only X has Sacrificed

2. As only X has sacrificed, he will be entitled to the entire share of premium for goodwill brought in by Z.

3. Y will also compensate X as Y is also gaining 1/12th share in profits. So, Y will compensate X by = 60,000 x 1/12 = Rs. 5,000.

50. A and B share profits in the ratio of 3:2 respectively. Their Sheet as at 31st March, 2019 is as follow:

Liabilities	Amt. (Rs.)	Assets	Amt. (Rs.)
Creditors	30,000	Cash	25,000
Capital A/cs:		Debtors	12,000
A 30,000		Machinery	30,000
B 40,000	70,000	Land and Building	33,000
	1,00,000		1,00,000

They admit C on 1st April, 2019 for 1/3rd share in profits. They agreed on the following terms:

(a) C will bring in Rs. 50,000, of which Rs. 10,000 will be treated as his share of goodwill, to be retained in the business.

(b) Land and Building is appreciated by Rs. 15,000.

(c) Value of Machinery is to be reduced by 10%.

Pass necessary Journal Entries.

SOL:

JOURNAL

Date	Particulars	LF.	Dr. (Rs.)	Cr. (Rs.)
01.04.19	Cash A/c Dr.		50,000	
	To C's Capital A/c			40,000
	To Premium for Goodwill A/c			10,000
	(Capital and premium for goodwill brought in cash by new partner)			
01.04.19	Premium for Goodwill A/c Dr.		10,000	
	To A's Capital A/c			6,000
	To B's Capital A/c			4,000
	(Premium for goodwill credited to the old partners on the basis of their sacrificing ratio of 3:2)			
01.04.19	Revaluation A/c Dr.		3,000	
	To Machinery A/c			3,000

	(Decrease in the value of machinery recorded)			
01.04.19	Land and Building A/c Dr. To Revaluation A/c (Increase in the value of Land and Building recorded)		15,000	 15,000
01.04.19	Revaluation A/c Dr. To A's Capital A/c To B's Capital A/c (Profit on revaluation transferred to old partners in their old ratio of 3:2)		12,000	 7,200 4,800

➢ 6 MARK QUESTIONS

51. Chander and Damini were partners in a firm sharing profits and losses equally. On 31st March, 2023 their Balance Sheet was as follows:

Balance sheet of Chander and Damini as of 31.03.2023

Liabilities	Amt. (Rs.)	Assets	Amt. (Rs.)
Sundry Creditors	1,04,000	Cash at Bank	30,000
Capitals:		Bills Receivable	45,000
Chander 2,50,000		Debtors	75,000
Damini 2,16,000	4,66,000	Furniture	1,10,000
		Land and Building	3,10,000
	5,70,000		5,70,000

On 01.04.2023, they admitted Elina as a new partner for 1/3rd share in the profits on the following conditions:

(i) Elina will bring Rs. 3,00,000 as her capital and Rs. 50,000 as her share of goodwill premium, half of which will be withdrawn by Chander and Damini.

(ii) Debtors to the extent of Rs. 5,000 were unrecorded.

(iii) Furniture will be reduced by 10% and 5% provision for bad and doubtful debts will be created on bills receivables and debtors.

(iv) Value of land and building will be appreciated by 20%.

(v) There being a claim against the firm for damages, a liability to the extent of Rs. 8,000 will be created for the same. Prepare Revaluation Account and Partners' Capital Accounts.

SOL:

REVALUATION ACCOUNT

Particulars	Amt. (Rs.)	Particulars	Amt. (Rs.)
To Furniture A/c	11,000	By Debtors A/c	5,000
To provision for Doubtful Debts A/c {On Debtors}	4,000	By Land and Building A/c	62,000
To provision for Doubtful Debts A/c {On B/R}	2,250		
To Claim for Damages A/c	8,000		
To Profit Transferred to:			
Chander's Capital A/c 20,875			
Damini's Capital A/c 20,875	41,750		
	67,000		67,000

PARTNER'S CAPITAL ACCOUNTS

Particulars	Chander (Rs.)	Damini (Rs.)	Elina (Rs.)	Particulars	Chander (Rs.)	Damini (Rs.)	Elina (Rs.)
To Bank A/c	12,500	12,500	-	By Balance b/d	2,50,000	2,16,000	-
To Balance c/d	2,83,375	2,49,375	3,00,000	By Bank A/c	-	-	3,00,000
				By Premium for Goodwill A/c	25,000	25,000	-
				By Revaluation A/c	20,875	20,875	
	2,95,875	2,61,875	3,00,000		2,95,875	2,61,875	3,00,000

52. Given below is the Balance Sheet of A and B, who are carrying on partnership business as at 31st March, 2024. A and B share profits and losses in the ratio of 2:1.

Liabilities	Amt. (Rs.)	Assets	Amt. (Rs.)
Sundry Creditors	58,000	Cash in Hand	10,000
General reserve	12,000	Cash at Bank	40,000
Capital A/cs		Sundry Debtors	60,000
A		Stock	40,000
1,80,000	3,30,000	Plant and Machinery	1,00,000
B		Building	1,50,000
1,50,000	4,00,000		4,00,000

C is admitted as a partner on the date of the Balance Sheet on the following terms:

(a) C will bring in Rs. 1,00,000 as his capital and Rs. 60,000 as his share of goodwill for 1/4th share in profits.
(b) Plant is to be appreciated to Rs. 1,20,000 and the value of Building is to be appreciated by 10%
(c) Stock is found overvalued by Rs. 4,000.
(d) General Reserve will continue to appear in the books of the reconstituted firm at its original value.
(e) A provision for doubtful debts is to be created at 5% of debtors.
(f) Creditors were unrecorded to the extent of Rs. 1,000.

Prepare Revaluation Account, Partners Capital Accounts and the Balance Sheet of the constituted firm after admission of the new partner.

SOL:

REVALUATION A/C

Particulars	Amt. (Rs.)	Particulars	Amt. (Rs.)
To Stock A/c	4,000	By Plant and Machinery, A/c	20,000
To provision for Doubtful Debts A/c	3,000	By Building A/c	15,000
To Creditors A/c	1,000		
To Profit Transferred to:			
A's Capital A/c 18,000			
B's Capital A/c 9,000	27,000		
	35,000		35,000

PARTNER'S CAPITAL A/C

Particulars	A (Rs.)	B (Rs.)	C (Rs.)	Particulars	A (Rs.)	B (Rs.)	C (Rs.)
To A's Cap. A/c	-	-	2,000	By Balance b/d	1,80,000	1,50,000	-
To B's Cap. A/c			1,000	By Bank A/c	-	-	1,00,000
To Balance c/d	-2,40,000	-1,80,000	97,000	By C's Cap. A/c	2,000	1,000	-
				By Premium for Goodwill A/c	40,000	20,000	-
				By Revaluation A/c	18,000	9,000	-
	2,40,000	1,80,000	1,00,000		2,40,000	1,80,000	1,00,000

Balance sheet of the Reconstituted Firm as at 31st March, 2024

Liabilities	Amt. (Rs.)	Assets	Amt. (Rs.)
Sundry Creditors	59,000	Cash in Hand	10,000
General Reserve	12,000	Cash at Bank	2,00,000
Capital A/cs:		Sundry Debtors 60,000	
A 2,40,000			57,000
		Less: Provision for Doubtful Debts 3,000	36,000
B 1,80,000	5,17,000	Stock	1,20,000
		Plant and Machinery	1,65,000
C 97,000		Building	
	5,88,000		5,88,000

Working Notes:

1. As General Reserve is to be shown at its original values, the gaining partner C will compensate A and B to the extent 1/4 of Rs. 12,000, i.e. Rs. 3,000. For this, C's Capital A/c will be debited by Rs. 3,000, A's Capital

A/c will be credited by Rs. 2,000 and B's Capital A/c will be credited by Rs. 1,000.

53. X and Y are partners sharing profits and losses in the ratio of 3:2. Their Balance Sheet on 31 March, 2024 stood as under:

Liabilities		Amt. (Rs.)	Assets		Amt. (Rs.)
Capital A/cs			Furniture		66,000
X	70,000		Investment		30,000
Y	60,000	1,30,000	Debtors	38,000	
General Reserve		20,000	Less: Provision	2,000	36,000
Creditors		90,000	Cash		68,000
			Plant and Machinery		40,000
		2,40,000			2,40,000

On 1 April, 2024, they admitted Z for 1/4th share in profits on following terms:

(a) Z brings in capital proportionate to his share after all adjustments and Rs. 5,000 for goodwill out of his share of Rs. 14,000.
(b) Furniture is to be reduced by Rs. 3,000.
(c) Investments are valued at Rs. 36,000.
(d) Half of the plant and machinery is taken over by X and Y in their profit-sharing ratio.
(e) New profit-sharing ratio is agreed at 3:3:2.
(f) Capitals of X and Y will be adjusted in their profit-sharing ratio by bringing in or paying off cash as the case may be.

Prepare Revaluation Account and Capital Accounts after Z's admission.

SOL:

REVALUATION A/C

Particulars		Amt. (Rs.)	Particulars	Amt. (Rs.)
To Furniture A/c		3,000	By Investments A/c	6,000
To Profit Transferred to:				
X's Capital A/C	1,800			
Y's Capital A/C	1,200	3,000		
		6,000		6,000

PARTNERS' CAPITAL ACCOUNTS

Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)	Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)
To Plant and Machinery	12,000	8,000		By Balance b/d	70,000	60,000	-
To Cash A/c	10,900	-	-	By General reserve	12,000	8,000	-
To Balance c/d	73,500	73,500	49,000	By Revaluation A/c	1,800	1,200	-
				By Premium for Goodwill A/c	4,500	500	-
				By Z's Current A/c	8,100	900	-
				By Cash A/c	-	10,900	49,000
	96,400	81,500	49,000		96,400	81,500	49,000

54. Charu and Harsha were partners in a firm sharing profits in the ratio of 3:2. On 01.04.2024, their Balance Sheet was as follows:

BALANCE SHEET OF CHARU AND HARSHA

Liabilities	Amt. (Rs.)	Assets	Amt. (Rs.)
Creditors	17,000	Cash	6,000
General Reserve	4,000	Debtors	15,000
Workmen Compensation Fund	9,000	Investment	20,000
Investment Fluctuation Fund	11,000	Plant	14,000
Provision for Bad Debts	2,000	Land and Building	38,000
Capitals: Charu 30,000 Harsha 20,000	50,000		
	93,000		93,000

On the above date, Vaishali was admitted for 1/4th share in the profits of the firm on the following terms:

(a) Vaishali will bring Rs. 20,000 for her capital and Rs. 4,000 for her share of goodwill premium.
(b) All debtors were considered good.
(c) The market value of investments was Rs. 15,000.
(d) There was a liability of Rs. 6,000 for workmen compensation.
(e) Capital accounts of Charu and Harsha are to be adjusted on the basis of Vaishali's capital by opening current accounts.

Prepare Revaluation Account and Partners' Capital Accounts.

SOL:

REVALUATION A/C

Particulars		Amt. (Rs.)	Particulars	Amt. (Rs.)
To Profit Transferred to:			By Provision for Bad Debts A/c	2,000
Charu's Capital A/c	1,200			
Harsha's Capital A/c	800	2,000		
		2,000		2,000

PARTNERS' CAPITAL ACCOUNTS

Particulars	Charu (Rs.)	Harsha (Rs.)	Vaishali (Rs.)	Particulars	Charu (Rs.)	Harsha (Rs.)	Vaishali (Rs.)
To Charu's Current A/c	5,400	-	-	By Balance b/d	30,000	20,000	-
To Harsha's Current A/c	-	3,600	-	By General Reserve A/c	2,400	1,600	-
To Bal. c/d	36,000	24,000	20,000	By Cash	-	-	20,000
				By Premium for Goodwill A/c	2,400	1,600	-
				By Rev. A/c	1,200	800	-
				By WCF A/c	1,800	1,200	-
				By Inv. Fluct. Fund A/c	3,600	2,400	-
	41,400	27,600	20,000		41,400	27,600	20,000

55. A and B are partners in a firm sharing profits in the ratio 2:1. C is admitted into the firm on 1st April, 2024 with 1/4th share in profits. He will bring in Rs. 30,000 as capital and capitals of A and B are to be adjusted in the profit-sharing ratio. The Balance Sheet of A and B as at 31st March, 2024 (before C's admission) was as under:

Liabilities	Amt. (Rs.)	Assets	Amt. (Rs.)
Creditors	8,000	Cash in Hand	2,000
Bill Payable	4,000	Cash at Bank	10,000
General reserve	6,000	Sundry Debtors	8,000
Capital A/cs		Stock	10,000
A		Furniture	5,000
50,000	82,000	Machinery	25,000

B		Building	40,000
32,000	1,00,000		1,00,000

Other terms of agreement are as under:

(a) C will bring in Rs. 12,000 as his share of goodwill.
(b) Building was valued at Rs. 45,000 and Machinery at Rs. 23,000.
(c) A provision for bad debts is to be created @ 6% on debtors.
(d) The capital accounts of A and B are to be adjusted by opening current accounts.

Record necessary Journal Entries.

SOL: JOURNAL

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
01.04.24	Cash A/c Dr.		42,000	
	To C's Capital A/c			30,000
	To Premium for Goodwill A/c			12,000
	(Capital and premium for goodwill brought in cash by C)			
01.04.24	Premium for Goodwill A/c Dr.		12,000	
	To A's Capital A/c			8,000
	To B's Capital A/c			4,000
	(Premium for goodwill credited to old partners in their sacrificing ratio of 2:1)			
01.04.24	Revaluation A/c Dr.		2,480	
	To Machinery A/c			2,000
	To Provision for Bad Debts A/c			480
	(Decrease in the value of machinery and creation of provision for bad debts recorded)			
01.04.24	Building A/c Dr.		5,000	
	To Revaluation A/c			5,000
	(Increase in the value of building recorded)			

01.04.24	Revaluation A/c Dr. To A’s Capital A/c To B’s Capital A/c (Profit on revaluation transferred to old partners A and B in their old ratio of 2:1)		2,520	 1,680 840
01.04.24	General Reserve A/c Dr. To A’s Cpital A/c To B’s Capital A/c (General Reserve transferred to A and B in their old ratio 2:1)		6,000	 4,000 2,000
01.04.24	A’s Capital A/c Dr. To A’s Current A/c (Excess of A's capital transferred to his current account)		3,680	 3,680
01.04.24	B’s Capital A/c Dr. To B’s Current A/c (Excess of B's capital transferred to his Current account)		8,840	 8,840

RETIREMENT AND DEATH OF A PARTNER

ACCOUNTING FOR PARTNERSHIP FIRM- RETIREMENT AND DEATH OF A PARTNER.

Learning objectives :

1. Explain the effect of retirement / death of a partner on change in profit sharing ratio.
2. Develop the understanding of accounting treatment of goodwill, revaluation of assets and re-assessment of liabilities and adjustment of accumulated profits, losses and reserves on retirement / death of a partner and capital adjustment.
3. Develop the skill of calculation of deceased partner's share till the time of his death and prepare deceased partner's and executor's account.
4. Discuss the preparation of the capital accounts of the remaining partners and the balance sheet of the firm after retirement / death of a partner.

Introduction

Like admission and changes in profit sharing ratio in case of retirement or death also the existing partnership deep comes to end and the new once comes into exist- tense among the remaining partner. There is not much difference in the accounting treatment at the time of retirement or in the event of death.

Retirement of a partner means ceasing to be partner of the firm. A partner may retire

(i) If there is agreement of this effect
(ii) All partners give consent
(iii) At will by giving written notice.

Amount due to Retiring/Deceased Partner (To be credited to his capital account)

1. Credit Balance of his capital.
2. Credit Balance of his current account (if any).
3. Share of Goodwill. (Compensated by gaining partners)
4. Share of Reserves or Undistributed profits.
5. His share in the profit on revaluation of assets and liabilities.
6. Share in profits up to the date of Retirement/Death. (P & L suspense A/c)
7. Interest on capital if involved.
8. Salary if any

Deduction from the above sum (to be debited to capital account)

1. Debit balance of his current account (if any)
2. Share of existing Goodwill to be written off.
3. Share of accumulated loss.
4. Drawing and interest on drawings (if any)
5. Share of loss on account of Revaluation of assets and liabilities.
6. His share of loss in business up to the date of Retirement/Death (To P & L) suspense A/c)

Accounting Treatment

Various matters that need accounting adjustment at the time of retirement are:
(i) Determination of new profit-sharing ratio
(ii) Determination of gaining ratio
(iii) Treatment of goodwill
(iv) Revaluation of assets and liabilities
(v) Adjustment of accumulated profits and losses
(vi) Determination of the amount payable to the retiring partner.

New profit-Sharing Ratio & Gaining Ratio

New profit-Sharing Ratio: It is the ratio in which the remaining partners share future profits after retirement/death.
Gaining ratio: It is the ratio in which the continuing partners have acquired the share of profit from the outgoing partner.

Gaining Ratio = New Ratio -Old Ratio.

Difference between Sacrificing Ratio and Gaining Ratio

Basis	Sacrifice Ratio	Gaining Ratio
Meaning	Ratio in which the old partners surrender their share of profit in favour of a new partner	Ratio in which remaining partners acquire the outgoing partners share of profit
When calculated	Admission of a partner	Retirement and death of a partner
Formula	Sacrifice Ratio = Old ratio – New ratio	Gaining Ratio = New ratio – Old ratio

Treatment of goodwill

As per the Accounting Standard 26, Goodwill account can't be raised and only purchased goodwill can be recorded in the books. Therefore, only adjustment entry is done for goodwill.
Steps to be followed:

1. **When good will appears in the books:** It is called existing goodwill and first of all this is to be written off in the old ratio. (existing Goodwill in old Ratio)

All Partner's capital A/C   Dr.
To Good Will A/c

2. **Retiring partner's share goodwill transferred to his capital account** (in gaining ratio)

Remaining Partner's Capital, A/C   Dr.
To Retiring/Deceased Partner's Capital A/c

Hidden Goodwill

Sometimes goodwill is not given in the question directly, but if a firm agrees to pay a sum which is more than retiring partner's balance in capital A/C (amount due to the retiring partner) after making all adjustment with respect to reserves, revaluation of assets and liabilities etc. that amount is treated as his share of goodwill (known as hidden goodwill).

3. Revaluation of Assets and Reassessment of Liabilities

Revaluation A/c is prepared in the same way as in the case of admission of a new partner. Profit or loss on revaluation is transferred among all the partners in their old ratio.

4. Adjustment of Reserves and Surplus (Profits)

(Appearing in the Balance Sheet – Liability Side)

(a) General Reserve A/c……Dr.
Reserve Fund A/c……Dr.
Profit & Loss A/c (Credit Balance)…..Dr.
To All partners' Capital/Current A/c (in old ratio)

(b) Specific Funds – If the specific funds such as workmen's compensation funds or investment fluctuation fund are in excess of actual claim, the excess will be transferred to the Capital A/c of partners in their old ratio.

Workmen Compensation Fund A/c Dr.
Investment Fluctuation Funds A/c Dr.
To All Partner's Capital A/cs

(c) For distributing accumulated losses
(P & L A/c debit balance shown on the Asset side of Balance Sheet)

All partner's Capital/Current A/c Dr. (in old ratio)
To P & L A/c

Settlement of Amount Due to Retiring Partner

1. Calculation of Amount Payable to Retiring/Deceased Partner
The amount due to a retiring partner is ascertained by preparing retiring partner's capital account.

2. Settlement of the Amount Due to the Retiring Partner
The amount due to retiring partner is either paid off immediately or is transferred to his loan account. The retiring partner's loan account should be paid off along with interest and will appear in the books of the new firm as a liability until it is paid off finally.

Journal Entries

(i) If the Amount is Immediately Paid off
Retiring Partner's Capital A/c Dr
To Cash/ Bank A/c

(ii) If the Amount is not paid immediately

(a) For amount due, transferred to retiring partner's loan account

Retiring Partner's Capital A/c.. Dr
To Retiring Partner's Loan A/c

(b) On interest being provided
Interest on Loan A/c ..Dr
To Retiring Partner's Loan A/c

(c) On payment of instalment with interest
Retiring Partner's Loan A/c ..Dr
To Cash/Bank A/c

(iii) If Payment is Partly Paid in Cash and the Remaining Amount is to be Treated as Loan

Retiring Partner's Capital A/c …Dr
To Cash/Bank A/c
To Retiring Partners' Loan A/c

Death of a partner

Accounting treatment in the case of death is same as in the case of retirement except the following:

1. The deceased partners claim is transferred to his executer's account.
2. Normally the retirement takes place at the end of the Accounting pried but
the death may occur at any time. Hence the claim of deceased part shall also include
a) his share of profit till the date of death
b) interest on capital drawings if any from the date of the last balance sheet to the date his death.
c) interest on capital drawings if any from the date of the last balance sheet to the date his death.

Calculation of profit/Loss for the intervening Period.

It is calculated by any one of the two methods given below:

a. On Time Basis: In this method proportionate profit for the time period is calculated either on the basis of last year's profit or on basis of average profits of last few years.

b. On Turnover or Sales Basis: In this method the profits up to the date of death for the current year is calculated on the basis of current year's sales up to the date of death by using the formula.

Profits for the current year up to the date of death

=Profit for the last year /total sale for the last year X Sales of the current year up to the date of death

Ascertainment of the Amount Due to the Deceased Partner

The deceased partner’s share is also calculated in the same manner as in the case of retiring partner. Amount due to a deceased partner shown by his capital account is transferred to his executors’ account by passing the following journal entry:

Deceased Partner’s Capital A/c Dr
To Deceased Partner’s Executors A/c

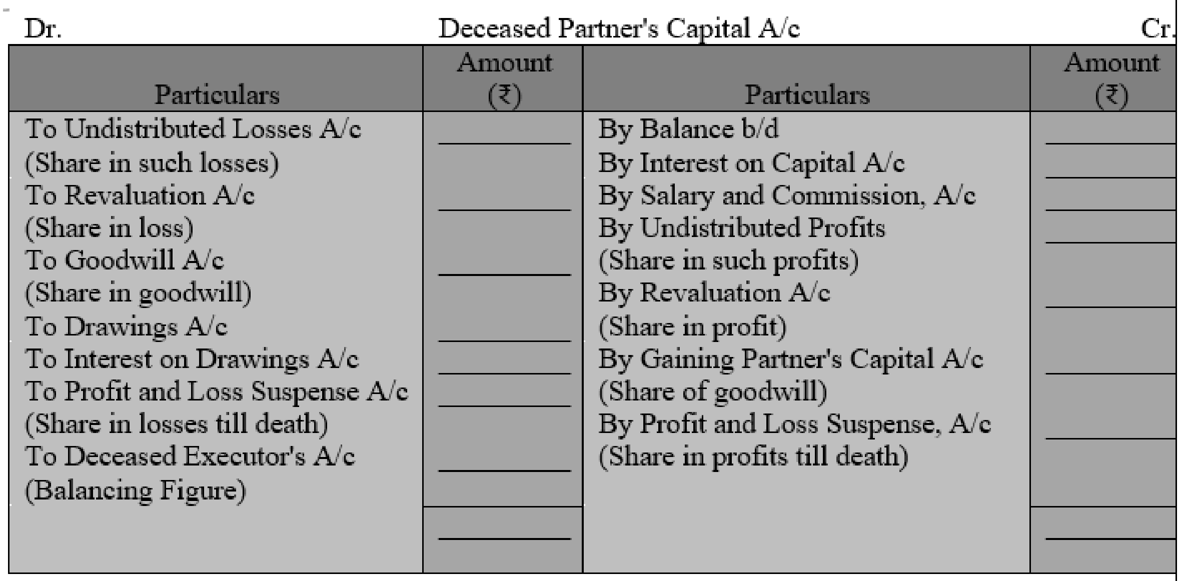
Settlement of Deceased Partners’ Executor Account

(i) If Payment is Made in Full/Lumpsum
Deceased Partner’s Executor’s A/c Dr
To Cash/ Bank A/c
(ii) If Payment is Made in Instalment

(a) Deceased Partner’s Executor’s A/c Dr
To Deceased Partner’s Executor’s Loan A/c

(b) Interest A/c Dr
To Deceased Partner’s Executor’s Loan A/c

Format of Deceased Partner’s Capital Account



Dr. Deceased Partner's Capital A/c Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Undistributed Losses A/c		By Balance b/d	
(Share in such losses)		By Interest on Capital A/c	
To Revaluation A/c		By Salary and Commission, A/c	
(Share in loss)		By Undistributed Profits	
To Goodwill A/c		(Share in such profits)	
(Share in goodwill)		By Revaluation A/c	
To Drawings A/c		(Share in profit)	
To Interest on Drawings A/c		By Gaining Partner's Capital A/c	
To Profit and Loss Suspense A/c		(Share of goodwill)	
(Share in losses till death)		By Profit and Loss Suspense, A/c	
To Deceased Executor's A/c		(Share in profits till death)	
(Balancing Figure)			

	Multiple choice question
1.	**P, Q and R sharing profit and losses in the ratio of 8:5:3. P retire from the firm, Q takes 3/16 from P and R takes 5/16 from P. New profit-sharing ratio between Q and R will be** (A) 1:1 (B)10:6 (C)9:7 (D)5:3
2	**On the death of a partner, the amount due to him will be credited to:** A) All partner's capital accounts. B) Remaining partner's capital accounts. C) His executor's account. D) Government's revenue account.
Case:	**Analyse the case given below and answer the questions that follow:** **A, K and S were partners in a firm sharing profits in the ratio of 5: 3: 2. Goodwill appeared in their books at the value of Rs 60,000. 'K' decided to retire from the firm. On the date of his retirement, goodwill of the firm was valued at Rs2,40,000. The new profit-sharing ratio decided among A and S was 2: 3.**
3	**How much of the existing goodwill will be transferred to K's Capital Account?** (A) Rs 18,000 (B) Rs30,000 (C) Rs 12,000 (D) Rs 72,000
4	**What is A's gaining or sacrificing ratio:** A) 1/10 Gain B) B) 1/10 Sacrifice C) C) 4/10 Gain D) (D) 4/10 Sacrifice
5	**What amount of goodwill will be transferred to K's capital account as compensated by A and S?** (A)Rs96,000 (B) Rs 72,000 (C) Rs 24,000 (D) Rs18,000
6	**G,S and T were partners in a firm sharing profits in the ratio of 3:2:1. G retired and his dues towards the firm including capital balance, accumulated profits and losses share , Revaluation gain amounted to Rs 580000.G was being paid Rs 700000 in full settlement. For giving that additional amount of Rs 120000, S was debited for Rs 40000.Determine goodwill of the firm.** a) 120000 b) 80000 c) 240000 d) 360000

7	**At the time of retirement, if nothing is mentioned about the payment made due to him, in which account, the amount will be transferred.** a) Retiring partners current account b) Retiring partners' capital account c) Retiring partners loan account d) Retiring partners bank account
8	**J, K and L where partners in a firm sharing profits and losses in the ratio 5:2:3. K died and J&L decided to continue the business. Their gaining ratio was 2:3 calculate new profit sharing ratio of J and L.** a) 21:29 b) 29:21 c) c) 11:19 d) d) 19:11
9	**Nikhil, Akhil and Amber are partners in a firm. At the time of Akhils retirement, Amber takes over furniture of Rs 12000 at Rs 10000. Choose the correct entry from the following options.** a) Debit furniture A/c RS 10000 and credit Ambers Capital A/c RS 10000 b) Debit furniture A/c RS 12000 and credit Ambers Capital A/c RS 10000 and credit revaluation A/c Rs 2000 c) Debit Ambers Capital A/c RS 10000 and credit furniture A/c RS 10000 d) Debit Ambers Capital A/c RS 10000 , debit revaluation a/c with Rs 2000 and credit furniture A/c RS 12000
10	**A, B & C were partners in a firm sharing profits and losses in the ratio of 5:3:2. C retired & his capital balance after adjustments regarding reserves, accumulated profits/losses & his share of gain on revaluation was 2,50,000. C was paid 3,22,000 including his share of goodwill. The amount credited to C's Capital A/C, on his retirement, for goodwill will be:** A) Rs 72,000 B) Rs 7,200 C) Rs 14,000 C) Rs 3,22,000
11	**P, Q and R share profits in the ratio of 5:4:3. R retires and the new ratio is 5:3. If R is given Rs 6,000 as goodwill, Journal entry will be:** A) P's capital A/C Dr 1,000 Q's capital A/C Dr 5,000 To R's capital A/c 6,000 B) P's capital A/C Dr 5,000 Q's capital A/C Dr 1,000 To R's capital A/c 6,000 C) C) P's capital A/C Dr 3,750 Q's capital A/C Dr 2,250 To R's capital A/c 6,000 D) D) P's capital A/C Dr 3,333 Q's capital A/C Dr 2,667 To R's capital A/c 6,000

12	**A, B and C were partners sharing profit and losses in the ratio of 2:2:1. Books are closed on 31st March every year. C dies on 5th November,2018. Under the partnership deed, the executors of the deceased partner are entitled to his share of profit to the date of death, calculate on the basis of last year's profit. Profit for the year ended 31st March ,2018 was Rs. 2,40,000. C's share of profit will be:** a) Rs. 28,000 b) Rs. 32,000 c) Rs. 28,800 d) Rs. 48,000
13	**On the retirement of a partner ,the capital account of the retiring partner will be credited with-------** A) Goodwill of the firm B) Shares of goodwill of retiring partners C)His/her share of goodwill D) None of the above
14	**A,S and R are partners sharing profit in the ratio 7:5:4.R died on 30th June 2019, and profits for the year 2018-19nwere 12,000.How many hares in profits for the period 1st April 2019 to 30th June 2019 will be credited to R's account ?** A) 750 B) 5,000 C) 7,000 D) NIL
15	**A. B and C were in partnership sharing profits and losses in the proportions of 3:2:1. On 1st April, 2023, B retires from the firm and 4 and C decided in share future profits in the ratio of 3: 2. On that date their capitals were follows:** **A Rs.1,77,000; B Rs.1,70,000 and CRs.1,23,000.** **Loss on revaluation of assets amounted to Rs.30,000.** **Amount due to B was paid on this date by giving him Rs.40,000 over and above the amount due to him.** **As per partnership deed, partners are allowed 6% p.a. Interest on their capitals Profit for the year ending 31st March 2024 before allowing interest on capitals amounted to 10,000.** **On the basis of above information, answer the following questions:** **1. In respect of goodwill, A's Capital Account will be :** (A) Debited by Rs.20,000 (B) Debited by Rs.24,000 (C) Debited by Rs.12,000 (D) Credited by Rs.12,000
16	2. **Net amount paid to B will be :** (A) Rs.2,10,000 (B) Rs.2,10,200 (C) Rs.2,00,000 (D) Rs.1,70,200

17 **Interest on capital allowed to partners will be**

a) A Rs 9000 and C Rs 5400
b) A Rs 10620 and C Rs 7380
c) A Rs 6250 and C Rs 3750
d) No interest will be allowed

18 **Match the following items:**

i) At the time of retirement of a partner, profit on revaluation is credited to	**Debited to partners capital account in old ratio**
ii)profit and loss suspense account	**Capital accounts of all partners in old ratio**
iii)advertisement suspense account appearing in Balance sheet at the time of death of a partner	**Deceased partners share of loss up to the date of death**

a) (i)b,(ii) c, (iii) a
b) (i)b,(ii) a, (iii) c
c) (i)c,(ii) b, (iii) a
d) (i)a,(ii) c, (iii) b

19 **Sonu, Monu and Gopal are partners in a firm sharing profits and losses in the ratio of 3:2:1. The extract of their Balance Sheet is as follows:**

Liabilities	**Rs.**	**Assets**	**Rs.**
Workmen compensation reserve	**48,000**		

At the time of retirement of Sonu, if liability for Workmen Compensation of 24,000 is to be created, the what amount of Workmen Compensation Reserve will be shown in new Balance Sheet?

(a) Rs 48,000
(b) Rs 72,000
(c) Rs 24,000
(d) Not to be shown in new Balance Sheet

20 **What treatment is made of accumulated profits and losses on the retirement of a partner?**

(A) Credited to all partner's capital accounts in old ratio.
(B) Debited to all partner's capital accounts in old ratio.
(C) Credited to remaining partner's capital accounts in new ratio.
(D) Credited to remaining partner's capital accounts in gaining ratio.

Qn No	Answers
1	A) 1:1
2	C) His executor’s account
3	A) Rs 18,000
4	B) 1/10 Sacrifice
5	B) Rs 72,000
6	C) 240000
7	C) Retiring partners loan account
8	B) 29:21
9	D) Debit Ambers Capital A/c RS 10000 , debit revaluation a/c with Rs 2000 and credit furniture A/c RS 12000
10	A) Rs 72,000
11	B) P’s capital A/C Dr 5,000 Q’s capital A/C Dr 1,000 To R’s capital A/c 6,000
12	C) Rs. 28,800
13	C)His/her share of goodwill
14	A) 750
15	C) Debited by Rs.12,000
16	C) Rs.2,00,000
17	C)A Rs 6250 and C Rs 3750
18	A) (i)b,(ii) c, (iii) a
19	D)Not to be shown in new Balance Sheet
20	A) Credited to all partner’s capital accounts in old ratio.

ASSERTION REASON QUESTIONS

Assertion (A): In the event of retirement of a partner a combined share of profit of the remaining partners will increase.

1 Reason (R): Combined share of profit of the remaining partners increases because they will also acquire the profit share of the retiring partner.

a)Both A and R are correct, but R is not the correct explanation of A.
b) Both A and R are correct, and R is the correct explanation of A
c) A is correct but R is incorrect.
d) A is incorrect but R is correct.

2	Assertion: If new profit-sharing ratio of remaining partner is not given Reason: It will assume that the remaining partner continue to share profit and losses in the new ratio A) Both A and R are true and R is correct explanation of A. B) A and R both are true but R is not the correct explanation of A. C) Assertion is true, reason is false. D) Assertion is false, reason is true.
3	Assertion: Gaining Ratio is calculated when a partner Retires or Dies Reason: Gaining ratio is calculated only by one method A) Both A and R is true and R is correct explanation of A. B) A and R both are true but R is not the correct explanation of A.. C) Assertion is true, reason is false. D) Assertion is false, reason is true.
4	Assertion: Retiring partner is entitled to his share of goodwill at the time of retirement. Reason: Goodwill earned by the firm is result of efforts of all existing partners in the past A) Both A and R are true and R is correct explanation of A. B) A and R both are true but R is not the correct explanation of A.. C) Assertion is true, reason is false. D) Assertion is false, reason is true.
5	Assertion: Retiring partner is entitled to Interest @10 %p.a. till the loan is paid off Reason: Instead of Interest he may take that share of profit which has been earned by the firm by the amount due to him A) Both A and R are true and R is correct explanation of A. B) A and R both are true but R is not the correct explanation of A C) Assertion is true, reason is false. D) Assertion is false, reason is true
6	Assertion (A): When goodwill is not appearing in the books, retiring or deceased partner's capital account is to be credited with his share of goodwill and gaining partners' capital accounts are to be debited in gaining ratio. Reason (R): Goodwill needs to be compensated by the gaining partners in the gaining ratio. A) Both A and R are true and R is correct explanation of A. B) A and R both are true but R is not the correct explanation of A.C) Assertion is true, reason is false. D) Assertion is false, reason is true

7	Assertion (A): Ram, Rahim and Ron share profits in the ratio 2:3:5. Ram decides to retire. The new profit-sharing ratio is 3:5. If the profit earned was Rs1,50,000 before retirement. Rahim's share is Rs 45,000. Reason (R): The profits are shared in the new profit-sharing ratio. A) Both A and R are true and R is correct explanation of A. B) A and R both are true but R is not the correct explanation of A.C) Assertion is true, reason is false. D) Assertion is false, reason is true
8	Assertion (A): Unrecorded assets at time of death of partner are recorded on credit side of Revaluation a/c. Reason (R): Revaluation account is credited due to increase in liability. A) Both A and R are true and R is correct explanation of A. B) A and R both are true but R is not the correct explanation of A.C) Assertion is true, reason is false. D) Assertion is false, reason is true
9	Assertion (A): Unrecorded outstanding repair bill at time of death of partner is recorded on debit side of Revaluation a/c. Reason (R): Increase in capital of partner is recorded on credit side of Capital account. A) Both A and R are true and R is correct explanation of A. B) A and R both are true but R is not the correct explanation of A.. C) Assertion is true, reason is false. D) Assertion is false, reason is true
10	Assertion (A): On retirement, the old partnership agreement comes to an end and a new partnership agreement comes into existence between the remaining partners. Reason (R): Retirement of the partnership leads to the reconstitution of the firm. A) Both A and R are true and R is correct explanation of A. B) A and R both are true but R is not the correct explanation of A. C) Assertion is true, reason is false. D) Assertion is false, reason is true

Qn No	Answers
1	b) Both A and R are correct, and R is the correct explanation of A
2	b) Both Assertion and reason are true and reason is correct explanation of assertion
3	c)Assertion is true, reason is false.
4	a) Both Assertion and reason are true and reason is correct explanation of assertion
5	d) Assertion is false, reason is true
6	a) Both Assertion and reason are true and reason is correct explanation of assertion
7	c) Assertion is true, reason is false.
8	c) Assertion is true, reason is false.
9	b) Assertion and reason both are true but reason is not the correct explanation of assertion.
10	a) Both Assertion and reason are true and reason is correct explanation of assertion

Short answers

1

Murli, Naveen and Omprakash are partners sharing profits in the ratio of 3 /8, 1 / 2 and 1 / 8 . Murli retires and surrenders 2/3rd of his share in favour of Naveen and the remaining share in favour of Omprakash. Calculate new profit sharing and the gaining ratio of the remaining partners.

Ans.

Old Share Murli - ½

Old share of Naveen – 1/8

(ii) Share Acquired by Naveen = 2/3 of 3 /8 =2/8

Om Prakash = 1/3 of 3/8 = 1/8

(iii) New Share of Naveen = (i) + (ii) = 1 /2+ 2 /8 = 6/ 8 or 3 /4

Om Prakash =1/8 +1/8 = 2/ 8 or 1/ 4

Thus, the New profit sharing Ratio = 3 /4 : 1/ 4 or 3:1,

and the Gaining Ratio = 2/8 and 1/8 = 2:1

2

Kumar, Lakshya, Manoj and Naresh are partners sharing profits in the ratio of 3: 2: 1: 4. Kumar retires and his share is acquired by Lakshya and Manoj in the ratio of 3: 2. Calculate new profit-sharing ratio of the remaining partners.

Ans: Kumar's share =3/10(acquired by Lakshya and Manoj in 3:2)
Share acquired by Lakshya=3/10×3/5=9/50
Share acquired by Manoj=3/10×2/5=6/50
Lakshya's New Share=2/10+9/50=19/50
Manoj's New Share=1/10+6/50=11/50
Naresh's share (as retained)=4/10 or 20/50

New Profit Sharing Ratio=19:11:20

3

Keshav, Nirmal and Pankaj are partners sharing profits and losses in the ratio of 4 : 3 : 2. Nirmal retires and the goodwill is valued at Rs. 72,000. Keshav and Pankaj decided to share future profits and losses in the ratio of 5 : 3. Record necessary journal entries.

Ans;

Date	Particulars	LF	Debit	Credit
	Keshav capital A/c… Dr		13000	
	Pankaj capital A/c ..Dr		11000	
	To Nirmals capital A/C			24000
	(share of Goodwill adjusted)			

Gaining ratio of Keshav and Pankaj is 13:11

4 X, Y and Z are partners sharing profits in the ratio 1:2:3. Z retires on 1st April, 2018 and his capital after making all adjustments for reserves and profit on revaluation stands at Rs 2,40,000. X and Y here agreed to pay him Rs 3,00,000 in full settlement of his claim Record necessary journal entry for the treatment of goodwill if the new profit-sharing ratio is decided as 1:3.

Ans:

Date	Particulars	LF	Debit	Credit
	X's Capital A/c Dr.		10000	
	Y's Capital A/c Dr.		50000	
	To Z's Capital A/c			60000
	(goodwill transferred)			

Working Notes:

(1) Calculation of Hidden Goodwill

Amount agreed to be paid in full settlement to Z	3,00,000
Less: Z's Capital (After all adjustments)	2,40,000
Hidden Goodwill	60,000

(2) Calculation of Gaining Ratio:

New Ratio=1:3 and Old ratio=1:2:3

X's gain=1/4-1/6=1/12

Y's gain=3/4-2/6=5/12

5 Ajay, Pranav and Vijay are in partnership sharing profits in the ratio of 4:3:1. Pranav takes retirement on 30th June,2019 The firm's profits for various years were :2014 (profit Rs 3,24,444),2015(profit Rs 80,000),2016(profit Rs 10,000),2017 (loss Rs 10,000),2018 (profit Rs 40,000) and 2019 (profit Rs 50,000). Ajay and Vijay decided to share future profits in the ratio of 3:2. Goodwill is to be valued on the basis of 2 years' purchase of average profit of 4 completed years immediately preceding the year of retirement of a partner.

Pass the journal entry to record Pranav's share of goodwill

Ans:

Date	Particulars	LF	Debit	Credit
	Ajay's Capital A/c Dr (22500*4/15)		6,000	
	Vijay's Capital A/c Dr (22500*11/15)		16,500	
	To Pranav's Capital A/c			22500
	(goodwill adjusted)			

Working Notes :

1. Gaining Ratio=New share-Old share

Ajay's gain =3/5-4/8=4/40;

Vijay's gain =2/5-1/8=11/40

2. Average profit of years=80,000+10,000+(10,000)+40,000/4=Rs 30,000

Firm's goodwill=30,000*2=Rs 60,000

Pranav's share of goodwill=60,000*3/8=Rs 22,500

6 X, Y and Z are partners sharing profits in the ratio of 3 : 2 : 1. Goodwill is appearing in the books at a value of Rs. 60,000. *Y* retires and at the time of Y's retirement, goodwill is valued at Rs. 84,000. X and Z decided to share future profits in the ratio of 2: 1. Pass the necessary Journal entries through Goodwill Account.

Ans:

Journal

Date	Particulars	L.F.	Debit Amount	Credit Amount
	X’s Capital A/c Dr		30,000	
	Y’s Capital A/c Dr		20,000	
	Z’s Capital A/c Dr		10,000	
	To Goodwill A/c			60,000
	(Goodwill written off)			
	Dr		14,000	
	X’s Capital A/c Dr		14,000	
	Z’s Capital A/c			28,000
	To Y’s Capital A/c			
	(Adjustment of Y’s share of goodwill)			

Working Notes:

WN1: Calculation of Gaining Ratio

X :Y :Z=3:2:1(Old ratio)X :Z = 2:1(New ratio)Gaining Ratio = New Ratio - Old Ratio

X's Gain=2/3−3/6=1/6

Z's Gain
=1/3−1/6=1/6
X:Z=1:1.

7 A, B and Care partners sharing profits in the ratio of 1:2:3 C retires and his capital after making adjustments for reserves and profit on revaluation stands at Rs 1,20,000. A and B agreed to pay him 1,50,000 in full settlement of his claim. Record necessary journal entry for the treatment of goodwill if the new profit sharing decided at 1:3.

Ans:

Date	Particulars	LF	Debit	Credit
	A’s Capital A/c		5,000	
	B’s Capital		25,000	
	To C’s Capital A/c			30000
	(C’s share of goodwill adjusted to A and B)			

Amount agreed to be paid in full settlement -	150000
Less C's capital after all adjustments	120000
C's share of hidden goodwill-	30000.

Gaining ratio-

A gains- ¼-⅙=1/12

B gains- ¾-2/6= 5/12

8 Kavi, Ravi, Kumar and Guru were partners in a firm sharing profits in the ratio of 3:2:2:1. On 1.2.2017, Guru retired and the new profit-sharing ratio decided between Kavi, Ravi and Kumar were 3:1: 1. On Guru's retirement the goodwill of the firm was valued at Rs.3,60,000. Showing your working notes clearly, pass necessary journal entry in the books of the firm for the treatment of goodwill on Guru's retirement.

Ans:

Date	Particulars	LF	Debit	Credit
	Kavi ’s Capital A/c Dr.		81000	
	To, Ravi’s Capital A/c			18000
	To Kumar ’s Capital A/c			18000
	To Guru ‘s capital A/c			45000
	(goodwill transferred)			

Sacrifice/ gaining ratio
Kavi – 9/40 (gain)
Ravi - 2/40 (sacrifice)
Kumar – 2/40 (sacrifice)

9 Kanak, Kamal and Kanha are partners in a firm. Their fixed capitals were Rs 5,00,000, Rs 10,00,000 and 15,00,000 respectively. They share profits in the ratio of their fixed capitals Firm closes its books of accounts on 31st March every year. Kanak died on 30th September, 2021. Kanak's share of profit till the date of death from the last Balance Sheet date, was to be calculated on the basis of sales. Sales and Profit for the year 2020-21 were 20,00,000 and 2,00,000 respectively. Sales from 1st April, 2021 to 30th September, 2021 were Rs 6,00,000.

i) Calculate Kanak's share of profit.

ii) Pass necessary Journal entry to record Kanak's share of profit.

Answer:

i) Kanak's Share of Profit from 1st April, 2021 to 30th September, 2021

$\frac{2,00,000}{20,00,000}$×Rs 6,00,000 x $\frac{1}{6}$= Rs.10,000.

ii)

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2021 Sept 30	Profit and loss Suspense A/c .Dr		10,000	
	To Kanak's Capital A/c			10,000
	(Kanak's share of estimated profit transferred to Kanak's Capital A/c)			

10 H, P and S are partners sharing profits in the ratio of 3 : 2 : 1. Goodwill is appearing in the books at a value of Rs. 120,000. P retires and at the time of P's retirement, goodwill is valued at Rs.96,000. H and S decided to share future profits in the ratio of 2:1. Record the necessary journal entries.

Journal

Date	Particulars		L.F.	Debit Amount	Credit Amount
	H's Capital A/c	Dr		60,000	
	P's Capital A/c	Dr		40,000	
	S's Capital A/c	Dr		20,000	
	To Goodwill A/c				120,000
	(Goodwill written off)				
		Dr		16,000	
	H's Capital A/c	Dr		16,000	
	S's Capital A/c				32,000
	To P's Capital A/c				
	(Adjustment of P's share of goodwill)				

Gaining Ratio is 1:1

Additional Numerical

1. Laly, Malu and Neelu are partners sharing profits and losses in the ratio of 4 : 3 2. Malu retires and the goodwill is valued at Rs. 72,000. Calculate Malu's share of goodwill and pass the Journal entry for Goodwill. Laly and Neelu decided to share the future profits and losses in the ratio of 5 : 3.

Ans:

Journal

Particulars		L.F.	Date Amount	Credit amount
Laly 's Capital A/c	Dr		13,000	
Neelu's Capital A/c	Dr		11,000	
To Malu's Capital A/c				24,000
(Adjustment M's share of goodwill made)				

Working Note:

WN 1 Calculation of Gaining Ratio

Old Ratio (Laly, Malu and Neelu) = 4 : 3 : 2

Malu retires and New Ratio = 5 : 3

Gaining RatioNew Ratio − Old Ratio

Lalys share : 5/8- 4/9 = 13/72
Neelus share : 3/8-2/9 = 11/72

∴ Gaining Ratio = 13 : 11

WN 2 Adjustment of Goodwill

Goodwill of the firm = Rs 72,000
Malus share of goodwill = 72000 x 3/9= Rs 24000

This share of goodwill is to be debited to remaining Partners' Capital Accounts in their gaining ratio (i.e. 13 : 11).

Lali's share = 24000 x13/24 = 13000

Neelu's share = 24000 x 11/24= 11000

2 P and Q and R are partners in a firm sharing Profit in the Ratio of 2:2:1. Their capitals were 1,50,000; 100,000 and 50,000 respectively.
Plant 140,000; Stock 90,000; Patents 18250; Cash 30750; Debtors 80,000
And provision for doubtful debt 4000; Creditors 55000 .R retires on the this date and P,Q decided to share future profit and losses in the Ratio of 3:2
On the basis of above case. Give the answer of following questions.

a) Stock to be reduced by Rs 82000 the new amount will shown in
(A)Debit side of revaluation A/C 8000
(B) Credit side of revaluation A/C 90000
(C) Credit side of partners capital A/C 8000
(D)None of the above

b) If Patents are valueless then what will be the new amount of patent
(A)18,250
(B) zero
(C) Both amounts to be consider
(D) None of the above

c) Profit or loss on Revaluation A/c Transferred to
(A)Rs 60,000 Profit
(B) Rs 60,000 loss
(c) Rs 90,000 Profit
(D) Rs 90,000 loss

e) How will you treat an amount of Rs 20,000 had to be paid to an employee injured in accident?
(A)Bank a/c Credit side Of revaluation a/c
(B) Bank a/c Debit side Of revaluation a/c
(C) Bank a/c Credit side Of realization a/c a/c
(D)Bank a/c Debit side Of Realization a/c

Ans:

a) (A)Debit side of revaluation A/C 8000
b) (A)18,250
c) (B) Rs 60,000 loss
d) (A)Bank a/c Debit side Of revaluation a/c

4 From the following particulars, calculate new profit-sharing ratio of the partners:
(a) Shiv, Mohan and Hari were partners in a firm sharing profits in the ratio of 5:5:4. Mohan retired and his share was divided equally between Shiv and Hari.

(b) *P*, *Q* and *R* were partners sharing profits in the ratio of 5 : 4 : 1. *P* retires from the firm.

Ans:

a) Old Ratio (Shiv, Mohan and Hari) = 5 : 5 : 4
Mohan's Profit Share = 5/14

His share is divided between Shiv and Hari equally i.e. in the ratio of 1: 1

Share of Mohan taken by Shiv : 5/14 x ½ = 5/28
Share of Mohan taken by Hari : 5/14 x ½ =5/28

New Profit Share = Old Profit Share + Share taken from Mohan

Shivs new share = 5/14 + 5/28 = 15/28
Hari's new share = 4/14 + 5/28 = 13/28

∴ New Profit-Sharing Ratio (Shiv and Hari) = 15: 13

(b) Old Ratio (P, Q and R) = 5 : 4 : 1

P's Profit Share = 5/10

Since, no information is given as to how Q and R are acquiring P's profit share after his retirement, so the new profit sharing ratio between Q and R becomes 4 : 1

∴New Profit Ratio (Q and R) = 4 : 1

5 *X*, *Y* and *Z* are partners in a firm sharing profits and losses in the ratio of 3:2:1 *Z* retires from the firm on 31st March, 2019. On the date of *Z*'s retirement, the following balances appeared in the books of the firm:

General Reserve Rs. 1,80,000
Profit and Loss Account (Dr.) Rs. 30,000
Workmen Compensation Reserve Rs. 24,000 which was no more required
Employees' Provident Fund Rs. 20,000.

Pass necessary Journal entries for the adjustment of these items on *Z*'s retirement

Ans:

Journal

Date	Particulars		L.F.	Debit Amount (Rs.)
2019 Mar.31				
	General Reserve A/c	Dr.		1,80,00
	Workmen Compensation reserve	Dr		2400
	To X's Capital A/c			
	To Y's Capital A/c			
	To Z's Capital A/c			
	(Accumulated profits distributed among partners in old ratio)			
	X's Capital A/c	Dr.		15,00
	Y's Capital A/c	Dr.		10,00
	Z's Capital A/c	Dr.		5,00
	To Profit and Loss A/c			
	(Debit balance in Profit and Loss A/c distributed among partners in old ratio)			

*WN*1: <u>Calculation of Share in Credit Balance of Reserves</u>

Total Credit Balance of Reserves = General Reserve + WCF

= 1,80,000 + 24,000 = 2,04,000

X's share = 2,04,000 x 3/6 = 102000
Y's share = 204000 x 2/6 = 68000
Z' s share = 00 x 1/6 = 34000

*N*2: <u>Calculation of Share in Debit Balance of Profit and Loss A/c</u>
5. X's share = 30,000 x 3/6 = 15000
Y's share = 30000 x 2/6 = 10000
Z' s share = 204000 x 1/6 = 5000

6 Aparna, Manisha and Sonia are partners sharing profits in the ratio of 3 : 2 : 1. Manisha retired and goodwill of the firm is valued at Rs. 1,80,000. Aparna and Sonia decided to share future profits in the ratio of 3 : 2. Pass necessary Journal entries.

Ans:

Journal

Date	Particulars	L.F.	Amount (Rs.)	Amount (Rs.)
	Aparna’s Capitals A/c ..Dr		18,000	
	Sonia’s Capital A/c Dr		42,000	
	To Manisha’s Capital A/c			60,000
	(Manisha’s share of goodwill adjusted to Aparna’s and Sonia’s Capital Account in their gaining ratio)			

Working Notes:

*WN*1: *Calculation of Manisha’s Share in Goodwill*

Manisha's share=Firm's Goodwill ×Manisha's share of profit
Manisha's share=1,80,000×1/3=60,000

*WN*2: *Calculation of Gaining Ratio*
Gaining Ratio = New Ratio − Old Ratio

Aparna's gain=3/5−3/6=3/30
Sonia's gain=2/5−1/6=7/30
Gaining Ratio=3:7
Aparna's share=60,000×3/10=18,000
Sonia's share=60,000×7/10=42,000

7 X, Y and Z are partners in a firm sharing profit and losses in the ratio 2:2:1.The firm closes is it books on 31st March every year died on 24 June 2018. Y's share in the profit of the firm till the date of death from the last balance sheet was to be calculated on the basis of sales. Sales during the year 2017-18 was Rs 15 lakh and profit earned during the year was RS 3 lakh, Sales from first April 2018 to 24 June 2018 were Rs 2 lakh. On Y s death Goodwill of the firm was valued at Rs 120000.The total amount payable to Y s executors on his death was Rs 175000. The amount was paid to them on 15/7/2018 . Pass journal entries in the books of the firm.

Ans:

Date	Particulars	LF	Debit	Credit
24.6.'18	P/L Suspense A/c..Dr To Y s capital A/c (share of profit of Y)		16000	16000
24.6.'18	X's Capital A/c…Dr Z's Capital A/C….Dr To Y's Capital A/c (Y's Share of good will adjusted in gaining ratio)		32000 16000	48000
24.6.'18	Y's Capital A/c…..Dr To Y's executors A/c (Y's Capital /c transferred to Executor.		175000	175000
15.6.'18	Y's executor A/c….Dr To Bank A/c (Amount Paid to Executor)		175000	175000

Working Note

Calculation Y's share of profit.

Ratio of Profit to Sales = $\frac{\text{Profit}}{\text{Sales}}$ X100

$\frac{300000}{1500000}$ X100 = 20%

Profit p to the date of death 200000 X $\frac{20}{100}$ = 40000

Y's Share of profit = 40000 X 2/5 = 16000

8 A, B and C are partners in a firm sharing profits in 3:2:1 ratio. The firm closes its books on 31st march every year. B died on 12-6-23. On Bs death the goodwill of the firm is valued at Rs 60000. On B s death his share in the profits of the firm till the time of his death was to be calculated on the basis of previous year’s profit which was Rs 150000. Calculate Bs share in the profit of the firm. Pass journal entries for the treatment of goodwill and Bs share of profit at the time of his death.

B’s share of goodwill – Rs 20000 (2/6 of 60000)

Gaining ratio = 3:1

B’s share of profit = 150000x73/365x2/6 = 10000

Date	Particulars	LF	Debit	Credit
	A’s Capital A/c…Dr		15000	
	C ’s Capital A/c.Dr		5000	
	To,B ’s Capital A/c..Dr			20000
	(B” s share of goodwill adjusted)			
	P&L Suspense A/c. Dr.		10000	
	To B’s Capital A/c			10000
	(Vaibhav’s profit up to his death)			

9 Vikas, Vishal and Vaibhav were partners in a firm sharing profits in the ratio of 2: 2: 1. The firm closes its books on 31st March every year. On 31-12-2022 Vaibhav died. On that date his Capital account showed a credit balance of Rs. 3,80,000 and Goodwill of the firm was valued at Rs. 1,20,000. There was a debit balance of Rs. 50,000 in the profit and loss account. Vaibhav's share of profit in the year of his death was to be calculated on the basis of the average profit of the last five year The average profit of last five years was Rs. 75,000 Pass necessary journal entries in the books of the firm on Vaibhav's death.

Ans:

Date	Particulars	LF	Debit	Credit
	Vikas' Capital A/c…Dr		12000	
	Vishal's Capital A/c.Dr		12000	
	To Vaibhav's Capital A/c			24000
	(value of goodwill adjusted)			
	Vikas' Capital A/c…Dr		20000	
	Vishal's Capital A/c.Dr		20000	
	Vaibhav's Capital A/c..Dr		10000	
	To P&L A/c.			50000
	(P&L A/c written off)			
	P&L Suspense A/c. Dr.		10250	
	To Vaibhav's Capital A/c (Vaibhav's profit up to his death)			10250
	Vaibhav's Capital A/c. Dr		405250	
	To Vaibhav's Executor's A/c.			405250
	(Amount transferred to Vaibhav's executor)			

10

X, Y and Z were partners in a firm sharing profits and losses in the 5 : 4 : 3. Their Balance Sheet on 31st March, 2018 was as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	2,00,000	Building	2,00,000
Employees' Provident Fund	1,50,000	Machinery	3,00,000
General Reserve	36,000	Furniture	1,10,000
Investment Fluctuation Reserve	14,000	Investment (Market value Rs. 86,000)	1,00,000
Capital A/cs:		Debtors	80,000
X 3,00,000		Cash at Bank	1,90,000
Y 2,50,000		Advertisement Suspense	1,20,000
Z 1,50,000	7,00,000		
	11,00,000		11,00,000

X died on 1st October, 2018 and *Y* and *Z* decide to share future profits in the ratio of 7 : 5. It was agreed between his executors and the remaining partners that:

(i) Goodwill of the firm be valued at 2 ½ years' purchase of average of four completed years' profit which were:

Year	2014-15	2015-16	2016-17	2017-18
Profits (Rs.)	1,70,000	1,80,000	1,90,000	1,80,000

(ii) *X*'s share of profit from the closure of last accounting year till date of death be calculated on the basis of last years' profit.

(iii) Building undervalued by Rs. 2,00,000; Machinery overvalued by Rs. 1,50,000 and Furniture overvalued by Rs. 46,000.

(iv) A provision of 5% be created on Debtors for Doubtful Debts.

(v) Interest on Capital to be provided at 10% p.a.

(vi) Half of the net amount payable to *X*'s executor was paid immediately and the balance was transferred to his loan account which was to be paid later.

Prepare Revaluation Account, *X*'s Capital Account and *X*'s Executor's Account as on 1st October, 2018.

Revaluation Account

Dr Cr

Particulars	Amount Rs	Particulars	Amount Rs
Machinery Furniture Provision for Doubtful Debts	1,50,000 46,000 4,000	Building	2,00,000
	2,00,000		2,00,000

Dr Cr

Particulars	Amount Rs	Particulars	Amount Rs
Advertisement Suspense A/c X's Executors A/c	50,000 5,05,000	Balance b/d General Reserve Y's Capital A/c Z's Capital A/c Profit & Loss Suspense Interest on Capital	3,00,000 15,000 1,12,500 75,000 37,500 15,000
	5,55,000		5,55,000

X's Executors Account

Dr Cr .

Particulars	Amount Rs	Particulars	Amount Rs
Bank A/c X's Executors Loan Account	2,52,500 2,52,500	X's Capital A/c	5,05,000
	5,05,000		5,05,000

X's Capital Account

11 *X*, *Y* and *Z* were partners in a firm sharing profits in the ratio of 2 : 2 : 1. On 31st March, 2018, their Balance Sheet was as follows:

Liabilities		Amount (Rs.)	Assets	Amount (Rs.)
Trade Creditors		1,20,000	Cash at Bank	1,80,000
Bills Payable		80,000	Stock	1,40,000
General Reserve		60,000	Sundry Debtors	80,000
Capital A/cs:			Building	3,00,000
X	7,00,000		Advance to *Y*	7,00,000
Y	7,00,000		Profit and Loss A/c	3,20,000
Z	60,000	14,60,000		
		17,20,000		17,20,000

Y died on 30th June, 2018. The Partnership Deed provided for the following on the death of a partner:

(i) Goodwill of the business was to be calculated on the basis of 2 times the average profit of the past 5 years. Profits for the years ended 31st March, 2018, 31st March, 2017, 31st March, 2016, 31st March, 2015 and 31st March, 2014 were Rs. 3,20,000 (Loss); Rs. 1,00,000; Rs. 1,60,000; Rs. 2,20,000 and Rs. 4,40,000 respectively.

(ii) *Y*'s share of profit or loss from 1st April, 2018 till his death was to be calculated on the basis of the profit or loss for the year ended 31st March, 2018.

You are required to calculate the following:

(a) Goodwill of the firm and *Y*'s share of goodwill at the time of his death.

(b) *Y*'s share in the profit or loss of the firm till the date of his death.

(c) Prepare *Y*'s Capital Account at the time of his death to be presented to his executors.

Y’s Capital Account

Dr Cr

Particulars	Amount Rs	Particulars	Amount Rs
Profit & Loss A/c	1,28,000	Balance b/d	7,00,000
Profit & Loss Suspense (Share of Loss)	32,000	General Reserve	24,000
Advance to Y	7,00,000	X’s Capital A/c	64,000
		Z ’s Capital A/c	32,000
		Y’s Executors A/c	40,000
	8,20,000		8,20,000

Working Notes:

WN1: Calculation of Share in General Reserve
Reserve=60,000×2/5=Rs 24,000
WN2: Calculation of Share in Goodwill
Goodwill=Average Profit×No. of years' Purchase
=1,20,000×2=Rs 2,40,000

Y's share in Goodwill=2,40,000×25=Rs 96,000, should be contributed by X & Z in 2:1
Average Profit=Total Profits of past years givenNumber of years
=1,00,000+1,60,000+2,20,000+4,40,000−3,20,000 / 5 = Rs 1,20,000

Goodwill=Average Profit ×No. of years' Purchase

=1,20,000×2=Rs 2,40,000

Y's share in Goodwill=2,40,000×2/5=Rs 96,000, should be contributed by X & Z in 2 :1

Average Profit=Total Profits of past years givenNumber of years

=1,00,000+1,60,000+2,20,000+4,40,000−3,20,000/5 =Rs 1,20,000
WN3: Calculation of Profit & Loss Suspense

Profit & loss Suspense (Loss)=3,20,000×2/5×3/ 12=Rs 32,000

12 Kanika, Disha and Kabir were partners sharing profits in the ratio of 2 : 1 : 1. On 31st March, 2016, their Balance Sheet was as under:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Trade creditors	53,000	Bank	60,000
Employees' Provident Fund	47,000	Debtors	60,000
Kanika's Capital	2,00,000	Stock	1,00,000
Disha's Capital	1,00,000	Fixed assets	2,40,000
Kabir's Capital	80,000	Profit and Loss A/c	20,000
	4,80,000		4,80,000

Kanika retired on 1st April, 2016. For this purpose, the following adjustments were agreed upon:

(a) Goodwill of the firm was valued at 2 years' purchase of average profits of three completed years preceding the date of retirement. The profits for the year:
2013-14 were Rs. 1,00,000 and for 2014-15 were Rs. 1,30,000.

(b) Fixed Assets were to be increased to Rs. 3,00,000.

(c) Stock was to be valued at 120%.

(d) The amount payable to Kanika was transferred to her Loan Account.

Prepare Revaluation Account, Capital Accounts of the partners.

Revaluation Account

Dr Cr

Particulars		Amount Rs	Particulars	Amount Rs
Revaluation Profit			Fixed Assets	60,000
Kanika's Capital	40,000		Stock	20,000
Disha's Capital	20,000			
Kabir's Capital	20,000	80,000		
		80,000		80,000

Partners’ Capital Account

Dr. Cr.

Particulars	Kanika	Disha	Kabir	Particulars	Kanika	Disha	Kabir
Profit & Loss A/c	10,000	5,000	5,000	Balance b/d	2,00,000	1,00,000	80,000
Kanika’s Capital A/c		35,000	35,000	Disha’s Capital A/c	35,000		
Kanika’s Loan A/c	3,00,000			Kabir’s Capital A/c	35,000		
Balance c/d		80,000	60,000	Revaluation	40,000	20,000	20,000
	3,10,000	1,20,000	1,00,000		3,10,000	1,20,000	1,00,000

Working Notes:

*WN*1: *Calculation of Goodwill*

Goodwill=Average Profits X Number of Years' Purchase

Average Profits = Total Profits /Number of Years

=1,00,000+1,30,000−20,000/3

=2,10,000/3 =Rs 70,000

Goodwill=70,000×2=Rs 1,40,000

Kanika's share=1,40,000×2/4=70,000 (will be shared by old partners in their gaining ratio)

Since no information is given about the share of gain, it is assumed that the old partners are gaining in their old profit-sharing ratio.

Hence

Disha – 70000 x ½ = 35000

Kabir – 70000 x ½ = 35000

DISSOLUTION OF A PARTNERSHIP FIRM

MEANING OF DISSOLUTION OF PARTNERSHIP FIRM

When the business of the firm is closed down and the firm comes to an end, it is termed as dissolution of partnership firm. On the dissolution of the firm the assets of the firm are sold and liabilities are paid off and balance, if any, is paid to the partners in settlement of their accounts.

According to Section 39 of the Indian Partnership Act, 1932, "Dissolution of the firm means dissolution of partnership among all the partners in the firm"

Differences between Dissolution of Partnership & Dissolution of Firm.

Dissolution of Partnership: Dissolution of Partnership refers to termination of old partnership agreement and reconstitution of the firm due to change in profit sharing ratio among the existing partners, admission of a partner, retirement or death of a partner. It may or may not result into closing down of the business as the remaining partners may agree to carry on the business under a new agreement.

Dissolution of partnership firm: Dissolution of partnership firm means that the firm closes down its business and comes to an end. In such a case, the assets of the firm are realised and liabilities are paid off and out of the remaining amount, the accounts of the partners are settled.

BASIS OF COMPARISON	DISSOLUTION OF PARTNERSHIP	DISSOLUTION OF FIRM
Meaning	Dissolution of a partnership refers to the discontinuance of the relation between partner and other partners of the firm.	Dissolution of firm implies that entire firm ceases to exist, including the relation among all the partners
Nature	Voluntary	Voluntary or compulsory
Business	Business of the firm continues as before.	Business of the firm comes to an end
Economic relationship	Continues to exist but in a changed form.	Comes to an end.
Accounts prepared	Revaluation account is prepared	Realisation account is prepared
Books of accounts	Books of accounts are not closed	Books of accounts are closed

Modes of Dissolution of a firm

1. **Dissolution by mutual agreement**
   Afirmmaybedissolvedwiththeconsentofallthepartnersor in accordance witha contractbetweenthepartners.
2. **Compulsory dissolution:** A firm may be compulsorily dissolved
   a) When all the partners or all the partners except one become insolvent
   b) When business of the firm becomes unlawful
3. **On happening of an event**: A firm may be dissolved in any of the following events, if the partnership deed so provides
   a) On expiry of the term for which the firm was constituted
   b) On completion of the venture
   c) On death of a partner
   d) On adjudication of a partner as insolvent

4. **By Notice**: In case of Partnership at Will, the firm may be dissolved by any partner by giving notice in writing to all the other partners of his intention to dissolve the firm.

5.**Dissolution by court**: Court may dissolve a form on by any of the following grounds, namely
   a) When a partner has become of unsound mind
   b) When apartnerhasbecomepermanentlyincapableofperforminghisdutiesaspartner.
   c) When a partneris foundguiltyofmisconduct
   d) When there is a Breachof Agreementt by the partner
   e) That the businessofthefirmcannotbecarriedonexceptataloss.
   f) Court finds dissolution of the firm justified

On any other ground which renders It just and equitable that the firm should be dissolved

ACCOUNTING ON DISSOLUTION OF PARTNERSHIP FIRM

Dissolution process starts by preparing the following accounts in Firm’s books:

1. Realisation A/C–For realizing assets and payment to outside liabilities
2. Partner’s Loan A/C -For payment to partner’s loan if any
3. Partner’s Capital A/C- calculation of amount due to/due by partners.
4. Cash A/C-to check the receipts and payments of cash (should be tallied)

1. Realisation Account

- Realisation Account is a nominal account.
- The main purpose of this account is to calculate the profit or loss after realising the assets and paying the liabilities.
- Transfer all the assets (except Cash/Bank and fictitious assets) on the debit side of Realisation account from the Balance sheet and show the realized value on the credit side of realization account.
- Transfer all the liabilities (outsider) to the credit side of realization account and liabilities paid on the debit side of realization account.
- Do not transfer capitals of the partners, Partner’s loan A/C and accumulated reserve and profit.

ACCOUNTING ENTRIES

1. When assets are transferred to the Realisation Account
Realisation A/c Dr.
To Sundry Assets A/c

2. When Provisions of relate assets are transferred to realization/c
Provision for doubtful debts A/c Dr.
Provision for Depreciation A/c Dr.
To Realisation A/c

3. When Assets are realized:
Cash/bank A/c Dr.
To Realisation A/c

4. When liabilities are transferred to the Realisation Account:
Sundries Liabilities A/c Dr.
To Realisation A/c

5. When Liabilities are paid:
Realisation A/c Dr.
To Cash/Bank A/c

6. When Asset is taken over by the partner:
Partners' Capital A/c Dr.
To Realisation A/c

7. When Liability taken over by the partner
Realisation A/c Dr.
To Partners capital A/c

8. When unrecorded Assets are realized
Cash/bank A/c Dr.
To Realisation A/c

9. When unrecorded liabilities are realized
Realisation A/c Dr.
To Cash /Bank A/c

10. When Realisation expense are paid
Realisation A/c Dr.
To Cash/bank A/c

11. When Realisation expenses are paid by the partner
Realisation A/c Dr.
To Partners capital A/c

12. When bank overdraft is paid:
Bank overdraft A/c Dr.
To Cash/Bank A/c

13. When realization profit is transferred to the partners:
Realisation A/c Dr.
To partner's capital A/c
If there is loss on realization Account, following entry should be recorded:
Partner's Capital A/c Dr.
To Realisation A/c

Proforma of Realisation Account

Particulars	Amount	Particulars	Amount
To Sundry Assets:	-	By Sundry Liabilities	--
Land and Building	-	(Only outsider's liabilities)	--
Plant and Machinery		By Provision on Assets	--
Furniture		By Cash/Bank (assets realized)	--
Debtors		By Cash/Bank (unrecorded Asset)	
Bills Receivable etc.		By Partners Capital A/c(Asset taken by partner)	--
To Cash/Bank (Liability paid)	- -	By Partners Capital A/c	--
To Partners Capital A/C (liability taken by partner)	- -	(Loss transferred to partners if any)	
To Cash/Bank (Realisation Exp.)	-		
To Partners Capital A/c's (profit Transferred to partners)			

2. Partners Loan Account: -

- Partners Loan Account (shown in B/S) is not transferred to the Realization account or Partners' capital account
- The Loan amount will be transferred to the credit side of the cash accountby passing the entry
  Partner's loan a/c Dr
  To Cash/ Bank A/c

3. Partner's Capital Account

- Balances of Partner's capital accounts and Current account are shown in this account
- All Reserve and undistributed profits etc. should be recorded in the credit side of the Partner's capital account.
- P&L (loss) account balance shown in the Asset side of the Balance Sheet will be shown in the Debit side of the Capital Account
- Profit/loss calculated in realization account will be transferred to the partner's capital account.
- If any asset is taken over by the partner, it will be shown on the debit side of partner's capital accounts. If any liability is taken over by the partner, it will be shown on the credit side of partner's capital accounts.
- Final settlement with partners or closing the account by bringing in or paying cash

FORMAT OF PARTNER'S CAPITAL ACCOUNT

Particulars	A	B	Particulars	A	B
To Realisation A/c(Loss on Realisation)	xxxx	xxxx	By Balance b/d	xxxx	xxxx
To Realisation A/c(Asset taken over)	xxxx	xxxx	By General Reserve	xxxx	xxxx
			By Realisation A/c(Profit on realization)	xxxx	xxxx
To Bank A/c(final Payment)	xxxx	xxxx	By Realisation A/c(Liability taken over)	xxxx	xxxx

4. **Preparation of Bank A/c: Since** the business is being closed, there is no need to prepare a balance sheet, we prepare Cash/Bank Account. All cash realized are shown on the debit side of Cash/Bank account and all cash payments are shown on the credit side of Cash/Bank A/c.

DIFFERENCES BETWEEN REVALUATION ACCOUNT AND REALISATION ACCOUNT

Basis	Revaluation Account	Realisation Account
Meaning	Revaluation accounts is related with the revaluation of assets and re-assessment of liabilities	RealisationAccountispreparedtorealizetheassetsandtopaytheliabilities.
Objective	Main purpose is to record the fluctuating values of assets and liabilities and to calculate the profit or loss on revaluation	Main purpose is to calculate the profit/loss after realizing the assets and payment of liabilities.
Need	Revaluation account is needed at the time of admission and retirement or death of a partner.	Realisation Account is needed when dissolution takes place.
Result	Profit or loss calculated in Revaluation account is distributed among the old partners only.	Profit or loss calculated in Realisation Account is distributed among all the partners

TREATMENT OF REALISATION EXPENSES

CASE NO1: -Realisation Expenses are borne and paid by the firm Realisation A/c---------- Dr To Cash/Bank A/c (Being Realisation expenses paid by the firm)
CASE NO 2: When Realisation expenses are borne by firm but paid by the partner Realisation A/c -------- -------- Dr. To Partner's Capital A/c (Being Realisation expenses paid by a partner) Note : Students must remember that these expenses are paid by the partner on behalf of the firm Because this is not the duty of partner to pay the realization expense
CASE NO 3: When Realisation expenses are borne by a Partner and paid by the Firm . Partner's capital A/c---------Dr. To Cash/Bank A/c (Being expense by paid by firm and borne by partner)
CASE NO 4: When Expenses for realization are borne and paid by the same partner NO ENTRY Reason: According to Business Entity concept business and Businessman are separate entity and were cord only business transactions.

VERY SHORT ANSWER QUESTIONS

1	A firm has debtors Rs 3, 96,000 and provision for doubtful debts Rs 36,000. If Rs 72,000 of debtors prove bad, then Realisation A/c will be credited with: (a) 3,24,000 (b) 3,60,000 (c) 2,88,000 (d) None of these Ans: (a) 3,24,000
2	Contingent Liability when paid on dissolution of a firm is debited to: a) Partner's Capital Account b) Realisation Account c) Liabilities Account d) Bank Account Ans: Realisation account
3	At the time of dissolution of a partnership firm, the book value of plant and machinery transferred to Realisation Account was Rs 8,00,000. 50% of these plant and machinery were taken by partner Ranjit at 20% discount. 40% of the remaining plant and machinery were sold at a profit of 30% on cost. 5% of the balance was found obsolete and realised

nothing. The remaining plant and machinery were taken over by John, a creditor in full settlement of his claim. Give necessary journal entries.
Ans:

	Ranjit's Capital A/c Dr	320000	
	Bank A/c Dr	208000	
	To Realisation A/C		528000
	(Being the plant and machinery, whose book values were Rs 4,00,000 were taken over by Ranjit for Rs 3,20,000 and the plant and machinery whose book values were Rs 1,60,000 were sold for Rs 2,08,000)		

4 On dissolution of a firm, a partner paid Rs700 for firm's realization expenses. Which account will be debited?

a) Cash account b) Realisation account c) Capital account of the partner d) Profit& Loss account.

Ans: Realisation Account

5 On dissolution of a firm, It's Balance Sheet revealed total creditors Rs 50,000, total capital Rs 48,000, Cash balance Rs 3000, Its assets were realized at 12% less. Loss on realization will be:

a) Rs 6000 b) Rs11760 c) Rs11400 d) Rs 3600

Ans: Rs 11400

6 Misha and Yatin are partners. At the time of dissolution, debit balance of Misha's Loan

appeared at Rs 25,000 on the Asset side in Balance Sheet of the firms. Give necessary journal entry for the treatment of loan.
Ans:

	Misha's Capital A/c	25000	
	To Misha's Loan A/C		
	(Being the debit balance of loan account transferred to capital account)		25000

7 A Partner took over the Investments of Rs 15000 at Rs 19000 on dissolution of a Firm. What amount will be credited in Realisation Account?

a) Rs 15000 b) Rs 19000 c)Rs 4000 d) Rs 23000

Ans: Rs 19000

8. Identify the sequence of application of assets at the time of Dissolution of a Firm:

A. Partner's Loans and Advances
B. Partner's Capital
C. Profit among the Partners at their profit sharing Ratio
D. Third Parties such as Creditors and Bank Loan

Choose the correct option:

1. D, C, B and A 2. A, B, C and D 3. D, B, C and A 4. D, A, B and C

Ans(4) D, A, B and C

9 Which of the following is correct profit or loss on realisation in case the amount received from
the sale of assets is Rs 40,000, total assets Rs 50,000, total liabilities Rs15,000 and realisation
Expenses Rs 2,000?
(a) 10,000 Loss (b) 7,000 Loss (c) 20,000 Profit (d) 12,000 Loss
Ans: (d) 12,000 Loss

10 In the event of dissolution of a partnership firm, the provision for doubtful debts is transferred to:

	a) Realization account b) Partner's Capital Accounts c) Cash account d) Partner's loan account Ans: a) Realisation Account
11	On dissolution of a firm, realisation account is debited with (A) Any asset taken over by one of the partners (B) All outside liabilities of the firm (C) Cash received on sale of assets (D) All assets to be realized Ans: (D)All assets to be realised
12	Which of the following will not be recorded in realisation account? (A)Sale of unrecorded asset (B) Payment of outsider's loan (C) Payment of partners' loan (D)Payment of dissolution expenses by a partner on behalf of firm Ans: (D)Payment of dissolution expenses by a partner on behalf of firm
13	Out of the following which will be settled at first, at the time of dissolution of firm? (A)Loans advanced by partners (B) Outside debts of the firm (C) Balance of partners' capital account (D)None of the above Ans: (B) Outside debts of the firm
14	If dissolution expenses paid by a partner and he had to bear the expenses, how it will be recorded? (A)Debit realisation account and credit bank account (B) Debit realisation account and credit partners' capital account (C) Debit partners' capital account and credit bank account (D)Not recorded Ans: (D)Not recorded
15	On firm's dissolution, which one of the following accounts should be prepared at the last? (A) Realisation Account (B) Partner's Capital Accounts (C) Cash/Bank Account (D) Partner's Loan Account Ans: (C) Cash/Bank Account
16	At the time of dissolution of firm, Partners loan is paid out of the amount realised on sale of assets: (A) After making the payment of loans given by third party (B) After making the payment of balance of Capital Accounts of partners (C) After making the payment of above (A) and (B) (D) Before the payment of loans given by third party Ans: (A) After making the payment of loans given by third party
17	Unrecorded liability, when paid on dissolution of a firm is debited to : (A) Partner's Capital A/'c (B) Realisation A/c (C) Liabilities A/c (D) Asset A/c Ans: (B) Realisation A/c
18	At the time of firm's dissolution, Balance of General Reserve shown in the Balance Sheet is credited to : (A) Realisation Account (B) Creditor's Account (C) Partner's Capital Account (D) Profit & Loss Account Ans: (C) Partner's Capital Account

19	Change in the existing agreement between the partners is called: (A) Dissolution of Firm (B) Dissolution of Partnership (C) Dissolution of Business (D) All of the Above Ans: (B) Dissolution of Partnership
20	On firm's dissolution, on realisation of goodwill (which was shown in Balance Sheet) will be credited to : (A) Cash A/c (B) Realisation A/c (C) Profit & Loss A/ (D) None of the A/c Ans: (B) Realisation A/c

ASSERTION REASONING QUESTIONS

1	Assertion (A): On dissolution, goodwill account is transferred to Realisation Account. Reason (R): Goodwill is an intangible Asset (A)Both Assertion (A) and Reason (R) are true and Reason (R) is correct explanation of Assertion. (B) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion. (C) Assertion (A) is true, Reason (R) is false. (D)Assertion (A) is false, Reason (R) is true. **Ans:** (B) is correct
2	Assertion (A): At the time of Dissolution of Partnership Firm, the amount received from realisation of all the assets of the firm is used first of all to pay the external liabilities of the firm Reason (R): As per the Partnership Act, outside liability should be paid first of all at the time of dissolution of partnership firm. (A)Both Assertion (A) and Reason (R) are true and Reason (R) is correct explanation of Assertion. (B) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion. (C) Assertion (A) is true, Reason (R) is false. (D)Assertion (A) is false, Reason (R) is true. Ans: (A) is correct.
3	Assertion (A): On dissolution of firm, partners loan is transferred to realisation account. Reason (R): Partners loan is an internal liability. (A)Both Assertion (A) and Reason (R) are true and Reason (R) is correct explanation of Assertion. (B) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion. (C) Assertion (A) is true, Reason (R) is false. (D)Assertion (A) is false, Reason (R) is true. Ans: (D) Assertion (A) is false, Reason (R) is true
4	Assertion (A): A firm is dissolved compulsorily when all the partners or all but one partner, become insolvent. ' Reason (R): Dissolution of partnership and dissolution of firm both are the same

	(A)Both Assertion (A) and Reason (R) are true and Reason (R) is correct explanation of Assertion. (B) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion. (C) Assertion (A) is true, Reason (R) is false. (D)Assertion (A) is false, Reason (R) is true. Ans: (C) Assertion (A) is true, Reason (R) is false.
5	Assertion (A): Dissolution expenses paid by the firm on behalf of a partner is recorded on the debit side of realisation account. Reason (R) : Such expenses are a Non-business expense (A)Both Assertion (A) and Reason (R) are true and Reason (R) is correct explanation of Assertion. (B) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion. (C) Assertion (A) is true, Reason (R) is false. (D)Assertion (A) is false, Reason (R) is true. Ans: (D) Assertion (A) is false, Reason (R) is true.
6	Assertion (A): Realisation account is prepared at the time of dissolution of partnership. Reason (R): Realisation account records the cash release from sale of assets and amount paid to external liabilities. (A)Both Assertion (A) and Reason (R) are true and Reason (R) is correct explanation of Assertion. (B) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion. (C) Assertion (A) is true, Reason (R) is false. (D)Assertion (A) is false, Reason (R) is true. Ans: (B) Both Assertion (A) and Reason (R) are True and Reason (R) is not correct explanation of Assertion.
7	Assertion (A): On dissolution of firm, partner's loan is transferred to realisation account. Reason (R): Partners loan is an internal liability. (A)Both Assertion (A) and Reason (R) are true and Reason (R) is correct explanation of Assertion. (B) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion. (C) Assertion (A) is true, Reason (R) is false. (D)Assertion (A) is false, Reason (R) is true. Ans: (D)Assertion (A) is false, Reason (R) is true.
8	Assertion (A) : A firm is dissolved compulsorily when all the partners or all but one partner, become insolvent Reason (R) : Dissolution of partnership and dissolution of firm both are the same. (A)Both Assertion (A) and Reason (R) are true and Reason (R) is correct explanation of Assertion. (B) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion. (C) Assertion (A) is true, Reason (R) is false. (D)Assertion (A) is false, Reason (R) is true. Ans: (C) Assertion (A) is true, Reason (R) is false

9 **Assertion** (A): Dissolution of partnership is different from the dissolution of the Partnership firm.
Reason (R): Dissolution of partnership doesn't dissolve the firm but dissolution of a firm dissolves the partnership

(A)Both Assertion (A) and Reason (R) are true and Reason (R) is correct explanation of Assertion.
(B) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion.
(C) Assertion (A) is true, Reason (R) is false.
(D)Assertion (A) is false, Reason (R) is true.

Ans: (A) Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A)

Assertion (A): Realisation account is prepared in the dissolution of the firm. Reason (R): Dissolution of partnership involves the partners selling the assets and settling the liabilities. Thus, various amounts are recovered or paid to partners

(A)Both Assertion (A) and Reason (R) are true and Reason (R) is correct explanation of Assertion.
(B) Both Assertion (A) and Reason (R) are true and Reason (R) is not correct explanation of Assertion.
(C) Assertion (A) is true, Reason (R) is false.
(D)Assertion (A) is false, Reason (R) is true.

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

SHORT ANSWER QUESTIONS

1 ZENIT and JANET are two partners sharing profits in the ratio 2:1. Give the journal at the time of dissolution of the firm:

i) Deferred revenue advertising expenditure appeared at Rs 30,000
ii) Profit & Loss A/c was appearing on the asset side of the Balance Sheet at Rs 60,000
iii) An unrecorded investment realized Rs 6,000
iv) Partner ZENIT paid to a creditor Rs 20,000

Ans:

(i)	ZENIT's Capital A/c Dr JANET's Capital A/c Dr To Deferred Revenue Advertising Expenditure A/C (Being transfer of fictitious asset to Partner's Capital A/C)		20000 10000	30000
(ii)	ZENIT's Capital A/c Dr JANET's Capital A/c Dr To Profit & Loss A/c (Transfer of accumulated loss to partner's capital accounts)		40000 20000	60000
(iii)	Bank A/c Dr To Realisation A/c (amount realized from unrecorded investment)		6000	6000
(iv)			20000	

	Realisation A/c Dr To ZENIT's Capital A/c (creditor paid by ZENIT)			20000

2 Rohit and Suresh are in partnership sharing profit in the ratio 2:3. On March 31.2005, they agree to dissolve the business. Pass necessary journal entries :

a) Realisation expenses amounted to Rs 2000
b) Deferred revenue advertising expenditure appeared in the books at Rs 60,000
c) P & L A/c on the asset side of the balance sheet was Rs 30,000
d) An unrecorded asset of Rs 3,000 was taken over by Suresh
e) Liabilities of Rs 24,000 already transferred to Realisation A/C ,was settled at Rs 22,000.
f) Loan to Rohit was adjusted through his Capital A/c Rs 15,000

Ans:

	Particulars	L F	Rs	Rs
a)	Realisation A/c Dr To Cash A/c (For realization expenses paid)		2000	2000
b)	Realisation A/c Dr To Deferred Revenue Advertisement Exp A/c (Deferred revenue advertisement expenditure transferred to realization A/c)		60000	60000
c)	Rohit's Capital A/c Dr Suresh's Capital A/c Dr To P & L A/c (P &L A/c (loss) distributed among partners in their ratio)		12000 18000	30000
d)	Suresh's Capital A/c Dr To Realisation A/c (Unrecorded asset taken over by partner)		3000	3000
e)	Realisation A/c Dr To Cash A/c (liabilities of Rs 24,000 were settled at Rs 22,000)		22000	22000
f)	Rohit's Capital A/c Dr To Rohit's Loan A/c (Loan to Rohit transferred to Rohit's Capital A/c)		15000	15000

3 A & B share profits and losses in the ratio 3:2. They have decided to dissolve the firm. Assets and external liabilities have been transferred to Realisation A/c. Pass the journal entries:

a) Bank Loan of Rs 12,000 is paid off
b) A was to bear all expenses of realization for which he is given a commission of Rs 400.
c) Deferred Advertisement Expenditure A/c appeared in the books at Rs 28,000.
d) Stock worth Rs 1,600 was taken over by B at Rs 1,200.
e) An unrecorded computer realized Rs 7,000.

f) There was an outstanding bill of repairs for Rs 2,000 which was paid off.

Ans.

a)	Realisation A/c Dr To Bank A/c (Bank Loan discharged)		12000	 12000
b)	Realisation A/c Dr To A's Capital A/c (Realisation expenses is to be beard by A)		400	 400
c)	A's Capital A/c Dr B's Capital A/c Dr To Deferred Advertisement Expenditure A/c (Transfer of fictitious asset to partner's Capital accounts)		16800 11200	 28000
d)	B's Capital A/c Dr To Realisation A/c (Stock taken over by B)		1200	 1200
e)	Bank A/c Dr To Realisation A/c (amount realized from unrecorded computer)		7000	 7000
f)	Realisation A/c Dr To Bank A/c (payment of outstanding repairs)		2000	 2000

4 What journal entries would be passed for the following transactions on the dissolution of a firm, after various assets (other than cash) and third-party liabilities have been transferred to Realisation A/c:

i) Stock worth Rs 15,000 is taken over by partner A
ii) Compensation to employees paid by the firm amounting to Rs 20,000
iii) Sundry creditors amounted to Rs 8,000. They were paid at a discount of 5%
iv) There was an unrecorded asset of Rs 2,000 which was taken over by B at Rs 1,500

Profit on Realisation Rs 21,000 was to be distributed between A and B in the ratio 4:3

Ans:

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i)	A's Capital A/c Dr To Realisation A/c (stock taken over by A)	15000	 15000
ii)	Realisation A/c Dr To Bank A/c (compensation paid to employees)	20000	 20000
iii)	Realisation A/c Dr To Bank A/c (creditors paid at discount of 5%)	7600	 7600
iv)	Capital A/c Dr To Realization A/c (assets taken over by B)	1500	 1500
v)	Realisation A/c Dr To A's Capital A/c	21000	 21000

	To B's Capital A/c (profit on realization)		

5 Manu and Nandu were partners sharing profits in the ratio of 3:2. Pass journal entries under the following situations at the time of dissolution of Firm:

(a) Workmen Compensation Reserve stood at Rs. 1,00,000 and there was no liability towards Workmen Compensation.

(b) Workmen Compensation Reserve stood at Rs.1,00,000 and liability in respect of it was ascertain at Rs.75,000.

(c) Workmen Compensation Reserve stood at Rs.1,00,000 and liability in respect of it was ascertained at Rs. 1,20,000.

(d) Workmen Compensation Reserve stood at Rs. 1,00,000 and liability in respect of it was ascertained at Rs. 1,00,000.

Ans:

	Particulars	LF	Dr (Rs)	Cr (Rs)
a)	Workmen Compensation Reserve A/c Dr To Manu's Capital A/c To Nandu's Capital (balance in WCR transferred to Partners capital account)		100000	60000 40000
b)	Workmen Compensation Reserve A/c Dr To Realisation A/c To Manu's Capital A/c To Nandu's Capital A/c balance in WCR transferred to Partners capital account) Realisation A/c Dr To Bank A/c (Being payment of liability on account of Compensation		100000 75000	75000 15000 10000 75000
c)	Workmen Compensation Reserve A/ c Dr To Realisation (Being WCR transferred to realisation/c.)		100000	100000
	Realization A/c Dr To Bank A/c (payment of liability on account of workmen compensation)		100000	100000
d)	Workmen Compensation Reserve A/c Dr To Realisation A/c (Being WCR transferred to realisation A/c) Realisation A/c Dr To Bank A/c (being payment of liability on account of W Compensation)		100000 100000	100000 100000

6 Disha, Mohit and Nandan are partners. They decided to dissolve the firm. Pass necessary journal entries for the following after the various assets (other than cash and bank) and outside liabilities have been transferred to Realisation Account:

a) An old typewriter which was not recorded in the books was sold for Rs 2,000 whereas the expected value was Rs 5,000
b) Stock of Rs 70,000 was taken by Disha at a discount of 30%
c) Total creditors of the firm were Rs 20,000. A creditor for Rs 2,000 was untraceable and other creditors accepted payment allowing 10% discount.
d) Mohit paid realization expenses of Rs 18,000 out of his private funds, who was to be paid remuneration of Rs 13,000 for completing the dissolution process and was responsible to bear all the realization expenses.
e) Naik had taken a loan of Rs 50,000 from the firm, which was paid fully by him to the firm
f) Rs 12,000 were recovered from a debtor which was written off as Bad Debts last year.

Ans:

	Particulars	LF	Dr (Rs)	Cr (Rs)
a)	Bank A/c Dr To Realisation A/c (being the realization of unrecorded asset)		2000	2000
b)	Disha's Capital A/c Dr To Realisation A/c (being stock taken over by Disha at a discount of 30%)		49000	49000
c)	Realization A/c Dr To Bank A/c (20000-2000)x90/100 (being the creditors paid off)		16200	16200
d)	Realization A/c Dr To Mohit's Capital A/c (being remuneration allowed to Mohit credited to his capital A/c)		13000	13000
e)	Bank A/c Dr To Realisation A/c (being Naik's loan released)		50000	50000
f)	Bank A/c Dr To Realisation A/c (being bad debts recovered)		12000	12000

7 Record necessary journal entries in the following cases:

a) Creditors worth Rs 85,000 accepted Rs 40,000 as cash and investment worth Rs 43,000 in full settlement of their claim
b) Creditors were Rs 16,000. They accepted machinery valued at Rs 18,000 in settlement of their claim
c) Creditors were Rs 90,000. They accepted buildings valued at Rs 1,20,000 and paid cash to the firm Rs 30,000

Ans: JOURNAL

	Particulars	LF		
a)	Realisation A/c Dr To Cash A/c		40000	40000

	(being creditors worth Rs 85,000 settled with Rs 40000 cash and investment worth 43000)			
b)	No entry will be passed as Liability is settled against asset without any cash transfer			
c)	Cash A/c Dr To Realisation A/c (creditors worth Rs 90,000 accepted building worth Rs 1,20,000 and paid back Rs 30,000 in cash after settlement of the claim)		30000	30000

8 Record journal entries for the following :

- i) There was an old furniture in the firm which had been written off completely in the books. This was sold for Rs 3,000
- ii) Ashish, an old customer whose account for Rs 1,000 was written off as bad in the previous year, paid 60% of the amount.
- iii) Paras agree to take over the firm's goodwill (not recorded in the books of the firm) for a valuation of Rs 30,000
- iv) There was an old typewriter which had been written off completely from the books. It was estimated to realize Rs 400. It was taken away by Priya at an estimated price less 25%
- v) There were 1000 shares of Rs 10 each in Star Limited acquired at a cost of Rs 2000 which had been written off completely from the books. These shares are valued at Rs 6 each and divided among the partners in their profit-sharing ratio

Ans:

	Particulars	L F	Dr	Cr
i)	Cash A/c Dr To Realisation A/c (being the realization of unrecorded asset)		3000	3000
ii)	Cash A/c Dr To Realisation A/c (being bad debts previously written off now recovered)		600	600
iii)	Paras's capital A/c Dr To Realisation A/c (unrecorded goodwill taken over by Paras)		30000	30000
iv)	Priya's Capital A/c Dr To Realisation A/c (being unrecorded asset worth Rs 400 taken over at 25% less)		400	400
v)	Paras's capital A/c Dr Priya's capital A/c Dr To Realisation A/c (being 100 shares of Rs 10 each unrecorded in the books taken at Rs 6 each by Paras and Priya in their profit sharing ratio)		300 300	600

9 **Record necessary journal entries in the following cases:**

(a) Creditors worth Rs.85,000 accepted Rs.40,000 as cash and Investment worth Rs.43,000, in full settlement of their claim.

(b) Creditors worth Rs.16,000. They accepted Machinery valued at Rs.18,000 in settlement of their claim.

(c) Creditors worth Rs.90,000. They accepted Buildings valued Rs.1, 20,000 and paid cash to the firm Rs.30,000.

Ans:

i)	Realisation A/c Dr. To Cash A/c (Being creditors worth Rs.85,000 settled with Rs.40,000 cash and investment worth Rs.43,000)	40,000	40,000
ii)	No entry will be passed as Liability is settled against asset without any cash/bank transaction.		
iii)	Cash A/c Dr. To Realisation A/c (Being creditors worth Rs.90,000 accepted building worth Rs.1,20,000 and paid back Rs.30,000 in cash to firm after settlement of their claim)	30,000	30,000

10 What journal entries will be recorded for the following transactions on the dissolution of a firm:

[a] Payment of unrecorded liabilities of Rs.3,200.

[b] Stock worth Rs.7, 500 is taken by a partner Rohit.

[c] Profit on Realisation amounting to Rs.18, 000 is to be distributed between the partners Ashish and Tarun in the ratio of 5:7.

[d] An unrecorded asset realised Rs.5, 500.

Ans:

Realisaion A/c Dr To Bank A/c (payment of unrecorded liabilities)	3,200	3,200
Rohits's capital A/c Dr To Realisation A/c (Stock taken over)	7,500	7,500
Realisaion A/c Dr To Ashish"s Capital To Taruns Capital (Realisation profit transferred)	18,000	7,500 10,500
Bank A/c Dr To Realisation A/c (being the realization of unrecorded asset)	5,500	5,500

LONG ANSWER QUESTIONS

1 Parul, Payal and Priyanka are partners. They decided to dissolve the firm. Pass necessary journal entries for the following after the various assets (other than cash and Bank) and outside liabilities have been transferred to Realisation Account:

a) There were total debtors of Rs 76,000. A provision of Bad and Doubtful Debts also stood in the books at Rs 6,000. Rs 12,000 debtors proved bad and rest paid the amount due

b) Parul agreed to pay off her husband's loan of Rs 7,000 at a discount of 5%

c) Total creditors of the firm were Rs 40,000. Creditors worth Rs 10,000 were given a piece of furniture costing Rs 8,000 in full and final settlement. Remaining creditors allowed a discount of 10%

d) Payal had given a loan of Rs 70,000 to the firm which was duly paid

e) A contingent liability (not provided for) of Rs 4,000 was also discharged

f) The firm had a debit balance of Rs 27,000 in the Profit & Loss A/C on the date of dissolution

Ans:

	Particulars	LF	Dr (Rs)	Cr (Rs)
a)	Bank A/c (76000-12000) Dr To Realization A/c (being the debtors realized)		64000	64000
b)	Realisation A/c Dr To Parul's Capital A/c (being husband's loan taken over by Parul)		6650	6650
c)	Realization A/c Dr To Bank A/c ((40000-10000) x90/100) (Being the creditors paid off		27000	27000
d)	Payal's Loan A/c Dr To Bank A/c (being Payal's loan paid off)		70000	70000
e)	Realisation A/c Dr To Bank A/c (being the contingent liability paid off)		4000	4000
f)	Parul's Capital A/c Dr Payal's Capital A/c Dr Priyanka's Capital A/c Dr To Profit and Loss, A/c (the accumulated loss distributed among the partners)		9000 9000 9000	27000

2 A, B and C were partners sharing profits and losses in the ratio 2:1:1. The partners decided to dissolve the firm. Their Balance Sheet as at 31.3.2020 was as under:

Liabilities	Amount (Rs)	Assets	Amount (Rs)
Creditors	50000	Goodwill	30000
Capital A/c		Land and building	80000
A 80000		Plant and machinery	56000
B 80000		Motor car	54000
C 60000	220000	Debtors	48000
		Cash	2000
	270000		270000

Following transactions took place

a) The assets realised Goodwill Rs 20,000, Land and Building Rs 1,00,000, Plant and machinery Rs 50,000, Motor car Rs 25,000 and Debtors Rs 24,000

b) Realisation expenses were Rs 2,000

Prepare the Realisation A/C, Partner's Capital Accounts and Cash A/C to close the books of the firm.

Ans:

REALISATION ACCOUNT

Particulars	Amt	Particulars	Amt
To Goodwill A/c	30000	By Creditors A/c	50,000
To Land and building A/c	80000	By Cash A/c	
To plant and Machinery A/c	56000	Goodwill 20000	
To Motor Car A/c	54000	Land and Building 100000	
To Debtors A/c	48000	Plant and Machinery 50000	
To Cash A/c (creditors)	50000	Motor Car 28000	
To Cash A/c (Realisation expenses)	2000	Debtors 24000	222000
		By Loss transferred to	
		A's Capital A/c 24000	
		B's Capital A/c 12000	
		C's Capital Ac 12000	48000
	320000		320000

PARTNERS' CAPITAL ACCOUNTS

Particulars	A(Rs)	B(Rs)	C(Rs)	particulars	A(Rs)	B(Rs)	C(Rs)
To realisation A/c (Loss)	24000	12000	12000	By Balance b/d	80000	80000	60000
To Cash A/c (final payment	56000	68000	48000				
	80000	80000	60000		80000	80000	60000

CASH ACCOUNT

Particulars	Amt (Rs)	Particulars	Amt
To Balance b/d	2000	By Realisation A/c (creditors)	50000
To Realisation A/c (Assets realised)	222000	By Realisation A/c	2000
		By A's Capital (final payment)	
		By B's Capital (final payment)	56000
		By C's Capital (final payment)	68000
			48000
	224000		224000

3 Arun and Tarun were partners sharing profit and losses in the ratio 3:2. They decided to dissolve the firm on 31.3.2019, when their balance sheet was as under:

Particulars		Amt	Particulars		Amt
Creditors		40000	Cash		14000
Mrs Arun's loan		10000	Stock		8000
Tarun's loan		15000	Debtors	18000	
General Reserve		5000	Less: provision for		
Capital A/cs			Doubtful debts	1000	17000
Arun	10000		Furniture		4000
Tarun	8000	18000	Plant		30000
			Investment		10000
			Profit and Loss A/c		5000
		88000			88000

The firm was dissolved on 1.4.2019 on the following terms:

a) Arun took over the investment at Rs 8,000 and agreed to pay off the loan of his wife

b) The assets realized as follows: Stock Rs 2,000, Debtors Rs 20,500, Furniture Rs 1,000 more than its book value, Plant Rs 20,000 less than its book value.

c) Expenses of realization were Rs 1,200

d) Creditors were paid off at a discount of 3%

e) Firm had an unrecorded asset which was valued at Rs 5,000 which was accepted by unrecorded liability of Rs7,000, in full settlement of their claims

Prepare the Realisation A/C, Partner's Capital Accounts and Bank A/C to close the books of the firm.:

REALISATION ACCOUNT

Particulars	Amt	Particulars	Amt
To Stock A/c	8000	By provisions for doubtful debts A/c	1000
To debtors A/c	18000	By Creditors A/c	40000
To furniture A/c	4000	By Mrs Arum's loan A/c	10000
To Plant A/c	30000	By Arun's capital A/c(investment)	8000
To Investment A/c	10000	By Cash A/c:	
To Arun's Capital A/c(wife's loan)	10000	Stock 2000	
To Cash A/c (creditors 40000-3%)	38800	Debtors 20500	
To Cash A/c (realization expenses)	1200	Furniture (4000+1000) 5000	
		Plant (30000-20000) 10000	37500
		By Loss transferred to:	
		Arun's Capital A/c 14100	
		Tarun's Capital A/c 9400	23500
	120000		120000

PARTNERS CAPITAL ACCOUNT

Particulars	Arun	Tarun	Particulars	Arun	Tarun
To Profit and Loss, A/c	3000	2000	By Balance b/d	10000	8000
To Realisation A/c (investments)	8000		By General Reserve	3000	2000
To Realisation A/c (loss)	14100	9400	By Realisation A/c(Mrs. Arun's loan)	10000	
			By Cash A/c (cash brought in)	2100	1400
	25100	11400		25100	11400

TARUN'S LOAN ACCOUNT

Particulars	Amt (Rs)	Particulars	Amt (Rs)
To Cash A/c	15000	By balance b/d	15000
	15000		15000

CASH ACCOUNT

Particulars	Amt	Particulars	Amt(Rs)
To Balance b/d	14000	By Realisation A/c (creditors)	38800
To Realisation A/c (assets realized)	37500	By Realization A/c (Realisation expenses)	1200
To Arun's Capital A/c (cash brought in)	2100	By Tarun's loan A/c	15000
To Tarun's Capital A/c (cash brought in)	1400		
	55000		55000

4 A, B and C were partners sharing profit in the ratio 3:1:1. Their Balance Sheet 31.3.2019, the date on which they dissolve their firm, was as follow:

BALANCE SHEET AS ON 31.3.2019

Particulars		Amt	Particulars		Amt
Creditors		6000	Sundry Assets		17000
Loan		1500	Stock		7800
			Debtors	24200	
			Less: provision	1200	
Capital A/c			Bills Receivable		23000
A	27500		Cash		1000
B	10000				3200
C	7000	44500			
		52000			52000

It was agreed that:

a) A to take over Bills receivable at Rs 800, debtors amounting to Rs 20,000 at Rs 17,200 and the Creditors of Rs 6,000 were to be paid by him at this figure.

b) B to take over all Stock for Rs 7,000 and some Sundry assets at Rs 7,200 (being 10% less than the book value)

c) C to take over remaining sundry assets at 90% of the book value and assume the responsibility of discharge of loan together with accrued interest of Rs 300. The remaining debtors were sold to a debt collecting agency at 50% of the book value.

d) The expenses of realization were Rs 270.

Prepare Realisation A/c, Partner's Capital A/c and Cash A/C

Ans: REALISATION ACCOUNT

Particulars		Amt	Particulars	
To Sundry Assets A/c		17000	By provisions for doubtful debts	
To Stock A/c		7800	By Creditors	
To debtors A/c		24200	By loan	
To Bills Receivable A/c		1000	By A's capital A/c	
To A's Capital A/c(creditors)		6000	Bills receivable	800
To C's Capital A/c			Debtors	17200
Loan	1500		By B's Capital A/c:	
Interest	300	1800	Stock	7000
To Cash A/c (realization expenses)		270	Sundry assets	7200
			By C's Capital A/c (sundry assets)	
			By Cash A/c (debtors)	
			By Loss transferred to:	
			A's Capital A/c	4182
			B's Capital A/c	1394
			C's Capital A/c	1394
		58070		

PARTNERS CAPITAL ACCOUNTS

Particulars	A	B	C	particulars	A	B	C
To realisation A/c (assets)	18000	14200	8100	By Balance b/d	27500	10000	7000
To Realisation A/c (loss)	4182	1394	1394	By Realisation A/c(liabilities)	6000		1800
To Cash A/c (final payment	11318	----	----	By Cash A/c (cash brought in)		5594	694
	33500	15594	9494		33500	15594	9494

CASH ACCOUNT

Particulars	Amt(Rs)	Particulars	Amt
To Balance b/d	3200	By Realisation A/c (Realisation expenses)	270
To Realisation A/c (debtors)	2100	By A's Capital A/c (final payment)	11318
To B's Capital A/c (cash brought in)	5594		
To C's Capital A/c (cash brought in)	694		
	11588		11588

5 X and Y were partners sharing profit and losses in the ratio 3:2. The partners decided to dissolve the firm. Their Balance sheet as on 31.3.2021 was as under:

Particulars	Amt	Particulars	Amt
Creditors	97500	Land and Building	30000
Capital A/cs		Motor Vehicles	18300
X 85000		Stock	65000
Y 63000	148000	Furniture	7800
		Debtors 113200	
		Less: provision for	
		Doubtful debts 2450	110750
		Bank	13650
	245500		245500

Following transactions took place:

a) Motor Vehicles and Stock were sold for cash at Rs 16,950 and Rs 77,600 respectively. Debtors were realized in full.
b) X took over the Land and Building at an agreed valuation of Rs 43,500
c) Creditors were paid off subject to discount of Rs 1,700
d) Expenses for realization were Rs 1,250

Prepare the Realisation Account, partner's Capital Accounts and Bank Account.

Ans:

REALISATION ACCOUNT

Particulars	Amt(Rs)	Particulars	Amt(Rs)
To Land and building A/c	30000	By provisions for doubtful debts A/c	2450
To Motor Vehicle A/c	18300	By Creditors A/c	97500
To Stock A/c	65000	By Bank A/c:	
To furniture A/c	7800	Motor Vehicles 16950	
To debtor's A/c	113200	Stock 77600	
To Bank A/c (Creditors 97500-1700)	95800	Debtors 113200	207750
To Bank A/c (Realisation Expenses)	1250	By X's Capital A/c (land & building)	43500
To Profit transferred to: X's Capital A/c 11910 Y's Capital A/c 7940	19850		
	351200		351200

PARTNERS' CAPITAL ACCOUNTS

Particulars	X(Rs)	Y(Rs)	Particulars	X Rs)	Y(Rs)
To Realisation A/c (land & building)	43500	---	By Balance B/d	85000	63000
To Bank A/c (final payment)	53410	70940	By Realisation(profit)	11910	7940
	96910	70940		96910	70940

BANK ACCOUNT

Particulars	Amt(Rs)	Particulars	Amt(Rs)
To Balance b/d	13650	By Realisation A/c (creditors)	95800
To Realisation A/c (assets realized)	207750	By Realization A/c (expenses)	1250
		By X's capital (final payment)	53410
		By Y's capital(final payment)	70940
	221400		221400

6

REALISATION ACCOUNT

Particulars	Amt	Particulars	Amt
To Machinery A/c	16000	By Creditors A/c	2000
To Investments A/c	4000	By Amit's Capital A/c(investments)	3800
To Debtors A/c	2000	By Bank A/c	
To Stock A/c	3000	Machinery (20000-10%)18000	
To Bank A/c Creditors (2000-5%)	1900	Debtors 1800	
To Bank A/c(Realisation expense)	400	Stock 2800	22600
To Profit transferred to: Amit's Capital A/c 6660 Sumit's Capital A/c 4440	11100	By Bank A/c (unrecorded furniture)	10000
	38400		38400

PARTNERS CAPITAL ACCOUNTS

Particulars	Amit	Sumit	Particulars	Amit	Sumit
To Realisation A/c (investments)	3800	______	By Balance b/d	17500	10000
			By Profit & Loss A/c	900	600
To Bank A/c	21260	15040	By Realisation A/c (profit)	6660	4440
	25060	15040		25060	15040

BANK ACCOUNT

Particulars	Amt(Rs)	Particulars	Amt(Rs)
To Balance b/d	6000	By Realisation A/c (creditors)	1900
To Realisation A/c (assets realized)	22600	By Realisation A/c (Realisation Expenses)	400
To Realisation A/c (unrecorded furniture)	10000	By Amit's capital (final payment)	21260
		By Sumit's capital(final payment)	15040
	38600		38600

7 Ankit, Bobby and Kartik were partners in a firm sharing profits in the ratio 4:3:3. The firm was dissolved on 31.3.2018. pass the necessary Journal entries for the following transactions after various assets (other than cash and bank) and third-party liabilities had been transferred to Realisation Account:

i) The firm had stock of Rs 80,000. Ankit took over 50% of the stock at a discount of 20% while the remaining stock was sold off at a profit of 30% on cost.

ii) A liability under a suit for damages included in creditors was settled at Rs 32,000 as against only Rs 13,000 provided in the books. Total creditors of the firm were Rs 50,000.

iii) Bobby's sister's loan of Rs 20,000 was paid off along with interest of Rs2,000

iv) Kartik's loan of Rs 12,000 was settled at Rs 12,500

v) P&L account showed a debit balance of Rs 10,000

vi) There was a claim for damages which was settled at Rs 5,000

Ans:

	Particulars	LF	Amount(Dr)	Amount (Cr)
(i)	Ankit' A/c Dr Bank A/c Dr To Realisation A/c (Stock was realised and taken over by Ankit)		32,000 52,000	84,000
(ii)	Realisation A/c Dr To Bank A/c (Payment to creditors Rs 32,000 + Rs 37,000)		69,000	69,000
(iii)	Realisation A/c Dr To Bank A/c (Bobby's sister's loan paid along with interest)		22,000	22,000
(iv)	Kartik's loan A/c Dr Realisation A/c Dr To Bank A/c		12,000 500	12,500

	(Kartik's loan settled)			
(v)	Ankit" Capital a/c Dr Bobby 's Capital a/c Dr Kartik's Capital a/c Dr To P&L Account (P&L debit balance divided among partners)		4,000 3,000 3,000	10,000
(vi)	Realisation A/c Dr To Bank A/c (Workmen's compensation settled)		5,000	5,000

8 **A and S are equal partners in a firm. They decided to dissolve the partnership on 31st March, 2023. When the balance sheet is as under:**

Balance Sheet of A and S as on March 31, 2017

Liabilities	Amt	Asserts	Amt
Sundry Creditors	27,000	Cash at Bank	11,000
Reserve Fund	10,000	Sundry Debtors	12,000
Loan	40,000	Plant	47,000
Capital		Stock	42,000
A 60,000		Lease Hold Land	60,000
S 60,000	1,20,000	Furniture	25,000
	1,97,000		1,97,000

The Assets were realised as follows :

Lease hold land	Rs. 72,000
Furniture	Rs. 22,500
Stock	Rs. 40,500
Plant	Rs. 48,000
Sundry Debtors	Rs. 10, 500.

The Creditors were paid Rs.25,500 in full settlement. Expenses of realisation amount to Rs.2,500.

Prepare Realisation Account, Bank Account, and Partners Capital Accounts to close the books of the firm.

Ans: Realisation Account

Sundry Debtors	12,000	Sundry Creditors	27,000
Plant	47,000	Loan	40,000
Stock	42,000	By Bank	
Lease Hold Land	60,000	Sundry Debtors 10,500	
Furniture	25,000	Plant 48,000	
To bank		Stock 40,500	
Creditors 25,500		Lease Hold Land 72,000	
Loan 40,000		Furniture 22,500	
Expenses 2,500	68,000		1,93,500
To Profit's Transferred to			
A"s Capital A/c 3,250			
S's Capital A/c 3,250	6,500		
	2,60,500		2,60,500

Partners' Capital Account

Particulars	A	B	Particulars'	A	B
To Bank	68,250	68,250	By Balance b/d	60,000	60,000
			By Reserve Fund	5,000	5,000
			By Realisation	3,250	3,250
	68,250	68,250		68,250	68,250

Bank Account

To Balance b/d	11.000	By Realisation (Expenses and Liabilities) A/c	68,000
Realisation	1.93.500	By A's Capital A/c	68,250
		By S's Capital A/c	68,250
	2,04,500		2,04,500

CASE BASED QUESTIONS

1	KAJAL and KARAN were partners in a firm. The firm was involved in the activity of dumping hazardous chemicals into the river. The court intervened and after several constant warnings to the firm against this dumping, it ordered the dissolution of the firm. At the time of dissolution, the building having book value Rs 25,00,000 was auctioned for Rs 30,00,000 and the auctioneers' commission amounted to Rs.1,00,000. Kajal's brother has granted a loan for Rs.80,000 to the firm as the firm needed working capital to meet its operating expenses. Kajal agreed to pay off her brother's loan. Karan has also granted a loan to the firm amounting to Rs.33,000. At the time of dissolution, the stock was showing the book value worth Rs1,50,000. KARAN took over part of stock at Rs 40,000 (being 20% less than book value). Balance stock realised at 50%. All the assets and liabilities (except cash/bank A/c and Partner's loan) have been transferred to Realisation Account. (i) How will you close the KARAN's Loan Account at the time of dissolution? (a) By transferring KARAN's Loan Account to the credit of Bank Account. (b) By transferring KARAN's Loan Account to the debit of Bank Account. (c) By transferring KARAN 's Loan Account to his Capital account. (d) By transferring KARAN's Loan Account to the Realisation Account.

	(ii) Calculate the amount realised by the 'Balance Stock'. (a) 40,000 (b) 50,000 (c) 1,00,000 (d) 80,000 (iii) How will you settle the loan granted by KAJAL's brother Rs.80,000 which she has agreed to pay? (a) Bank A/c will be debited and Kajal's A/c will be credited. (b) Realisation A/c will be debited and Kajal's A/c will be credited. (c) Realisation A/c will be debited and Bank A/c will be credited. (d) Loan A/c be debited and Kajal's A/c will be credited. Ans. (i) (a), (ii) (b), (iii) (b
2	Ritu, Nitu and Ruby were partners in a firm sharing profits and losses in the ratio of 2:2:1. Due to adverse situations the partners decided to dissolve the firm. Nitu was deputed to realise the assets and to pay the liabilities. She was also paid commission of Rs 1,200 for her service. Following was agreed upon: (i) A creditor for Rs 1,40,000 accepted machinery at Rs 1,80,000 and paid to the firm Rs40,000. (ii) Ameesh, and old costumer whose account for Rs 60,000 was written off as bad debt in the previous year, paid 90%. (iii)There was an old typewriter which had been written off completely. It was estimated to realize Rs 600. Itwas taken away by Ruby at 25% less than the estimated price. (iv) Loss on realisation was Rs 54,000. Based on the above information you are required to answer the following question I. Commission of Rs 1,200 was credited to: a) Realisation A/c b) Nitu's Capital A/c c) Cash A/c d) Commission A/C II. Journal entry for realisation of typewriter is: a) Debit Realisation A/c and Credit Typewriter A/c by 450 b) Debit Typewriter A/c and Credit Realisation A/c by 450 c) Debit Realisation A/c and Credit Ruby's capital A/c by 450 d) Debit Ruby's capital A/c and Credit Realisation A/c by 450 III. For settlement of creditor Realisation A/c credited with: a) 140000 b) 180000 c) 40000 d) 100000 IV. Which account will be credited and how much amount when cash is received from Ameesh? a) Ameesh A/c by Rs. 60,000 b) Realisation A/c by 54,000 c) Cash A/c by Rs. 54000 d) Realisation A/c by 60,000 Ans: I (b),II (d), III(c),IV(b)

UNIT 2- ACCOUNTING FOR COMPANIES

Accounting for Share Capital

Meaning and definition of company

Meaning of company: A company is an organization formed by an association of persons through a process of law for undertaking (usually) a business venture.

Definition – "Company means a company incorporated under this Act or any previous company - Section 2(20) of the Companies Act, 2013

Share Capital - Schedule III of the Companies Act, 2013 classified Share Capital as:

i. Authorized Share Capital is the maximum amount of share capital which a company is authorised to issue by its Memorandum of Association
ii. Issued share capital is that part of the authorised capital which is actually issued to the public for subscription
iii. Subscribed share capital is a part of issued share capital that is subscribed. Subscribed share capital is shown as
    (a) Subscribed and fully paid – up

    (b) Subscribed but not fully paid – up

iv. Called–up capital is that part of the subscribed capital which has been called up on the shares, i.e., what the company has asked the shareholders to pay.

v. Paid–up capital is that portion of the called-up capital which has been actually received from the shareholders. Paid up capital is equal to the called-up capital minus call in arrears

vi. Reserve capital is a portion of its uncalled capital to be called only in the event of winding up of the company. . It is available only for the creditors on winding up of the company.

TYPES OF SHARES

a. PREFERENCE SHARES - These are the shares that carry preferential right as to dividend at fixed rate and preferential right as to repayment of capital on winding up of Company

b. EQUITY SHARES – These shares are the shares that are not preference shares. These shares do not enjoy any preferential right in the payment of dividend or repayment of capital.

PRIVATE PLACEMENT OF SHARES-

It refers to issue and allotment of shares to a selected group of persons. In other words, an issue, which is not a public issue but offered to a selected group of persons, is called Private Placement of Shares.

EMPLOYEES STOCK OPTION PLAN (ESOP) –

It is the plan for granting options to subscribe shares by employees and employee directors. A company may issue stock (shares) options fulfilling the following conditions:

(a) These shares are of the same class of shares already issued;

(b) It is authorized by a special resolution passed by the company;

(c) The resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;

(d) Not less than one year has, at the date of issue, elapsed since the date on which the company had commenced business and

(e) These shares are issued in accordance with SEBI regulations, if the shares are listed

ISSUE OF SHARES

Shares can be issued

(i) for cash and

(ii) for consideration other than cash.

Further, the shares can be issued (i) at par, or (ii) at premium

SECURITIES PREMIUM RESERVE – It can be utilized for the purpose prescribed in section 52(2) of the Companies Act, 2013, which are:

(i) writing off preliminary expenses;

(ii) Writing off expenses such as share such as share issue expenses, commission, discount allowed on issue of securities;

(iii) Providing for the premium payable on redemption of debentures or Preference Shares;

(iv) in buying-back its own shares.

(v) Issuing fully paid bonus shares;

CALL – It is a demand by a company from the holders of partly paid shares to pay a further instalment towards full nominal value.

CALLS-IN-ARREARS-It is the amount not yet received by the company against the call or calls demanded. Calls in advance is shown as a deduction from Called-up- capital in the Notes to Accounts to Share Capital

CALLS-IN –ADVANCE- It is the amount received by the company from its allotters against the calls not yet made. Calls- In- Advance is shown as 'Other Current Liability' under 'Current Liabilities'.

Journal Entries Regarding Issue of Shares

1. ISSUE OF SHARES FOR CASH

1). Amount Payable in Lump Sum:

On Receipt of Share Application Money:

Banka/c……..Dr.

To Share Application and Allotment a/c

(Being the application money received)

For Allotment of Shares:

Share Application and Allotment a/c…….Dr

To Share Capital a/c [With Nominal (face) Value]

To Securities Premium Reserves a/c [With Premium Amount]

(Being the shares against share application and allotment money received)

2). Amount payable in instalments

Transaction	Journal Entry	Amount
On Receipt of Application Money	Bank A/c. Dr. To Share Application	Amount received with application.
On Allotment of Shares Share Application Money	Share application A/c Dr To share capital	Application money on allotted shares
Amount due on Allotment	Share allotment A/c Dr To Share Capital	Amount due on allotment
On receipt of allotment money	Bank A/c Dr To Share allotment	Amount received on allotment
On first and final call due	Share first & final call A/c Dr To Share capital	Amount due first and final call
On receipt of first and final call	Bank A/c Dr To Share first and final call	Amount received on first and final call
To record Calls in Arrear	Calls in Arrears A/c. Dr. To Share First Call Account To Share Second and Final Call	Amount not received on calls
On receipt of Calls-in-Arrears	Bank A/c. Dr To Calls in Arrears	Calls in Arrear Amount received
To record Calls in Advance	Bank A/c Dr To Calls in Advance	Amount received on Calls in Advance

On the due date of the calls, the amount of Calls in Advance adjusted	Calls in Advance A/c. Dr To Particular Call A/c	Calls in advance adjusted with the call money due

UNDER SUBSCRIPTION OF SHARES –It means shares applied for are less than the shares offered for subscription.

OVER SUBSCRIPTION OF SHARES – It means shares applied for are more than the shares offered for subscription.

Three alternatives are available to deal with the situation:

(1) Accept some applications in full and totally reject the others;

(2) Pro-rata allotment to all; and

(3) Combination of the above two alternatives

PRO RATA ALLOTMENT – It means allotment of shares in a fixed proportion to the shares applied by the applicants.

Pro rata allotment takes place only when the shares are oversubscribed.

Accounting Entries in Case of Over subscription

1. For Application Money Received

Bank A/c ………………………………………..Dr

To Share Application A/c

2. Transfer of Application Money to Share capital

Share Application A/c ………………………..Dr

To Share Capital A/c

3. Excess Application Money Refund

Share Application A/c …………………………Dr

To Bank A/C

4. Adjustment of excess application money to Allotment & Calls

Share Application A/c ……………………………Dr

To Share Allotment A/c

To Calls – in- Advances A/c

OR

5. Combined Entry for recording the above

Share Application A/c ……………………………Dr

To share Capital A/c

To Bank A/c

To Share Allotment A/c

To Calls-in–Advance A/c

ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH

The number of shares to be issued to the vendor will be calculated as follows:

Number of shares to be issued=Amount Payable /Issue Price

The journal entries passed are:

(a) On Purchase of Assets
Sundry Assets A/cs (Individually) …Dr [With the amount of purchase price]

To Vendor's A/cs [With purchase consideration]

(b) On Purchase of Business

Sundry Assets A/cs …Dr [Agreed value of assets]

Goodwill A/c* ….Dr

To Sundry Liabilities A/c [Agreed value of liabilities]

To Vendor's A/c ** [With purchase consideration]

To Capital Reserve A/c***

Note: Purchase consideration is an amount paid by purchasing company in consideration for purchase of assets/business from other enterprise. It may be given in the question otherwise it will be equal to net assets, i.e, sundry assets minus sundry liabilities.

*If purchase consideration given is more than net assets, then the difference is debited in Goodwill Account.

** Vendor is credited by purchase consideration payable to him.

*** If purchase consideration given is less than the net assets, then the difference is credited to Capital Reserve.

** Either Goodwill or Capital Reserve will appear at a time.

(c) On Issues of Shares
If shares are issued to vendor at **par**:
Vendor's A/c ……………………………Dr [With the nominal value of share allotted]
To share Capital A/c
If shares are issued to vendor at a **premium**:
Vendor's A/c ………………………………………Dr [With the purchase price]
To share Capital A/c [With the nominal value of share allotted]
To Securities Premium Reserve A/c [With the amount of premium]

FORFEITURE & REISSUE OF SHARES

FORFEITURE OF SHARES- It means cancellation of share capital due to non payment of allotment or call money when they are due and forfeiting the amount received against these shares. Forfeiture of shares takes place when a shareholder fails to pay the calls made.

A. Forfeiture of shares issued at **par**:

The entry for forfeiture of shares is

Shares capital a/c…………………………….. Dr (called up value)

To Share forfeited A/c (Amount paid up)

To share allotment A/c

To share call A/c

OR alternatively

Shares capital a/c…………………………….. Dr (called up value)

To Calls in arrears A/c (with the amount due from share holder)

To Share forfeited A/c (Amount paid up)

B. Forfeiture of shares which were originally issued at **premium**:

i .Securities premium amount received; and
ii. Securities Premium amount has not been received.

Accounting Entries for Forfeiture of Shares Issued at a Premium:

i) If premium has been received:

Share Capital a/c

To Share forfeited A/c (paid up amount- securities premium)

To Share Allotment a/c

To Share Call/calls a/c

ii) If premium has not been received:

Share Capital a/c Dr.

Securities Premium Reserve a/c Dr.

To Share Allotment a/c. (Amt due on allotment including Sec premium)

To Share call / calls a/c

To Share forfeited A/c

REISSUE OF FORFEITED SHARES-

Forfeited Shares can be reissued and they might have been reissued at par at premium or at a discount. But the discount on reissue of a share cannot be more than the forfeited amount of that share credited to Forfeited Share account at the time of forfeiture.

Regarding Reissue of Forfeited Shares, always keep in mind that:

1. Discount on reissue cannot exceed the forfeited amount.

2. If the discount on reissue is less than the amount forfeited, the surplus (i.e., gain on reissue of shares) is transferred to Capital Reserve.

3. When only a part of the forfeited share is reissued then the gain on reissue of such share only is transferred to Capital Reserve.

4. The forfeited amount on shares not yet reissued is shown in the Balance Sheet as an addition to the paid-up share capital.

5. When the shares are reissued at discount, such discount is debited to Forfeited Shares Account.

6. If the shares are reissued at a price which is more than the nominal (face) value of the shares, the excess amount is credited to Securities Premium Reserve Account.

7. In case of the Forfeited Shares are reissued at a price higher than the paid- up value, the excess of issue price over paid up value is credited to 'Securities Premium Reserve Account'.

REISSUE OF FORFEITED SHARES

a. If reissued at **par**, accounting entry is:

Bank A/c………………………………………………….. Dr

To Share Capital

b. If reissued at **discount**,

Bank A/c…………………………………………………. Dr.

Share forfeited A/c…………………………………….. Dr

To Share Capital a/c

c. If the forfeited shares are reissued at **a price higher than that of paid-up value**, the excess of reissues price over paid-up value is credited to Securities Premium Reserve a/c.

Following entry is passed:

Bank a/c Dr.

To Share capital a/c

To Securities Premium Reserve a/c

NOTE: Maximum Permissible Discount on Reissue of Forfeited Shares:

Maximum Permissible Discount on Reissue of Forfeited Shares is the amount forfeited, i.e., the amount credited to the forfeited shares.

MULTIPLE CHOICE QUESTIONS

1.	Which of the following capital is not shown in the company's Balance Sheet? A. Authorised Capital. B. Issued Capital. C. Subscribed Capital. D. Reserve Capital Ans. D
2	As per the provisions of Companies Act, 2013 the amount received as premium on securities cannot be utilized for: A. Issuing fully paid bonus shares to the members. B. Purchase of fixed assets C. Writing off preliminary expenses. D. Buy back of its own shares Ans..B
3	Name the head of Capital Clause of Memorandum of Association of a company in which maximum amount of share capital mentioned is called. A. Reserve Capital B.Subscribed Capital C. Authorised Capital D. Issued Capital Ans. C
4	Money received in advance from shareholders before it is actually called-up by the directors is: A. Debited to calls in arrear account. B. Credited to calls in advance account C. Debited to calls in advance account. D. Credited to calls in arrear account Ans.B
5	P ltd. Purchased business from Q Ltd. by paying Rs.13,00,000 for the assets worth Rs.17,00,000 and liabilities of Rs.3,00,000. Then _____ will be credited with Rs.1,00,000 A. Capital Reserve A/c. B. Asset A/c C. Goodwill A/c. D. Vendor's A/c Ans. A
6	Shares can be forfeited for : A. For non – payment of call money. B. For failure to attend meetings C. For failure to repay the loan to the bank. D.None of these Ans. A
7	A shareholder allotted to whom 9,000 shares of Rs. 10 per share failed to pay first & final of Rs. 2 per share. Rs. 18,000 to be recorded in the books of company with A. Dr. to Share Forfeiture. B. Dr. to Calls-in Arrears A/c C. Cr. to Calls-in Arrears A/c D.Cr. to Share Forfeiture A/c Ans.B
8	X Limited was formed with share capital of Rs. 50,00,000 divided into 50,000 shares of Rs.100 each. 8,000 shares were issued to the vendor as fully paid for purchase consideration of a Machinery acquired. 30,000 shares were allotted in payment of cash on which Rs.70 per share was called and paid. State the amount of subscribed capital: A. Rs. 50,00,000 B. Rs. 30,50,000 C. Rs. 29,00,000. D.Rs. 20,00,000 Ans: C
9	PQR Ltd had forfeited 40,000 equity shares of Rs 10 each, issued at par for non-payment of allotment money of Rs 3 per share and call of Rs 3 per shares. 2000 of the forfeited equity shares were reissue for Rs 12 per share as full paid up. The amount that will be transferred to capital reserve & securities premium will be: A. Rs 16000 & 2,000 B. Rs 8,000 & 4,000. C.Rs 4,000 & 8,000 D.Rs 16,000 & 4,000 Ans.B

10	If 10,000 shares of Rs.10 each were forfeited for non-payment of final call money of Rs.3 per share and only 7,000 of these shares were re-issued @Rs. 11 per share as fully paid up, then what is the minimum amount that company must collect at the time of re-issue of the remaining 3,000 shares? A.Rs. 21,000. B. Rs. 9,000. C.Rs. 16,000. D.Rs 30,000 Ans:B
11	Star Ltd forfeited 1,000 shares of Rs.10 each (which were issued at par)of Jeevan, a share holder of the company, for non payment of allotment money of Rs.4 per share. The called up value per share was Rs.7. On forfeiture, the amount debited to share capital: A. Rs.3,000 B.Rs.10,000 C.Rs.4,000 D.Rs.7,000 Ans. D
12	400 shares of Rs.50 each issued at par were forfeited for non-payment of final call of Rs.10 per share. These shares were reissued at Rs.45 per share fully paid-up. What amount of gain on reissue of share will be transferred to capital reserve account? A. 28,000 B. 16,000 C. 14,000 D None of these Ans.C
13	Yono Ltd. forfeited 7000 equity shares of Rs. 100 each issued at a premium of 10%, for non-payment of first and final call of Rs. 40 per share. The maximum amount of discount at which these shares can be reissued will be: A. 2,80,000 B. 3,50,000 C. Rs 4,90,000 D. Rs.4,20,000 Ans.D
14	12,000 shares of Rs. 100 each forfeited due to non-payment of allotment of Rs. 40 per share and first & final call of Rs. 30 per share. Out of the forfeited shares, 9,000 shares were reissued at Rs. 80 per share fully paid. Amount that will be transferred to Capital Reserve Account is A.Rs.90,000 B.Rs.1,80,000 C. Rs.3,60,000 D. Rs.2,70,000 Ans.A
15	A company Forfeited 1,000 shares of Rs 10 each, Rs 7 called up; for the non-payment of Rs. 2 First call . All these shares were reissued at Rs 5 per share. What amount will be transferred to capital Reserve account: A.Rs.2,000. B. Rs.4,000 C.Rs.3,000 D.Rs.5,000 Ans.C
16	A. Ltd forfeited 500 shares of Rs.100 each ,Rs. 75 called up , issued at a premium of 5% on which application money of Rs.45 per share has been paid. Out of these 200 shares were re – issued at Rs. 75 paid up for Rs.60 per share. What is the amount to be transferred to Capital Reserve ? A 7, 000 B Rs.22 ,000 C. Rs. 19,500 D Rs.6,000. Ans. D
17	A share of Rs 100 each, issued at Rs 20 premium out of which Rs.70 (including Rs.10 premium) was called-up and paid up. The uncalled Capital will be A. Rs.50 per share B.Rs. 40 per share C.Rs.80 per share. D Rs.30 per share Ans B
18	40,000 shares issued to existing employees of company as per their choice and option at a price less than the market price is an example of

	A. Public Issue B. Private Placement C. ESOP D. Issue other than cash Ans.C
19	A share of Rs.10 each, issued at Rs.4 premium out of which Rs.7(including Rs.1 premium) was called up and paid up. The uncalled Capital will be A.Rs.7 per share. B. Rs.8 per share. C Rs.4 per share. D Rs. 3 per share Ans.C
20	.10,000 equity shares of Rs 10. each were issued to public at a premium of Rs. 2 per share payable on allotment.Applications were received for 12,000 shares. Amount of securities premium account will be : A. Rs. 20,000. B Rs. 24,000. C.Rs. 4,000. D. Rs. 1,600 Ans. A
	ASSERTION-REASON QUESTIONS
1	Assertion(A:)The part of un-called capital, to be called only in the liquidation of a company is called Reserve Capital. Reason(R) : It can be used for writing off capital losses. In the context of the above two statements, which of the following is correct? A.(A) is correct, but (R) is wrong. B. Both (A) and (R) are correct. C. (A) is wrong, but (R) is correct. D. Both (A) and (R) are wrong Ans. A
2	Assertion (A): When a part of the forfeited shares are reissued, the whole balance of share forfeited account will be transferred to capital reserve. Reason (R) It is only the proportionate amount of balance that relates to the forfeited shares reissued which should be transferred to capital reserve, ensuring that the remaining balance in share forfeiture account is proportionate to the amount forfeited on shares not yet reissued. A. Both (A) and (R) are true, but (R) is not the correct explanation of (A). B. Both(A) and (R) are true and (R) is a correct explanation of (A). C. Both (A and (R) are false. D. (A) is false, but (R) is true. Answer: D
3	Assertion (A): A company must receive minimum subscription on public issue of shares. Reason (R): In default to receive minimum subscription, company could not allot its shares. A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) B. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A) C. Assertion (A) is false, but Reason (R) is true D. Assertion (A) is true, but Reason (R) is false Ans.A
4	Assertion(A):Preferential allotment means allotment of shares at a pre determined price to the identified people who are interested in taking shares in the company. Reason(R): Employee Stock Option Plan is a category of sweat Equity A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

	B. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A) C. Assertion (A) is false, but Reason (R) is true D. Assertion (A) is true, but Reason (R) is false Ans.B
5	Assertion(A): The forfeited shares may be reissued by the company at par, at premium or at discount. Reason(R): Reissue of forfeited shares is not an issue of shares but is selling the shares that were issued earlier and were cancelled by the company A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) B. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A) C. Assertion (A) is false, but Reason (R) is true D. Assertion (A) is true, but Reason (R) is false Ans.A
6	Assertion (A) :- A Portion of uncalled capital of a company to be called only in the event of winding up of the company . It is Known as Reserve Capital. Reason (R) :- It will not be called up by the life time of business A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) B. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A) C. Assertion (A) is false, but Reason (R) is true D. Assertion (A) is true, but Reason (R) is false Ans: A
7	Assertion(A) : Shares can be issued to the Public at the discount. Reason(R) : Shares can be issued to the Public at a discount on reissue of the forfeited shares. A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) B. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A) C. Assertion (A) is false, but Reason (R) is true D. Assertion (A) is true, but Reason (R) is false Ans: C
8	Assertion(A) :Shares can be issued to the Public at a discount on reissue of the forfeited shares. Reason(R) : Maximum amount of discount allowed at the time of reissue of forfeited shares should not exceed the forfeited amount. A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A) B. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A) C. Assertion (A) is false, but Reason (R) is true D. Assertion (A) is true, but Reason (R) is false Ans: A
9	Assertion(A): Subscribed capital can be more than or equal to the issued capital. Reason(R): Subscribed capital is a part of issued capital A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

B. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
C. Assertion (A) is false, but Reason (R) is true
D. Assertion (A) is true, but Reason (R) is false
Ans: C

10 Assertion(A):Securities premium is generally called with the amount due on allotment.
Reason(R): Securities Premium Reserve is shown in the Equity and Liability part of Balance Sheet under the main head Share holder’s Fund and the sub head share capital.
A. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
B. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
C. Assertion (A) is false, but Reason (R) is true
D. Assertion (A) is true, but Reason (R) is false
Ans. D

SHORT QUESTIONS (3 MARKS)

1 Ram Ltd purchased land costing Rs.9,50,00,000 from Radha Ltd Rs.50,00,000 were paid through bank and the balance by issuing equity shares of Rs.100 each at a premium of 50%. Pass the necessary journal entries for making payment through bank and by issue of equity shares.

Ans. No of shares issued = 90000000/150=600000

Date	Particulars	LF	Debit Amount	Credit Amount
	Land A/c Dr		9,50,00,000	
	To Radha Ltd			9,50,00,000
	(Land purchased)			
	Radha Ltd A/c Dr		9,50,00,000	
	To Bank			50,00,000
	To Equity Share Capital			6,00,00,000
	To Security Premium			3,00,00,000
	(Payment to Radha Ltd by Bank draft and the balance by issue of shares at a premium)			

2 Ganesh limited invited applications for 5,00,000 equity shares of Rs.10/- each at a premium of Rs.5/- per share. Because of favourable market conditions, the issue was over subscribed. Suggest the alternatives available to the Board of Directors for the allotment of shares.
Ans. i.Rejection of excess application
ii. Pro rata allotment
iii.Rejection of some applications fully and Pro rata allotment to remaining applications

3 What is meant by Private Placement of share?
Ans. It means allotment of shares to a select group of persons privately and not to public in general through public issue

4 Rose Ltd. forfeited 100 shares of Rs. 10 each issued at 10% premium (Rs.8 called up) on which a shareholder did not pay Rs.3 of allotment (including premium) and first call of Rs.2. Out of these 60 shares were reissued to Raju as fully paid for Rs. 8

per share and 20 shares to Smitha as fully paid up @ Rs.12 per share at different intervals of time.

Prepare Share Forfeiture Account.

Share forfeiture account

Particulars	Rs	Particulars	Rs.
To Share Capital A/c	120	By Share Capital A/c	400
To Capital Reserve	120		
To Capital Reserve	80		
To Balance c/d (Bal. fig.)	80		
Total	400		400

5 Futura Ltd. took over the business of Penta Ltd. comprising assets worth Rs. 40,00,000 and liabilities worth Rs.6,00,000 for a purchase consideration of Rs.30,00,000. Rs. 5,00,000 is paid by cheque and balance by issuing equity shares of Rs. 100 each at 25% premium. Pass Journal entries in the book of Futura Ltd.

Date	Particulars	LF	Debit Amount	Credit Amount
	Sundry Assets A/c. Dr		40,00,000	
	To Sundry Liabilities A/c			6,00,000
	To Penta Ltd.			30,00,000
	To Capital Reserve A/c (Bal. fig.)			4,00,000
	(Being assets and liabilities of Penta Ltd. purchased)			
	Penta Ltd Dr		30,00,000	
	To Bank A/c			5,00,000
	To Equity Share Capital A/c (20,000 x100)			20,00,000
	To Securities Premium A/c (20,000 x25)			5,00,000
	(Being purchase consideration paid to Penta Ltd. by cheque and equity shares at premium of 25%)			

6 A company issued 40,000 preference shares of Rs. 100 per share at par payable as under: On Application : 20% On Allotment : 40% On First & Final Call : balance Applications were received for 50,000 shares. Allotment was made on pro-rata basis. How much amount will be received in cash on allotment?

Ans.Rs.14,00,000

7 What is meant by Preferential Allotment of Shares?

Ans. Preferential Allotment of Shares is one that is made at a predetermined price to the identified people, such as promoters, venture capitalists, financial institutions, buyers of company’s products or its suppliers, who wish to take a strategic stake in the company.

8 Liya Ltd, purchased machinery from Hana Ltd, and paid to Hana Ltd. as follows:

(i) By issuing 10,000, equity shares of & 10 each at a premium of 10%.
(ii) Balance by accepting a bill of exchange of Rs. 50,000 payable after one month. Pass necessary journal entries in the books of Liya Ltd. for the purchase of machinery and making payment to Hana Ltd.

Date	Particulars	LF	Debit Amount	Credit Amount
	Machinery A/c. Dr To Hana Ltd. (Being machinery purchased		1,60,000	1,60,000*
	Hana Ltd. Dr To Equity Share Capital A/c To Securities Premium Reserve A/c To Bills Payable (Being 10,000 equity shares issued of & 10 each at 10% premium & balance payment made by issuing bill)		1,60,000	1,00,000 10,000 50,000

Calculation of Purchase consideration:
Equity share capital -10,000x10= 1,00,000
Security premium -10,000x1 = 10,000
Bills Payable = 50,000
1,60,000*

9 The first call of Rs.2 per share became due on 50,000 equity shares alloted by Kumar Ltd. Komal a holder of 1,000 shares did not pay the first call money. Kovil a holder of 750 shares paid the second and final call of Rs.4 per share along with the first call. Pass the necessary journal entry for the amount received by opening calls-in-arrears and calls-in-advance account in the books of the company.

Date	Particulars	LF	Debit Amount	Credit Amount
	Equity Share First Call A/c (50,000 ×2). Dr To Equity Share Capital A/c (Being the first call money due)		1,00,000	1,00,000
	Bank A/c. Dr Calls-In-arrears A/c (1,000 × 2) Dr To Equity Share First Call To Calls-in-advance A/c (750 x 4) (Being the first call money received& Calls in Arrear & advance recorded)		1,01,000 2,000	1,00,000 3,000

10 Trilok Ltd issued 1,00,000 equity shares of Rs.10 each at a premium of Rs 2 per share payable Rs.3 per share on application, Rs. 5 per share (including premium) on allotment, Rs.2 per share on the first call and the balance on the second call. Rahim was allotted 1,600 shares. Give necessary journal entries for forfeiture in the books of the company when Rahim could not pay the allotment and the first call money and his shares were forfeited after the first call.

Date	Particulars	LF	Debit Amount	Credit Amount
	Equity Share Capital A/c Dr (1,600 × 8)		12,800	
	Securities Premium Reserve Dr (1,600 × 2)		3,200	
	To Equity Share Allotment (1,600 × 5)			8,000
	To Equity Share First Call (1,600 × 2)			3,200
	To Forfeited Equity Shares (1,600 × 3)			4,800
	(Being 1,600 shares forfeited for non-payment of allotment and first call)			

SHORT ANSWER QUESTIONS (4 MARKS)

1 Read the following information and give the answer for the questions given below: Sunshine Ltd issued 50,000 shares of Rs. 100 per share for public subscriptions at 20% premium. Amount payable as under: On Application : Rs 40 per share (including 10% premium) On Allotment : Rs.40 per share (excluding 10% premium) On First & Final Call : Balance Amount. Application received for 75,000 shares. Allotment was made to 60,000 share applicants. All due money was duly received except from a shareholder (Amal) allotted to whom 12,000 shares, failed to pay allotment and calls. These shares were forfeited.

a. Write the amount of excess application money adjusted on allotment?
b. What the amount received on allotment?
c. How much amount did not receive on allotment?
d. What is the amount forfeited on 12,000 shares?

Ans:

a.Rs.4,00,000.
b. Rs.15,96,000
c.Rs.5,04,000.
d. Rs. 4,56,000

2 .Data Ltd is registered with an authorised capital of 10,00,000 divided into 1,00,000 equity shares of 10 each. The company issued 50,000 equity shares at a premium of Rs.5 per share. Rs.2/ per share payable with application, Rs.8/-per share (including premium) on allotment and the balance amount on first and final call. The issue was fully subscribed and all the amount due was received except the first and final call money on 500 shares. Present the Share capital in the Balance Sheet of Data Ltd as per Schedule III, part I of the Companies Act,2013. Also prepare Note to Accounts for the same.

Data Limited
Balance Sheet (Extract) as at

Particulars	Note No	Amount
I. EQUITY AND LIABILITIES Shareholders funds	1	4,97,500

Share Capital		

Notes to Accounts

Particulars	Amount	Amount
1. Share Capital		
Authorised Capital		
100000 Equity shares of Rs.10 each		10,00,000
Issued Capital		
50000 Equity shares of 10 each		500000
Subscribed capital		
Subscribed and fully paid up		
49500 equity shares of 10 each		
Subscribed but not fully paid-up	495000	
500 equity shares of 10 each 5000		
Less: calls in arrears (500x5) 2500	2500	4,97,500

3 XYZ Ltd issued 50,000 shares of Rs.10 each payable as Rs.2 per share on application, Rs. 3 on allotment, and Rs.5 on first and final call. Applications were received for 70,000 shares. It was decided that

a.to refuse allotment to the applicants for 10000 shares

b.to allot 20000 shares to Ramesh who had applied for similar number and

c.to allot the remaining shares on pro rata basis.

Ramesh failed to pay the allotment and Suresh who (belonged to category C) was allotted 3000 shares paid the call money with allotment.

Calculate the amount received on allotment.

Category	Shares applied	Shares allotted
A	10000 shares	Nil
B	20000 shares	20000 shares allotted
C	40000 shares	30000 shares allotted
Total	70000 shares	50000 shares

Calculation of amount received on allotment.

Amount due on allotment (50000*3)	1,50,000
Less: Excess application money adjusted on allotment	
Pro rara allotment. 10000*2	(20,000)
Less: class in arrears . 20000*3	(60,000)
	70,000
Add: Calls in advance(3000*5)	15,000
Amount received on allotment.	85,000*

4 ABC Ltd. is registered with capital of Rs. 50,00,000 divided into 50,000 equity shares of Rs. 100 each, The Company issued 25,000 equity shares for subscription. Subscription was received for 23,750 shares and all the due amount was duly received, except the first and final call of Rs. 20 per share on 600 shares. Show the 'Share Capital' in the Balance Sheet of the company

Ans: Share Capital: Rs.**23,63,000**(Authorised Capital- Rs.50,00,000, Issued Capital- Rs.25,00,000)

W.N: Subscribed Capital
23,750 shares of Rs. 100 each 23,75,000
Less: calls in arrears (600 × 20) (12,000) =23,63,000

5 Easy start Ltd. company was registered with an authorized capital of Rs. 20,00,000 divided into 2,00,000 Equity Shares of Rs. 10 each, payable Rs. 3 on application, Rs. 6 on allotment (including Rs 1 premium) and balance on call. The company offered 80,000 shares for public subscription. All the money has been duly called and received except allotment and call money on 5,000 shares held by Om and call money on 4,000 shares held by Ashok. Om's shares were forfeited and out of these 3,000 shares were re-issued Rs. 9 per share as fully paid up. Show share capital in the books of the company. Also prepare notes to accounts.

Ans: Share Capital: Rs.7,78,000
(Authorised Capital- Rs.20,00,000,
Issued Capital- Rs.8,00,000
Subscribed Capital
Subscribed but not fully paid-up
74,000 equity shares of Rs.10 each. 7,40,000
Subscribed but not fully paid-up
4,000 equity shares of Rs. 10 each 40,000
Less: calls in arrears (4,000 x Rs. 2). (8,000.) 32,000
Add Forfeited Shares
2,000 equity shares@ Rs.3. 6,000
Rs.7,78,00
0

6 .A Ltd. makes an issue of 10,000 equity shares of Rs. 100 each at a premium of 5%, payable as follows:

On application and allotment- Rs.50. On first call- Rs.30. On second & Final call- Rs.25.

Members holding 400 shares did not pay the second call and the shares are duly forfeited, 300 of which are re-issued as fully paid at Rs.80 per share. Pass journal entries for forfeiture and reissue of forfeited shares.

Particulars	LF	Debit Amount	Credit Amount
Equity Share capital A/c. Dr		40,000	
To Calls in arrears A/c			10,000
To Share Forfeiture A/c.			30,000
(Being shares forfeited for non-payment of second and final call)			
Bank A/c. Dr		24,000	
Share Forfeiture A/c. Dr		6,000	
To Equity Share Capital A/c			30,000
(Being 300 Shares reissued at Rs. 80 per share as fully paid up)			
Share Forfeiture A/c. Dr		18,000	
To Capital reserve A/c			18,000
(Being balance of share forfeiture of reissued shares transferred to capital reserve)			

7 Smart eye Ltd. has an authorised capital of Rs. 20,00,000 divided into equity shares of Rs. 10 each. The company invited applications for issuing 60,000 shares. Applications for 58,000 shares were received. All calls were made and were duly received except the final call of Rs. 3 per share on 2,000 shares. These shares were forfeited.

Present the share capital in the Balance Sheet of the company as per Schedule - III of the Companies Act, 2013.

Answer: Share Capital = Rs. 5,74,000

8 Win Ltd. was formed with a capital of Rs. 10,00,000 divided into shares of Rs. 10 each. It offered 90% shares. 40% amount was payable on application, 20% on allotment and balance on final call. The applicants paid Rs. 3,60,000 on application and Rs. 1,69,000 on allotment. Final call had not been made as yet. Calculate the following from the above mentioned details :

(i) Authorised Capital; (ii) Issued Capital; (iii) Subscribed Capital; (iv)Calls-in-Arrears

Ans:(i) Authorised Capital = Rs.10,00,000

(ii) Issued Capital = 90,000 Shares @ 10 each Rs.9,00,000

(iii)Subscribed Capital= 90,000 Shares @ 6 each Rs.5,40,000-11,000=Rs.5,29,000

(iv)Calls-in Arrears= 11,000

9 Victory Ltd. forfeited 2,000 shares of Rs.10 each, fully called up, on which they had received only Rs.14,000. 50 of the forfeited shares were reissued for Rs. 9 per share fully paid up.Pass necessary journal entries for forfeiture and re-issue of shares. Also prepare share forfeited account

Answer:

Particulars	LF	Debit Amount	Credit Amount
Share Capital A/c. Dr		20,000	
To Forfeited Shares A/c.			14,000
To Calls in arrear A/c.			6,000
(2,000 shares of Rs. 10 each forfeited for non payment of Rs.6,000)			
Bank A/c. Dr		450	
Forfeited Shares A/c Dr		50	
To Share Capital A/c.			500
(50 of the forfeited shares reissued for Rs. 9 per share)			
Forfeited Shares A/c. Dr		300	
To Capital Reserve A/c			300
(Transfer of gain on forfeiture to Capital Reserve)			
Balance in Share Forfeited A/c = 13,650			

10 Pass necessary Journal Entries for the following transactions in the books of Logon Ltd. :

Logon Ltd. purchased a running business from Orthodox Ltd. for a sum of Rs. 2,50,000 payable as Rs. 2,20,000 in fully paid equity shares of Rs. 10 each and balance by a bank draft. The assets and liabilities consisted of the following :

Plant and Machinery Rs. 90,000; Building Rs. 90,000; Sundry Debtors Rs. 30,000; Stock Rs. 50,000; Cash Rs. 20,000; Sundry Creditors Rs. 20,000

Particulars	LF	Debit Amount	Credit Amount
Plant & Machinery A/c. Dr		90,000	
Building A/c. Dr		90,000	
Sundry Debtors A/c Dr		30,000	
Stock A/c. Dr		50,000	
Cash A/c. Dr		20,000	
To Sundry Creditors			20,000
To Orthodox Ltd			2,50,000
To Capital Reserve			10,000
(Being business purchased)			
Orthodox Ltd. Dr		2,50,000	
To Equity Share Capital A/c.			2,30,000
To Bank A/c.			20,000
(Being shares issued and draft given)			

1 Vridhi Limited invited applications for issuing 100000 Equity shares of Rs.10 each at a premium of Rs.10 per share. The amount was payable as follows:
On applicationRs.10 per share (including Rs.5premium). On allotment the balance
The issue was over subscribed. A shareholder holding300 shares paid the full share money with application. Another shareholder holding 200 shares failed to pay the allotment money. His shares were forfeited. Later on, these shares were reissued for Rs.4000/- as fully paid. Pass necessary journal entries for the above transactions in the books of Vridhi Ltd.

Particulars	LF	Debit Amount	Credit Amount
Bank A/c Dr To Share application(Application (Application Money received on1,00,000 shares)		10,03,000 10,03,000	10,03,000
Share application A/c Dr To share application A/c To share allotment A/c To Security premium Reserve (Application money adjusted)		10,00,000	5,00,000 3,000 5,00,000
Share allotment A/c Dr To share capital To Security premium reserve (Allotment money due on 100000 shares)		9,95,000	5,00,000 5,00,000
Bank A/c Dr To Share allotment (Allotment money received except on 200 shares)		2,000	9,95,000
Share capital A/c Dr Security premium reserve Dr To Forfeited shares To Share allotment (200 shares forfeited for non payment of allotment money)		1,000 4,000	1,000 2,000
Bank A/c Dr To Share capital To Security premium reserve (200 forfeited shares reissued @ Rs.20/ share as fully paid up		1,000	2,000 2,000
Forfeited shares A/c Dr To Capital reserve (gain on reissue transferred to capital reserve)			1,000

2 KBCLtd is registered with an authorised capital of Rs . 80000000 divided into equity shares of Rs.12 each. Subscribed and fully paid up share capital of the company was Rs.40000000. For providing employment to the local youth and for the development of rural area of Jammu and Kashmir state, the company decided to set up a food processing unit in Anantnag District. The company also decided to open skill development centres in Ladakh, Srinagar and Punch. To meet its new financial requirements, the company decided to Issue 100000 equity shares of Rs 10 each and 10000, 9% Debentures of Rs.100 each. The debentures were redeemable after 5 years. The issue of equity shares and debentures was fully subscribed. A shareholder holding 1000 shares failed to pay the final call of Rs 2/share. Present the share capital in the Balance sheet of the company as per the provisions of schedule III of Companies Act 2013.

Ans.

Particulars	Note No	Amount
Equity and Liabilities		
Shareholder's fund		
Share capital	1	4,09,98,000

Notes to Accounts:

Particulars		Amount
Share capital		
Authorised capital		**8,00,00,000**
8000000 equity shares of Rs.10 each		
Issued capital		4,10,00,000
4100000 equity shares of Rs.10 each		
Subscribed capital		
Subscribed and fully paid up		
4099000 equity shares of Rs 10 each		4,09,90,000
Subscribed and not fully paid up		
1000 equity shares of Rs.10 each	10,0000	
Less: calls in arrears	1000x2	8,000
		4,09,98,000

3 Pooram Ltd forfeited 2000 shares of rs.10 each, fully called up, on which they have received only Rs.14000. 50 of the forfeited shares were reissued for Rs.9 per share fully paid up. Pass journal entries for forfeiture and re-issue of shares. Also prepare share forfeited A/c.

Ans:

Particulars	LF	Debit Amount	Credit Amount
Share capital A/c (2000x10) Dr		20,000	
To Share forfeited			14,000
To calls in arrears			6,000
(2000 shares forfeited for non payment of Rs.6000)			
Bank A/c (50x9) Dr		450	
Share forfeited A/c Dr		50	
To Share capital a/c			500
(50 shares reissued for Rs.9 per share)			
Share forfeited A/c Dr		300	
To capital Reserve			300

Gain on reissued shares transferred to capital reserve			

SHARE FORFEITED A/C

Dr Cr

particulars	amount	particulars	amount
To share capital To capital reserve To balance c/d	50 300 13650	By share capitala/c	14000
	14000		14000

4 4. Vijay Ltd invited applications for issuing 200000 equity share of Rs.50 each. The amount was payable as follows. On application Rs.15 per share, on allotment Rs. 10 per share, on first and final call Rs.25 per share. Applications for 300000 shares were received. Allotment to the applications were made as follows.

Category	No of shares applied	No of shares allotted
I	200000	150000
II	100000	50000

Excess money received with application was adjusted towards sums due on allotment and calls. Namita, a shareholder of category I , holding 3000 shares failed to pay the allotment money. Her shares were forfeited immediately after allotment. Manav, a shareholder of category II, who had applied for 1000 shares failed to pay the first and final call. His shares were also forfeited. All the forfeited shares were reissued at Rs.60/share, fully paid up. Pass necessary journal entries and prepare cash book for the above transactions

Ans.

Particulars	LF	Debit Amount	Credit Amount
Equity share application A/c Dr To equity share capital To equity share allotment To calls in advance (Adjustment of application money)		45,00,000	 30,00,000 12,50,000 2,50,000
Equity share allotment A/c Dr To equity share capital a/c (allotment money due)		20,00,000	20,00,000
Calls in arrears A/c Dr To equity share allotment a/c (allotment money received except 3000 on shares)		15,000	15,000
Equity share capital A/c Dr To forfeited share To equity share allotment (3000 equity shares forfeited)		75,000	60,000 15,000
Equity share 1st and final call A/c Dr To equity share capital (first and final call money due on 197000 shares)		49,25,000	49,25,000
Calls in advance A/c Dr		2,50,000 10,000	

Calls in arrears A/c Dr To equity share first and final call (First and final call money received except on500 share and advance adjusted)			2,60,000
Equity share capital A/c Dr To forfeited share To equity share 1st and final call (500 shares forfeited)		25,000	15,000 10,000
Forfeited shares A/c Dr To capital reserve Gain on reissue transferred to capital reserve		75,000	75,000

CASH BOOK (BANK COLUMN ONLY)

Dr Cr

Particulars	Amt	Particulars	Amt
To equity share application	4500000		10110000
To equity share allotment	735000		
To equity share 1st and final call	4665000		
To equity share capital	175000		
To security premium reserve a/c	35000		
	10110000		10110000

5 X ltd invited applications for issuing 2,00,000 Equity shares of Rs 10 each at premium of Rs 3 per share. The amount was payable as follows-

On Application and Allotment-= Rs 8 per share (including premium)

On First and final call- Balance

Applications were received for 3,00,000 shares. Applications of 50,000 shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. First and final call was made and received except on 2500 shares applied by Kanwar. His shares were forfeited. The forfeited shares were reissued at Rs 7 per share fully paid up. Journalise the transactions in the books of the company

Ans:

Particulars	LF	Debit Amount	Credit Amount
Bank A/c Dr To Equity share application & allotment (Receipt of application money)		24,00,000	24,00,000
Share application & allotment A/c Dr To share capital To Securities premium To Bank To share first and final call (calls in advance) (Transfer of application money to Share capital, security premium, calls in		24,00,000	10,00,000 6,00,000 4,00,000 4,00,000

	advance & Excess application money refunded)			
	Share first and final call A/c Dr To share capital (First & final call money due)		10,00,000	10,00,000
	Bank A/c Dr Calls in advance A /c Dr To share first and final call (Receipt of Call money)		594000 400000	9,94000
	Share capital A/c Dr To share forfeiture To Call in arrears (Forfeiture of shares)		20,000	14,000 6,000
	Bank A/c Dr Share forfeiture A/c Dr To share capital (Re-issue of forfeited shares)		14,000 6,000	20,000
	Share forfeiture A/c Dr To capital reserve (Gain on forfeiture transferred to Capital Reserve)		8,000	8,000

CASE BASED QUESTIONS

1 XYZ Ltd intends to come out with public issue of 50000 equity shares of Rs. 10 each at a premium of Rs.10 per share. The company has the following options for the issue of its equity shares.

i. Issue price is payable Rs.10 on application and Rs.10 on allotment

ii. Issue price is payable Rs.4 on application, Rs.10 on allotment and the balance on first and final call

Questions:

a. Is it possible for the company to accept any of the above options? Can the company opt for calling the entire Rs.20 on application itself.

b. Determine the amount that the company will receive as Application, Allotment and First and final call under each of the above options.

c. If option ii is adopted by the company, determine the amount that will be credited to share capital account from share allotment account and why?

d. How security premium appears in the Balance sheet and state any two purposes for which it can be used by a company

Ans:

a. Yes.it is possible for the company to accept any of the above options. It may even call the entire amount of Rs.20 on application itself.

b. In option i. Rs.500000 as application money will be credited to share capital account and Rs.500000 as allotment money will be credited to security premium account

In option ii, Rs.200000 as application money will be credited to share capital account Rs.500000 as allotment money will be credited to security premium reserve account and Rs.300000 as first and final call money will be credited to share capital account

c. Amount credited to share capital account from share allotment account will be nil. Because in the absence of specific instructions, it is assumed that security premium is received on allotment.

d. Security premium appears on the Equity and liabilities part of the Balance sheet under Reserves and surplus. Two purposes for which security premium reserve can be used by a company are:
   i. Writing off preliminary expenses
   ii. For issuing fully paid bonus shares.

2 Sunidra Limited was incorporated on 1"April 2019 with registered office in Kerala. The capital clause of memorandum of Association reflected a registered capital of 8,00,000 equity shares of Rs.10 each and 1,00,000 preference shares of Rs.50 each. Since some large investments were required for building and machinery the company in consultation with vendors, Ms. XYZ Enterprises, issued 1,00,000 equity shares and 20,000 preference shares at par to them in full consideration of assets acquired. Besides this the company issued 2,00,000 equity shares for cash at par payable as Rs 3 on application, 2 on allotment, 3 on first call and 2 on second call.

Till date second call has not yet been made and all the shareholders have paid except Mr.

Ajay who did not pay allotment and calls on his 300 shares and Mr. Vipul who did not pay first call on his 200 shares. Shares of Mr. Ajay were then forfeited and out of them 100 shares were reissued at Rs.12 per share.

Based on above information you are required to answer the following questions.

i. Shares issue to vendors of building and machinery, Ms. XYZ Enterprises, would be classified as:
   a. Preferential Allotment. b. Employee Stock Option Plan
   c. Issue for Consideration other than cash d. Right Issue of Shares

ii. How many equity shares of the company have been subscribed?
   a.3,00,000. b.2,99,800. c.2,99,500. d. None of these

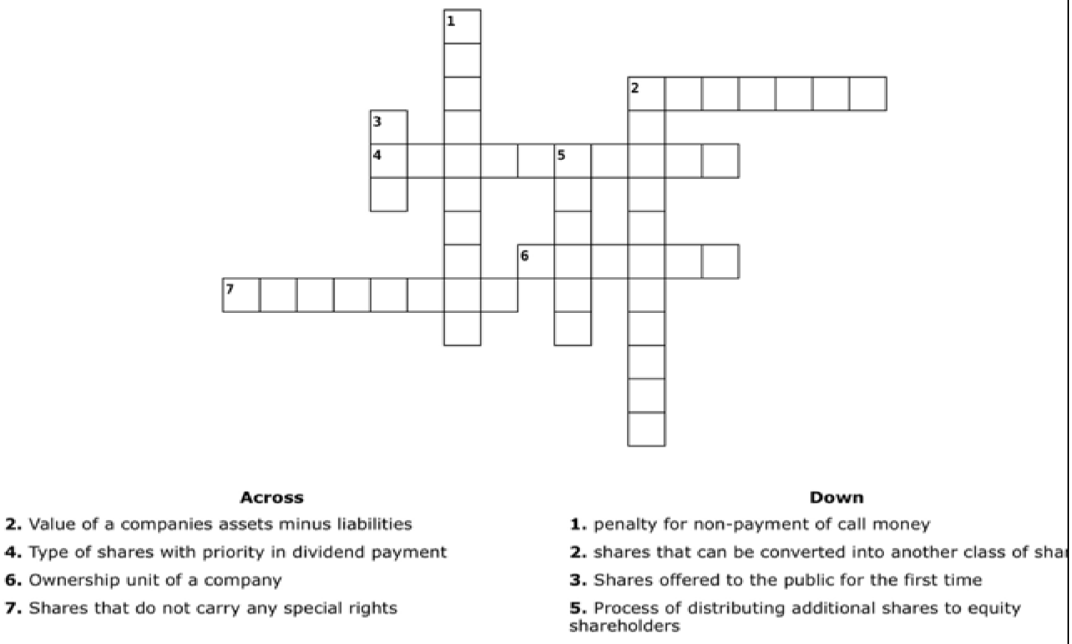
iii. What is the amount of security premium reflected in the balance sheet at the end of the year?
   a.Rs.200. b.Rs.600. c. Rs.400. d.Rs.1,000

iv. What amount of share forfeiture would be reflected in the balance sheet?
   a. Rs.600. b.Rs.900. c.Rs.200. d. Rs. 300

Ans:

i. (c) Issue for consideration other than cash.
ii. (b) Rs.2,99,800
iv. (c) Rs.400
v. (a) Rs. 600

CROSS WORD PUZZLE



Across

2. Value of a companies assets minus liabilities

4. Type of shares with priority in dividend payment

6. Ownership unit of a company

7. Shares that do not carry any special rights

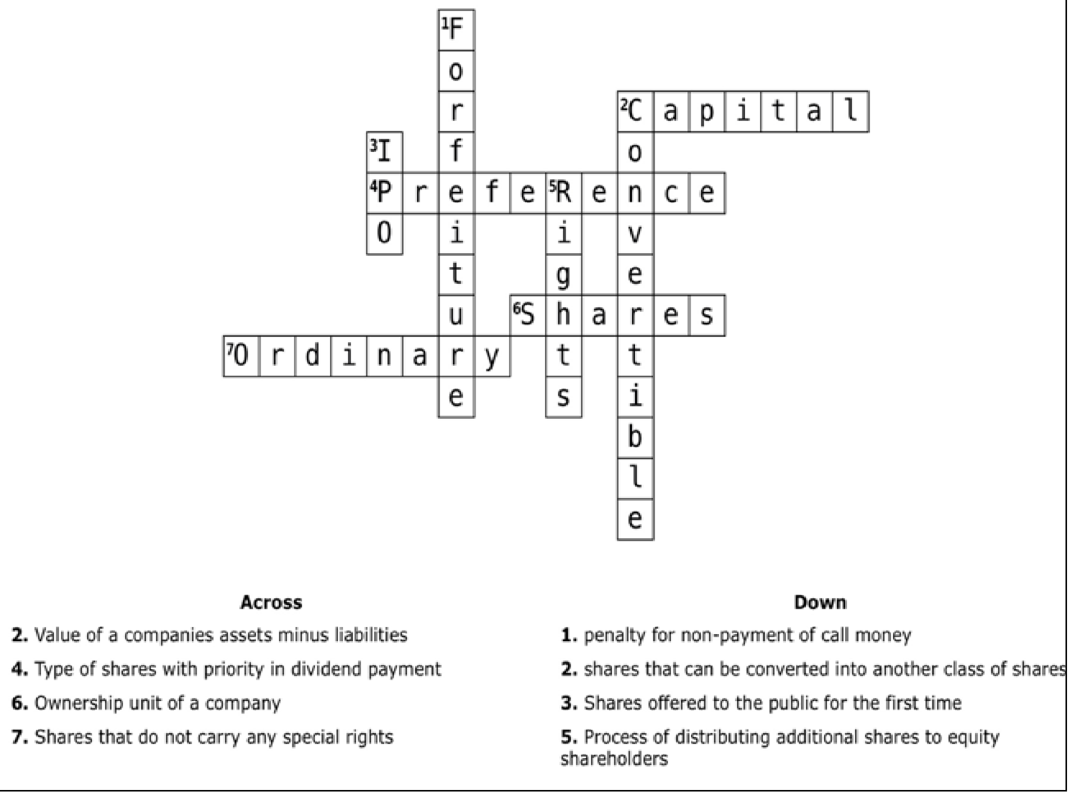
Down

1. penalty for non-payment of call money

2. shares that can be converted into another class of sha

3. Shares offered to the public for the first time

5. Process of distributing additional shares to equity shareholders



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COMPANY ACCOUNTS - ISSUE OF DEBENTURES

Meaning of Debentures:

Debenture is a written instrument or document issued by the company acknowledging the borrowing. ie, debt.

“Debenture includes debenture stock, bonds and any other instrument of the company evidencing a debt, whether constituting a charge on the assets of the company or not.” Section 2(30) of the Companies Act, 2013.

Debenture is merely a written instrument signed by the company under its common seal, acknowledging the debt due by it to its holders. Through this instrument the company promises to pay a specific amount of money as stated therein at a fixed date in future together with periodic payment of interest to compensate the holders for the use of the funds.

Bond – Bond, like debenture is an acknowledgement of debt issued by the company and signed by an authorised signatory. The expression Bond is synonymous with deb instrument where the rate of interest is not stated rather the amount payable on maturity is stated. Examples of bonds are Deep discount bond and Zero- coupon bond.

Difference between Debentures and shares.

Basis	Debentures	Share
Ownership	Debenture is a borrowing of the company. Hence debenture holder is a lender	Share is capital of the company. Hence, shareholder is the owner.
Return	Debenture holder gets interest at the stated rate whether the company earns profit or not.	A shareholder gets dividend on his investment.
Repayment	Debentures are issued for a specified period. Hence the amount of debentures is repaid on the due date.	Normally, the amount of share is not repaid during the lifetime of the company. However, preference shares have a limited life and are redeemed on due date.
Issue at discount	Debentures can be issued at discount	Shares cannot be issued at discount except where they are issued as sweat equity shares.
Security	Debentures may or may not be secured by a charge on the assets of the company	Shares are not secured

Convertibility	Debentures can be converted into shares	Shares(except convertible preference shares) cannot be converted into any other security.
Voting right	Debenture holders do not have voting right	Shareholders (Equity) have a right to attend and vote in the general meetings.
Risk	Debenture holders are relatively safe. Secured debentures are almost risk free	Shareholders are at a greater risk. They can even lose the amount invested in shares.
Priority as to repayment of principal	In case of winding up of the company, payment of debentures is made before he payment of share capital	In case of winding up of the company, payment of share capital is made after repayment of debentures.

There are various types of debentures that a company can issue, based on security, tenure, convertibility etc. Let us take a look at some of these types of debentures.

From Securities point of view

1.Secured Debentures: These are debentures that are secured against an asset/asset of the company. This means a charge is created on such an asset in case of default in repayment of such debentures. So in case, the company does not have enough funds to repay such debentures, the said asset will be sold to pay such a loan. The charge may be fixed, i.e. against a specific assets/assets or floating, i.e. against all assets of the firm.

2. Unsecured Debentures: These are not secured by any charge against the assets of the company, neither fixed nor floating. Normally such kinds of debentures are not issued by companies in India.

From redemption point of view

1.Redeemable Debentures: These debentures are payable at the expiry of their term. Which means at the end of a specified period they are payable, either in the lump sum or in instalments over a time period. Such debentures can be redeemable at par, premium or at a discount.

2. Irredeemable Debentures: Such debentures are perpetual in nature. There is no fixed date at which they become payable. They are redeemable when the company goes into the liquidation process. Or they can be redeemable after an unspecified long time interval.

From Registration Point of view

1.Registered Debentures – These are debentures that are registered in the company's records in the name of the holder. Principal and interest of such debentures is payable to the registered debenture holders.

2.Unregistered or Bearer Debentures- These are debentures that are not registered in the records of the company in the name of the holder. These debentures are transferable by mere delivery. Interest is paid to the person who produces coupon attached to the debenture.

From convertibility point of view

1.Fully Convertible Debentures: These shares can be converted to equity shares at the option of the debenture holder. So if he wishes then after a specified time interval all his shares will be converted to equity shares and he will become a shareholder.

2. Partly Convertible Debentures: Here the holders of such debentures are given the option to partially convert their debentures to shares. If he opts for the conversion, he will be both a creditor and a shareholder of the company.

3. Non-Convertible Debentures: As the name suggests such debentures do not have an option to be converted to shares or any kind of equity. These debentures will remain so till their maturity, no conversion will take place. These are the most common type of debentures.

Issue of Debentures:

Debentures can be issued in following ways:

a) for cash
b) for consideration other than cash
c) As collateral security

Terms of Issue

Debentures can be issued in following ways:

a) Issue of Debentures at Par
b) Issue of Debenture at Premium
c) Issue of Debentures at Discount.
d) Debenture Payable in Instalments

Issue of Debentures for Cash

(a) When Debentures amount received in lump sum with the application On receipt of application money

Bank A/c Dr
To Debenture Application and Allotment A/c

*(*With the application money received)

On acceptance of application money

Enter *Application and Allotment A/c Dr.*
To X% Debentures A/c
To Bank A/c (With Amount of application money on allotted debentures, and Excess amount refunded)

C) Amount received in instalments

At Par	At Premium	At Discount
Bank A/c Dr To Debenture Application A/c	Bank A/c Dr To Debenture Application A/c	Bank A/c Dr To Debenture Application A/c
Debenture Application A/c Dr To --%Debentures A/c	Debenture Application A/c Dr To --%Debentures A/c	Debenture Application A/c Dr To --%Debentures A/c
Debenture Allotment A/c Dr To --% Debentures A/c	Debenture Allotment A/c Dr To --% Debentures A/c To Securities Premium Reserve A/c	Debenture Allotment A/c Dr Discount on issue of Debentures A/c - Dr To --% Debentures A/c
Bank A/c Dr To Debenture Allotment A/c	Bank A/c Dr To Debenture Allotment A/c	Bank A/c Dr To Debenture Allotment A/c
Debenture Call(s) A/c Dr To --% Debentures A/c	Debenture Call(s) A/c Dr To --% Debentures A/c	Debenture Call(s) A/c Dr To --% Debentures A/c
Bank A/c Dr To Debenture calls A/c	Bank A/c Dr To Debenture calls A/c	Bank A/c Dr To Debenture calls A/c

Issue of Debentures for consideration other than cash

1) Issue of Debentures to the vendors for purchase of Assets

Assets A/c Dr
To Vendor's A/c
(Being assets purchased from vendor)

3. For issue of debentures to vendors

(a) At par

Vendor's A/c Dr
To ---% Debentures A/c
(Being debentures issued to vendor a par)

(b) At premium

Vendor's A/c Dr
To ---% Debentures A/c
To Securities premium Reserve A/c
(Being debentures issued to vendor at premium)

(c) At discount

Vendor's A/c Dr
Discount on Issue of Debentures A/c Dr
To ---% Debentures A/c
(Being debentures issued to vendor at discount)

(2) Issue of Debentures for purchase of Business

(a) When purchase consideration is equal to Net Assets

Sundry Assets A/c D

To Sundry Liabilities

To Vendor's A/c

(Being purchase of business from the vendor company)

(b) When consideration is more than Net Assets

Sundry Assets A/c Dr

Goodwill A/c (Amount of difference) Dr

To Sundry Liabilities

To Vendor's A/c

(Being purchase of business from the vendor company)

(C) When consideration is less than Net Assets

Sundry Assets A/c Dr

To Sundry Liabilities

To Capital Reserve A/c

To Vendor's A/c

Being purchase of business from the vendor company)

Debenture issued as Collateral Security: Collateral security means security provided to lender in addition to the principal security. It is a subsidiary or secondary security. Whenever a company takes loan from bank or from any financial institution it may issue its debentures as secondary security which is in addition to the principal security. Such an issue of debentures is known as 'issue of debentures as collateral security'. The lender will have a right over such debentures only when company fails to pay the loan amount and the principal security is exhausted. In case the need to exercise the right does not arise debentures will be returned back to the company. No interest is paid on the debentures issued as collateral security because company pays interest on loan.

In the accounting books of the company issue of debentures as collateral security can be treated in two ways :

First method: No Journal entry to be made in the books of accounts of the company for debentures issued as collateral security. A note of this fact is given in this case.

Balance sheet of --------------------------------Ltd

Particulars	Note No	Amount (Rs)
Non-Current liabilities Long term borrowings	1	Xxxxxx

Notes to Accounts No. 1

Particulars	Amount (Rs)
Non-Current liabilities: Long term borrowings	xxxxxxx

(--------- No. of ------% Debentures of Rs.--------- issued as collateral security)	

Second method: Entry to be made in the books of accounts of the company.

A journal entry is made on the issue of debentures as a collateral security, Debentures Suspense Account is debited because no cash is received for such issue.

Following journal entry will be made

Journal

Debenture Suspense A/c Dr.

To % Debentures A/c

(Being the issue of Debentures of Rs…. each issued as collateral security)

In the Notes to Accounts to Non current liabilities it is disclosed as above

Balance sheet of -------------------------------Ltd

Particulars	Note No	Amount (Rs)
Non-Current liabilities Long term borrowings	1	xxxxxx

Notes to Accounts No. 1

Particulars	Amount (Rs)
Non-Current liabilities: Long term borrowings (--------- No. of ------% Debentures of Rs.--------- issued as collateral security) xxxxx Less: Debenture Suspense A/c (xxxxx) 0	xxxxxxx

VARIOUS CASES FROM THE POINT OF VIEW OF REDEMPTION

Debentures can be redeemed at Par or at Premium. Conditions of issue and conditions of redemptions are

given below:

Issued at Par, redeemable at Par

1.Bank A/c Dr. To Deb. Application & Allotment A/c (App. Money received)			

2. Deb. Application & Allotment A/c Dr. To------% Debentures A/c (Being App. Money transferred to Deb. A/c)			

.

Issued at Premium, redeemable at Par

1.Bank A/c Dr. To Deb. Application & Allotment A/c (App. Money received)			
2. Deb. Application & Allotment A/c Dr. To------% Debentures A/c To Security premium (Being App. Money transferred to Deb. A/c & Security premium A/c)			

Issued at discount, redeemable at par

1.Bank A/c Dr. To Deb. Application & Allotment A/c (App. Money received)			
2. Deb. Application & Allotment A/c Dr. Discount on Issue of Debentures A/c Dr To------% Debentures A/c (Being App. Money transferred to Deb. A/c)			

Issued at Par, redeemable at Premium

1.Bank A/c Dr. To Deb. Application & Allotment A/c (App. Money received)			
2. Deb. Application & Allotment A/c Dr. Loss on Issue of Debentures A/c Dr To------% Debentures A/c To Premium on Redemption of Debentures (Being App. Money transferred to Deb. A/c)			

Issued at Premium, redeemable at Premium

1.Bank A/c Dr. To Deb. Application & Allotment A/c (App. Money received)			
2. Deb. Application & Allotment A/c Dr. Loss on Issue of Debentures A/c Dr To------% Debentures A/c To Premium on Redemption of Debentures To Security premium Reserve (Being App. Money transferred to Deb. A/c & Security premium A/c)			

Interest on Debentures

Interest on Debentures is calculated at a fixed rate on its face value and is usually payable half yearly & is paid even company is suffering from loss because it is charge on profit.

1.When interest is Due and tax is ignored

Debenture Interest A/c Dr
To Debenture holder's A/c
(Being interest due on debenture holders)

Or

When Interest is due and Tax is Deducted at Source (TDS)

Debentures Interest A/c Dr. (Gross Interest)
To Debentures holder A/c (Net Interest)
To Income Tax Payable A/c (Income Tax Deducted
(Being interest is due and tax is deducted at source (TDS)

When Interest is paid

Debentures Holder A/c Dr. (With Interest)
To Bank A/c

On Transfer of Interest on Debenture to statement of profit and Loss A/c (Tax deducted at source)

Statement of Profit and Loss Dr.
To Debenture Interest A/c (Amount of Interest)

Writing off discount or loss on issue of debentures

Discount or loss on issue of debentures is a capital loss for a company, which is written off in the year it is incurred , i.e ., in the year the debentures are allotted from;

1) Securities premium reserve , if it has a balance
2) Statement of profit and loss

Journal entry passed is

Securities premium reserve A/c Dr/
Statement of profit and loss A/c Dr
To Discount or loss on issue of debentures A/c
(being the discount or loss on issue of debenture written off)

SL.NO	QUESTIONS (Multiple Choice Questions)
1	**Debenture holders are**: (A) Owners of the company (B). Debtors of the company (C). Creditors of the company (D). promoters of the company Ans: (c) Creditors of the company

2	**Debentures that do not carry any charge or security on assets of the company are known as** (A) Secured debentures (B) Unsecured debentures (C) Convertible debentures (D) Registered debentures Ans. (b) Unsecured debentures
3	**Which of the following statement is incorrect with respect to debentures**? (A)Debentures can be issued for cash (B)Debenture cannot be issued at discount (C)Debentures can be issued as collateral security (D)Debentures can be issued at premium Ans: (B)
4	**When debentures are issued at a discount, the discount is written off** (A) After debentures have been redeemed (B) In the year debentures are allotted (C) During the life of the debentures **(D)** In the year debentures are issued. Ans: (B)
5	**Excess value of net assets over purchase consideration at the time of Purchase of business is credited to:** (A) General reserve (B)Capital reserve (C)Vendor's account (D)Goodwill account Ans: (B) Capital Reserve
6	**Interest on debentures issued as a collateral security is paid on:** (A) Nominal value of debentures (B) No interest is paid (C) Face value of debentures (D) Paid up value of debenture Ans: (B)
7	**Taza Ltd. Issued 20,000,8% Debentures of Rs.100 each issued at 5% discount, redeemable at par. The 8% Debenture account is:** (A). Debited with Rs.20,00,000 (B). Credited With Rs.20,00,000 (C) Debited with Rs.19,00,000 (D). Credited with Rs.1,00,000 Ans: (B)
8	**Loss on issue of debenture account is shown:** A. On asset side of balance sheet B. On liability side of balance sheet C. On credit side of P &L account D. None of these Ans:(A)
9	**Loss on issue of debenture account is shown:** A. On asset side of balance sheet B. On liability side of balance sheet

	C. On credit side of P &L account D. None of these Ans:(A)
10	10% debenture issued at Rs105 is repayable at Rs115, the face value of debenture being Rs100. Calculate the amount of loss on redemption of debentures: (a) 10 (b) 5 (c) 15 Ans: (C)
11	S Ld. Issued 50,000, 8% Debentures of Rs.100 each a certain rate of premium and to be redeemed at 10% premium. At the time of writing off loss on issue of Debentures, Statement of Profit & Loss was debited with Rs. 2,00,000. At what rate of premium these debentures were issued? (a) 10% (b) 16% (c) 6% (d) 4% Ans: (c) 6%
12	Alfa Ltd. Purchased building from Alexa Ld. For Rs.8,00,000. The consideration was paid by issue of 6% Debentures of Rs.100 each at a discount of 20%. The 6% Debentures account is credited with (A) Rs.10,40,000 (B) Rs.10,00,000 (C) Rs.9,60,000 (D) Rs.6,40,000 Ans: (B) Rs.10,00,000
13	N Ltd. Purchased assets of Rs.8,00,000 and took over liabilities of Rs.2,00,000 from G Ltd. The payment was made by issue of 8% Debenures of Rs.100 each at premium at 20%. Number of debentures issued will be**:** (A) 50,000 (B) 5,000 (C) 6,000 (D) 6,00,000 Ans: (B) 5,000
14	Bhima Ltd. Issued 5000, 7% Debentures at Rs.100 each at a premium of 10%. According to the terms of issue 40% of the amount was payable on application and the balance on allotment. The issue was fully subscribed and all amounts were duly received. The amounts received on application and allotment respectively were: (A) Rs. 2,50,000 and Rs.3,00,000 (B) Rs.2,00,000 and Rs.3,00,000 (C) Rs.2,00,000 and Rs.3,50,000 (D) Rs.2,00,000 and Rs.2,50,000 Ans. (C)

15	**Interest payable on debentures is calculated at the:** (A) Issue price of debentures (B) Nominal value of debentures (C) Redemption value of debentures (D) None Ans (B)
16	**For writing off discount on issue of debentures, ………… is debited and ……… account is credited, if security premium reserve doesn't exist**. (A) Statement of P/L a/c and Discount on issue of debentures (B) Discount on issue of debentures and Statement of P/L a/c (C) Statement of P/L a/c and Debenture suspense account (D) None Ans: (A)
17	A company issued 5000, 12% debentures of Rs 100 each at 10% discount, redeemable at 10% premium. Interest on debentures are payable half-yearly on which TDS is 10%. What will be the amount of tax deduction of a year? (A) 3000 (B) 4000 (C) 5000 (D) 6000 Ans: (d) 6000
18	When 10,000 debentures of Rs 100 each are issued as collateral security against a bank loan of Rs 8,00,000, the debenture suspense is debited by an amount of……. (A) 10,00,000 (B) 800,000 (C) 200,000 (D) None Ans: (A) 10,00,000
19	Where is 'Premium on Redemption of debenture' shown in the balance sheet A. Under the sub head 'Long term Borrowing'. B. Under the sub head 'Long term provision'. C. Under the sub head 'Other Long-term liabilities. D. None of the above Ans: (C)
20	While issuing ---------------type of Debentures, company does not give any undertaking for the repayment of money borrowed by issuing such debentures (A) Zero coupon rate debentures (B) Non- Convertible Debentures C) Secured Debentures (D) Non- Redeemable Debentures Ans (D)
21	**Rs.12,000 , 6% Debentures were issued by Fire Metal Ltd. On 1st April,2021. During the year 2021-22, the company suffered a huge loss, in this case** (A) Debenture holders will be entitled to interest of the year 2021-22 (B) Debenture holders will not be entitled to interest of the year 2021-22 (C) Debenture holders will be entitled to interest of the year 2021-22 at half rate (D) Debenture holders will be entitled to interest of the year 2021-22 at a lower rate.

	Ans(A)

	ASSERTION REASON TYPE QUESTIONS
1	Assertion(A) Issue price of debentures can be collected in lump sum or in installments Reason(R) : when Issue price is payable in lump sum, the amount received on application is credited to "Debentures Application and Allotment Account" .Both Assertion (A) and Reason(R) are true and reason is correct explanation of assertion. b. Assertion(A) and Reason(R) both are true but reason is not the correct explanation of assertion. c. Assertion(A) is true, Reason(R) is false. d. Assertion(A) is false, Reason(R) is true Ans (B)
2	Assertion(A) : Debenture holder gets interest at the stated rate whether the company earns profit or not Reason(R) : interest on debenture is treated as an appropriation of profit a. Both Assertion (A) and Reason(R) are true and reason is correct explanation of assertion. b. Assertion(A) and Reason(R) both are true but reason is not the correct explanation of assertion. c. Assertion(A) is true, Reason(R) is false. d. Assertion(A) is false, Reason(R) is true Ans.(C)
3	Assertion: Debentures can be issued as a collateral security Reason: The amount of loan can be realized in full with the help of collateral security during default (A) Both Assertion and reason are true and reason is correct explanation of assertion. (B) Assertion and reason both are true but reason is not the correct explanation of assertion. (C) Assertion is true, reason is false. (D) Assertion is false, reason is true. Ans(A)
4	Assertion(A): Alok Ltd issued 1,000 9% Debentures of Rs.1,000 each at a premium of 25%. 9% Debentures account will be credited by Rs.10,00,000 Reason (R) Debentures Account is credited by the amount received for the debentures issued. Hence, Debentures Account will be credited by Rs.12,50,000 In the context of the above statements, which of the following is correct? A. Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) B. (b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A) C. Assertion (A) is True but Reason (R) is False. D. Assertion (A) is False but Reason (R) is True. Ans. (C)
5	Assertion (A): Interest is paid by the company on Debentures issued as collateral security

	Reason(R) : Interest is paid by the company on Debentures, including debentures issued as collateral security In the context of the above statements, which of the following is correct? A. Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) B. (b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A) C. Assertion (A) is True but Reason (R) is False. D. Assertion (A) and Reason (R) are incorrect Ans (D)
6	Assertion: If debentures of Rs.100, issued for Rs.95 and is redeemable at 105, then loss on issue debentures will be Rs.5 Reason: Premium on redemption of debentures is not capital loss A. Both A and R are individually true, and R is correct explanation of A B. Both A and R are individually true, and R is not the correct explanation of A C. A is true but R is False D. Both A and R are False Ans (D
7	Assertion(A) Debenture certificate evidences that the company has borrowed amount from the debenture holder. Reason (R) Debenture is the written acknowledgement by a company of debt. In the context of the above statements, which of the following is correct? A. Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) B. (b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A) C. Assertion (A) is True but Reason (R) is False. D. Assertion (A) and Reason (R) are incorrect Ans (A)
8	Assertion (A) A company has issued 1,00,000 8% Debentures of Rs.200 each to bank as Collateral security. It may or may not record it in the books of account by Passing a journal entry. Reason (R) Journal entry passed by the company will be: Debenture Suspense A/c Dr 2,00,00,000 To 8% Debentures A/c 2,00,00,000 In the context of the above statements, which of the following is correct? A. Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) B. (b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A) C. Assertion (A) is True but Reason (R) is False. D. Assertion (A) and Reason (R) are incorrect Ans (B)
9	Assertion(A): Redeemable debentures are those debentures which will be repaid by the company either in lump-sum at the end of a specified period or by instalments during the lifetime of the company. Reason (R):Irredeemable debentures are repayable only at the time of liquidation of the company In the context of the above statements, which of the following is correct? A. Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A)

	B. (b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A) C. Assertion (A) is True but Reason (R) is False. D. Assertion (A) and Reason (R) are incorrect Ans(B)
10	Assertion (A): Sometimes a company purchases a running business (its assets and liabilities both) and issue debentures to vendor, as purchase consideration Reason (R) : In such cases, purchase consideration can be equal to or less than the net Assets but cannot be more than the net assets. In the context of the above statements, which of the following is correct? A. Both Assertion (A) and Reason (R) are True and Reason (R) is the correct explanation of Assertion (A) B. (b) Both Assertion (A) and Reason (R) are True and Reason (R) is not the correct explanation of Assertion (A) C. Assertion (A) is True but Reason (R) is False. D. Assertion (A) and Reason (R) are incorrect Ans. (C)
	Short Answer Questions (3 Marks)
1	Read the passage given below and answer the following question Bee ltd purchased the following assets of See ltd. Land and building of Rs55,00,000 at Rs 75,00,000; Furniture Rs20,00,000; and Machinery Rs 30,00,000. The purchase consideration was Rs 1,00,00, 000.Payment of Rs 10,00,000 was made through cheque and remaining amount by issue of 9% debentures of Rs100 each at a premium of 20% 1. According to Companies Act 2013, what is the maximum rate of premium at which debentures can be issued ? a. 10% b. 15% c. 20% d. maximum limit not specified 2. Amount credited to Capital Reserve A/c is a.25,00,000 b. 20,00,000 c.15,00,000 d,10,00,000 3. What is the number of debentures to be issued? a.65,000 b.70,000 c.75,000 d.80,000 4. Securities premium reserve A/c is to be credited with------ a.10,00,000 b.15,00,000 c.20,00,000 d.25,00,000 Ans 1 (d) 2 (a) 3(c) 4 (b)
2	Read the passage given below and answer the following questions ABC decided to acquire the running business of Y ltd, so it took over the assets of Rs 6,60,000 and liabilities of Rs 80,000 of Y limited for a purchase consideration of Rs5,85,000 payable by the issue of 12% debentures of Rs100 each at a discount of 10%. 1. Goodwill A/c will be debited with a.10,000 b 15,000 c 5,000 d.8,000 2. Discount on issue of debenture is written off, in the year debentures are allotted, in the following sequence— a. Securities premium reserve, statement of Profit and loss

b. Securities premium reserve, statement of Profit and loss, capital reserve
c. capital reserve, securities premium reserve, statement of Profit and loss
d. statement of Profit and loss, capital reserve, securities premium reserve
3. The number of debentures to be issued is:
a. 6600 b.6500 c.4500 d.5400.
4. 12% Debentures Account is credited with
a. 6,50,000 b.7,00,000 c. 6,00,000 d.7,50,000
Ans
1.(c) 2.(a) 3.(b)4.(C)

3 Give journal entries for the issue of debentures in the following conditions.
A) Issued 2,000, 12% debentures of Rs. 100 each at a discount of 2%, redeemable at par.
B) Issued 2,000, 12% debentures of Rs. 100 each at a premium of 5%, redeemable at a premium of10%.

Ans

A) Bank A/C Dr. 1,96,000
To 12% debentures application & allotment a/c 196,000
(Application money received)

12% debentures application &allotment a/c Dr. 1,96,000
Discount on issue of debentures a/c Dr. 4,000
To 12% debentures a/c 2,00,000
(Transfer of application money to debentures a/c, issued at a discount of 2%)

b) Bank a/c Dr. 2,10,000
To 12% debentures application & allotment a/c 2,10,000
(application money received

12% debentures application &allotment a/c Dr. 2,10,000
Loss on issue of debentures a/c Dr. To 12% debentures a/c 20,000
To Securities premium reserve a/c 10,000
To premium on redemption a/c 20,000
To 12% debentures a/c 2,00,000
(transfer of application money to debentures a/c, issued at a premium of 5% and redeemable at a premium of 10%)

4 Complete the following journal entries.

Date	Particulars	l.f	Amount	Amount
2021	Sundry assets A/c Dr		25,00,000	
April	----------------------(1)----- Dr		------------	
	To sundry liabilities A/c			7,80,000
	To Siv Shankar Ltd.			18,20,000
	(being shiv. Shankar ltd . was taken over by Parvati Ltd. For the purchase consideration of Rs.18,20,000)			
	Shiv. Shankar Ltd Dr		18,20,000	
	-------------(2)------ Dr		------------	
	To --------------------(3)			20,000
	To 8% Debentures A/c			----------(4)--

	(being paying Shiv. Shankar Ltd by issuing a bill of Rs.20,000 and the balance was paid by issue of 8% Debenture of Rs. 100 each at a discount of 10%)				

Ans

1. Goodwill a/c 1,00,000
2. Discount on issue of Debentures A/c 2,00,000
3. To bills payable A/c 20,000
4. To 8% Debentures 20,00,000

5 On 1st April, 2021 Bhawani Ltd. issued 5,000, 10% Debentures of Rs100 each at a discount of 10% redeemable at 5% premium after 5years. On the same date Bhawani Ltd. entered into the following
transactions also:
It purchased business of Swami Ltd. by taking over sundry assets of Rs 4,50,000 and sundry liabilities of Rs. 70,000 for the purchase consideration of Rs. 4,80,000. It paid the purchase consideration by issuing 10% Debentures at 4% discount.
Bhawani Ltd. borrowed a loan of Rs. 80,000 from SBI for 5 years and issued 10%Debentures of Rs. 1,00,000 to bank as a collateral security.
The interest on debentures is paid half yearly on 30th September and 31st March every year. The company has sufficient balance in its Securities Premium Reserve Account at the year end and it has
decided to write off loss on issue of debentures from Securities
Premium Reserve Account.
Read above information and answer the following questions:
1. State the circumstances when debentures are issued for
consideration other than cash.
2. Is Bhawani Ltd. correct in issuing debentures at a
discount?
3.Pass journal entry for the takeover of business of Swami Ltd. by Bhawani Ltd.
Answers
1.(i) Issue of debentures for purchase of assets to the vendor.
(ii)Issue of debentures for purchase of business of a company.
(iii)Issue of debentures as collateral security.
2. Bhawani Ltd.can easily issue debentures at discount as the Companies Act 2013, does not restrict issue of debentures at discount.
3. Journal entry

Sundry Assets A/c Dr	4,50,000	
Goodwill A/C (b/f) Dr	1,00,000	
To Sundry Liabilities A/C		70,000
To Swami Ltd		4,80,000
(Being assets and liabilities of Swami Ltd. taken over for a consideration of Rs.4,80,000)		

6 On 1st April 2021, XYZ Ltd issued 3,000, 12% Debentures of
Rs.100 each at par redeemable at a premium of 7%. The debentures were to be redeemed at the end of third year.
On the basis of the above information, resolve the following issues:
1.Can the company write off the ‘Loss on issue of Debentures’ over the period of 3 years?
2. From which source, the loss on issue of debentures will

be written off?

3.Under which sub-head and head, the amount of ‘Premium Payable on Redemption of Debentures’ is shown in the Balance Sheet?

Ans

1.No, because according to Accounting Standard 16, borrowing cost requires that the loss on issue of debentures be written off in the same year in which it is incurred.

2. In the absence of any information about Securities Premium Reserve, the loss on issue of debentures ins written off from Statement of Profit and Loss.

3. Premium payable on Redemption of Debentures is shown as Other non- current liability under Non-Current Liabilities in Equity and Liabilities part of Balance Sheet.

7 Sheen Ltd. Issued 5,000, 9% debentures of Rs. 100 each at a discount of 10%. The full amount was payable on application. Applications were received for 6,000 debentures and allotment was made on pro-rata basis.

Pass the necessary journal entries for the above transactions in the books of Sheen Ltd.

Ans.

Particulars	LF	Amount(Dr)	Amount(Cr)
Bank A/C.................... Dr.		5,40,000	
To 9% Debenture application & allotment A/C			5,40,000
(Application money received)			
9% Debenture Application and Allotment A/C................... Dr.		5,40,000	
Discount on issue of Debentures A/C.................. Dr.		50,000	
To 9% Debentures A/C			5,00,000
To Bank A/C			90,000
(Application money transferred to Debentures and refund of excess application money)			
Statement of Profit and Loss ....Dr		50,000	
To discount on issue of debentures A/C			50,000
(Writing off Discount on issue of Debentures)			

8 R Limited took over assets of Rs. 7,80,000 and creditors of Rs. 60,000 from S Limited. R Limited issued 8% debentures of Rs. 20 each at a premium of 20% as purchase consideration, to S Limited. Calculate the amount of purchase consideration, number of debentures issued by R Limited and pass the necessary journal entries in the books of R Limited from the above-mentioned information

Ans

Purchase consideration = Assets – creditors

= 7,80,000 – 60,000 = 7,20,000

Debenture of Rs. 20 is issued at 20% premium i.e. at Rs. 4 premium

Hence , Number of Debentures Issued = 7,20,000/24 = 30,000

Journal entries

Particulars	LF	Amount(Dr)	Amount(Cr)
Assets A/c……………………………Dr To Creditors To S Ltd ((purchase of assets and creditors from S Ltd.)		7,80,000	 60,000 7,20,000
S Ltd A/c………………………… Dr To 8% Debentures A/c(30,000x20) To Security premium A/c (30,000x4) (issue of 30,000 debentures of Rs.20 each at 20% premium)		7,20,000	6,00,000 1,20,000

9 On 1st April 2015, P Ltd. issued 6,000 12% Debentures of Rs.100 each at par redeemable at a premium of 7%. The debentures were redeemed a the end of third year. Prepare loss on issue of 12% Debenture Account

Loss on Issue of Debentures A/C

Amount	Particulars	Amount	Date	Particulars	Amount
01 April 2015	To Premium on Redemption of Debentures A/c	42,000	31 Mar. 2023	By Statement of Profit and Loss	42,000
		42,000			42,000

10 K Ltd. obtained a loan of Rs.10,00,000 from SBI @ 9% interest. The Company issued Rs.15,00,000, 9% debentures of Rs.100/- each in favour of SBI as collateral security. Pass necessary journal entries for the above transactions:

(i) When Company decided not to record the issue of 9% Debentures as collateral security

(ii) When Company decided to record the issue of 9% Debentures as collateral security

Journal Entries

Particulars	LF	Amount(Dr)	Amount(Cr)
(i)Bank A/c……………………………Dr To Bank Loan A/c (Obtained loan from SBI @ 9%)		10,00,000	10,00,000
(ii)Bank A/c…………………………Dr To Bank Loan A/c (Obtained loan from SBI @ 9%)		10,00,000	10,00,000

Debenture Suspense A/c…………Dr To Debenture Suspense A/c (Issued 9% Debentures as collateral security in favour of SBI)		15,00,000	15,00,000

Short Answer questions (4 marks)

1 On 1st April, 2020 S Ltd. issued 6,000, 8% Debentures of nominal (face) value of Rs. 100 each redeemable at 5% premium in equal proportions at the end of 5, 10 and 15 year It has a balance of Rs. 10,000 in Securities Premium Reserve.
Pass Journal entries. Also give Journal entry for writing off Loss on Issue of Debentures.

Journal Entries

	Particulars	LF	Amount(Dr)	Amount(
2020 Apr1	Bank A/c Dr To Debenture Application &Allotment (Receipt of application money)		6,00,000	 6,00,000
	Debenture Application &Allotment A/c Dr Loss on issue of debentures A/c Dr To 9 % Debentures To Premium on Redemption of Debentures (Being application money transferred)		6,00,000 30,000	 6,00,000 30,000
	Securities Premium Reserve A/c Dr Statement of Profit &Loss Dr To Loss on Issue of Debentures (Being Loss on issue of debentures written off)		10,000 20,000	 30,000

2 Blue Prints Ltd., purchased building worth Rs 1,50,000, machinery worth Rs 1,40,000 and furniture worth Rs 10,000 from XYZ Co., and took over its liabilities of Rs 20,000 for a purchase consideration of Rs 3,15,000. Blue Prints Ltd., paid the purchase consideration by issuing 12% debentures of Rs 100 each at a premium of 5%. Record necessary journal entries.

Journal Entries

Particulars	LF	Amount(Dr)	Amount(C
Building A/c Dr Plant & Machinery A/c Dr. Furniture A/c Dr Goodwill A/c Dr To Liabilities To XYZ Co Ltd		1,50,000 1,40,000 10,000 35,000	 20,000 3,15,000

(Purchase of assets and taking over of liabilities of XYZ Co.)			
XYZ Co. Dr To 12% Debentures A/c To Securities Premium A/c (Settlement of XYZ Co by Issue of 3,000 debentures at a premium of 5%)		3,15,000	3,00,000 15,000

Note: 1. Since the purchase consideration is more than net assets taken over, the difference has been debited to goodwill account.
2. No. of debentures issued = Purchase Consideration/Issue Price of a Debenture = Rs 3,15,000/105 = 3,000

3 Y Ltd. issued Rs. 2,00,000, 10% Debentures at a discount of 5% .The terms of issue provide the repayment at the end of 4 years . Y Ltd. has a balance of Rs. 5, 00,000 in Securities Premium Reserve. The company decided to write off discount on issue of debentures from Securities Premium Reserve in the first year.

Journal Entries

Particulars	LF	Amount(Dr)	Amount(C
Securities Premium Reserve A/c Dr To Discount on issue of debentures A/c (Being Discount on issue of debentures written off)		10,000	10,000

Note: Discount on issue of Debentures = 2, 00,000×5% = Rs 10,000

4 On 1st April ,2020, Vishwas Ltd. was formed with an Authorised Capital of s.10,00,000 divided into 1,00,000 equity shares of Rs.10 each.

On 1st April 2021 it acquired the running business of its competitors with following assets and liabilities:
Land Rs.4,50,000; Debtors Rs1,00,000; Furniture Rs.90,000; Creditors Rs.1,80,000.
The purchase consideration decided at Rs.6,00,000 which was paid by issuing a cheque of Rs.1,25,000 and balance in form of 8% debentures of Rs.100 each at a discount of
5%. On the same date, the company issued 1,000, 8% debentures of Rs.100 each as collateral security to Punjab National Bank who had advanced a loan of Rs.1,50,000. The company had already a balance in Security Premium Reserve Account of Rs.20,000.

1. How many 8% debentures are issued to Vendor?
2. What journal entry will be passed for writing off Discount on issue of debentures?
3. How will excess amount on net assets over the purchase consideration will be treated in the books of account?
4. How much interest is paid on debentures issued as collateral security?

Ans
i) 5,000
ii) Security Premium Reserve A/C Dr. 20,000
Statement of P/L A/C Dr. 5,000
To Discount on issue of deb. A/C 25,000
iii) Debited to Goodwill A/C by Rs.1,40,000
iv) Nil

5 Health2Wealth Ltd. had share capital of Rs.80,00,000 divided in shares of Rs.100 each and 20,000,8% Debentures of Rs.100 each as part of capital employed. The

Company need additional funds of Rs.55,00,000 for which they decided to issue debentures in such a way that they got required funds after issuing debentures of the same class as earlier, at 10% premium. These debentures were to be redeemed at 20% premium after 4 years. These debentures were issued on 1st October 2021.

You are required to:

Pass entries for issue of debentures

Journal Entries

Particulars	LF	Amount(Dr)	Amount(Cr
Bank A/c Dr		55,00,000	
To Debenture Application& Allotment A/c			55,00,000
(Being application money received)			
Debentures Application and Allotment A/c Dr		55,00,000	
Loss on Issue of Debentures A/c Dr.		10,00,000	
To 8% Debentures A/c			50,00,000
To Securities Premium Reserve A/c			5,00,000
To Premium on Redemption of Debentures			10,00,000
(Being debentures issued at premium to be redeemed at premium)			

6. Vishesh Ltd. issued 10,000, 8% debentures of Rs.100 each on 1stApril 2021 redeemable at a premium of 10% after 4 years. The issue was subscribed by 95%. According to the terms of issue, interest on the debentures is payable half-yearly on 30th September and 31st March.

1. What is the nature of interest on debentures?
2. What journal entry will be passed for writing off the interest on debentures at the end of the year?
3. At the time of issue of debentures what amount will be credited to premium on redemption of debentures account?
4. What is the ownership status of Debenture holders in a company?

Ans:

i) Charge against profits.

ii) Statement of P/L A/c Dr. 76,000

To Interest on debentures A/C 76,000

iii) Credited by Rs. 95,000

iv) Lenders of the company

7 Niva Ltd. took a loan of Rs. 1,20,000 from bank and deposited 1,400 , 8% debentures of Rs. 100 each as collateral security along with primary security worth Rs. 2lakhs. Company again took a loan of Rs. 80,000 after two months from a bank and deposited 1,000,8% debentures of Rs. 100 each as collateral security. Record necessary journal entries.

Journal Entries

Particulars	LF	Amount(Dr)	Amount(Cr
Bank A/C Dr		1,20,000	
To Bank Loan A/c			1,20,000
(Loan taken from bank secured by primary security Worth Rs.2,00,000 and Rs.1,40,000 8% debentures as Collateral security)			
Debenture Suspense A/c Dr		1,40,000	
To 8% Debentures A/c			1,40,000

(Debenture issued as collateral security)			
Bank A/c Dr To Bank Loan A/c (Loan taken from bank secured by Rs.1,00,000 8% debentures as Collateral security)		80,000	80,000
Debenture Suspense A/c Dr To 8% Debentures A/c (Debenture issued as collateral security)		1,00,000	1,00,000

8 Y Ltd. took a loan of Rs.15,00,000 from State Bank of India against the security of tangible assests. In addition to principal security, it issued 10,000 11% debentures of Rs.100 each as collateral security.

Pass necessary journal entries for the above transactions, if the company decided to record the issue of 11% debentures as collateral security and show the presentation in the Balance Sheet of Y Ltd.

Journal Entries

Particulars	LF	Amount(Dr)	Amount(Cr
Bank A/c Dr To Bank Loan A/c (Loan taken from SBI)		15,00,000	15,00,000
Debenture Suspense A/c Dr To 11% Debentures A/c (Debentures issued as collateral security)		10,00,000	10,00,000

Balance Sheet of Y Ltd.

Particulars	Note No	Rs.
I Equity and Liabilities 1. Non-current Liabilities Long term Borrowings	1	15,00,000

Notes to Accounts	Rs
I Long term Borrowings Secured Loan from State Bank of India	15,00,000
10,000 11% debentures of Rs.100 each 10,00,000 Less: Debenture Suspense 10,00,000	nil

9 UZ Ltd. purchased plant and machinery from ELK Machine Ltd. for Rs.6,90,000. ELK Ltd was paid by accepting a draft of Rs.90,000 payable after three months and the balance by issue of 6% Debentures of Rs.100 each at a discount of 20%

Pass necessary journal entries for the above transaction in the books of UZ Ltd.

Journal Entries

Particulars	LF	Amount(Dr)	Amount(Cr
Plant & Machinery A/c Dr To ELK Machine Ltd. (Machinery purchased from ELK Machine Ltd.)		6,90,000	6,90,000
ELK Machine Ltd Dr		6,90,000	

Discount on issue of Debentures A/c Dr To Draft Payable A/c To 6% Debentures A/c (ELK Ltd was paid by draft payable after three months & 7500, 6% debentures issued at 20% discount)		1,50,000	 90,000 7,50,000
Statement of Profit and Loss Dr To Discount on issue of Debentures A/c (Writing off Discount on issue of Debentures)		1,50,000	 1,50,000

No. of debentures issued = 6,00,000/80 = 7,500

10 Big Ltd. issued 2,000 12% debentures of Rs.100 each on 1st April 2019. The issue was fully subscribed. According to the terms of issue, interest on debentures is payable half-yearly on 30th September and 31st March .

Pass necessary journal entries related to the debenture interest for the half-yearly ending 31st March,2020 and transfer of interest on debentures of the year to the statement of Profit and Loss

Journal Entries

Particulars		LF	Amount(Dr)	Amount(Cr)
2019 Sept 30	Debenture Interest A/c Dr To Debenture Holders A/c (Being the interest due on debentures for the half-year ended 30th Sept,2019. TDS deducted @ 10%		12,000	12,000
	Debenture Holder's A/c Dr. To Bank a/c		12,000	12,000
	Debenture Interest A/c Dr To Debenture Holders A/c (Being the interest due on debentures for the half-year)		12,000	12,000
	Debenture Holder's A/c Dr To Bank a/c		12,000	12,000
2020 March 31	Statement of Profit & Loss A/Dr To Debenture Interest A/c (Being the interest transferred to Statement of Profit & Loss A/c)		24,000	24,000

11 Sinco Ltd purchased assets of the book value of Rs.1,98,000 from Dixon Ltd. I was agreed that the purchase consideration be paid by issuing 10% debentures of Rs.100 each. Record necessary journal entries assuming that the debentures have been issued: (i) At a discount of 10% (ii) At a premium of 10%

Journal Entries

Particulars	LF	Amount(Dr)	Amount(Cr
Sundry Assets A/c Dr To Dixon Ltd (Being sundry assets purchased from Dixon Ltd)		1,98,000	1,98,000
(i)Dixon Ltd A/c Dr Discount on issue of Debentures A/c Dr To 10% Debentures A/c (Being 2200, 10% debentures of Rs.100 each issued at 10% discount		1,98,000 22,000	2,20,000
(ii) Dixon Ltd A/c Dr To 10% Debentures A/c To Securities Premium A/c (Being 2200, 10% debentures of Rs.100 each issued at 10% discount)		1,98,000	1,80,000 18,000

LONG ANSWER QUESTIONS

1 Saritha Fabrics Ltd. has decided o start a new showroom. The Finance Manager of the company has estimated the capital requirements at Rs.12,50,000. The company has arranged Rs.5,00,000 from the internal sources to start the showroom.

It has also decided to call the unpaid amount of Rs.3 per share on its 10,000 equity shares.

The requirement of the remaining capital was fulfilled by raising a loan from Bank of India payable after five years. 8% Debentures of Rs.100 each were issued for 1.5 times more amount than that of loan as collateral security.

The management raised the following questions:

1. What will be the total requirement of the loan raised by the company?
2. What will be the total number of debentures issued by the company?
3. Is the company liable to pay the interest on these debentures?
4. How debentures will be shown in the financial statements of the company when
   Company has recorded the issue of debentures by passing a journal entry in the books of the company.
5. How will you classify the loan raised as per the schedule III of the Companies Act, 2013?

Ans

1. The company's total requirement for the loan will be calculated as follows: 12,50,000 – (5,00,000 + 30,000) = Rs.7,20,000
2. Debentures issued as collateral security are of nominal value.10,800, 8% Debentures of Rs.100 each of Rs.10,80,000
3. No, the Company is not liable to pay the interest on these debentures because debentures are issued as collateral security.

4. The debenture issued as collateral security will be shown as follows in the financial statements of the company (in Notes to Accounts under sub head long term borrowings)

Loan from Bank Of India		7,20,000
8% Debenures	10,80,000	
Less: Debentures suspense A/C	10,80,000	NIL
(issued as collateral security)		---------------
		7,20,000

5. The loan raised by the company will be shown as Long-term Borrowings under head Non-current Liabilities in the Balance Sheet.

2 On July 01, 2022, Panther Ltd. issued 20,000, 9% Debentures of Rs. 100 each at 8% premium and redeemable at a premium of 15% in four equal instalments starting from the end of the third year. The balance in Securities Premium on the date of issue of debentures was Rs. 80,000. Interest on debentures was to be paid on March 31 every year. Pass Journal entries for the financial year 2022-23. Also prepare Loss on Issue of Debentures account

Journal Entries

July 1 2022	Bank A/c Dr. To Debenture Application and Allotment, A/c (Being Application money received)		21,60,000	21,60,000
July 1 2022	Debenture Application and Allotment Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (Being Debentures issued)		21,60,000 3,00,000	20,00,000 1,60,000 3,00,000
Mar. 31 2022	Debenture Interest A/c Dr. To Debenture holders A/c (Being Interest due on debentures)		1,35,000	1,35,000
Mar. 31 2022	Debenture holders A/c Dr. To Bank A/c (Being interest paid to debenture holders)		1,35,000	1,35,000
Mar. 31 2022	Statement of Profit and Loss Dr. To Debenture Interest A/c (Interest on Debentures charged from Statement of P&L)		1,35,000	1,35,000
Mar. 31 2022	Securities Premium A/c Dr. Statement of Profit and Loss Dr To Loss on Issue of Debentures A/c (Loss on Issue of Debentures written off)		2,40,000 60,000	3,00,000

Loss on Issue of Debentures A/C

Amount	Particulars	Amount	Date	Particulars	Amount

01 July 2022	To Premium on Redemption of Debentures A/c	3,00,000	31 Mar. 2023	By Securities Premium A/c By Statement of Profit and Loss	2,40,000 60,000
		3,00,000			3,00,000

3 Excel Ltd. an educational company founded in 2007, deals in providing offline (face to face) educational services to the schools, colleges and private institutes. Within a span of 15 years, the company gained lot of popularity among the students, teachers and school principals.

During the Covid-19 pandemic situation, the entire education system went online and the company was bound to shift from offline to online system. For this a huge investment was required on the part of the company. The company decided to raise the required funds through issue of debentures. For this, Excel Ltd invited applications, 12% debentures of Rs.100 each at a premium of Rs.60 per debenture, repayable after 5 years along with the same amount of premium.

The full amount was payable on application. Applications were received for 18,000 debentures. The company decided to make pro-rata allotment.

Answer the following questions on the basis on information provided above:

1. How much amount will be received at the time of application?
2. While issuing debentures, what amount will be credited to 12% Debentures Account.
3. How much amount will be credited to Securities Premium Reserve Account.
4. How much amount will be credited on Premium on Redemption of Debentures Account.
5. The excess application money received on 3,000 debentures will be adjusted to which account?
6. What journal will be passed to write off loss on issue ofdebentures account.

Answers:

i) Rs.28,80,000
ii) Rs.15,00,000
iii) Rs.9,00,000
iv) Rs.9,00,000
v) Refunded and credited to bank
Debit Security Premium Reserve & Credit loss on issue of debentures.

4 Pass Journal entries to record the following transaction:

1. A Ltd. issued 15000; 8% Debentures of Rs. 100 each at discount of 5% to be repaid at par at the end of 5 years.
2. A Ltd. Issues 10% Debentures of Rs. 100 each for the total nominal value of Rs. 80,00,000 at a premium of 5% to be redeemed at par.
3. A Ltd. Issues Rs. 50,00,000; 9% Debentures of Rs. 100 each at par but redeemable at the end of 10 years at 105%.
4. A Ltd. Issued Rs40,00,000, 12% debentures of Rs. 100 each at a discount of 5% repayable at a premium of 10% at the end of 5 years.
5. A Ltd issued ` 70,000; 12% debentures of ` 100 each at a premium of 5% repayable at 110% at the end of 10 years.
6. A Ltd issued 2,000; 12% debentures of Rs.100 each at par, redeemable also at par.

Answers:

Journal entries

Date	Particulars	LF	Amount	Amoun
1.	Bank A/c Dr. To Debenture application and allotment, A/c (Being the debenture application money record)		14,25,000	14,25,0
2.	Debenture application & Allotment A/c Dr. Discount on issue of Debentures A/c Dr To Debentures A/c (Being the issue of 15,000, 8% debentures of Rs. 100 each at a discount of 5%)		14,25,000 75,000	15,00,0
	Bank A/c Dr. To Debenture application and allotment, A/c (Being the debenture application money received)		84,00,000	84,00,0
3	Debenture application and allotment A/c Dr. To 10% Debenture A/c To security premium A/c (Being the issue of 80,000, 10% debenture of Rs. 100 each at a premium of 5%)		84,00,000	80,00,0 4,00,00
	Bank A/c Dr. To Debenture application and allotment A/c (Being the debenture application money received)		50,00,000	50,00,0
4.	Debenture application and allotment A/c Dr. Loss on issue of debenture A/c Dr. To 12% Debenture A/c To premium on Redemption of Debenture A/c (Being the issue of 50,000, 12% debenture of Rs. 100 each at par redeemable at 105%		50,00,000 2,50,000	500000 250,00
	Bank A/C Dr. To Debenture application and allotment A/C (Being the debentures application money received)		38,00,000	38,00,0
5.	Debenture application and allotment A/C Dr Loss on issue of debenture A/C Dr. To 12% debenture A/C To premium on redemption of debenture A/c (Being the issue of 40,000, 12% debenture of Rs. 100 each at a discount of 5% and repayable at a premium 10%)		38,00,000 6,00,000	400000 400000
	Bank A/c Dr. To Debenture application and allotment A/c (Being the debenture application money second)		73,50,000	73,50,0
6.	Debenture application and allotment A/c Dr. Loss on issue of debenture A/c Dr. To 12% Debenture A/c To security Premium Reserve A/c		73,50,000 7,00,000	70,00,0 3,50,0 7,00,0

	To premium on redemption of debenture A/c. (Being the issue of 70,000, 12% debentures of Rs. 100 each at a premium of 5% and repayable at a premium of 10%)		2,00,000		
	Bank A/c Dr. To 12% Debenture application and allotment A/c (Being the debenture application money second)			2,00,000	
	12% Debenture application and allotment Dr. To 12% Debenture A/c (Transfer of Application money to Debenture A/c)		2,00,000	2,00,000	

5 Pranshu Ltd. Engaged in manufacturing of Lab equipment In Delhi, During COVID pandemic demand of equipment rapidly Increased and the company decided to take loan of Rs. 40,00,000 from IDBI Bank to provide sufficient supply of equipment in market. The company took loan from IDBI bank of Rs.40,00,000 and placed debentures for Rs. 50,00,000 as collateral security. The company provide free covid testing kit, Sanitizers and masks for backward villages

1.Entry for Recording of debentures as collateral Security:
A. Bank A/c Dr. To debenture A/c
B. Bank Loan A/c Dr. To Debenture A/c
C. Debenture suspense A/c Dr. To Debenture A/c
D. Bank A/c Dr, To Bank Loan A/c

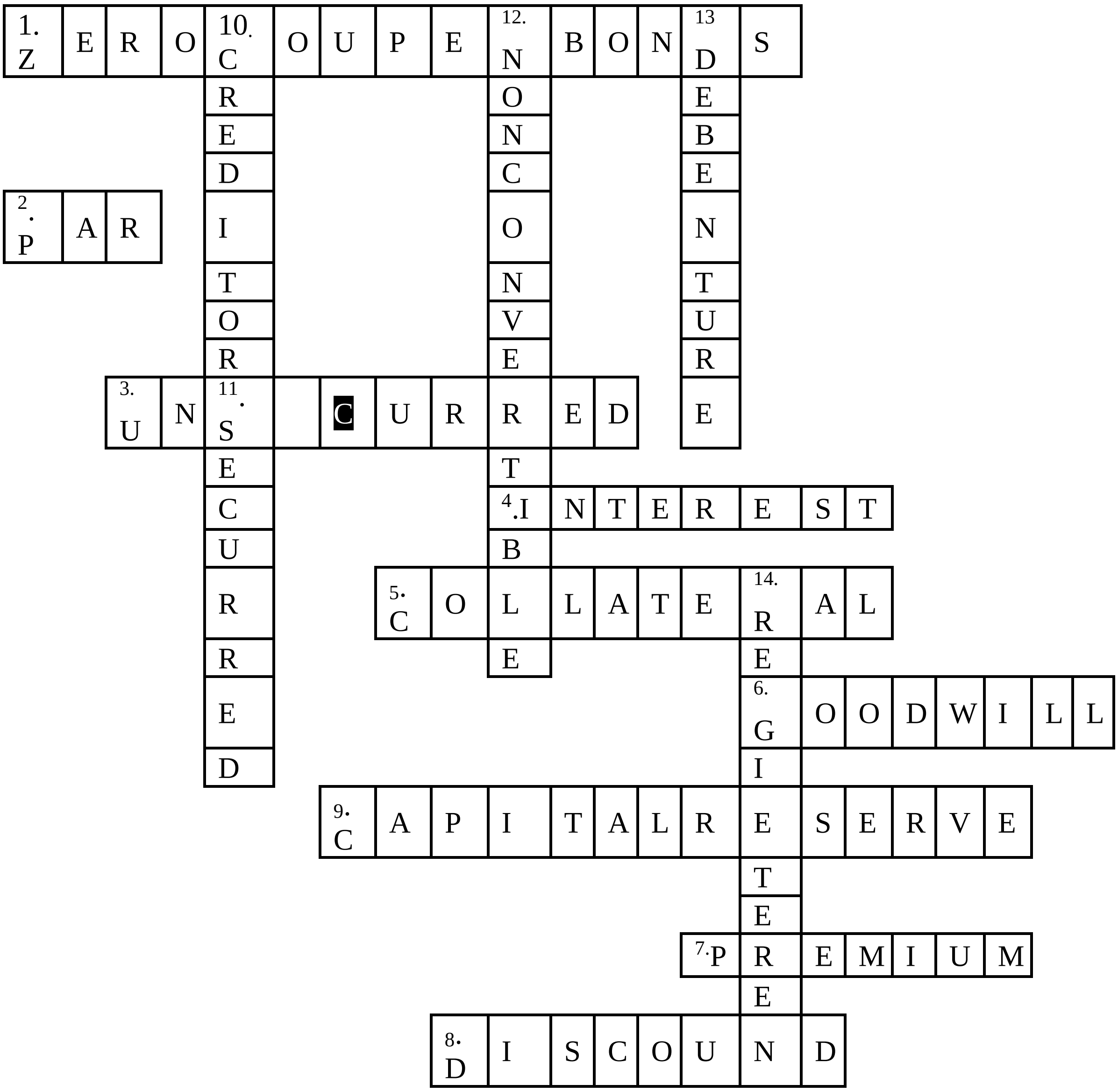
2.Entry for Loan obtained from IDBI Bank
A. IDBI Bank A/c Dr. To Bank Loan A/c
B. Debenture A/c Dr. To Bank Loan A/c
C. Bank Loan A/c Dr. To IDBI Bank A/C
D. Bank Loan A/c Dr. To Debenture A/c

3. In context of above case Bank loan from IDBI shown in balance sheet as:
A. Under head non-current liabilities and sub head long term borrowings
B. Under Head current assets and sub head cash and cash equivalents
C. Both (a) and (B)
D. None of the above

4. 4.Which of following statement is not true about in context of above case:
A. Company empowering backward village
B. Debentures of Rs.50,00,000 are shown in balance sheet as long-term borrowings
C. Debenture suspense account is shown as deduction from debenture account in Notes to accounts of balance sheet
D. None of the above

Ans.
1.Debenture suspense A/c Dr.
To Debenture A/c
2. IDBI Bank A/c Dr. To Bank Loan A/c
3 Under head non-current liabilities and sub head long term borrowings
4 Debentures of Rs.50,00,000 are shown in balance sheet as long-term borrowing

CROSS WORD



Hints:

Across:

1. Debentures which do not carry fixed rate of interest.
2. The issue price is equal to face value.
3. Debentures which are not secured by any assets of the company.
4. The return on debenture.
5. The securities besides the main security.
6. If the purchase consideration payable is more than the net assets, the difference will be debited to -----------------------.
7. If the issue price is more than the face value, the excess amount over face value is credited to ----------------------- Account.

8. If the issue price is less than the face value, the difference between face value and issue price is debited to ------------------------ Account.
9. If the purchase consideration payable is less than the net assets, the difference will be credited to -----------------------.

Down:

10. Debenture holders are--------------------------- of the company.
11. If the debentures are secured by the fixed charge or floating charge of the assets of the company, such debentures are called----------------------.
12. The debentures which can not be converted in to equity shares or new debentures are called--------------- debentures.
13. The instrument acknowledging the debt of the company.
14. The debenture holders name is entered in the register of creditors of the company.

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Unit-3 Analysis of Financial Statements

Analysis of financial statements

Meaning of Financial Statements

Financial statements are the basic and formal annual reports through which the corporate management communicates financial information to its owners and various other external parties which include investors, tax authorities, government, employees, etc.

Types of Financial Statements:

The financial statements generally include two statements:

(1) Balance Sheet (2) Statement of Profit and Loss

Apart from these, there is also a need to know about movements of funds and changes in the financial position of the company. For this purpose, a cash flow statement is prepared.

(1) Balance Sheet

Format: As prescribed in Part I of Schedule III of the Companies Act, 2013, Balance Sheet is prepared as follows:

Particulars(1)	Note no. (2)	Figures at the end of the Current Reporting Period(3)	Figures at the end of the Previous Reporting Period (4)
I.EQUITYANDLIABILITIES			
1.Shareholders'Funds			
a) Share Capital		…	…
b)Reserves and Surplus		…	…
c)Money received against Share warrants		…	…
2.ShareApplicationMoney Pending Allotment		…	…
3.Non-CurrentLiabilities			
a)Long-term Borrowings		…	…
b)Deferred Tax Liabilities(Net)		…	…
c)Other Long-term Liabilities		…	…
d)Long-term Provisions		…	…
4.CurrentLiabilities			
a)Short-term Borrowings		…	…
b)Trade Payables		…	…
c)Other Current Liabilities		…	…
d)Short-term Provisions		….	…
Total		…	…
II. ASSETS			

1.Non-CurrentAssets			
a)Property, Plant and Equipment and Intangible assets			
I .Property, Plant and Equipment		…	…
Ii .Intangible Assets		…	…
iii. Capital Work-in-Progress		…	…
iv. Intangible Assets under Development		…	…
b)Non-current Investments		…	…
c)Deferred Tax Assets(Net)		…	…
d)Long-term Loans and Advances		…	…
e)Other Non-Current Assets		…	…
2.CurrentAssets			
a)Current Investments		…	…
b)Inventories		…	…
c)Trade Receivables		…	…
d)Cash and Cash Equivalents		…	…
e)Short-term Loans and Advances		…	…
f)Other Current Assets		…	…
Total		…	…

Details of major Headings and sub- Headings

Particulars	Major headings	Sub- headings
➢ Land ➢ Building ➢ Plant and Machinery ➢ Furniture and Fixtures ➢ Vehicles ➢ Live Stock	Non-current assets	Property, Plant and Equipment
➢ Goodwill ➢ Mastheads and Publishing titles ➢ Patents ➢ Trademarks ➢ Brand ➢ Mining Rights ➢ Computer software ➢ Licenses ➢ Franchise	Non-current assets	Fixed Intangible assets

➢ Copyrights ➢ Prototypes ➢ Recipes ➢ Formulae ➢ Models ➢ Designs		
➢ Raw Material ➢ Work-in-Progress ➢ Finished Goods ➢ Stock-in-Trade Stores and Spares ➢ Loose Tools	Current assets	Inventories
➢ Cash in Hand ➢ Bank Balance ➢ Demand Deposits with Bank ➢ Cheques in hand ➢ Drafis in hand ➢ Marketable Securities(short term)	Current assets	Cash and cash equivalents
➢ Debtors ➢ Bills Receivables/Bills of Exchange	Current assets	Trade receivables
➢ Creditors ➢ Bills Payable	Current Liabilities	Trade payables
➢ Deposits with Customs Authorities	Non-current assets	Long-term loans and advances
➢ Investment in Equity Shares ➢ Investment in Preference Shares ➢ Investment in Government Securities ➢ Investment in Trust Securities ➢ Investment in Equity Shares(Short-term) ➢ Investment in Preference Shares(Short-term) ➢ Investments Government	Current assets	Current investment

Securities (Short-term) ➢ Investment in Trust Securities ➢ (Short-term)Investment in Mutual Funds (Short-term)		
➢ Mortgage Loan ➢ Debentures ➢ Bonds ➢ Bank Loan ➢ Public Deposits	Non-Current Liabilities	Long term borrowings
➢ General Reserve ➢ Securities Premium Reserve ➢ Balance in Statement of P/L ➢ Capital Reserve ➢ Capital Redemption Reserve ➢ Revaluation Reserve ➢ Debenture Redemption Reserve ➢ Retained Earnings ➢ Contingencies Reserve ➢ Workmen Compensation Reserve ➢ Debenture Sinking Fund	Shareholder's fund	Reserves and surplus
➢ Prepaid Insurance Interest Accrued on Investment ➢ Accrued Income ➢ Expenses paid in Advance	Current assets	Other Current assets
➢ Provision for Tax ➢ Provision for doubtful debts	Current liabilities	Short term provisions
➢ Share Forfeiture Account	Shareholder's fund	Add in subscribed capital while preparing notes to accounts
➢ Calls in Arrears	Shareholder's fund	Deduct in subscribed capital while preparing notes to accounts

➢ Preliminary Expenses ➢ Loss on issue of Debentures ➢ Share issue Expense	Deduct from securities premium reserve/capital reserve/statement of P &L	----
➢ Interest Accrued and due on Debentures ➢ Interest Accrued but not due on Debentures Interest Accrued and due on ➢ Secured Loans ➢ Interest Accrued and due on unsecured Loans ➢ Advance Received from Customers ➢ Unclaimed Dividends ➢ Calls in Advance ➢ Outstanding Expenses	Current liabilities	Other Current liabilities
➢ Arrears of Fixed Cumulative Dividend ➢ Proposed Dividend	It is a contingent liability and will be shown as foot-note to the Balance sheet	

(2) Statement of Profit and Loss

PART II

Format of Statement of Profit and Loss

Particulars (1)	Note no. (2)	Figures at the end of the Current Reporting Period (3)	Figures at the end of the Previous Reporting Period (4)
I. Revenue from Operation		...	...
II. Other Income		...	...
III. Total Revenue		...	...
IV. Expenses:		...	...
Cost of materials consumed		...	...
Purchases of Stock-in-Trade		...	...
Changes in inventories of finished goods, work-in progress and Stock-in-Trade		...	...
Employee benefits expenses		...	...
Finance costs		...	...
Depreciation and amortization expenses		...	...
Other expenses		...	...

Total expenses		…	…
V. Profit before tax (III-IV)		…	…
VI. Tax		…	…
VII. Profit after tax		…	…

Analysis of financial statements

Meaning:

The process of critical evaluation of the financial information contained in the financial statements in order to understand and make decisions regarding the operations of the firm is called ‘Financial Statement Analysis’. It is basically a study of relationship among various financial facts and figures as given in a set of financial statements, and the interpretation thereof to gain an insight into the profitability and operational efficiency of the firm to assess its financial health and future prospects.

Features:

(1) To present the complex data contained in financial statements in simple and understandable form.

(2) To classify the items contained in financial statements in convenient and rational groups.

(3) To make comparisons between various groups to draw various conclusions.

Objectives:

- To assess the current profitability and operational efficiency of the firm as a whole as well as its different departments so as to judge the financial health of the firm.
- To ascertain the relative importance of different components of the financial position of the firm.
- To identify the reasons for change in the profitability/financial position of the firm.
- To judge the ability of the firm to repay its debt and assessing the short-term as well as the long-term liquidity position of the firm.

Importance:

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the various items of the balance sheet and the statement of profit and loss. Financial analysis can be undertaken by management of the firm, or by parties outside the firm, viz., owners, trade creditors, lenders, investors, labour unions, analysts and others. The nature of analysis will differ depending on the purpose of the analyst.

Financial analysis is useful and significant to different users in the following ways:

(a) Finance manager:

The techniques are important in the area of financial control, enabling the finance manager to make constant reviews of the actual financial operations of the firm to analyse the causes of major deviations, which may help in corrective action wherever indicated.

(b) Top management: Financial analysis helps the management in measuring the success of the company's operations, appraising the individual's performance and evaluating the system of internal control.

(c) Trade payables (creditors): Trade payables are interested in the firm's ability to meet their claims over a very short period of time. Their analysis will, therefore, evaluate the firm's liquidity position

(d) Lenders: They analyse the firm's profitability over a period of time, its ability to generate cash, to be able to pay interest and repay the principal amount.

(e) Investors: Investors, who have invested their money in the firm's shares, are interested about the firm's earnings.

(f) Labour unions: Labour unions analyse the financial statements to assess whether it can presently afford a wage increase and whether it can absorb a wage increase through increased productivity or by raising the prices.

(g) Others: The economists, researchers, etc., analyse the financial statements to study the present business and economic conditions. The government agencies need it for price regulations, taxation and other similar purposes

Limitations of Financial Analysis

(1) Limitations of Financial Statements itself:

Financial analysis is based on financial statements. But financial statements themselves

suffer from certain limitations, hence the limitations of financial statements are also the limitations of their analysis.

(2) Affected by Window-dressing:

Some firms resort to window-dressing their financial statements to cover up bad financial position on the eve of accounting date. For example, they may not record the purchases made at the end of the year or they may overvalue their closing stock. In such cases, the results obtained by analysis of financial statements will be misleading.

(3) Do not Reflect Changes in Price Level:

Figures given in financial statements do not show the effect of changes in price level. As such, the comparison of past year figures with current year figures may lead to misleading conclusions. For example, if in 2021 a firm sells 10,000 metre of cloth for 10 lakhs and the same firm in 2022 sells the same type of 10,000 metre of cloth for 15 lakhs, it discloses an increase of 50% in sales, whereas, in actual, the sales have not increased at all.

(4) Different Accounting Policies:

If two firms adopt different accounting policies, the comparison between the two will be unreliable. For example, one firm may provide depreciation on original cost method, whereas the other firm may adopt the written-down value method for providing the depreciation.

(5) Effect of Personal Ability and Bias of the Analyst:

Figures given in financial statements do not speak by themselves, hence, any conclusion can be drawn from these figures. Conclusions obtained from the analysis of these figures are affected to a great extent by the personal ability and knowledge of the analyst. **(6) Difficulty in Forecasting:**

Financial statements are a record of past events and historical facts. In the fast changing and developing modern business, the analysis of past information may not be of much use in future forecasting.

(7) Lack of Qualitative Analysis:

Financial statements record only those events and transactions which can be expressed in terms of money. Qualitative aspects of business units are omitted from the books at all as these cannot be expressed in monetary terms. Thus, changes in management, reputation of the business, cordial management-labour relations, firm's ability to develop new products, efficiency of management, and satisfaction of firm's customers etc. which have a vital bearing on the profitability of the company are all ignored and omitted from being recorded because all of these are qualitative in nature.

Classification of Financial Statement Analysis:

Financial Statement Analysis is of 4 types as follows:

i. **External Analysis:** This type of analysis is done by investors, credit agencies, researchers, etc. who do not have access to the confidential and complete records of an enterprise and therefore, have to depend on information published in various statements or reports which shall comprise of Statement of Profit and Loss, Balance Sheet, Auditor’s Reports etc.

ii. **Internal Analysis:** This is a detailed and accurate type of analysis done by the management of the enterprise to determine the financial position and operational efficiency of the organisation. Since, management has access of complete information, they perform an extensive type of analysis which is more detailed and accurate.

iii. **Horizontal Analysis:** It is also known as Dynamic Analysis. It is done to review and analyse financial statement for a number of years and hence, is also known as time series analysis. It facilitates comparison of financial data for several years against a chosen base year.

iv. **Vertical Analysis:** It is also known as Static Analysis. It is done to review and analyse the financial statements of one year only. It is useful in comparing the performance of several companies of the same type or divisions or departments in one enterprise.

Tools for analysis of Financial Statements

(1) Comparative Statements: These are the statements showing the profitability and financial position of a firm for different periods of time in a comparative form to give an idea about the position of two or more periods.

(2) Common Size Statements: These are the statements which indicate the relationship of different items of a financial statement with a common item by expressing each item as a percentage of that common item.

(**3) Ratio Analysis:** Ratio Analysis is a study of relationship among various financial factors in a business.

(4) Cash flow statement: It refers to the analysis of actual movement of cash into and out of an organisation. The flow of cash into the business is called as cash inflow or positive cash flow and the flow of cash out of the firm is called as cash outflow or a negative cash flow.

VERY SHORT ANSWER TYPE QUESTIONS

1.	Calls in advance appearing in a Company's Balance Sheet under……………….. (a) Share Capital (b) Current Liability (c) Long-term Borrowings (d) Reserves & Surplus
2.	……………… appear in a Company's Balance Sheet under the Sub-head Short-term Provision (a) Interest Accrued but not due on Borrowings (b) Provision for Tax (c) Unpaid Dividend (d) Calls in Advance
3.	Change in Inventories means: (a) Difference between Opening Inventories and Closing Inventories (b) Difference between Closing Inventories and Opening Inventories (c) DifferencebetweenOpeningInventoriesandClosingInventories,ifOpeningInventoriesarehigher (d) Difference between Closing Inventories and Opening Inventories ,if Closing Inventories are higher.
4.	Which of the following points out nature of financial statements? (i) Financial statements are prepared on the basis of recorded facts. (ii) Certainaccountingconventionsarefollowedwhilepreparingfinancialstatements. (iii) Financial statements are prepared on certain basic assumptions(pre-requisites) known as postulates. (iv) Factsandfigurespresentedthroughfinancialstatementsarebasedonpersonalopinion, estimates and judgements. (a) Only (i) (b) (i),and(ii) (c) (i),(ii) and (iii) (d) (i) ,(ii),(iii) and (iv
5.	In the Statement of Profit & Loss of a Common Size Statement: (a) Figure of net revenue from operations is assumed to be equal to 100 (b) Figure of gross profit is assumed to be equal to 100 (c) Figure of net profit is assumed to be equal to 100 (d) Figure of assets is assumed to be equal to 100
6.	What is gross profit + materials consumed? (a) Purchases (b) Revenue from Operations (c) Opening Inventory (d) Closing Inventory
7.	Which of the following is device of comparative statements? (a) Comparison expressed in terms of absolute data (b) Comparison expressed in terms of percentages (c) Comparison expressed in terms of ratios (d) All of the Above

8.	Which of the following is not a limitation of financial statement analysis? (a) To measure the financial strength (b) Affected by window-dressing (c) Do not reflect changes in price level (d) Lack of Qualitative Analysis
9.	Analysis of financial statements involve: (a) Trading A/c (b) Profit & Loss statement (c) Balance Sheet (d) All the above
10.	Comparative Financial Statements show: (a) Financial position of a concern (b) Earning capacity of a concern (c) Both of them (d) None of these
11.	Livestock is an item of under sub-head fixed asset and the major head non-current assets. (a) Tangible assets. (b) inventories (c) trade receivables (d) intangible
12.	What will be the amount shown under the head current liabilities when the following data is given? Short-term borrowings=Rs.2,00,000 Trade Payables = 1,00,000 Other Current Liabilities = 1,50,000, Short-term Provisions=20,000 (a)5,00,000 (b)600,000 (c)2,00,000 (d)4,70,000
13.	Read the following statements: Assertion and Reason. Choose one of the correct alternatives given below: Assertion (A): Common Size statement is a statement in which individual items of financial statements of two or more years are converted into a percent of a common base for comparison. Reason (R): Common size Balance Sheet is prepared to place each item thereof and to convert them into percent of Total of Liabilities part or Assets Part. Alternatives: a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A) c) Assertion (A) is true but Reason (R) is False d) Assertion (A) is False but Reason (R) is True.

14	Match the following: a. Interest paid on debentures (i)depreciation b. Fixed assets written off (ii)other expenses c. cheques (iii)financial cost d. discount allowed (iv) current assets
15	The assets which cannot be realized in cash or from which no further benefit can be derived are known as: (a) Tangible asset (b) Fictitious asset (c) Intangible asset (d) None of the above
16	Match the following: A) Public deposit i) Shareholder's fund B) Calls in advance ii) Long term borrowings C) Calls in arrears iii) Fixed assets D) Mining rights iv) Other current assets a) (i)(ii)(iii)(iv) b) (iv)(iii)(i)(ii) c) (ii)(iv)(i)(iii) d) (iii)(iv)(i)(ii)
	Read the following case study and answer questions17to 21on the basis of the same. Mochit Ltd is a company that deals in manufacturing of pharmaceutical products. Ram has recently been hired as an assistant to the accountant of Mochit Ltd. The accountant of the firm Mr. Rajat asks Ram to go for financial statement analysis of the firm to assess the financial position of the firm. To judge the knowledge and capabilities of Raman, Mr. Rajat asked him to analyse the financial statements from the viewpoint of various parties interested in the firme g. themanagement,thelenders,theinvestors,labourunions,government etc.
17	Which of the following statements will primarily be utilized by Ram for the purpose of financial statement analysis? (a) Balance sheet and cash flow statement. (b) Statement of profit and loss and cash flow statement. (c) Balance sheet and statement of profit and loss. (d) Cash flow statement and fund flow statement.
18.	If Ram is to analyse the financial statements for the top management, what should he consider? (a) Short-term liquidity of the firm. (b) Ability to pay its long-term lenders. (c) To see that their sources of the firm are used most efficiently and that the firm's financial condition is sound. (d) None of the above

19.	If Ram is to analyse the financial statements for the short-term lenders, what should he consider? (a) Short-term liquidity of the firm (b) Long-term solvency of the firm (c) To see that the resources of the firm are used most efficiently and that the firm's financial condition is sound (d) None of the above
20.	If Ram is to analyse the financial statements for the investors, what should he consider? (a) Firm's present and future profitability (b) Ability to pay its long-term lenders (c) Firm's capital structure (d) Both(a)and (c)
21.	While analyzing the financial statements, Ram should be conscious of which of the following? (a) Window dressing of financial statements (b) Changes in accounting policies of a firm (c) Personal judgements (d) All of the above
22.	How is analysis of financial statements suffered from the limitation of window dressing?

ANSWERS:

1.	(b)Current Liability
2.	(b)Provision for Tax
3.	(a)Difference between Opening Inventories and Closing Inventories
4.	(d)(i),(ii),(iii)and(iv)
5.	(a) Figure of net revenue from operations is assumed to be equalto100
6.	(b)Revenue from Operations
7.	(d)All of the Above
8.	(a) To measure the financial strength
9.	(d)All the above
10.	(c)Both of them
11.	(a)Tangible assets.
12.	(d)4,70,000
13.	b) Both Assertion(A)and Reason(R) are true and Reason(R) is not the correct explanation of Assertion(A)
14.	a)(iii)(i)(iv),(ii)
15.	(b)Fictitious asset
16.	c)(ii)(iv)(i)(iii)
17.	(c)Balance sheet and Statement of profit and loss.
18.	(c) To see that the resources of the firm are used most efficiently and that the firm's financial condition is sound
19.	(a) Short-term liquidity of the firm

20.	(d) Both (a) and (c)
21.	(d) All of the above
22.	Analysis of financial statements is affected from the limitation of window dressing as companies hide Some vital information or show items at incorrect value to portray better profitability and financial Position of the business, for example the company may overvalue closing stock to show higher profits.

3 Mark Questions

1 Under which sub-headings, the following items will be placed in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013.

(i) Accrued incomes
(ii) Loose tools
(iii) Provision for employee's benefits
(iv) Unpaid dividend
(v) Short-term loans
(vi) Long-term loan

Answers:

Items	Major Heads
(i) Accrued incomes	Other Current Assets
(ii) Loose tools	Inventories
(iii) Provision for employees' benefits	Short-term Provision
(iv) Unpaid dividend	Other Current Liabilities
(v) Short-term loans	Short-term Borrowings
(vi) Long-term loans	Long-term Borrowings

2 Under which sub-headings will the following items be placed in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013.

(i) Capital reserves
(ii) Bonds
(iii) Loans repayable on demand
(iv) Vehicles
(v) Goodwill
(vi) Prepaid insurance **Answer:**

Items	Major Heads
(i) Capital reserves	Reserves and Surplus
(ii) Bonds	Long-term Borrowings
(iii) Loans repayable on demand	Short-term Borrowings
(iv) Vehicles	Property, Plant and Equipment
(v) Goodwill	Fixed (Intangible) Assets
(vi) Prepaid insurance	Other current assets

3

State under which major headings the following items will be presented in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013.

(i) Long-term borrowings
(ii) Trade payables
(iii) Provision for tax
(iv) Securities premium reserve
(v) Patents
(vi) Accrued incomes
(vii) Current investment

Answer:

Items	Major Heads
(i) Long-term borrowings	Non-current Liabilities
(ii) Trade payables	Current Liabilities
(iii) Provision for tax	Current Liabilities
(iv) Securities premium reserve	Shareholders' Funds
(v) Patents	Non-current Assets
(vi) Accrued incomes	Current Assets
(vii) Current investment	Current Assets

4 Under what heads and sub-heads, will the following items appear in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013.

(i) Stores and spares
(ii) Proposed dividend
(iii) Computer software

Answer:

Items	Major Headings	Sub-headings
(i) Stores and spares	Current Assets	Inventories
(ii) Proposed dividend	Current Liabilities	Short-term Provisions
(iii) Computer software	Non-current Assets	Fixed Assets (Intangible

5 Under what heads and sub-heads, will the following items appear in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013.

(i) Debentures
(ii) Provision for retirement benefits
(iii) Calls-in-advance

Answer:

Items	Major Headings	Sub-headings
(i) Debentures	Non-current Liabilities	Long-term Borrowings
(ii) Provision for retirements	Non- Current Liabilities	Long –Term Provisions
(iii) Calls-in-advance	Current Liabilities	Other Current Liabilities

6 Under what heads and sub-heads, will the following items appear in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013.

(i) Mining rights

(ii) Encashment of employees earned leave payable on retirement

(iii) Design

Answer:

Items	Major Headings	Sub-headings
(i)Shares in listed companies	Non-current Assets	Non current investments
(ii) Encashment of employees earned leave payable on retirement	Non-current Liabilities	Long-term Provisions
(iii) Design	Non-current Assets	Property, Plant and Equipment and Intangible assets-Intangible assets

7 Under what heads and sub-heads, the following items will appear in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013.

(i) Tax reserve
(ii) Interest on calls-in-advance
(iii) Stores and spares (Delhi 2013)

Answer:

Items	Major Headings	Sub-headings
(i) Tax reserve	Current Liabilities	Short-term Provisions
(ii) Interest on calls-in-advance	Current Liabilities	Other Current liabilities
(iii) Stores and spares	Current Assets	Inventories

8 Under what heads and sub-heads, the following items will appear in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013.

(i) Premium on redemption of debentures
(ii) Unsold goods
(iii) Balances with banks

Answer:

Items	Major Headings	Sub-headings
(i) Premium on redemption of debentures	Non-Current Liabilities	Other Long-term Liabilities
(ii)Unsold goods	Current Assets	Inventories
(iii) Balances with banks	Current Assets	Cash and Cash Equivalents

9 Under what heads and sub-heads, will the following items appear in the balance sheet of a company as per Schedule III, Part I of the Companies Act, 2013.

(i) Subsidy reserve
(ii) Investment in Debentures
(iii) Provision for doubtful debts

Answer:

Items	Major Headings	Sub-headings
(i) Subsidy reserve	Shareholders Funds	Reserves and Surplus
(ii) Investments in Debentures	Non-current Assets	Non- Current Investments
(iii) Provision for doubtful debts	Current Liabilities	Short-term Provisions

10 State the major headings under which the following items will be put as per Schedule III, Part I of the Companies Act, 2013.

(i) Long-term investments
(ii) Trade receivables
(iii) Motorcar
(iv) Discount on issue of shares
(v) Securities premium reserve
(vi) Unclaimed dividend

Answer:

Items	Major Heads
(i) Long-term investments	Non-current Assets
(ii) Trade receivables	Current Assets
(iii) Motorcar	Non-current Assets
(iv) Discount on issue of shares	Adjusted through Share Forfeiture A/c
(v) Securities premium reserve	Shareholders’ Funds
(vi) Unclaimed dividend	Current Liabilities

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ACCOUNTING RATIOS

Meaning:

A **ratio** is a mathematical number calculated as a reference to relationship of two or more numbers and can be expressed as a fraction, proportion, percentage and a number of times.

When the number is calculated by referring to two accounting numbers derived from the financial statements, it is termed as **accounting ratio**. It needs to be observed that accounting ratios exhibit relationship, if any, between accounting numbers extracted from financialstatements. Ratios are essentially derived numbers and their efficacy depends a great deal uponthe basic numbers from which they are calculated. Further, a ratio must be calculated usingnumbers which are meaningfully correlated.

Ratio analysis is a technique which involves regrouping of data by application of arithmetical relationships. Once done effectively, it provides a lot of information which helps the analyst:

Objectives of Ratio Analysis:

1. To know the areas of the business which need more attention;

2. To know about the potential areas which can be improved with the effort in the desired direction;

3. To provide a deeper analysis of the profitability, liquidity, solvency and efficiency levels inthe business;

4. To provide information for making cross-sectional analysis by comparing the performancewith the best industry standards; and

5. To provide information derived from financial statements useful for making projections and estimates for the future.

Advantages

1.Helps to understand efficacy of decisions: The ratio analysis helps to understand whether the business firm has taken the right kind of operating, investing and financing decisions. It indicates how far they have helped in improving theperformance.

2. Simplify complex figures and establish relationships: Ratios help in simplifying the complex accounting figures and bring out their relationships. They help summarise the financial information effectively and assess the managerial efficiency, firm’s creditworthiness, earning capacity, etc.

3. Helpful in comparative analysis: The ratios are not be calculated for one year only. When many year figures are kept side by side, they help a great deal in exploring the trends visible in the business.The knowledge of trend helps in making projections about the business which is a very useful feature.

4. Identification of problem areas: Ratios help business in identifying the problem areas as well as the bright areas of the business. Problem areas would need more attention and bright areas will need polishing to have still better results.

5. Enables SWOT analysis: Ratios help a great deal in explaining the changes occurring in thebusiness. The information of change helps the management a great deal in understanding the current threats and opportunities and allows business to do its own SWOT (Strength-Weakness-Opportunity-Threat) analysis.

6. Various comparisons: Ratios help comparisons with certain bench marks to assess as to whether firm's performance is better or otherwise. For this purpose, the profitability, liquidity, solvency, etc.,of a business, may be compared: (i) over a number of accounting periods with itself (Intra-firmComparison/Time Series Analysis), (ii) with other business enterprises (Inter-firm Comparison/Cross-sectional Analysis) and (iii) with standards set for that firm/industry (comparison with standard(or industry expectations)

Types of Ratios

1. Liquidity Ratios: To meet its commitments, business needs liquid funds. The ability of the business to pay the amount due to stakeholders as and when it is due is known as liquidity, and the ratios calculated to measure it are known as 'Liquidity Ratios'. These are essentially short-term in nature.

2. Solvency Ratios: Solvency of business is determined by its ability to meet its contractual obligations towards stakeholders, particularly towards external stakeholders, and the ratios calculated to measure solvency position are known as'Solvency Ratios'. These are essentially long-term in nature

3. Activity (or Turnover) Ratios: This refers to the ratios that are calculated formeasuring the efficiency of operations of business based on effective utilisation of resources. Hence, these are also known as 'Efficiency Ratios'.

4. Profitability Ratios: It refers to the analysis of profits in relation to revenue fromoperations or funds (or assets) employed in the business and the ratios calculated tomeet this objective are known as 'Profitability Ratios'.

(1)Liquidity Ratios:

(a) Current Ratio

Current Ratio = Current Assets : Current Liabilities or Current Assets / Current Liabilities

Current assets include current investments, inventories, trade receivables (debtors and bills receivables), cash and cash equivalents, short-term loans and advances and other current assets such as prepaid expenses, advance tax and accrued income, etc.

Current liabilities include short-term borrowings, trade payables (creditors and bills payables), other current liabilities and short-term provisions

(b) Quick Ratio/Liquid Ratio

It is the ratio of quick (or liquid) asset to current liabilities. It is expressed as Quick ratio = Quick Assets: Current Liabilities or Quick Assets / Current Liabilities

(2) Solvency Ratios

(a) Debt-Equity Ratio:

Debt-Equity Ratio measures the relationship between long-term debt and equity. If debt component of the total long-term funds employed is small, outsiders feel more secure.

Debt-Equity Ratio = Long term Debts / Shareholders' Funds

Where: Shareholders’ Funds (Equity) = Share capital + Reserves and Surplus + Money received against share warrants

Share Capital = Equity share capital + Preference share capital

Or

Shareholders’ Funds (Equity) = Non-current assets + Working capital − Non-current liabilities

Working Capital = Current Assets − Current Liabilities

(b) Total Assets to Debt Ratio

This ratio measures the extent of the coverage of long-term debts by assets

Total assets to Debt Ratio = Total assets/Long-term debts

(c) Proprietary Ratio:

Proprietary ratio expresses relationship of proprietor’s (shareholders) funds to net assets and is calculated as follows:

Proprietary Ratio = Shareholders, Funds / Capital employed (or net assets)

Significance: Higher proportion of shareholders’ funds in financing the assets is a positive feature as it provides security to creditors. This ratio can also be computed in relation to total assets instead of net assets (capital employed)

(d) Interest Coverage Ratio:

It is a ratio which deals with the servicing of interest on loan. It is a measure of security of interest payable on long-term debts. It expresses the relationship between profits available for payment of interest and the amount of interest payable.

It is calculated as follows:

Interest Coverage Ratio = Net Profit before Interest and Tax / Interest on long-term debts

Significance: It reveals the number of times interest on long-term debts is covered by the profits available for interest. A higher ratio ensures safety of interest on debts.

(e) The debt-to-capital employed ratio :

It is a measurement of a company's financial leverage. The debt-to-capital ratio is calculated by taking the company's interest-bearing debt, both short- and long-term liabilities and dividing it by the total capital.

Debt-to-Capital Ratio = Debt / Debt + Shareholder’s Equity

(3) Activity (or Turnover) Ratios

These ratios indicate the speed at which, activities of the business are being performed. The activity ratios express the number of times assets employed. Higher turnover ratio means better utilisation of assets and signifies improved efficiency and profitability, and as such is known as efficiency ratios.

(a) Inventory Turnover Ratio: It determines the number of times inventory is converted into revenue from operations during the accounting period under consideration. It expresses the relationship between the cost of revenue from operations and average inventory

The formula for its calculation is as follows:

Inventory Turnover Ratio = Cost of Revenue from Operations / Average Inventory

(b) Trade Receivables Turnover Ratio:

It expresses the relationship between credit revenue from operations and trade receivable.

It is calculated as follows:

Trade Receivable Turnover ratio = Net Credit Revenue from Operations / Average Trade

Receivable

Where Average Trade Receivable = (Opening Debtors and Bills Receivable + Closing Debtors and Bills Receivable)/2

(c) Trade Payable Turnover Ratio:

Trade payables turnover ratio indicates the pattern of payment of trade payable. As trade payable arise on account of credit purchases, it expresses relationship between credit purchases and trade payable.

It is calculated as follows:

Trade Payables Turnover ratio = Net Credit purchases / Average trade payable

Where, Average Trade Payable = (Opening Creditors and Bills Payable + Closing Creditors and Bills Payable)/2

Average Payment Period = No. of days/month in a year ÷Trade Payables Turnover Ratio

(d) Working Capital Turnover Ratio: It reflects relationship between revenue from

operations and net assets (capital employed) in the business. Working capital turnover ratio = Net Revenue from Operation / Working Capital

(e)The Fixed Asset Turnover ratio:

It reveals how efficient a company is at generating sales from its existing fixed assets. A higher ratio implies that management is using its fixed assets more effectively. A high FAT ratio does not tell anything about a company's ability to generate solid profits or cash flows.

Fixed Asset Turnover Ratio = Revenue from operations / Net Fixed Assets

or

Fixed Asset Turnover =

Revenue from operations / (Gross Fixed Assets – Accumulated Depreciation)

(f) Net Asset Turnover ratio:

The asset turnover ratio measures the efficiency of a company's assets in generating revenue or sales. It shows the efficiency of a company to convert its assets into sales. As asset turnover is calculated as net sales of a percentage of assets, it shows how much sales have been made for each rupee of assets.

Revenue from operations / net Assets or capital employed

4) Profitability Ratios

Profitability ratios are calculated to analyse the earning capacity of the business which is the outcome of utilisation of resources employed in the business. There is a close relationship between the profit and the efficiency with which the resources employed in the business are utilised.

(a) Gross Profit Ratio: Gross profit ratio as a percentage of revenue from operations is computed to have an idea about gross margin. It is computed as follows: Gross Profit Ratio = Gross Profit / Net Revenue of Operations × 100

(b) Operating Ratio: It is computed to analyse cost of operation in relation to revenue from operations.

It is calculated as follows:

Operating Ratio = (Cost of Revenue from Operations + Operating Expenses)/ Net Revenue from Operations × 100

(c)Operating Profit Ratio

It is calculated to reveal operating margin. It may be computed directly or as a residual of operating ratio. It is calculated as under:

Operating Profit Ratio = Operating Profit/ Revenue from Operations × 100

Where, Operating Profit = Revenue from Operations − Operating Cost

(**d) Net Profit Ratio**: It relates revenue from operations to net profit after operational as well as non-operational expenses and incomes.

It is calculated as under:

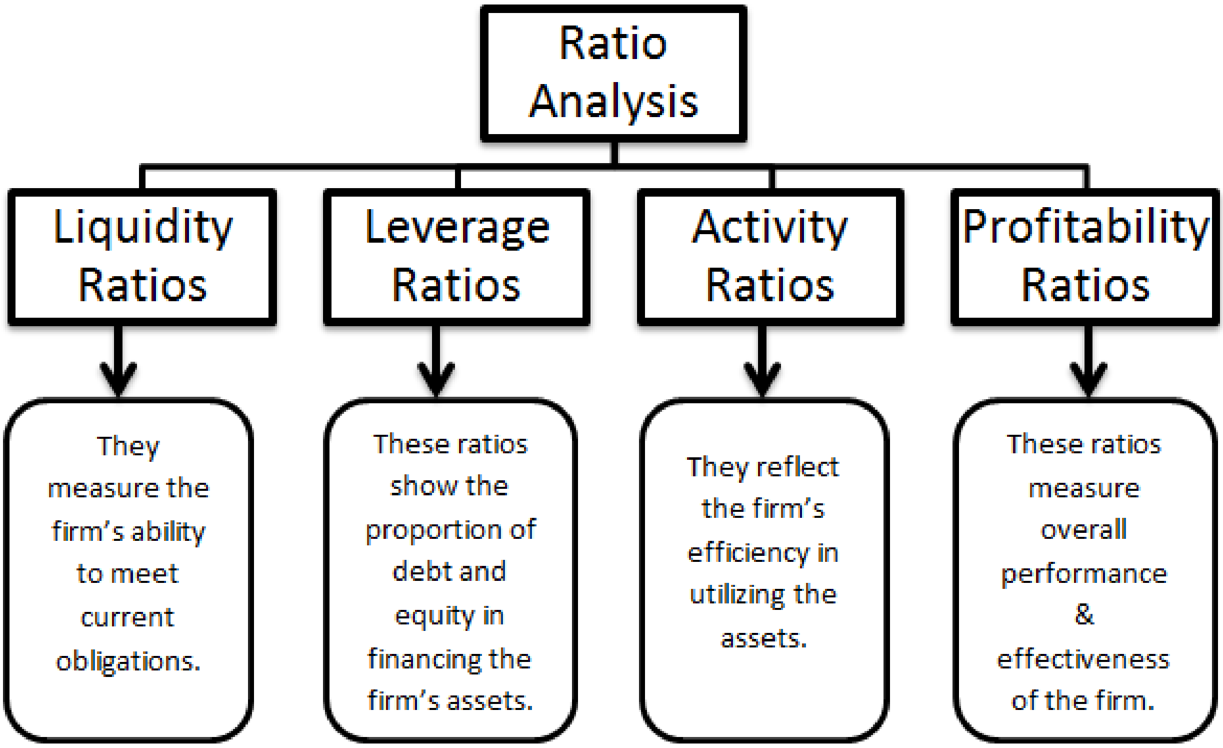
Net Profit Ratio = Net profit / Revenue from Operations × 100

(e) Return on Capital Employed or Investment: Capital employed means the long-term funds employed in the business and includes shareholders' funds, debentures and long-term loans.

Capital employed may be taken as the total of non-current assets and working capital. Profit refers to the Profit before Interest and Tax (PBIT) for computation of this ratio.

Thus, it is computed as follows:

Return on Investment (or Capital Employed) = Profit before Interest,dividend and Tax / Capital Employed × 100


Ratio Analysis
Liquidity Ratios
Leverage Ratios
Activity Ratios
Profitability Ratios
They measure the firm's ability to meet current obligations.
These ratios show the proportion of debt and equity in financing the firm's assets.
They reflect the firm's efficiency in utilizing the assets.
These ratios measure overall performance & effectiveness of the firm.

Questions

1.	Which ratio indicates the proportion of assets financed out of shareholders' funds? (a)Debtequityratio (b)Fixed assets turnover ratio (c) Proprietary ratio (d) Total assets to debt ratio
2.	Higher the ratio, lower the profitability, is applicable to: (a) Gross Profit Ratio (b) Operating Ratio (c) Net Profit Ratio (d) EPS
3.	Ifthereisrevenuefromoperations1,20,000and gross profit is 20% of cost, then the amount of gross profit will be: (a)Rs.20,000(bRs.50,000(c)Rs.40,000 (d)Rs.60,000
4.	If there are credit revenue from operationsRs.9,00,000, billreceivablesRs.1,50,000 in a year, then Trade Receivables turnover ratio will be: (a) 3times (b) 9times (c) 6times (d) 12times
5.	There are current assets Rs.5,00,000 and current liabilities Rs.3,00,000 of a firm. Managerswishtomakecurrentratio2:1. State the current liabilities to be paid: (a) Rs.50,000 (b)Rs.1,50,000 (c)Rs.1,00,000 (d)Rs.2,00,000
6.	If there are opening inventory Rs.60,000, closing inventory Rs.30,000, cost of revenue operations Rs.3,60,000, then inventory turnover ratio will be: (a) 2 times (b) 6 times (c) 4 times (d) 8 times
7.	If there are credit revenue from operations Rs.12,00,000, Trade Receivables turnover ratio 6 times and Opening Trade Receivables Rs.1,60,000, then the amount of Closing Trade Receivables will be: (a) Rs.1,60,000 (b) Rs.2,40,000 (c) Rs.2,00,000 (d) Rs.3,00,000
8.	When debentures are redeemed, what will be its impact on debt-equity ratio? (a) Debt-equity ratio increases (b) Debt-equity ratio decreases (c) There will be no change on debt-equity

ratio (d)none of these

9. Net profit after interest but before tax 3,50,000, 15% long-term debts 10.00.000 Capital Employed 12,50,000. Return on Capital employed will be

(a) 60%

(b) 40%

(c) 80%

(d) 20%

10. If Total sales are Rs.2,50,000 and credit sales are 25% of Cash sales. The amount of credit sales is:

(a) 50,000

(b) 2,50,000

(c) 16,000

(d) 3,00,000

ANSWERS

1.	(c) Proprietary ratio
2.	(b)Operating Ratio
3.	(a)Rs.20,000
4.	(c)6times
5.	(c)Rs.1,00,000
6.	(d)8times
7.	(b)Rs.2,40,000
8.	(b)Debt-equity ratio decreases
9.	(b)40%
10.	(a)50,000

	ASSERTION- REASON BASED QUESTIONS
1	- **Assertion (A):** Accounting ratio is an arithmetic relationship between - two independent variables. - **Reason (R):** Accounting ratios can be expressed in pure form, percentage, times or fraction. a) Both A and R are correct b) A is correct, but R is wrong c) A is wrong, but R is correct **d)** Both A and R are wrong
2	- **Assertion (A):** Ratio analysis helps to simplify accounting information for various users. - **Reason (R)**: Various types of ratios helps to make comparative analysis. a) Both A and R are correct b) A is correct, but R is wrong c) A is wrong, but R is correct **d)** Both A and R are wrong
3	- **Assertion (A):** An ideal current ratio of 2: 1 indicates good financial health of a company. - **Reason (R)**: Increased current ratio is an indicator of ideal funds. a) Both A and R are correct b) A is correct, but R is wrong c) A is wrong, but R is correct **d)** Both A and R are wrong
4	- **Assertion (A):** An ideal quick ratio is 1: 1. - **Reason (R)** : Quick asset does not include inventory. a) Both A and R are correct b) A is correct, but R is wrong c) A is wrong, but R is correct **d)** Both A and R are wrong
5	- **Assertion (A):** A lower trade receivables turnover ratio is preferred by company. - **Reason (R)** : Trade receivables turnover ratio is an indicator of how promptly company collects its debts. a) Both A and R are correct b) A is correct, but R is wrong c) A is wrong, but R is correct **d)** Both A and R are wrong

Answer

1.	c
2.	a
3.	b
4.	b
5.	c

CASE BASED QUESTIONS

1 Read the following and answer the questions give below:

	2019-20	2020-21
	Rs.	Rs.
Inventory on 31st March	7,00,000	17,00,000
Revenue from Operations	50,00,000	75,00,000

Gross profit 25% on cost of revenue from operations

In the year 2019-20, inventory increased by Rs.2,00,000

Calculate inventory turnover ratio for the year 2019-20?

i) 6.07 times
ii) 6.67 times
iii) 5 times
iv) 8.33 times

Find cost of revenue from operations for the year 2020-21?

i) Rs. 40,00,000
ii) Rs. 50,00,000
iii) Rs. 75,00,000
iv) Rs. 60,00,000

Inventory turnover ratio is a part of

i) Solvency ratio
ii) Liquidity ratio
iii) Activity ratio
iv) Profitability ratio

Which years inventory ratio is better for the above firm?

i) 2019-20
ii) 2020-21
iii) Both are equal
iv) Neither 2019-20 nor 2020-21

2 Read the following and answer the questions give below

Particulars	Rs.
Opening Inventory	3,20,000
Closing inventory	4,00,000
Purchase	14,00,000
Wages	3,70,000
Carriage inwards	1,50,000
Administrative expenses	80,000
Selling expenses	40,000
Income tax	1,00,000
Profit on sale of fixed asset	20,000
Revenue from operations (sales)	24,00,000

Find operating ratio?

i) 60%
ii) 81.66%
iii) 66.6%
iv) 72%

How much is the operating profit ratio?

i) 18.34%
ii) 24%
iii) 20%
iv) 30%

How much should be total of operating ratio and operating profit ratio?

i) They are not related to each other.
ii) Total can be any value.
iii) 100%
iv) 120%

What is the amount of net profit?

i) Rs. 4,00,000
ii) Rs. 4,60,000
iii) Rs. 3,80,000
iv) Rs. 5,00,000

3 Cash revenue from Operations Rs. 1,00,000; Credit Revenue from Operations Rs. 3,00,000. Gross profit 30% on Revenue from Operations; Inventory turnover Ratio = 2

	times. If the opening Inventory is 75% of Closing Inventory and Closing Inventory is 30% of Revenue from Operations
	Calculate the cost of Revenue from Operations? i) Rs. 3,00,000 ii) Rs. 1,20,000 iii) Rs. 4,00,000 iv) Rs. 2,80,000
	Find Average Inventory? i) Rs. 2,00,000 ii) Rs. 60,000 iii) Rs. 1,05,000 iv) Rs. 1,50,000
	What is effect of increase in value of closing inventory by Rs. 20,000, If the inventory turnover ratio is three times? i) Increase ii) Decrease iii) Neither increase nor decrease iv) May or may not increase
	Find the opening inventory and closing inventory if opening inventory is 75% of closing inventory and closing inventory is 30% of revenue from operations. i) Rs. 90,000 &Rs. 1,20,000 ii) Rs. 1,20,000 &Rs. 90,000 iii) Rs. 3,00,000 &Rs. 1,00,000 iv) Rs. 1,00,000 &Rs. 2,00,000
4	Read the following and answer the questions give below: Cost of Revenue from Operations - Rs. 3,00,000 Opening Debtors - Rs. 50,000 (Cost of Goods Sold) Closing Debtors - Rs. 1,00,000 Gross Profit on Cost – 25% Opening Creditors- Rs. 1,20,000 Cash Sales – 20% of Total Sales Closing Creditors - Rs. 1,60,000 Total Purchases Rs. 8,50,000

Cash Purchases	Rs. 1,00,000
Purchase Return	Rs. 50,000

How much is Credit Revenue from Operations?

i) Rs. 3,75,000
ii) Rs. 3,00,000
iii) Rs. 1,50,000
iv) Rs. 75,000

Find Average Collection Period?

i) 3 months
ii) 4 months
iii) 2 months
iv) 3.5 months

Find Trade Payable Turnover Ratio?

i) 6.5 times
ii) 5.5 times
iii) 5 times
iv) 5.25 times

Calculate Average Payable Period?

i) 56 days
ii) 73 days
iii) 66 days
iv) 69 days

5 Read the following and answer the questions give below:

	Amount Rs.
Plant & Machinery	10,00,000
Land & Building	6,00,000
Motor Car	3,70,000
Furniture	1,50,000
Stock	4,50,000
Debtors	90,000
Cash at Bank	3,40,000
Non-Current Liabilities	10,00,000
Current Liabilities	6,20,000

Calculate Proprietary Ratio?

i) 0.33
ii) 0.46
iii) 0.67
iv) 0.51

How much is the Total Assets?

i) Rs. 21,00,000
ii) Rs. 26,60,000
iii) Rs. 30,00,000
iv) Rs. 25,30,000

What is effect of Issue of new equity shares against purchase of machinery, when proprietary ratio is 0.6 : 1?

(i) Increases

(ii) Decreases

(iii) No change

(iv) None of the above

proprietary ratio indicates the proportion of total assets funded by __________.

i) Creditors
ii) Borrowed funds
iii) Share Holders funds
iv) Total debts

Answers

1	1. (ii) 2. (iv) 3. (iii) 4. (i)
2	1. (ii) 2. (i) 3. (iii) 4. (ii)
3	1. (iv) 2. (iii) 3. (ii) 4. (i)
4	1. (ii) 2.(i) 3. (iii) 4. (ii)
5	1. (ii) 2. (iii) 3. (i) 4.(iii)

Short Answer Type Questions

1 From the following details obtained from the financial statements of Jeev Ltd., Calculate interest Coverage ratio:

Net Profit after tax 1,20,000 12% Long-term Debt 20,00,000

Tax rate 40%

2 Calculate Inventory or Stock Turnover Ratio from the following information: Revenue from Operations Rs.2,50,000, Gross Profit 61,000, Inventory in the beginning of the year 75,000, Inventory at the end of the year 10,000.

3. From the following details, Calculate Return on Investment: Gross Profit 1,00,000; Office and Administrative Expenses 20,000, Selling and Distribution Expenses 15,000, Interest on Long-term Borrowings 8,000; Tax 12,000; Fixed Assets 3,00,000;

	Current Assets 150000, and Current Liabilities Rs.1,25,000. Accounting Ratios
4	Average Inventory carried by a trader is 1,38,000. Stock Turnover Ratio is 9 times. Goods are sold at a profit of 20% on cost. Find out the profit.
5	Compute the Gross Profit Ratio from the following information: Revenue from Operations is Rs.4,00,000; Gross Profit is 25% on cost of revenue from operations
6	X Ltd., has a current ratio of 3.5 : 1 and quick ratio of 2 : 1. If excess of current assets over quick assets represented by inventories is Rs. 24,000, calculate current assets and current liabilities.
7	Given the following information: Revenue from Operations 3,40,000 Cost of Revenue from Operations 1,20,000 Selling expenses 80,000 Administrative Expenses 40,000 Calculate Gross profit ratio and Operating ratio.
8	The current ratio of a company is 2.5:1. Which of the following transactions would improve, reduce and not change it: (i) Purchase of goods on credit. (ii) Sale of goods costing 10,000 for 12,000 on credit. (iii) Selling a fixed asset at loss. (iv) Purchase of goods for cash. (v) Payment to trade creditors. (vi) Borrowing money on a promissory note (B/P).
9	From the following, ascertain Debt to Equity Ratio: Equity Share Capital 2,00,000, General Reserve 1,50,000, 10% Debentures 1,50,000, Current Liabilities 1,00,000.
10	Calculate Proprietary Ratio, if Total assets to Debt ratio is 2:1. Debt is 5,00,000. Equity Share Capital is 0.5 times of debt. Preference Share Capital is 25% of Equity Share Capital Net profit before tax is 10,00,000 and rate of tax is 40%
11	Opening Inventory 25,000, Closing Inventory 35,000, Revenue from Operations 3,20,000, Gross Profit Ratio 25% on revenue from operations. Calculate (i) Inventory Turnover Ratio, (ii) Average Age of Inventory.
12.	From the details given below, calculate following ratios: Current Ratio, (ii) Quick Ratio, (iii) Working Capital Turnover Ratio Trade Receivables 4,00,000, Inventory Rs.1,60,000, Marketable Securities 80,000, Cash 1,20,000, Prepaid Expenses 40,000, Bills Payable 80,000, Sundry Creditors Rs.1,60,000, Debentures 2,00,000, Expenses Payable Rs.1,60,000, Revenue from Operations 20,00,000
13	The following information is provided to you: Share Capital 90,000, General Reserve 50,000, 12% Loan from Bank Rs.80,000, Revenue from Operations for the year 1,50,000, Tax paid during the year 25,000, Profit after interest and tax 60,000. From the above information, calculate the following ratios: (a) Debt to Equity Ratio

	(b) Interest Coverage Ratio

Answers

1	N/P before tax=120000x100/60=200000 Add.Intereston12%long term debt(12/100x2000000)=240000Profitbefore interest and tax=440000, ICR=4,40,000/2,40,000=1.83 Times
2	Cost of Revenue from operations =2,50,000-61,000=1,89,000 Average Inventory=75000+10000/2=42500 ITR=189000/42500=4.45times
3.	Profit before Interest and Tax=100000-20000-15000=325000Capitalemployed=300000+150000-125000=325000 ROI=65000/325000x100=20%
4	Profit =248400
5	GP =400000x25/100=80000 GP Ratio=80000/400000x100=20%
6	Solution: Current Ratio=3.5 :1 Quick Ratio =2:1LetCurrentliabilities =x Current assets=3.5xandQuick assets = 2x Inventories = Current assets − Quick assets24,000=3.5x−2x 24,000=1.5x Current Liabilities=Rs. 16,000 Current Assets=3.5x=3.5 ×Rs.16,000=Rs.56,000.
7	Solution: Gross Profit=Revenue from Operations−Cost of Revenue from Operations =Rs.3,40,000 −Rs.1,20,000=Rs.2,20,000 Gross Profit Ratio=Gross Profit/Revenuefromoperation×100 = Rs.2,20,000/Rs.3,40,000×100=64.71% Operating Cost=Cost of Revenue from Operations +Selling Expenses +Administrative Expenses = Rs.1,20,000+ 80,000+40,000= Rs.2,40,000 Operating Ratio=Operating Cost/NetRevenuefromOperations×100 =Rs.2,40,000/Rs.3,40,000x100=70.59%
8	(i)Reduce (ii)Improve (iii)Improve (iv)No Change (v)Improve (vi)Reduce
9	Debt to Equity Ratio -; Debt = 10% Debentures = 1,50,000 Equity= Equity Share Capital +General Reserve

	= 2,00,000+1,50,000= 3,50,000 1,50,000/350000=0.43:1
10	Total debts=debts x 2500000x 2- 10,00,000 500000x.05+ 500000x0.5x25%+1000000-40%of1000000= 912500/1000000=0.912:1
11	Costofrevenuefromoperations=320000-25%of320000=240000Averageinventory=25000+35000/2=30000 ITR=240000/30000=8times Average age of inventory=365/8=46days
12.	Currentratio=400000+160000+80000+120000+40000/80000+160000+160000 =800000/400000=2:1 Quick ratio=600000/400000=1..5:1 WCTR=2000000/400000=5 times
13	(a) Debt to Equity Ratio=0.4:1 (b) Interest Coverage Ratio=9.85times

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COMPARATIVE STATEMENTS & COMMON SIZE STATEMENTS

MEANING OF COMPARTIVE STATEMENTS:

- These are the statements showing the profitability and financial position of a firm for different periods of time in a comparative form to give an idea about the position of two or more periods.
- The financial data will be comparative only when same accounting principles are used in preparing these statements.
- Comparative figures indicate the trend and direction of financial position and operating results.
- This analysis is also known as **'HORIZONTAL ANALYSIS'**

PURPOSE/UTILITY OR IMPORTANCE OF COMPARATIVE STATEMENTS

- To make the data simpler and more understandable.
- To indicate the trend.
- To indicate the strong points and weak points of the concern.
- To compare the firm's performance with the average performance of the industry.
- To help in forecasting.

TYPES OF COMPARATIVE STATEMENTS:

- **C**omparative Statement of Profit &Lossor Income Statement.
- Comparative Balance sheet.

FORMAT OF COMPARATIVE STATEMENT OF PROFIT &LOSS.

Comparative statement of Profit & Loss
for the year ended ……………

Particulars (1)	Note No. (2)	Previous year (Rs) (3)	Current year (Rs) (4)	Absolute Change (Increase/ decrease) (Rs) (5)	% of change (Increase /decrease) (%) (6)
I .Revenue from operation II. Other Income III. Total Revenue (I+II) IV. Expenses : (a). cost of material consumed (b). purchase of stock in trade (c). change in inventories of finished goods, work in progress and stock in trade. (d). Employees benefit expenses. (e). finance cost (f). Depreciation and amortization (g) other expenses Total expenses v. Profit before tax (III--IV) Less : Income Tax VI. Profit after tax					

COMPARTIVE BALANCE SHEET

Meaning: comparative balance sheet is the horizontal analysis of balance sheet. It analyses each item of assets, equity and liabilities for two or more accounting periods, so that changes in absolute amounts and percentages may be known.

FORMAT OF COMPARATIVE BALANCE SHEET

COMPARATIVE BALANCE SHEET

AS AT……………..

Particulars (1)	Note No. (2)	Previous Year (Rs) (3)	Current Year (Rs) (4)	Absolute change (Increase/decrease) (Rs) (5)	% change (%) (6)
I . EQUITY & LIABILITIES					
1. Shareholder's Funds					
i. Share capital					
a. Equity share capital					
b. Preference share capital					
ii. Reserves & Surplus					
2. Non – Current Liabilities					
a. Long term borrowings					
b. Long term Provisions					
3. Current Liabilities					
a. Short term borrowings					
b. Trade payables					
c. Other current liabilities					
d. Short term provisions					
Total					
II. Assets :					
1. Non- Current Assets					
Property, Plant and Equipment					
a. Tangible assets					
b. Intangible assets					
i. Non- current Investments					
ii. Long term loans & advances					
2. Current Assets					
i. Current investments					
ii. Inventories					
iii. Trade receivables					
iv. Cash & cash equivalents					
v. Short loans & advances					
vi. Other current assets					
Total					

Multiple Choice Questions:

1. Which of the following is the objective of comparative statements?
   a. To make the data simpler and understandable
   b. To indicate the trend
   c. To help in forecasting
   d. All of the above.

   Answer: (d) all of the above

2. Fixed assets of a company increased from Rs.3,00,000 to Rs.4,00,000. What is the percentage of change?
   a. 25%
   b. 33.3%
   c. 20%
   d. 40%

   Answer: (b) 33.33%

3. Comparative statement of profit & Loss provides information about:
   a. Rate of increase or decrease in Revenue from operations
   b. Rate of increase or decrease in cost of revenue from operations
   c. Rate of increase or decrease in net profit.
   d. All of the above.

   Answer: (d) all of the above

4. Comparative Balance sheet:
   a. Provides a summarized view of the operations of the firm
   b. Presents the financial position of the firm.
   c. Presents the change in various items of balance sheet .
   d. None of the above.

   Answer: (c) presents the change in various items of balance sheet

5. A company's working capital is Rs 10,00,000 (Negative balance) in the year 2022. It became Rs.15,00,000 (positive balance) in the year 2023. What is the percentage of change ?
   a. 150%
   b. 100%
   c. 250%
   d. 50%

   Answer: (c) 250%

6. Revenue from operations Rs,4,00,000. Cost of revenue from operations 60% of Revenue from operations; operating expenses Rs 30,000 and rate of income tax is 40% .what will be amount of profit after tax?
   a. Rs 64,000
   b. Rs 78,000
   c. Rs 52,000
   d. Rs 96,000

Answer:(c) Rs.78,,000.

7. Which objective is not fulfilled by comparative statement of profit & Loss:
    a. To compare the items of statement of profit & loss of two years
    b. To know the absolute changes in items of statement of profit & loss
    c. To show the change in financial position
    d. To know the percentage changes in items of statement of profit &loss

Answer: (c) To show the change in financial position.

8. Which of the following is device of comparative statement?
    a. Comparison expressed in terms of absolute data
    b. Comparison expressed in terms of percentage
    c. Comparison expressed in terms of ratios
    d. All of the above.

Answer: (d) all of the above

9. A company's current liability decreased from Rs.4,00,000 to Rs.3,00,000. What is the percentage of change?
    a. (25 %)
    b. 33.33%
    c. 20%
    d. 25%

Answer: (a) (25)%

10. In comparative statements change in different items is presented in the form of ………
    a. Percentages
    b. Money values
    c. Both percentages and Money values
    d. None of the above.

Answer: (c) Both percentage and Money value.

State whether the following statements are true or false:

11. Comparative statements are helpful in indicating the trend of changes,

Answer: True

12. By deducting previous year's figures from current year's figures we ascertain absolute change.

    Answer: True

13. Comparative balance sheet presents the changes in various items of assets and liabilities.

Answer: True

14. Comparative statement of profit and loss shows the changes in financial position.

Answer: false

15. If a firm has no interest income in previous year and Rs 5,000 of interest income in the following

Year the percentage change will be 100%.

Answer: false

Fill in the Blanks:

16. A comparative balance sheet shows the increase or decrease in various assets, liabilities and ……….

Answer: capital

.17. Horizontal analysis is also called…………analysis.

Answer: Dynamic

18.A comparative statement of profit & loss aims to measure increase or decrease in incomes and

expenses in terms of rupees as well as in ………………..

Answer: percentage

19. If other income is Rs 4000 in the year 2023 and Nil in the year 2024, then their percentage

Change will be………..

Answer: (100%)

20. If other expenses is NIL in the year 2023 and Rs 4,000 in the year 2024 percentage change will

be ----------------

Answer: NIL

COMPETENCY BASED QUESTIONS:

Fill in the Blanks:

21.

	2022-2023 (Rs)	2023-2024 (Rs)	Absolute change (Rs)	Percentage change (%)
Revenue from operations	?	?	3,00,000	20

Answer: 2022-2023 Rs.15,00,000 , 2023-2024,Rs.18,00,000

22.

	2022-2023 (Rs)	2023-2024 (Rs)	Absolute change (Rs)	Percentage change (%)
Other income	?	2,00,000	?	(50)

Answer: 2022-2023, Rs.4,00,000, Absolute change Rs.(2,00,000)

23.

	2023-2024 (Rs)	2024-2025 (Rs)	Absolute change (Rs)	Percentage change (Rs)
Purchase of stock in trade	?	1,00,000	?	(80)

Answer: 2023-2024 Rs. 5,00,000 , Absolute change Rs.(4,00,000).

24.

	2022-2023 (Rs)	2023-2024 (Rs)	Absolute change (Rs)	Percentage change (%)
Change in inventory	?	?	(20,000)	(50)

Answer: 2022-2023, Rs.40,000, 2023-2024 Rs. 20,000.

25.

	2023-2024 (Rs)	2024-2025 (Rs)	Absolute change (Rs)	Percentage change (Rs)

Other income	5,00,000	?	?	30

Answer: 2024-20245, Rs. 6,50,000, Absolute change Rs.1,50,000.

ASSERTION – REASON QUESTIONS :

26. Assertion (A):

When financial statements figures for two or more years are placed side –by-side to facilitate comparison, these are called ‘comparative financial statements’

Reason (R):

In order to estimate the future progress of a firm, it is essential to make comparative study of its financial statements for two or more years.

In the context of the above two statements, which of the following is correct?

(A) Assertion(A) and Reason (R) are correct, but Reason (R) is not the correct explanation of Assertion (A)
(B) Assertion (A) and Reason (R) are correct, Reason (R) is the correct explanation of Assertion (A)
(C) Only Assertion (A) is correct.
(D) Assertion (A) is not correct but the Reason (R) is correct

Answer: (B).

27. Assertion (A): comparative financial statements help management to find out the reasons for the weaknesses of the firm and helps to take corrective measures.

Reason (R) : comparative financial statements indicates the strength and weaknesses of the firm.

In the context of the above two statements, which of the following is correct?

(A) Assertion (A) and Reason (R) are correct, but Reason (R) is not the correct explanation of Assertion (A)
(B) Assertion (A) and Reason (R) are correct, Reason (R) is the correct explanation of Assertion (A)
(C) Only Assertion (A) is correct.
(D) Assertion (A) is not correct but the Reason (R) is correct.

Answer: (B)

28. Assertion (A): comparative financial statements are also known as inter- period comparison or intra-firm comparison.

Reason (R): Inter-firm comparison means comparison of financial statements of two or more enterprises for the same accounting period.

In the context of the above two statements, which of the following is correct?

(A) Assertion (A) and Reason (R) are correct, but Reason (R) is not the correct explanation of Assertion (A)
(B) Assertion (A) and Reason (R) are correct, but Reason (R) is the correct explanation of Assertion (A)
(C) Only Assertion (A) is correct.
(D) Assertion (A) is not correct but the Reason (R) is correct.

Answer: (A)

29. Assertion (A): A comparative balance sheet is not useful in comparison to a single year's balance

Sheet.

Reason (R): A single year's balance sheet shows only the balances of accounts on a particular date.

In the context of the above two statements, which of the following is correct?

(A) Assertion (A) and Reason (R) are correct, but Reason (R) is not the correct explanation of Assertion (A)
(B) Assertion (A) and Reason (R) are correct, Reason (R) is the correct explanation of Assertion (A)
(C) Only Assertion (A) is correct.
(D) Assertion (A) is not correct but the Reason (R) is correct

Answer: (D)

30. Assertion (A): comparative statement of profit and Loss analyze the increase or decrease in the profits of the enterprise.

Reason (R): statement of profit and loss shows the net profit or net loss of that year.

In the context of the above two statements, which of the following is correct?

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

(B) Assertion (A) and Reason (R) are correct, Reason (R) is the correct explanation of Assertion (A)

(C) Only Assertion (A) is correct.

(D) Assertion (A) is not correct but the Reason (R) is correct.

Answer; (A)

31. Match column I with column II and select the correct answer using the codes given below the lists:

I .Revenue from operations increased from Rs 20,00,000 to Rs 25,00,000	a. percentage change +33.33%
II . Other expenses for the year 2023-24 Rs 2,50,000 and for 2024-2025 Rs 1,50,000	b. Percentage change (-) 40%
III. Other income for 2023-2024 Rs.5,00,000 and for 2024-2025 Rs 1,00,000	c. percentage change +25%
IV. Cost of materials consumed for 2023-2024 Rs 12,00,000 and for 2024-2025 Rs 16,00,000	d. percentage change (-) 80 %

a. I- (d), II-(a), III- (b), IV- (c)
b. I-(c) , II- (b), III- (a), IV- (d)
c. I- (b), II- (a), III- (d), IV- (c)
d. I- (c), II- (b), III-(d), IV- (a).

Answer: (d)

32.. Match column I with column II and select the correct answer using the codes given below the lists:

I. share capital for 2020-2021 Rs 20,00,000 and for 2021-2022 Rs 25,00,000.	a. percentage change +110 %
II. Trade payables for 2020-2021 Rs 2,80,000 and for 2021-2022 Rs. 1,00,000.	b. percentage change+50%

III. Inventories increased from Rs.2,00,000 to Rs.3,00,000.	c. percentage change +25%
IV. Cash and Cash equivalents for 2020-2021 Rs 1,00,000 and for 2021-2022 Rs. 2,10,000.	d. percentage change (-)64.29%

a. I- (c), II-(d), III-(b), IV-(a)
b. I-(a), II-(b), III-(d), IV-(c)
c. I-(d), II-(b), III- (a), IV-(c)
d. I- (b), II-(a), III-(c), IV-(d)

Answer: (a)

CASE BASED QUESTIONS:

33.“ Malar consumer goods “ is a large and reputed company manufacturing consumer goods with a net work of many branches across all metropolitan cities. It was started by Aggarwal in 1987. It has a large market share in Delhi, Mumbai, Bangalore, Pune, Chennai, and Kanpur . Looking for an opportunity to expand , it has decided to open a new branch in Kerala. For the expansion purpose, the company requires funds of Rs 50,00,000. The finance manager, Atul was told to have an optimal capital structure by striking a balance between various sources of getting the project funded so as to increase shareholders’ wealth. Atul suggested to raise one-fourth of the required amount by issue of equity shares and remaining through debt

Capital. The board of Directors agreed the financial manager suggestion and company raised funds. The raised funds are utilized for opening branch in main city of Cochin in Kerala . After two years, the company was interested to expand branches in kerala , so they wanted to know the performance of the cochin branch in kerala. Mr. Atul was asked to make a comparative study of the financial statements for last years 2021-2022 and 2022-2023. The reason behind for the comparative study is to know the strength and weaknesses, and to make a forecasting of the company’s performance.

Mr.Atul presents the comparative statement of profit& loss of malar company and he required your help for find out missing figures.

Comparative statements of profit & loss of Malar company
For the year ended 31st March 2022 and 2023

Particulars	Note no	2021-2022 (Rs)	2022-2023 (Rs)	Absolute change (increase /decrease) (Rs)	Percentage Change (%)
1	2	3	4	5	6
I . Revenue from operations		20,00,000	25,00,000	?	?
II. Add, Other Income		5,00,000		(4,00,000)	?
III. Total revenue (I+II)				1,00,000	4
IV. less: Expenses:					
Employees benefits expenses		12,50,000	15,60,000	?	24.8
Other expenses		2,50,000	1,56,000	(94000)	?
Total Expenses		15,00,000	17,16,000	?	14,4
V. profit before tax (III-IV)		10,00,000	?	(1,16,000)	(11.6)
VI. less : Tax		4,00,000	4,42,000	?	10.5
VII. profit after tax		6,00,000	?	(1,58,000)	?

Answer: I. revenue from operation: absolute change Rs.5,00,000, percentage of change 25%.

II. Other income : 2022-2023 Rs.1,00,000, percentage of change (80 %).

III. Total Income: 2021-2022, Rs25,00,000, 2022-2023,Rs.26,00,000.

IV. Employee benefit expenses : absolute change RS. 3,10,000.

V. Other expenses: percentage of change (37.6)

VI. Total expenses absolute change 2,16,000.

VII. Profit before tax: 2022-2023 Rs. 8, 84,000

VIII. Tax: absolute change Rs.42, 000.

IX. Profit after tax: 2022-2023 Rs.4,42, 000, percentage change Rs.(26.33)

34..From the following balance sheets of Amol Ltd; as at 31st March 2022,and 2023. Prepare comparative balance sheet.

AMOL Ltd;

Balance Sheet as at 31stMarch , 2022 and 2023

Particulars	Note No.	31.3.2023 (Rs)	31.3.2022 (Rs)s

I Equity & Liabilities:			
1. Shareholder's funds			
(a) Share capital		21,00,000	20,00,000
(b)Reserves and Surplus		2,30,000	2,00,000
2. Non – Current Liabilities			
Long term Borrowings		5,60,000	2,00,000
3.Current Liabilities			
Trade Payables		2,80,000	1,00,000
Total		31,70,000	25,00,000
II. Assets:			
1.**Non – current Assets**			
Property, Plant and Equipments			
(i) Tangible Assets		21,00,000	20,00,000
(ii) Intangible Assets		3,00,000	2,00,000
2.**Current Assets**			
a. Inventories		5,60,000	2,00,000
b. Cash and cash equivalents		2,10,000	1,00,000
Total		31,70,000	25,00,000

Answer:

Comparative Balance sheet of AMOL Ltd;
As at 31st March 2022 and 2023.

Particulars	Note No.	31.3. 2022	31.3.2023	Absolute change (Increase/ Decrease)	Percentage of change(increase/ Decrease)
1	2	3	4	5	6
		A	B	(B-A)=C	C/A*100=D
I.EQUITY &LIABILITIES:		Rs	Rs	Rs	%
1. Shareholders' Funds:					
a. share capital		20,00,000	21,00,000	1,00,000	5
b. Reserves &Surplus		2,00,000	2,30,000	30,000	15
2. Non- Current Liabilities					
Long term borrowings		2,00,000	5,60,000	3,60,000	180
3. Current Liabilities					
Trade Payables		1,00,000	2,80,000	1,80,000	180
TOTAL		25,00,000	31,70,000	6,70,000	26.8
II.ASSETS:					
1.Non-current Assets					
Property, Plant and Equipment					
a. Tangible Assets		20,00,000	21,00,000	1,00,000	5
b. Intangible Assets		2,00,000	3,00,000	1,00,000	50
2.Current Assets					
a. Inventories		2,00,000	5,60,000	3,60,000	180
b. cash and cash equivalents		1,00,000	2,10,000	1,10,000	110

TOTAL		25,00,000	31,70,000	6,70,000	26.8

35.**From the following information , prepare comparative balance sheet of Anil Ltd;**

Particulars	31.3.2023	31.3.2022
Share capital	5,00,000	5,00,000
Reserve and surplus	6,00,000	3,00,000
Short term borrowings	6,35,000	4,50,000
Land and buildings	8,00,000	7,50,000
Plant & Machinery	3,15,000	2,50,000
Goodwill	---	50,000
Investments	60,000	50,000
Current assets	7,60,000	4,00,000
Long term borrowings	2,00,000	2,50,000

Answer:

Comparative Balance sheet of ANIL Ltd;
As at 31st March 2022 and 2023.

Particulars	Note No.	31.3. 2022	31.3.2023	Absolute change (Increase/ Decrease)	Percentage of change(increase/ Decrease)
1	2	3	4	5	6
		A	B	(B-A)=C	C/A*100=D
		Rs	Rs	Rs	%
I.EQUITY &LIABILITIES:					
1. Shareholders' Funds:					
a. share capital		5,00,000	5,00,000	---	---
b. Reserves &Surplus		3,00,000	6,00,000	3,00,000	100
2. Non- Current Liabilities					
Long term borrowings		2,50,000	2,00,000	(50,000)	(20)
3. Current Liabilities					
Trade Payables		4,50,000	6,35,000	1,85,000	41.11
TOTAL		15,,00,000	19,35,000	4,35,000	29.00
II.**ASSETS:**					
1.Non-current Assets					
a. Fixed Assets					
i.Tangible Assets		10,00,000	11,15,000	1,15,000	11.50
ii.Intangible Assets		50,000	----	(50,000)	(100)
b . Investments	1	50,000	60,000	10,000	20
2.**Current Assets**	2	4,00,000	,7,60,000	3,60,000	90
TOTAL		15,00,000	19,35,000	4,35,000	29

Notes:

1. Tangible Assets :	31.3.2022	31.3.2023
Land &Buildings	7,50,000	8,00,000
Plant & Machinery	2,50,000	3,15,00
	10, 00,000	11,15,000

2.Intangible Assets:		
Goodwill	50,000	-----.

36..**Following is the statement of profit &loss of Sonu Ltd; for the year ended 31st March 2011.**

Particulars	Note No.	31.3.2011 (Rs)	31.3.2010 (Rs)
Revenue from operations		25,00,000	20,00,000
Other Incomes		1,00,000	5,00,000
Employee benefit expenses		60% of total revenue	50% of total revenue
Other expenses		10% of Employee benefit expenses	20% of Employee benefit expenses
Tax Rate		50%	40%

Answer :

Comparative Statement of Profit and Loss of SONU Ltd;

For the year ended 31st March 2010 and 2011.

Particulars	Note No.	31.3. 2010	31.3.2011	Absolute change (Increase/ Decrease)	Percentage of change (increase/ Decrease)
1	2	3	4	5	6
		A	B	(B-A)=C	C/A*100=D
		Rs	Rs	Rs	%
I. Revenue from operations		20,00,000	25,00,000 1,00,000	5,00,000	25 (80)
II. Other Incomes		5,00,000		(4,00,000)	4
III. Total Revenue (I+II)		25,00,000	26,00,000	1,00,000	
					24.8
IV. Expenses			15,60,000	3,10,000	(37.6)
a. Employee benefit expenses		12,50,000	1,56,000	(94,000)	14.4
		2,50,000	17,16,000	2,16,000	
b. Other expenses					(11.6)
Total Expenses		15,00,000	8,84,000 (4,42,000)	(1,16,000) 42,000	10.5
					(26.33)
V. Profit before Tax (III-IV)		10,00,000	4,42,000	(1,58,000)	
VI. Less : Tax		(4,00,000)			
VII. Profit after Tax		6,00,000			

37.. Prepare a comparative statement of profit and loss from the following information extracted from the statement of profit and loss for the year ended 31st March , 2017and 2018.

Particulars	2017-18 (Rs)	2016-17 (Rs)
Revenue from operations	12,00,000	10,00,000
Other income (% of revenue from	25%	25%
operations)	40%	30%
Employee benefit expenses (% of total	40%	40%
revenue)		
Tax rate		

Answer

Comparative Statement of Profit and Loss of
For the year ended 31st March 2017 and 2018.

Particulars	Note No.	31.3. 2017	31.3.2018	Absolute change (Increase/ Decrease)	Percentage of change(increase/ Decrease)
1	2	3	4	5	6
		A	B	(B-A)=C	C/A*100=D
		Rs	Rs	Rs	%
I.**Revenue from operations**		10,00,000	12,00,000	2,00,000	20
II.Other Incomes		2,50,000	3,00,000	50,000	20
Total Revenue (I+II)		12,50,000	15,00,000	2,50,000	20
III.**Expenses** Employee benefit expenses		3,75,000	6,00,000	2,25,000	60
IV.**Profit before Tax (III-IV)**		8,75,000	9,00,000	25,000	2.86
V.Less : Tax (40%)		(3,50,000)	(3,60,000)	(10,000)	2.86
VI. **Profit after Tax**		5,25,000	5,40,000	15,000	2.86
			------------ ---	------------ -	----------------

38.. **From the following information obtained from the books of vinay Ltd; . Prepare a comparative statement of profit and loss of the year ending 31stMarch ,2019**.

Particulars	2018-19	2017-18
Revenue from operations	300% of cost of material consumed	200% of cost of material consumed
Cost of material consumed	Rs.4,00,000	Rs.2,00,000
Other expenses	20% of cost of materials consumed	20% of cost of material consumed
Tax rate	50%	50%

Answer:

Comparative Statement of Profit and Loss of Vinay Ltd;

For the year ended 31st March 2018 and 2019.

Particulars	Note No.	2017-2018	2018- 2019	Absolute change (Increase/ Decrease)	Percentage of change(increase/ Decrease)
1	2	3	4	5	6
		A	B	(B-A)=C	C/A*100=D
		Rs	Rs	Rs	%
I.**Revenue from operations**		4,00,000	12,00,000	8,00,000	200
II.**Expenses:**		2,00,000	4,00,000	2,00,000	100
a. Cost of material consumed		40,000	80,000	40,000	100
b. other expenses			4,80,000	2,40,000	100
		2,40,000			
Total expenses			7,20,000	5,60,000	350
		1,60,000			
III. **Profit before Tax**			(3,60,000)	(2,80,000)	350 ---------------
IV.Less : Tax (50%)		(80,000)	3,60,000	2,80,000	350
			--------------- -	--------------	-------------
V. **Profit after Tax**		80,000 -------------- 			

****

COMMON SIZE STATEMENTS:

Meaning: common size statements are those in which individual figures are converted into percentage to some common base. Percentage of each individual item shows its relation to its respective total. This type of analysis is called vertical analysis since each accounting variable is analyzed vertically**.**

TYPES OF COMMON SIZE STATEMENTS:

- Common size statement of profit & loss
- Common size balance sheets

Meaning of Common size statement of Profit & Loss :

A common size statement of profit & loss is a statement in which the figure of revenue from operations is assumed to be equal to 100 and all other figures are expressed as percentage of revenue from operation. It establishes relationship between individual item of statement of profit & loss and revenue from operations.

Meaning of Common Size Balance Sheet:

A Common Size Balance sheet is a statement in which total of assets or equity & liabilities is assumed to be equal to 100 and all the figures are expressed as percentage of the total . It means that each asset is expressed as percentage to total assets and each item of equity& liability is expressed as percentage to total equity & liabilities**.**

PURPOSE/UTILITY OF COMMON SIZE STATEMENTS:

- To present the change in various items in relation to Revenue from operations, Total Assets or Total Liabilities.
- To establish a Relationship between various items of the statement of profit & loss to revenue from operations and various items of balance sheet to total assets or equity &liabilities.
- To provide for a common base for comparison.

FORMAT OF COMMON SIZE STATEMENT OF PROFIT & LOSS

Particulars	**Note No.**	**Absolute Amount**		**Percentage of Revenue from Operations**	
		Previous year (Rs)	**Current year (Rs)**	**Previous year (Rs)**	**Current year (Rs)**
I .Revenue from operation II. Other Income III. **Total Revenue** (I+II) IV. Expenses :					

(a). cost of material consumed (b). purchase of stock in trade (c). change in inventories of finished goods, work in progress and stock in trade. (d). Employees benefit expenses. (e). finance cost (f). Depreciation and amortization (g) other expenses **Total expenses** **v. Profit before tax (III--IV)** **Less : Income Tax** **VI. Profit after tax**					

FORMAT OF COMMON SIZE BALANCE SHEET

COMMON SIZE BALANCE SHEET

AS AT……………..

Particulars	Note No.	**Absolute Amount**		**Percentage of Balance Sheet Total**	
		Previous year (s)	**Current year (Rs)**	**Previous year (Rs)**	**Current year (Rs)**
I . EQUITY & LIABILITIES 1.Shareholder's Funds (a) Share capital (b) Reserves & Surplus 2.Non – Current Liabilities (a)Long term borrowings (b)Long term Provisions 3. Current Liabilities (a) Short term borrowings (b)Trade payables (c)Other current liabilities (d)Short term provisions Total II. Assets : 1.Non- Current Assets (a)Property, Plant and Equipments (i)Tangible assets (ii)Intangible assets					

(b) Non- current Investments (c) Long term loans & advances 2.Current Assets (a)Current investments (b) Inventories (c)Trade receivables (d)Cash & cash equivalents (e)Short loans & advances (f)Other current assets Total					

Multiple choice questions:

1. Main objective of common Size statement is:
    a. To present the changes in various items.
    b. To provide for a common base for comparison
    c. To establish relationship between various items
    d. All of the above.

Answer: (d) all of the above.

2. Which of the following is not true.
    a. Common size cash flow statement.
    b. Common size balance sheet
    c. Common size statement of profit &loss
    d. None of the above.

Answer: (a)

3. Main objective of common size statement of profit & loss is :
    a. To present changes in assets and liabilities
    b. To judge the financial soundness
    c. To establish relationship between revenue from operations and other items of statement of profit & loss.
    d. All of the above.

Answer: (c) to establish relationship between revenue from operations and other items of statement of profit &loss.

4. In the balance sheet of a common size statement:

a. figure of net revenue from operations is assumed to be equal to 100.

b. figure of gross profit is assumed to be equal to 100

c. figure of net profit is assumed to be equal to 100.

d. figure of assets is assumed to be equal to 100.

Answer: (d) figure of assets is assumed to be equal to 100.

5.Total assets of a firm are Rs.20,00,000 and its fixed assets are Rs.8,00,000 . what will be the percentage of fixed assets on total assets?

a.60%

b. 40%

c.28%

d.71%

Answer: (b) 40%

6. In a common size statement of profit &loss , the amount of net revenue from operations is assumed to be equal to

a. 1

b. 10

c. 100

d.1000

Answer: (c) 100.

7. The objective of common size statement of profit &loss is not to

a. present changes in various items of incomes and expenses

b. judge the cost items

c. establish relationship between revenue from operations and other items of statement of profit &loss.

d. judge the relative financial soundness for different enterprise.

Answer; (d) judge the relative financial soundness for different enterprise.

8.If total assets of the firm are Rs.4,00,000, and its current assets are Rs.1,50,000 .what will be the percentage of current assets on total assets?

a.40%

b.37.5%

c.46%

d.54%

Answer: (b) 37.5%

9. If revenue from operations of a firm areRs.12,00,000, cost of material consumed is Rs.6,60,000, other expenses is Rs.1,20,000 . what will be the percentage of profit before tax ?

a. 60%

b.43%

c.23%

d. 35%

Answer : (d) 35%

10.common size statements are prepared

a. in the form of ratios

b. in the form of percentages

c. in both the above

d. none of the above.

Answer: (b)in the form of percentages.

State whether the following statements are true or false

11.In a common size balance sheet total assets are assumed to be 100.

12.In a common size statement, each item is expressed as a percentage of common base

13.In a common size statement of profit & loss figure of net sales is assumed to be equal to 100.

14 .In a common size statement, figures of previous year are taken as base for comparison.

15. Common size statements are prepared in the form of percentages.

Answer: True-11,12,13,and 15 false-14

Fill in the blanks

16. In--------------statements individual items of financial statement are converted into percentages to some common base.

Answer: Common size

17. In a common size statement of profit & loss figure of ------- to be assumed to be equal to 100

Answer: revenue from operation

18 .Common size statements are prepared in the form of --------

Answer: percentage

19. In a ---------------- total of assets or equity &liabilities is assumed to be equal to 100

Answer: common size balance sheet

20. Common size statements provide for a --------------base for comparison**.**

Answer: common size

MATCH THE FOLLOWING:

21.If Revenue from operations are Rs.20,00,000 ,then match the following

Column 1	Column2
(i) Purchase of stock in trade Rs.16,00,000	(a) 15%
(ii) Cost of materials consumed Rs.10,00,000	(b) 80%
(iii) Other expenses Rs.2,00,000	(c) (-) 5%
(iv) Change in inventory (-) Rs.1,00,000	(d) 10%
(v) Profit before tax Rs.3,00,000	(e) 50%

Codes:

A. i-b ii-e iii-d iv-c v-a
B. i-a ii-c iii-b iv-e v-d
C. i-c ii-d iii-a iv-b v-e
D. i-d ii-a iii-c iv-e v-b
E. i-e ii-b iii-c iv-a v-d

Answer: (A) i-b ii-e iii-d iv-c v-a

22.If the total assets of the company is Rs 5,00,000 then match the following:

Column 1	Column 2
i. Current investments Rs.8,000	a.2%
ii. inventory Rs.72,000	b.36%
iii .trade receivables Rs.1,80,000	c.1.60%
iv. cash & cash equivalents Rs.10,000	d.14.40

Codes:

A. i-b ii-e iii-d iv-c
B. i-a ii-c iii-b iv-e
C. i-c ii-d iii-b iv-a
D. i-d ii-a iii-c iv-e

Answer: (c) i-c ii-d iii-b iv -a

ASSERTION-REASON

Direction (Q.No.23 to 26) There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below.

Alternatives:

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

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
(c) Assertion (A) is false, but Reason (R) is true
(d) Assertion (A) is true, but Reason (R) is false

23.Assertion (A): common size statements are those in which individual figures are converted into percentage to some common base.
Reason (R): percentage of each individual item shows its relation to its respective total.
Answer: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)

24.Assertion (A): common size statements analyse the trend in various items of balance sheet.
Reason (R):common size statements assess the financial strategy adopted by different enterprises belonging to the same industry.
Answer: (b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).

25.Assertion (A):common size statement of profit & loss is a statement in which the figure of revenue from operations is assumed to be equal to 100.
Reason (R): common size statement of profit & loss establishes relationship between individual items of statement of profit &loss and revenue from operations

Answer: (a). Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
26. **Assertion (A):**common size balance sheet judge the relative efficiency of cost items of the two or more firms belonging to the same industry.
Reason (R): common size balance sheet establishes the trend in various items of assets and liabilities.
Answer: (c) Assertion (A) is false, but Reason (R) is true.

27.CASE BASED QUESTIONS:

Mega Ltd was manufacturing water-heaters. In the first year of its operations, the revenue earned by the company was not sufficient to meet its costs. To increase the revenue, the company analysed the reasons of less revenues. After analysis the company decided:

(i) To reduce the labour cost by shifting the manufacturing unit to a backward area where labour was available at a very low rate.
(ii) To start manufacturing solar water heaters and reduce the production of electric water-heater slowly. This will not only help in covering the risks, but also help in meeting other objectives too.

After implementing the decisions into practice, the company started growing well. Now the company has an idea to diversify its business activities. For that they want to know the recent years' performance of the company. The finance Manager Mr.

Arun presented common size statement of profit& loss for the year 2022-23 and 2023-24 , and explained the various items of statement of profit & loss and facilitated the comparison of profitability and financial position of the company in the last two years.

	2022-2023	**2023-24**
Revenue from operation	25,00,000	40,00,000
Other income	50,000	1,60,000
Expenses (other)	1,00,000	1,20,000
Purchases of stock	18,50,000	33,60,000
Change in inventories	1,50,000	(2,00,000)

You are asked to answer the following questions based on the above data:

I.In 2022-23, percentage of other income was

a. 2%
b. 20%
c. 40%
d. 25%

Answer: (a) 2%

ii. In 2023-24 ,percentage of revenue from operation was:

a. 80%
b. 76%
c. 100%
d. None of the above.

Answer: (c) 100%

iii. In 2023-2024, percentage of change in inventories was :

a. 5%
b. 15%
c. -5%
d. 20%

Answer: (c) -5%

Iv. i n 2022-23 and 2023-24 the amount of net profit before tax was:

a. Rs. 4,80,000 and Rs 8,40000
b. Rs.4,50,000 and Rs.8,80,000
c. Rs. 416000 and Rs 8,50,000
d. None of the above.

Answer: (b) Rs.4,50,000 and Rs. 8,80,000.

v. The percentage of net profit before tax for the year 2023-24 was:

a. 22%
b. 24%
c. 18%
d. 21%

Answer: (a) 22%

28. From the following information, prepare a common size statement of profit & loss of AB Ltd; for the year ended 31st March,2022 and 31st March 2023.

Particulars	31.3.2023	31.3.2022
I. Income		
Revenue from operations	5,00,000	5,00,000
Other income	5,500	5,000
Total revenue	5,05500	5,05,000
II. Expenses:		
Purchase of stock in trade	3,50,000	3,25,000
Changes in inventories	24,000	25,000
Employees benefit expenses	49,000	40,000
Other expenses	45,000	58,750
Total expenses	4,68,000	4,48,750
III. profit (I-II)	37,500	56,250

Additional Information:

	2023	2022
Other expenses include		
Provision of tax	37,500	56250

Common size statement of Profit & Loss
For the year ended 31st March,2022 and 2023.

Particulars	Absolute Amount		Percentage of Revenue From operations	
	2022 (Rs)	2023(Rs)	2022(%)	2023(%)
I. Revenue from operation	5,00,000	5,00,000	100.00	100.00
II. other Income	5,000	5,500	1.00	1.10
III. Total Revenue (I+II)	5,05,000	5,05,500	101.00	101.10
IV. Expenses				
a. purchase of stock in trade	3,25,000	3,50,000	65.00	70.00
b. changes in inventories	25,000	24,000	5.00	4.80
c. employee benefit expenses	40,000	49,000	8.00	9.80
d. other expenses	2,500	7500	0.50	1.50
Total expenses	3,92,500	4,30,500	78.50	86.10
V. profit before tax(III-IV	1,12,500	75,000	22.50	15.00
Less : provision of tax	56250	37500	11.25	7.50
VI. profit after tax	56250	37500	11.25	7.50

29.Prepare common size statement of profit and loss from the following information:

Particulars	31st March 2021	31st March 2020
Revenue from operations	5,00,000	3,75,000
Other Income	50,000	37,500
Purchase of stock in trade	3,75,000	3,00,000
Change in inventories	(25,000)	5,000
Other expenses	5,000	3750
Rate of Income tax	50%	50%

Answer:

Common size statement of Profit & Loss
For the year ended 31st March,2020 and 2021.

Particulars	Absolute Amount		Percentage of Revenue From operations	
	2020 (Rs)	2021(Rs)	2020(%)	2021(%)
I .Revenue from operation	3,75,000	5,00,000	100.00	100.00
II. other Income	37,500	50,000	10.00	10.00
	------------------	---------------	-------------	---------------
III .Total Revenue (I+II)	4,12,500	5,50,000	110.00	110.00
IV. Expenses				
a. purchase of stock in	3,00,000	3,75,000	80.00	75.00
trade	5,000	(25,000)	1.33	(5.00)
b. changes in inventories	3,750	5,000	1.00	1.00
c. other expenses	------------------	----------------	---------	---------------
	---	-	82.33	71.00
Total expenses	3,08,750	3,55,000	27.67	39.00
V. profit before tax(III-IV	1,03,750	1,95,000	13.83	19.50
Less : provision of tax	(51,875)	(97500)	--------	--------
VI. profit after tax	-------------	-----------	13.84	19.50
	51875	97,500	--------------	--------
	------------------ --			

30. From the following balance sheet of Sunil Ltd; as at 31st March , 2023 and 2024, prepare a common size balance sheet.

Particulars	Note No. (2)	31.3.2024 (Rs) (3)	31.3.2023 (Rs) (4)
I . **EQUITY & LIABILITIES**			
1.Shareholder's Funds			
A .Share capital		40,00,000	30,00,000
b. Reserves & Surplus		6,00,000	4,00,000
2. Non – Current Liabilities			
Long term borrowings		12,00,000	10,00,000
3. Current Liabilities			
Trade payables		2,00,000	6,00,000
		-------------	---------------
Total		60,00,000	50,00,000

II. **Assets** :		-------------	
1.Non- Current Assets			
a. Property, Plant and			
Equipment		40,00,000	30,00,000
i. Tangible assets		2,00,000	6,00,000
ii. Intangible assets			
2.Current Assets		12,00,000	10,00,000
a. Inventories		6,00,000	4,00,000
b. Cash & cash equivalents			--------------
		60,00,000	50,00,000
Total		------------	---------------

Answer:

Common size Balance sheet as at 31st March , 2023 and 2024

Particulars	Absolute Amounts		Percentage of Balance sheet Total	
	2023	2024	2023	2024
EQUITY & LIABILITIES				
1.Shareholder's Funds				
a. Share capital	30,00,000	40,00,000		
b. Reserves & Surplus	4,00,000	6,00,000	60	66.7
1. Non – Current Liabilities			8	10.0
Long term borrowings	10,00,000	12,00,000		
2. Current Liabilities			20	20.0
Trade payables	6,00,000	2,00,000		
	---------------	-------------	12	3.3
Total	50,00,000	60,00,000		
II. Assets :		-------------	100	100
1.Non- Current Assets				
a. Property, Plant and				
Equipments	30,00,000	40,00,000		
i. Tangible assets	6,00,000	2,00,000	60	66.7
ii. Intangible assets			12	3.3
2.Current Assets				
a. Inventories	10,00,000	12,00,000		
b. Cash & cash equivalents	4,00,000	6,00,000	20	20.0
	--------------		8	10.0
Total	50,00,000	60,00,000	100	100
	------------	------------	-------	-------

1. Following data is derived from the books of Beena Ltd; you are required to prepare a common size balance sheet.

Particulars	31.3.2024 (Rs)	31.3.2023 (Rs)
Share capital	1,50,000	1,20,000
Reserve and surplus	40,000	35,000
Trade receivables	95,000	90,000
Inventory	50500	36,000
Current Investments	5000	4,000
Long term provisions	40,000	32,500
Property Plant and	1,45,000	1,15,000
Equipments	20,000	7,500
Short term provision	50,000	55,000
Trade payables		

COMMON SIZE BALANCE SHEET OF BEENA Ltd AS AT 31st March, 2023and 2024.

Particulars	Note No	Absolute Amount		% of Balance sheet total	
		2023	2024	2023	2024
1	2	3	4	5	
I **EQUITY &LIABILITIES**					
1. Shareholder's fund					
a. Share capital		1,20,000	1,50,000	48.00	50.00
b. Reserves &Surplus		35,000	40,000	14.00	13.33
2. Non –current Liabilities					
Long term borrowings		32,500	40,000	13.00	13.33
3. Current Liabilities					
Trade Payables		55,000	50,000	22.00	16.67
Short term provisions		7,500	20,000	3.00	6.67
		--------------	------------	-------	-----------
Total		2,50,000	3,00,000	100	100
		--------------	------------	-------	-----------
II. Assets:				-	
1.Non- current Assets:					
a. Property ,Plant and Equipments		1,15,000	1,45,000	46.00	48.33
2.current Assets:					
i. current Investment		4,000	5,000	1.60	1.67
ii. Inventories		36,000	50,500	14.40	16.83
iii. Trade receivables					
ii. cash and cash		90,000	95,000	36.00	31.67
equivalents		5,000	4,500	2.00	1.50

		------------------ 2,50,000 ------------------	------------- 3,00,000 ------------	------- 100 ------	--------- 100 --------

Unit-4 CASH FLOW SATEMENTS

THEORITICAL CONCEPTS

Cash Flow Statement

A cash flow statement is the financial statement that measures the cash generated or used by a company in a given period. A cash flow statement provides information about the historical changes in cash and cash equivalents of an enterprise by classifying cash flows into operating, investing and financing activities. *A Cash-Flow statement may be defined as a summary of receipts and disbursements of cash for a particular period of time.*

Benefits of Cash Flow Statement

It enables to assess the financial structure of an organization.
It helps in assessing the ability of the enterprise to generate cash and cash equivalents.
It also helps in fine tuning its cash inflow and cash outflow, keeping in response to changing condition.
It helps in comparing inflows and out flows of cash.

Cash from Operating Activities

Cash flows from operating activities are primarily derived from the main activities of the enterprise. They generally result from the transactions and other events that enter into the determination of net profit or loss.

Cash Inflows & Outflows from operating activities

Inflow

Cash receipts from sale of goods and the rendering of services.
Cash receipts from royalties, fees, commissions and other revenues.

Outflow

Cash payments to suppliers for goods and services.
Cash payments to and on behalf of the employees.
Cash payments to an insurance enterprise for premiums and claims, annuities, and other policy benefits.
Cash payments of income taxes

Cash from Investing Activities

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents. Investing activities relate to purchase and sale of long-term assets or fixed assets such as machinery, furniture, land and building, etc. Transactions related to long-term investments are also investing activities.

Cash Inflows from Investing Activities

Cash receipt from disposal of fixed assets including intangibles.
Cash receipt from the repayment of advances or loans made to third parties
(except in case of financial enterprise).
Cash receipt from disposal of shares, warrants or debt instruments of other enterprises except those held for trading purposes.
Interest received in cash from loans and advances.

Dividend received from investments in other enterprises

Cash Outflows from investing activities

Cash payments to acquire fixed assets including intangibles and capitalized research and development.

Cash payments to acquire shares, warrants or debt instruments of other enterprises other than the instruments those held for trading purposes.

Cash advances and loans made to third party (other than advances and loans made by a financial enterprise wherein it is operating activities).

Cash flow from financing Activities

Financing activities are activities that result in changes in the size and composition of the owners' capital and borrowings of the enterprise. Separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of funds

Cash Inflows & Outflows from financing activities

Cash Inflows from Financing Activities

Cash proceeds from issuing shares (equity or/and preference).

Cash proceeds from issuing debentures, loans, bonds and other long-term borrowings.

Cash Outflows in Financing Activities

Cash repayments of amounts borrowed.

Repayment and redemption of share capital.

Interest paid on debentures and long-term loans and advances.

Dividends paid on equity and preference capital.

VERY SHORT ANSWER QUESTIONS (MCQ)

<table>
<tr><td>1.</td><td>Interest and dividends received by a financing company is being classified under:
A) Cash flows from Operating activities
B) Cash flows from Investing
C) Cash flows from Financing as D) none</td><td>A</td></tr>
<tr><td>2.</td><td>During the year a piece of machinery costing Rs-60,000 (Accumulated depreciation -40,000) was sold at a loss of 30%. Then the selling price is equal to:
A) Rs-14,000 B) Rs-20,000 C) 6,000 D) None</td><td>A</td></tr>
<tr><td>3.</td><td>Interest and dividends received by a NON-financing company is being classified under:
A. Cash flows from Operating activities
B. Cash flows from Investing
C. Cash flows from Financing
D. none</td><td>B</td></tr>
<tr><td>4.</td><td>Interest paid on long-term borrowings and Redemption premium are classified under:
A) Cash flows from Investing activities
B) Cash flows from Financing activities
C) Cash flows from operating activities
D) Both B and C</td><td>D</td></tr>
<tr><td>5.</td><td><table>
<tr><th></th><th>2019</th><th>2020</th></tr>
<tr><td>Surplus i.e statement of profit and loss A/c</td><td>65,000</td><td>1,00,000</td></tr>
<tr><td>Provision for tax</td><td>6000</td><td>8000</td></tr>
<tr><td>Proposed dividends</td><td>10000</td><td>7000</td></tr>
</table></td><td></td></tr>
</table>

	Find out the amount of profit before tax________________ **ANS-50,000 (35000+8000+7000)**	
6.	Identify the item that are deducted from net profit before tax in finding out operating profit. A) Depreciation of fixed assets B) Goodwill written off C) Interest on long-term borrowings D) Profit on sale of assets	D
7.	Identify the item that are *__added to net profit__* before tax in finding out operating profit. A) Interest received B) Dividends received C) Rent received D) Loss on sale of assets	D
8.	Identify, which of the following is neither inflow nor out flow of cash. A) Issue of shares for cash B) Issue of debentures for cash C) Redemption of debentures D) Issue of bonus shares	D
9. s	Find out the cash in flow from operating activities. A) Cash purchases B) Payment of wages C) Income tax paid D) Cash sales	D
10.	Find out the cash out flow from operating activities. A) Cash received from debtors B) Commission received C) Income tax paid D) Cash sales	C
11.	Which of the following statement is/are correct? I. Cash flow statement is not a replacement of funds flow statement. II. Cash flow statement record only cash items. III. Cash flow statement record only cash equivalents. IV. Cash flow statement is a substitute of income statement. CODEs: **A)Only-I B) Both II and III C) Only -IV D) All of them**	A
12.	Statement -I: Income tax paid is always shown as Operating activity. Statement-II: Dividends paid is always shown as Financing activity A. Both statements are correct B. Both statements are incorrect C. Statement-I is correct and statement-II is incorrect. D. Statement -I is incorrect and statement -II is correct	D
13.	Assertion (A) An investment normally qualifies as a cash equivalent only when its maturity is of three months or less than the date of acquisition Reason (R) There is a significant risk of change in value. Both ASSERSION (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)	C

<table>
<tr><td></td><td>A. Both ASSERSION (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
B. Both ASSERSION (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
C. ASSERSION (A) is true but Reason (R) is false
D. ASSERSION (A) is false but Reason (R) is true</td><td></td></tr>
<tr><td>14.</td><td>Assertion (A)-Cash flows ignore two basic accounting principles viz; Full disclosure and accrual concept
Reason (R) It facilitates the management for short term plans
A. Both ASSERSION (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
B. Both ASSERSION (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
C. ASSERSION (A) is true but Reason (R) is false
D. ASSERSION (A) is false but Reason (R) is true</td><td>B</td></tr>
<tr><td>15.</td><td>Match the following:
<table>
<tr><td colspan="2">COLUMN I</td><td colspan="2">COLUMN -II</td></tr>
<tr><td>A</td><td>Buy back of own shares</td><td>I</td><td>Operating activity</td></tr>
<tr><td>B</td><td>Purchase and sale of securities by a finance company</td><td>II</td><td>Financing activity</td></tr>
<tr><td>C</td><td>Receipt of dividend</td><td>III</td><td>Investing activity</td></tr>
<tr><td colspan="4">**Ans- A-II: B)-I and C) III**</td></tr>
</table></td><td></td></tr>
<tr><td>16.</td><td>Match the following:
<table>
<tr><td colspan="2">COLUMN I</td><td colspan="2">COLUMN -II</td></tr>
<tr><td>A</td><td>Purchase of goods</td><td>I</td><td>Operating activity</td></tr>
<tr><td>B</td><td>Royalty received</td><td>II</td><td>Cash equivalents</td></tr>
<tr><td>C</td><td>Interest paid on debentures by non- financing company</td><td>III</td><td>Investing activity</td></tr>
<tr><td>D</td><td>Marketable securities</td><td>IV</td><td>Financing activity</td></tr>
<tr><td colspan="4">**Ans- A-III: B)-I C) -IV and D) II**</td></tr>
</table></td><td></td></tr>
<tr><td>17.</td><td>**QESTIONS FOR PRACTICEW**

Very short Answer Type (Including CBSE modified questions)

1. From the following particulars, what will be the amount of provision for tax made during the year?
Provision for Taxation
31.3.2018 - 50,000
31.3.2019 - 40,000
The Company paid taxes Rs 45,000 for the year 2018-2019.
(a) Rs 45,000
(b) Rs 35,000
(c) Rs 40,000
(d) Rs 50,000

2. From the following information, the outflow of cash for the purchase of machinery will be:
Written down value of machinery as on 1.4.2018 - Rs 5,00,000</td><td></td></tr>
</table>

Written down value of machinery as on 31.3.2019 -Rs7,00,000
Depreciation on machinery charged during the year Rs 60,000
Machinery having book value Rs 25,000 sold for Rs 20,000

(a) Rs 2,70,000
(b) Rs 2,80,000
(c) Rs 2,75,000
(d) Rs 2,85,000

3. Which of the following transactions would result inflow of cash:
(a) Cash withdrawn from Bank for office use.
(b) Purchase of machinery worth Rs 2,00,000 and issued shares in consideration thereof.
(c) Sale of furniture for Rs 3,000 to Mr. Mohan.
(d) Cash received from Debtors Rs 6,000

4. Which of the following transactions would not create a cash flow?
(a) A company purchased some of its own stock from a stockholder
(b) Amortization of a patent
(c) Payment of a Cash Dividend
(d) Sale of equipment at book value

5.Declaration of Final Dividend would result in ___
(a) Outflow in Financing activities.
(b) Outflow in Operating activities.
(c) Inflow in Operating activities.
(d) No Flow of cash.

6. For a company manufacturing garments, procurement of raw material, incurrence of manufacturing expenses, sale of garments are classified as ………………………
(a) Financing Activity
(b)Investing Activity
(c)Operating Activity
(d) None of these

7. Issue of share for consideration other than cash will result into cash
(a)Inflow
(b) Outflow
(c) No flow
(d)None of these

8. Interest received in cash on loans and advances results in cash inflow from ………… activity
(a)Financing
(b)Investing
(c)Operating
(d)None of the above

9. X Ltd. Redeemed Rs.1,00,000, 9% debentures at 10% premium. What will be the amount of 'Cash flows from financing activities?

10. Which of the following statements is/are correct?

(a) Dividend paid is always shown as operating activity.

(b)Depreciation and amortization, being non-cash expenses, are deducted from net profit before tax and extraordinary items.

Alternatives

(a) Only (a) (b) Only (b)
(c) Both (a) and (b) (d) None of these

Answers

Very short answer type

Q No	1	2	3	4	5	6	7	8
Ans	b	d	d	b	d	c	c	b

Q No.9 – Cash Outflow in Financing Activity will be Rs.1,10,000 where
Debenture redeemed = Rs.1,00,000
Premium on Redemption = Rs.10,000(10% of Rs.1,00,000)

Q No.10– (d) None of these.

SHORT ANSWER TYPE QUESTIONS

Fromthefollowinginformationcalculatecashflowfrominvestingactivities:

Particulars	31-03-2020(Rs)	31-03-2021(Rs)
Machinery(at Cost)	5,00,000	5,50,000
Accumulated Depreciation	1,00,000	1,20,000
Patents	2,00,000	1,20,000
Goodwill	1,50,000	1,00,000
Investment	2,50,000	5,00,000

Additional Information

1.Duringtheyear,amachinecosting Rs.50,000withitsaccumulateddepreciationofRs.25,000wassoldforRs.20,000

2. PatentswerewrittenofftotheextentofRs.60,000and some patents were sold at a profit of Rs.10,000.

3. 40%oftheinvestmentsheldinthebeginningoftheyearweresoldat10% Profit.

4. Interest received on investment Rs.25,500.

5. DividendreceivedoninvestmentRs.8,500.

6. RentreceivedRs.5,000.

ANS-Cash Flow from Investing Activities

Particulars	`
Proceeds from sale of machinery	20,000
Proceeds from sale of investment	1,10,000
Proceeds from sale of Patents	30,000
Cash paid for purchase of machinery	(1,00,000)
Cash paid for purchase of Investment	(3,50,000)
Interest Received	25,500
Dividend Received	8,500

Rent Received	5,000
Net Cash Used in Investing Activities	(2,51,000)

Working Notes:

Dr. Investment Account Cr.

Date	Particulars	`	Date	Particulars	`
	To Balance b/d	2,50,000		By Bank A/c (Sale of investment)	1,10,000
	To Profit on sale of Investment A/c	10,000		By balance c/d	5,00,000
	To Bank A/c B/F) (Additional Purchase)	3,50,000			
		6,10,000			6,10,000

Dr Machinery Account cr

Date	Particulars	`	Date	Particulars	`
	To Balance b/d	5,00,000		By Bank A/c	20,000
	To BankA/c(additional Purchase)(B/F)	1,00,000		ByProvisionforDepreciationA/c (Dep. on Machinery sold)	25,000
				By Losson sale of Machinery A/c	5,000
				Bybalancec/d	5,50,000
		6,00,000			6,00,000

Dr. Patents Account Cr

Date	Particulars	`	Date	Particulars	`
	ToBalanceb/d	2,00,000		ByBankA/c (B/F–Sale of Patents)	30,000
	ToProfitonsaleof patentsA/c	10,000		By Statement of Profit &Loss(Written off)	60,000
				By balance c/d	1,20,000
		2,10,000			2,10,000

19. From the information given below, calculate the amount of cash flow from investing activities

	Particulars	31st march 2021	31st march 2020
	Tangible assets		
	Plant and machinery	8,86,000	6,04,000
	Accumulated depreciation	(1,40,000)	(80,0000
		7,46,000	5,24,000

Additional information:
A machinery of the book value of Rs.90,000 (Depreciation provided thereon was Rs.23,000), was sold at a profit of Rs.12,000

Solution: Plant and Machinery account

Particular	Rs	Particulars	Rs
To Balance B/d	6,04,000	By Accumulated Depreciation	23,000
To statement of profit and loss(Gain on sale)	12,000	By Bank	1,02,000
To Bank a/c(bal. fig)	3,95,000	By Balance c/d	8,86,000
	10,11,000		10,11,000

Cash flow from Investing Activities

Cash receipt on sale of Plant and Machinery	1,02,000
Cash payment on purchase of Plant and Machinery	(3,95,000)
Net Cash used in Investing Activity	(2,93,000)

20. Following Extracted information of V Ltd. is available on 31st March 2022:

Particulars	2022	2021
Share capital	5,00,000	3,00,000
Securities Premium	50,000	-
Bank Overdraft at the rate of 8% p.a	1,20,000	-

Additional information:

a) Bank overdraft was availed on 1st December 2021. Interest on Bank Overdraft was paid on 31st March 2022.
Find out Cash Flow from Financing Activities.

SOLUTION: Cash flow from Financing Activities

Particulars	Amount
Proceeds from Issue of Share Capital	2,00,000
Securities Premium	50,000
Bank Overdraft	1,20,000
Interest on Bank Overdraft	(3,200)
Cash flow from Financing Activities	3,66,800

21. From the following information, calculate cash flow from investing and financing activities.

Particulars	2021	2022
Machine at cost	5,00,000	9,00,000
Accumulated Depreciation	3,00,000	4,50,000
Equity share capital	28,00,000	35,00,000
Bank Loan	12,50,000	7,50,000

In year 2022, machine costing Rs.2,00,000 was sold at a profit of Rs.1,50,000, depreciation charged on machine during the year 2022 amounted to Rs.2,50,000.

SOLUTION: Cash Flow from Investing Activities

Particulars	Rs
Purchase of Machinery	(6,00,000)
Sale of Machinery	2,50,000
Net cash used in Investing Activity	(3,50,000)

Cash Flow from Financing Activities

Particulars	Rs
Issue of Equity Share Capital	7,00,000
Payment of Bank Loan	(5,00,000)
Net Cash flow from Financing Activities	2,00,000

Working notes:

Machinery Account

Particulars	Rs	Particulars	Rs
To Balance B/d	5,00,000	By Bank A/c (Sale)	2,50,000
To Statement of P/L(Profit on sale)	1,50,000	By Accumulated Depreciation A/c	1,00,000
To Bank A/c (Purchase Bal fig)	6,00,000	By Balance C/d	9,00,000
	12,50,000		12,50,000

Accumulated Depreciation A/c

Particulars	Rs	Particulars	Rs
To Machinery A/c	1,00,000	By Balance B/d	3,00,000
To Balance c/d	4,50,000	By Statement of P/L	2,50,000
	5,50,000		5,50,000

LONG ANSWER TYPE QUESTIONS

22. 19.From the following, calculate the net cash flow from operating activities.

Particulars	Note.	31.03.2021	31.03.2020

I. EQUITY AND LIABILITIES			
(1) Shareholders' funds	1		
(a)Share Capital	2	3,75,000	3,75,000
(b)Reserves and Surplus		1,55,000	(10,000)
(2) Non-current Liabilities			
Long term borrowings (8% Debentures)		1,30,000	75,000
(3) Current Liabilities			
(a)Short term borrowing		20,000	25,000
(8% Bank Loan)		60,000	55,000
(b)Trade payables		25,000	20,000
(c)Short term provisions			
(Provision for Tax)			
Total		7,65,000	5,40,000
II. ASSETS			
(1) Non-Current Assets			
(i) Tangible Fixed Assets		4,30,000	3,10,000
(ii) Intangible Assets		7,500	20,000
(Goodwill)		62,500	40,000
(iii)Non-current			
Investments		2,500	7,500
(2) Current Assets		97,500	50,000
(a) Current Investments		1,00,000	1,00,000
(b) Inventories		65,000	12,500
(b)Trade Receivables			
(c)Cash and Cash Equivalents			
Total		7,65,000	5,40,000

Notes to Accounts

Particulars	2021	2020
1.Share capital		
Equity share capital	2,75,000	2,25,000
5 % Preference share capital	1,00,000	1,50,000
	3,75,000	3,75,000
2.Reserves and Surplus		
General Reserve	75,000	60,000
Statement of Profit and Loss	75,000	(70,000)
Securities Premium Reserve	5,000	----
	1,55,000	(10,000)

Additional information

During the year, a piece of machinery costing Rs.30,000 on which depreciation charged Rs.10,000 was sold for Rs.10,000. Depreciation provided on fixed assets Rs.30,000. Dividend on equity shares @8% was paid on opening balance. Income tax Rs.22,500 was provided. Additional debentures were issued at par on 1st October, 2020 and the bank loan was repaid on the same date. At the end of the year, preference shares were redeemed at a premium of 5%

SOLUTION: Calculation of Net Cash Flow from Operating Activities

Particulars	Amount
Cash flow from operating Activities	
Profit before tax	2,08,000
Add: Depreciation	30,000
Loss on Sale of machinery	10,000
Interest on debentures (75000 x 8/100)+(55000 x	8,200
8/100 x 6/12)	1,800
Interest on Bank loan (20000 x 8/100)+(5000 x 8/100	12,500
x 6/12)	2,500
Goodwill Amortized	
Premium on Redemption of Preference shares	
	2,73,000
Operating profit before working capital changes	5,000
Add: Decrease in current assets and increase in current	
liabilities	(47,500)
Increase in Trade payables	**2,30,500**
Less: Increase in Current assets and decrease in current	(17,500)
liabilities	**2,13,000**
Increases in Inventories	
Cash generated from operations	
Less: Tax paid	
Cash Flow from Operating Activity	

Working notes

Calculation of profit before tax

Difference in the statement of profit and	1,45,000
loss(75,000)+(70,000)	15,000
Add : Transfer to reserve	18,000
Dividend on Equity shares	7,500
Dividend on Preference shares	22,500
Provision for tax made during the year	
Net profit before tax	2,08,000

Tangible Fixed Assets A/c

Particulars	Rs	Particulars	Rs
To Balance B/d	3,10,000	By Depreciation A/c	
To Bank A/c (Purchase	1,70,000	By Bank (sale)	30,000
Bal fig)		By Loss on sale	
		(Statement of profit	10,000
		and loss)	
		By Balance C/d	10,000
			4,30,000
	4,80,000		4,80,000

Provision for Tax A/c

Particulars	Rs	Particulars	Rs
To Bank(bal fig) To Balance c/d	17,500 25,000	By Balance B/d By Statement of P/L	20,000 22,500
	42,500		42,500

23. Following are the Balance sheet of V Ltd. For the year ended 31ST March 2021 and 2020.

Particulars	Note.	31.03.2021	31.03.2020
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds	1		
(a)Share Capital		8,00,000	4,00,000
(b)Reserves and Surplus		1,50,000	(50,000)
(2) Non-current Liabilities			
Long term borrowings		3,00,000	40,000
(3) Current Liabilities	2		
(a)Short term borrowing		2,00,000	4,00,000
(b)Trade payables		1,40,000	1,00,000
(c)Short term provisions(Provision for Tax)		1,00,000	60,000
Total		16,90,000	9,50,000
II. ASSETS			
(1)Non-Current Assets			
Fixed Assets		14,00,000	8,00,000
(2) Current Assets	3		
(a) Inventories		50,000	60,000
(b)Trade Receivables		1,80,000	50,000
(c)Cash and Cash Equivalents		60,000	40,000
Total		16,90,000	9,50,000

Notes to Accounts

Particulars	2021	2020
1.Share capital		
Equity share capital	6,00,000	4,00,000
Preference share capital	2,00,000	----------
	8,00,000	4,00,000
2.Short term borrowings		
Bank Loan	--------	4,00,000
Bank Overdraft	2,00,000	--------

	2,00,000	4,00,000
3. Cash and cash equivalents		
Cash in Hand	60,000	20,000
Bank Balance	-------	20,000
	60,000	40,000

Prepare a cash flow statement after considering the following adjustments:

(a) Depreciation was charged at the end Rs.1,00,000 on Fixed Asset.
(b) Dividend paid during the year Rs.1,00,000.
(c) Tax provision made during the year Rs.1,20,000

Answer:

Cash flow statement

Particulars	Detail	Amount
A. Cash flow from operating		
Activities		
Profit before	4,20,000	
tax(1,50,000+50,000+1,20,000+1,00,000)	1,00,000	
Add: Depreciation		
	5,20,000	
Operating profit before working capital		
changes	10,000	
Add: Decrease in current assets and increase	40,000	
in current liabilities		
Decrease in inventories	(1,30,000)	
Increase in Trade payables		
Less: Increase in Current assets and decrease	4,40,000	
in current liabilities	(80,000)	
Increases in Trade Receivables		**3,60,000**
Cash generated from operations		
Less: Tax paid		
Cash Flow from Operating Activity	(7,00,000)	
		(7,00,000)
B. Cash flow from Investing Activities		
Purchase of Fixed assets		
Cash used in investing activities		
	2,00,000	
C. Cash flow from financing activities	2,00,000	
Proceeds from issue of equity shares	2,60,000	
Proceeds from issue of preference	(4,00,000)	
shares	(1,00,000)	
Proceeds from Long term borrowings	2,00,000	**3,60,000**
Repayment of bank loan		
Dividend paid		**20,000**
Increase in Bank overdraft		40,000
Cash flow from financing activities		60,000
D. Net increase in Cash and Cash		
Equivalents (A+B+C)		

Add: Cash and cash Equivalent in the beginning Cash and cash equivalents at the end		

Working notes

Calculation of profit before tax

	Difference in the statement of profit and loss	2,00,000
Add :	Provision for tax made during the year	1,20,000
Add :	Dividend paid	1,00,000
	Net profit before tax	4,20,000

Fixed Assets A/c

Particulars	Rs	Particulars
To Balance B/d To Bank A/c (Purchase)	8,00,000 7,00,000	By Depreciation A/c By Balance C/d
	15,00,000	

Provision for Tax A/c

Particulars	Rs	Particulars
To Bank(bal fig) To Balance c/d	80,000 1,00,000	By Balance B/d By Statement of P/L
	1,80,000	

QUESTIONS FOR PRACTICE

From the following balance sheet of “X”LTD prepare cash flow statement.

▪ PARTICULARS	2018	2017
EQUITU &LIABILITIES		
➢ Shareholder’s funds		
• Share capital	700000	500000
• Reserves & surplus	500000	300000
➢ Non- current liabilities		
• Long term borrowings	400000	600000
➢ Current liabilities		
• Trade payables	900000	600000
total	2500000	2000000
ASSETS		
➢ Non –current assets		
• Fixed assets		
❖ Tangible asset	700000	500000
❖ Intangible asset	170000	250000
➢ Current asset		
• Inventories	600000	500000
• Trade receivables	600000	400000
• Cash& cash equivalence	400000	300000
• Other current assets	30000	50000
total	2500000	2000000

Notes to accounts

	2018	2017
1) Reserves & surplus		

[balance in statement of P/L A/C]	500000	300000
2) long term borrowings		
8% debentures	400000	600000
3) intangible assets		
goodwill	170000	250000

Additional information;

1] During the year a piece of machinery costing 60000[accumulated depreciation 20000] was sold at a loss of 10%.

2]provision for tax – 16000

Answer ; 1) operating profit before working capital changes =320000
2) operating activities =324000
3) investing activities = (224000)
4) financing activities = 0

3] From the summarized balance sheet of ABC LTD as on 31st march 2020-21 you are require to prepare cash flow statement.

PARTICULARS	2020	2021
➢ Shareholder's funds		
• Share capital	400000	500000
• Reserves & surplus	182000	308000
➢ Non- current liabilities		
• 12% debentures	160000	130000
➢ Current liabilities		
• Trade payables	150000	230000
• Commission received in advance	32000	50000
• Bank overdraft	28000	14000
Total	952000	123000
ASSETS		
➢ Non –current assets		
• Fixed assets		
❖ Tangible asset [plant &machinery]	280000	392000
➢ Current asset		
• Inventories	140000	98000
• Trade receivables	400000	600000
• Prepaid insurance	20000	30000
• Marketable securities	42000	28000
• Cash &bank balance	70000	84000
Total	952000	123000

Notes to accounts

	2020	2021
• share capital		
1. equity	300000	400000
2. 8%preference share capital	100000	100000
3. Reserves & surplus		
▪ Surplus [statement of profit/loss A/C]	100000	220000

▪ General reserves	82000	88000

Additional information ;

1) During the year a piece of machinery costing 48000[accumulated depreciation -10000] was sold at a loss of 10%
2) Dividends paid during the year –46000
3) Interest paid on debentures –18000

Answer ; operating profit before working capital changes =203800

A) Operating activities = 133800
B) Investing activities = 125800
C) Financing activities = 8000

From the following information, Calculate the cash from investing activities.

	31-03-2021	31-03-2022
Plant & machinery	850000	1000000
Non-current Investments	40000	100000
Land (At Cost)	200000	100000

Additional Information

1. Depreciation charged on Plant & machinery-50,000
2. Plant & machinery with book value of Rs-60,000 was sold for Rs-40,000.
3. Land was sold at profit of Rs-60,000.

ANS_Net cash used in investing activities-1,20,000

From the following information, Calculate the cash from Financing activities.

	31-03-2017	31-03-2018
Equity share capital	10,00000	12,00,000
12% Debentures	1,00,000	2,00,000

Additional Information

1. Interest paid on debentures-12,000.
2. Dividends paid during the year-50,000

ANS-2,38,000

From the following information calculate cash from operating activities.

	Notes	RS
I) Revenue from operations		15,00,000
Ii Other Incomes		--
Iii Total revenue		15,00,000
Iv Expense		
Cost of Material Consumed		12,00,000
Depreciation		30,000
Other Expenses		1,55,000
V Total Expenses		13,85,00
Vi Profit Before tax		1,15,000
Vii Provision for tax		(20,000)
Viii Profit for the period		95,000

Notes to Accounts

Other Expenses		Rs
Administrative Expenses		80000
Selling Expenses		60000
Preliminary Expenses		15000

Additional Information

	31-03-2018	31-03-2017
Debtors	45000	50000
Bills receivable	6000	4000
Bills payable	15000	12000
Creditors	40000	35000
O/S expenses	3000	4000
Prepaid expenses	1500	1000
Inventories	60000	80000

ANS-

From the following information, calculate cash flow from Operating activities

	31-03-2018	31-03-2017
Surplus (i.e. balance in statement of profit and loss a/c)	142000	178000
Inventory	24000	8000
Trade receivables	116000	90000
O/S Expenses	29200	20000
Goodwill	114000	54000
Cash in hand	18000	24000
machinery	164000	112000

Additional Information

1. A piece of machinery costing Rs-1,00,000 on which accumulated depreciation of Rs-40,000 had been charged was sold for Rs-20,000.
2. Depreciation charged during the year was rs-18,000.
3. Income tax paid during the year was -46,000
4. Dividend paid during the year-72,000 ANS-79200

From the given extracted balance sheet for the year ended 31-3-2018 and 2019 ,you are required to Find out the cash generated/used in investing activities:

	31-3-2018	31-03-2019
Fixed Assets	9,00,000	14,00,000
Provision for Depreciation A/c	(2,00,000)	(3,00,000)
	7,00,000	11,00,000
Investments	96,000	2,40,000
Goodwill	45,000	30,000

Additional Information:

1. Investments costing Rs-40,000 sold at a profit of 20% during the year

During the year a piece of machinery costing rs-90,000 (accumulated depreciation-24,000) was sold for Rs-36,000. 3M+3M=6M

ANS) PURCHASE OF MACHINERY-590000

1. SALE OF MACHINERY-36,000
2. PURCHASE OF INVESTMENTS-184,000
3. SALE OF INVESTMENTS-48,000

4. PROFIT ON SALE OF INVESTMENTS-8000
5. CASH USED IN INVESTING ACTIVITIES-(6,90,000)

From the following balance sheet of X Ltd. Prepare cash flow statement

Particulars	Note No.	31-Mar-18	31-Mar-17
I. EQUITY AND LIABILITIES			
(1) SHAREHOLDERS' FUNDS			
(a) Share capital		700000	500000
(b) Reserves and surplus		500000	300000
(3) NON-CURRENT LIABILITIES			
(a) Long-term borrowings		400000	600000
(2) CURRENT LIABILITIES			
(a) Trade payables		900000	600000
TOTAL		25,00,000	20,00,000
II. ASSETS			
(1) NON-CURRENT ASSETS			
(a) Fixed assets			
(i) Tangible assets		700000	500000
ii) Intangible Assets		1,70,000	2,50,000
(2) CURRENT ASSETS			
(a) Inventories		600000	500000
(b) Trade receivables		600000	400000
(c) Cash and cash equivalents		400000	300000
d) Other Current Assets		30000	50000
TOTAL		25,00,000	20,00,000

NOTES TO ACCOUNTS:

	Note No.	31-Mar-18	31-Mar-17
(b) Reserves and surplus			
Balance in statement of p/l A/c		500000	300000
(a) Long-term borrowings			
8% Debentures		400000	600000
ii) Intangible Assets			
Goodwill		170000	250000

Additional Information: -

During the year a piece of machinery costing Rs-60,000 (Accumulated depreciation-20,000) was sold at a loss of 10%

Provision for tax made during the current year-16,000)

1. OPERATING PROFIT BEFORE WC-40,8000
2. NET INCREASE & DECREASE IN WC-320000-300000=20,000
3. CASH FROM OPA-(4,28,,000)
4. CASH USED IN INVESTING ACTIVITIES-(2,80,000)

CASH USED IN FINANCING ACTIVITIES-(48,000)A+B+C=1,00,000

From the given extracted balance sheet for the year ended 31-3-2018 and 2019 ,you are required to Find out the cash generated/used in investing activities:

	31-3-2018	31-03-2019
Fixed Assets	9,00,000	14,00,000
Provision for Depreciation A/c	(2,00,000)	(3,00,000)
	7,00,000	11,00,000
Investments	96,000	2,40,000
Goodwill	45,000	30,000

Additional Information:

1. Investments costing Rs-40,000 sold at a profit of 20% during the year

During the year a piece of machinery costing rs-90,000 (accumulated depreciation-24,000) was sold for Rs-36,000. 3M+3M=6M

From the given information for the year ended 31st.march 2016 and 2017, you are required to find out cash from /used in operating activities

1. Statement of profit and loss A/c (31-03-2021)-48,000
2. Statement of profit and loss A/c (31-03-2022)-98,000
3. Amount transferred to G/R-6500
4. Depreciation provided during the year-1,2000
5. Amount of intangible assets written off-10,000
6. Provision for tax made during the year-7,500
7. Profit on sale of machinery-6,000

	31-3-2016	31-03-2017
Creditors	9000	16500
Stock in trade	14,000	18,000
Trade receivables	18,000	20,000
Trade payables	8,000	6,000

From the following balance sheet of X Ltd. Prepare cash flow statement

Particulars	Note No.	31-Mar-19	31-Mar-18
EQUITY AND LIABILITIES			
(1) SHAREHOLDERS' FUNDS			
a. Share capital		7,80,000	7,00,0000
b. Reserves and surplus	1	40,000	1,80,000
NON-CURRENT LIABILITIES			
(a) Long-term borrowings	2	4,00,000	3,00,000
CURRENT LIABILITIES			
A. Short term borrowings	3	60.000	50.000
B. Trade payables	4	40.000	30.000
C. Short term Provisions	5	20.000	40.000
TOTAL		13.40.000	13.00.000
II. ASSETS			
(1) NON-CURRENT ASSETS			
a. Tangible assets	6	11,60,000	11,40,000
b. Intangible assets	7	30,000	40,000
(2) CURRENT ASSETS			
a. (b) Inventories		50,000	40,000
b. (c) Trade receivables		40,000	50,000
c. (d) Cash and cash equivalents		60,000	30,000
TOTAL		13.40.000	13.00.000

Notes to accounts

Particulars	Note No.	31-Mar-19	31-Mar-18
Reserves and surplus			
Statement of profit & loss A/c	1	40,000	1,80,000
Long-term borrowings			
12% Debentures	2	4,00,000	3,00,000
Short term borrowings			
Bank OD	3	60.000	50.000
Trade payables			
Creditors	4	40.000	30.000
Short term Provisions			
Provision for tax	5	20.000	40.000
II. ASSETS			
Tangible assets	6		
Land & Buildings		9,30,000	9,00,0000
Plant & machinery		2,30,000	2,40,000
Intangible assets	7		
Goodwill		30,000	40,000

Additional Information: -

1. During the year a part of machinery costing Rs.60,000 (accumulated depreciation amounted to rs-20,000 was sold at a loss of 10%.on its book value
2. Depreciation provided on land and buildings -30,000
3. Dividend paid during the year amounted to Rs.40,000

END OF CHAPTERS AND CURRICULAM

SOME USEFUL LINKS

https://cbseacademic.nic.in/web_material/CurriculumMain25/SrSec/Accountancy_SrSec_2024-25.pdf

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2024 CBSE BOARD EXAMINATION PAPERS ALONG WITH MARKING SCHEMES

BOARD QUESTION PAPER 1
ACCOUNTANCY

Time allowed: 3 hours Maximum Marks: 80

General Instruction:

Read the following instruction carefully and follow them:

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

(ii) This question paper is divided into parts - Part A and Part B.

(iii) Part A is compulsory for all candidates.

(iv) Part B has two options. Candidates have to attempt only one of the given option.

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

(vi) Questions number 17 to 29 (Part A) and Question number 31 and 32 (Part B) are short answer type questions. Each question carries 3 marks.

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

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

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

PART A
(Accounting for Partnership Firms and Companies)

1. (a) Dan, Elf and Furhan were partners in a firm sharing profits in the ratio of 5:3:2. With effect from 1st April, 2023, they decided to change their profit sharing ratio to 2:3:5. There existed a General Reserve of

Rs. 90,000 on the date of change in profit sharing ratio. The partners decided not to distribute General Reserve.

The necessary adjustment entry to show the effect of the above will be: 1

	Date	Particular	Dr. Amount (Rs.)	Cr. Amount (Rs.)
(A)		Dan's Capital A/c Dr. To Furhan's Capital A/c	27,000	27,000
(B)		Dan's Capital A/c Dr. To Furhan's Capital A/c	90,000	90,000
(C)		Furhan's Capital A/c Dr. To Dan's Capital A/c	27,000	27,000
(D)		Furhan's Capital A/c Dr. To Dan's Capital A/c	90,000	90,000

OR

(b) Sia ,Tom and Vidhi were partners in a firm sharing profits in the ratio of 3:2:1 With effect from 1st April, 2023, they decided to share profits and losses in the future in the ratio of 1:2:3. There existed a Debit Balance of Rs. 60,000 in Profit and Loss Account on that date. The necessary journal entry for distribution of the balance in the Profit and Loss Account will be: 1

	Date	Particular	Cr. Amount (Rs.)	Cr. Amount (Rs.)
(A)		Sia's Capital A/c Dr. Tom's Capital A/c Dr. Vidhi's Capital A/c Dr. To Profit and Loss A/c	30,000 20,000 10,000	60,000

(B)		Sia's Capital A/c Dr. Tom's Capital A/c Dr. Vidhi's Capital A/c Dr. To Profit and Loss A/c	10,000 20,000 30,000	60,000
(C)		Sia's Capital A/c Dr. To Vidhi's Capital A/c	20,000	20,000
(D)		Vidhi's Capital A/c Dr. To Sia's Capital A/c	20,000	20,000

2. (a) Money received in advance from shareholders before it is actually called up by the directors is: 1

(A) debited to calls in advance account
(B) credited to calls in advance account
(C) debited to share capital account
(D) credited to share capital account

OR

(b) An offer of securities or invitation to subscribe securities to a select group of persons is termed as: 1

(A) Buy back of shares
(B) Employee stock option plan
(C) Private placement of shares
(D) Sweat Equity

3. Xeno Ltd. issued 25,000 equity shares of Rs. 10 each. The amount was payable as follows:

On Application - Rs. 4 per share
On Allotment - Rs. 5 per share
On First and Final call - Balance

All the shares offered were applied for and allotted. All the money due on allotment was received except on 1,500 shares. These shares were forfeited immediately after allotment. First and final call was not yet made. At the time of forfeiture, Share Capital Account will be debited by: 1

(A)	Rs. 15,000	(B)	Rs. 24,000
(C)	Rs. 13,500	(D)	Rs. 18,000

4. (a) Atul, Beena and Sita were partners in a firm sharing profits and losses in the ration of 8:7:5. Damini was admitted as a new partner for 1/5th share in the profits which she acquired entirely from Atul. The new profit-sharing ratio after Damini's admission will be: 1

(A)	7 : 7 : 5 : 1	(B)	4 : 7 : 5 : 4
(C)	8 : 7 : 5 : 4	(D)	7 : 5 : 8 : 4

OR

(b) Rushil and Abheer were partners in a firm sharing profits and losses in the ratio of 4 :3. They admitted Sunil as a new partner for 3/7th share in the profits of firm, which he acquired 2/7th share from Rushil and 1/7th share from Abheer. The new profit sharing ratio of Rushil, Abheer and Sunil will be: 1

(A)	4 : 3 : 3	(B)	2 : 1 : 3
(C)	2 : 2 : 3	(D)	4 : 3 : 1

5. Alfa Ltd. invited applications for 50,000 equity shares of Rs. 10 each at a premium of 30%. The whole amount was payable on application. Applications were received for 2,50,000 shares. The company decided to allot the shares on a pro-rata basis to all the applicants. The amount refunded by the company was: 1

(A)	Rs. 32,50,000	(B)	Rs. 15,60,000
(C)	Rs. 39,00,000	(D)	Rs. 26,00,000

6. Assertion (A): Irredeemable debentures are also known as perpetual debentures.

Reason (R): The company does not give any undertaking for the repayment of money borrowed by issuing such debentures. They are repayable on the winding up of the company or on the expiry of a long period.

Choose the correct option from the following: 1

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

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

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

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

Read the following hypothetical situation and answer questions No.7 and 8 on the basis of the given information.

Abha and Babita were partners in clay toy making firm sharing profits in the ratio of 2 : 1. On 1st April, 2023, their capital accounts showed balances of Rs. 5,00,000 and Rs. 10,00,000 respectively. The partnership deed provides for interest on capital @ 10% p.a. The firm earned a profit of Rs. 90,000 during the year.

7. The amount of interest on capital allowed to Abha will be: 1

(A) Rs. 50,000 (B) Rs, 1,00,000

(C) Rs. 60,000 (D) Rs. 30,000

8. Babita's share in profit will be: 1

(A) Rs. 60,000 (B) Rs. 30,000

(c) Nil (D) Rs. 1,00,000

9. Abhay, Boris and Chetan were partners in a firms sharing profits in the ratio of Rs. 5 : 3 : 2. Boris was guaranteed a profit of Rs. 95,000. Any deficiency on account of this was to be borne by Abhay and Chetan equally. The firm earned a profit of Rs. 2,00,000 for the year ended 31st March, 2023. The amount given by Abhay to Boris as guaranteed amount will be: 1

(A) Rs. 17,500 (B) Rs. 35,000

(C) Rs. 25,000 (D) Rs. 10,000

10. Piyush, Rajesh and Avinash were partners in a firm sharing profits and losses equally. Shiva was admitted as a new partner for an equal share. Shiva brought his share of capital and premium for goodwill in cash. The

premium for goodwill amount will be divided among: 1

(A) Old partners in old ratio

(B) New partners in new ratio

(C) New partners in sacrificing ratio

(D) Old partners in sacrificing ratio

11. Assertion (A) : Each partner is a principal as well as an agent for all the other partners.

Reason (R) : As per the definition of Partnership Act, partnership business may be carried on by all the partners or nay of them acting for all.

Choose the correct option from the following: 1

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

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

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

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

12. Reserve capital is that part of _______________ capital which cannot be called except at the time of winding up of the company. 1

(A) Issued (B) Called up

(C) Uncalled (D) Nominal

13. (a) A Share of Rs. 100 on which Rs. 80 is received is forfeited for non-payment of final call of Rs. 20. The minimum price at which this share can be reissued is:1

(A) Rs. 120 (B) Rs. 100

(c) Rs. 80 (D) Rs. 20

(b) Shiv Ltd. forfeited 500 shares of Rs. 10 each on which Rs. 7 per share was paid. These shares were reissued for Rs. 9 per share fully paid. Amount transferred to Capital Reserve Account will be: 1

(A)	Rs. 3,000	(B)	Rs. 5,000
(C)	Rs. 4,500	(D)	Rs. 3,500

14. (a) Anju, Divya and Bobby were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Bobby retired. The new profit sharing ratio between Anju and Divya after Bobby's retirement was 5 : 3. The gaining ratio of remaining partners will be: 1

(A)	3 : 2	(B)	5 : 3
(C)	3 : 1	(D)	2 : 3

OR

(b) Mita, Veena and Atul were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Atul retired and his share was taken over by Mita and Veena in the ratio of 1 : 4. The new profit sharing ration between Mita and Veena after Atul's retirement will be: 1

(A)	3 : 2	(B)	8 : 7
(C)	7 : 3	(D)	2 : 3

15. Aavya, Mitansh and Praveen were partners in a firm. On 31st March, 2023, the firm was dissolved. Creditors took over furniture of book value of Rs. 50,000 at Rs. 45,000 in part settlement of their amount of Rs. 60,000. The balance amount was paid to them through cheque. The amount paid through cheque will be: 1

(A)	Rs. 10,000	(B)	Rs. 50,000
(C)	Rs. 45,000	(D)	Rs. 15,000

16. Alex, Benn and Cole were partners in a firm sharing profits and losses in the ration of 5 : 3 : 2. They admitted Dona as a new partner for 1/5th share in the future profits. Dona agreed to contribute proportionate capital. On the date of admission, capital of Alex, Benn and Cole after all adjustments were Rs. 1,20,000; Rs. 80,000 and 1,00,000 respectively. The amount of capital brought in by Donna will be: 1

(A)	Rs. 75,000	(B)	Rs. 60,000
(C)	Rs. 65,000	(D)	Rs. 70,000

17. Anmol, Badal and Cheenu were partners in a firm sharing profits and losses in the ratio of 5 : 4 : 3. Badal retired. Anmol and Cheenu decided to share profits and losses in future in the ratio of 1 : 2. On the day of Badal's retirement, goodwill of the firm was valued at Rs. 1,20,000. Calculate gaining ratio and pass necessary journal entry to record the treatment of goodwill (without opening goodwill account), on Badal's retirement. 3

18. Pran and Ron were partners in a firm with a combined capital of Rs. 3,00,000. The normal rate of return was 15%. The profits of the last four years were as follows:

	Rs.
2019-20	50,000
2020-21	90,000
2021-22	80,000
2022-23	70,000

The closing stock for the year 2022-23 was undervalued by Rs. 10,000. Calculate goodwill of the firm based on capitalization of super profit. 3

19. (a) Sunrise Ltd. acquired assets of Rs. 3,60,000 and took over creditors of Rs. 1,00,000 form Moonlight Ltd. for an agreed purchase consideration of Rs. 4,80,000. Sunrise Ltd. issued 9% Debentures of Rs. 100 each at a discount of 4% in satisfaction of the purchase consideration.

Pass necessary journal entries in the books of Sunrise Ltd. Show your working clearly. 3

OR

(b) Grapple Ltd. took over assets of Rs. 25,00,000 and liabilities of Rs. 5,00,000 from Allore Ltd. for an agreed purchase consideration of Rs. 18,00,000. Grapple Ltd issued 11% Debentures of Rs. 100 each at 20% premium in satisfaction of the purchase consideration.

Pass necessary journal entries in the books of Grapple Ltd. Show your working clearly. 3

20. (a) Mohan, Suhaan and Adit were partners in a firm sharing profits and losses in the ratio of 3 : 2 : 1. Their fixed capitals were: Rs. 2,00,000, Rs, 1,00,000 and Rs.1,00,000 respectively. For the year ended 31st March, 2023, interest on capital was credited to their accounts @ 8%p.a. instead of 5% p.a.

Pass necessary adjusting journal entry. Show your working clearly. 3

OR

(b) Manoj and Nitin were partners in a firm sharing profits and losses in the ration of 2 : 1. On 31st March, 2023, the balances in their capital accounts after making adjustments for profits and drawings were Rs. 90,000 and Rs. 80,000 respectively. The net profit for the year ended 31st March, 2023 amounted to Rs. 30,000. During the year Manoj withdrew Rs. 40,000 and Nitin withdrew Rs. 20,000. Subsequently, it was noticed that Interest on Capital @10% p.a. was not provided to the partners. Also Interest on Drawings to Manoj Rs. 3,000 and to Nitin Rs. 2,000 was not charged.

Pass necessary adjusting journal entry. Show your workings clearly. 3

21. Shivalik Limited was registered with an authorized capital of Rs. 10,00,000 divided into equity shares of Rs. 10 each.

It offered 50,000 equity shares to the public. The amount was payable as follows:

On Application	-	Rs. 2 per share
On Allotment	-	Rs. 6 per share
On First and Final call	-	Balance

The issue was fully subscribed. All the amounts were duly received except the allotment and first and final call money on 4,000 equity shares. These equity shares were forfeited.

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

22. Archana, Vandana and Arti were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. Their Balance Sheet on 31st March, 2023 was as follows:

Balance Sheet of Archana, Vardana and Arti as at 31st March, 2023

Liabilities	Amount Rs	Assets	Amount Rs.
Capitals:		Investments	80,000
Archana 80,000		Plant	1,00,000
Vandana 70,000		Stock	40,000
Arti 60,000	2,10,000	Debtors	50,000
General Reserve	30,000	Cash at Bank	30,000
Creditors	60,000		
	3,00,000		3,00,000

The firm was dissolved on the above date.

(i) Assets were realized as follows:

Debtors - Rs. 40,000

Stock - Rs. 50,000

Plant - Rs. 60,000

(ii) 25% of the investments were taken over by Vandana at Rs. 18,000. Remaining Investments were taken over by Archana at 10% less than its book value.

(iii) Expenses of realisation Rs. 20,000 were paid by Arti.

Prepare Realisation Account. 4

23. Jatin, Kartik and Lakhan were partners in a firm sharing profits and losses in the ratio of 7 : 5 :3. Their Balance Sheet as at 31st March, 2023, was as follows:

Balance Sheet of Jatin, Kartik and Lakhan as at 31st March, 2023

Liabilities	Amount Rs	Assets	Amount Rs.
Bill Payable	80,000	Bank	40,000
General Reserve	60,000	Stock	80,000
Capitals :		Debtors	1,00,000
Jatin 1,00,000		Fixed Assets	1,20,000
Kartik 60,000			
Lakhan 40,000	2,00,000		

	3,40,000		3,40,000

Kartik died on 30th September, 2023. According to the partnership deed, Kartik's legal representatives were entitled to the following:

(i) Balance in his Capital Account

(ii) Interest on capital @ 10% p.a.

(iii) His share of goodwill. Goodwill of the firm was valued on the basis of twice the average of the preceding four years profits.

(iv) His share in profits up to the date of death on the basis of total profits for the preceding two years.

Profits for the previous four years were:

	Rs.
2019-20	1,41,000
2020-21	(30,000)
2021-22	60,000
2022-23	69,000

Prepare Kartik's Capital Account to be rendered to his legal representatives. 6

24. On 1st April, 2022, Zoltas Ltd. issued 20,000 7% Debentures of Rs. 100 each at a discount of 5%, redeemable at par after five years. The company had a balance of Rs. 70,000 in Securities Premium Account.

(a) Pass necessary journal entries for issue of debentures and for writing off 'Discount on Issue of Debentures' utilizing Securities Premium Account at the end of first year itself.

(b) Prepare 'Discount on Issue of Debentures Account' for the year ended 31st March, 2023. 6

25. (a) Qumtan Ltd. invited applications for issuing 1,00,000 equity shares of Rs. 10 each at premium of Rs. 6 per share. The amount was payable as follow:

On Application and Allotment - Rs. 8 per share (Including premium Rs.3)

On First and Final call - Balance (including premium)

Application for 1,60,000 shares were received. Applications for 10,000 shares were rejected and pro-rata allotment was made to the remaining applicants. Excess money received on application and allotment was returned. Dheeraj, who was allotted 200 shares, failed to pay the first and final call money. His shares were forfeited. All the forfeited shares were reissued at Rs. 5 per share fully paid up.

Pass necessary journal entries in the book of Qumtan Ltd. 6

OR

(b) Printkit Limited invited applications for issue for issue of 80,000 equity shares of Rs. 10 each. The amount was payable as follows:

On Application	-	Rs. 3 per share
On Allotment	-	Rs. 2 per share
On First and Final call	-	Balance

Application for 1,50,000 shares were received. Applications for 10,000 shares were rejected and pro-rata allotment was made to the remaining applicants on the following basis:

Category A	-	Applicants for 80,000 shares were allotted 40,000 shares
Category B	-	Applicants for 60,000 shares were allotted 40,000 shares

Excess money received on application was adjusted towards amount due on allotment and first and final call. All the amounts due on allotment and first and final call were duly received.

Pass necessary journal entries in the books of Printkit Limited. 6

26. (a) Shubhi and Revanshi were partners in a firm sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2023 was as follows.

Balance Sheet of Shubhi and Revanshi as at 31st March, 2023

Liabilities		Amount Rs	Assets	Amount Rs.
Capitals:			Fixed Assets	90,000
Shubhi	60,000		Stocks	38,000
Revanshi	32,000	92,000	Debtors	30,000
General Reserve		30,000	Cash	52,000

Bank Loan	18,000		
Creditors	70,000		
	2,10,000		2,10,000

On 1st April, 2023 they admitted Pari into the partnership on the following terms:

(i) Pari will bring Rs. 50,000 as her capital and Rs. 50,000 for her share of premium for goodwill for 1/4th share in the profits of the firm.

(ii) Fixed assets were depreciated @ 30%.

(iii) Stock was valued at Rs. 45,000.

(iv) Bank loan was paid off.

(v) After all adjustments capitals of Shubhi and Revanshi were to be adjusted taking Pari's capital as the base. Actual cash was to be paid off or brought in by the old partners as the case may be. Prepare Revaluation Account and Partners' Capital Account. 6

OR

(b) Rishi, Shashi and Trishi were partners in the firm sharing profits and losses in proportion of 1/2, 1/6 and 1/3 respectively. Their Balance Sheet as at 31st March was as follows:

Balance Sheet of Rishi, Shashi and Trishi as at 31st March, 2023

Liabilities	Amount Rs.	Assets	Amount Rs.
Capitals:		Fixed Assets	80,000
Rishi 36,000		Stocks	20,000
Shashi 30,000		Debtors	30,000
Trishi 20,000	86,000	Cash	40,000
General Reserve	30,000		
creditors	54,000		
	1,70,000		1,70,000

Shashi retired from the firm on 1st April, 2023 on the following terms:

(i) Fixed Assets were valued at Rs. 56,000.

(ii) Stock was taken over by Shashi at Rs. 26,000.

(iii) Goodwill of the firm was valued at Rs. 18,000 on Shashi's retirement.

(iv) Balance in Shashi's Capital Account was transferred to her loan account.

Prepare Revaluation Account and Partners' Capital Accounts. 6

PART B

OPTION-I

(Analysis of Financial Statements)

27. (a) Analysis of Financial Statements is useful and significant to different users. Which of the following users is particularly interested in the firm's ability to meet their claims over a very short period of time? 1

(A) Labour Unions (B) Trade Payables

(c) Top Management (D) Finance Manager

OR

(b) _________________ratios are calculated to determine the ability of the business to service its debt in the long run. 1

(A) Liquidity (B) Turnover

(c) Solvency (D) Profitability

28. (a) The transaction 'Acquisition of machinery by issue of equity shares of Rs. 5,00,00,000' will result in: 1

(A) Cash inflow of Rs. 5,00,00,000 from financing activities.

(B) Cash outflow of Rs. 5,00,00,000 from financing activities.

(C) Cash outflow of rs. 5,00,00,000 from investing activities.

(D) No flow of cash.

OR

(b) The transaction 'Capital Gains Tax paid on sale of fixed assets' is classified under which of the following: 1

(A) Operating Activities

(B) Investing Activities

(C) Financing Activities

(D) Cash and Cash Equivalents

29. The quick Ratio of a company is 1: 2. Which of the following transactions will result in an increase in this ratio? 1

(A) Cash received from debtors

(B) Sold good on credit

(C) Purchased goods on credit

(D) Purchased goods on Cash

30. Identify which of the following transaction will result in "Cash Inflow From Operating Activities": 1

(A) Payment to Creditors

(B) Interest received by a non-finance company

(C) Dividend received by a non-finance company

(D) Amount received from debtors

31. Classify the following items under major heads and sub-heads (if any) in Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013: 3

(a) Cheques in hand

(b) Marketable securities

(c) Trademarks

32. From the given information, calculate: 3

(a) Trade Receivables Turnover Ratio

(b) Current Ratio

Particulars	Amount (Rs.)
Credit Revenue from operations	80,00,000
Debtors	25,00,000
Bills Receivables	15,00,000
Total Assets	50,00,000
10% Debentures	12,00,000
Creditors	13,00,000
Bill Payable	7,00,000

33. (a) From the given Balance Sheet of Geox Ltd., prepare Common Size Balance Sheet: 4

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

Particulars	Note No.	31.03.2023 (Rs.)	31.03.2022
I. Equity and Liabilities			
1. Shareholders' funds			
a. Share Capital		4,00,000	2,50,000
2. Non – Current Liabilities			
a. Long-term Borrowings		2,00,000	1,50,000
3. Current Liabilities			
a. Trade payables		2,00,000	1,00,000
Total		8,00,000	5,00,000
II. Assets:			
1. Non – Current Assets			
a. Fixed Assets/Property, Plant and Equipment and Intangible Assets		4,00,000	3,50,000
2. Current Assets			
a. Inventories		2,00,000	70,000
b. Trade Receivables		2,00,000	80,000
Total		8,00,000	5,00,000

OR

(b) From the following information, prepare a Comparative Statement of Profit and Loss for the year ended 31st March, 2022 and 2023:

Particulars	Note No.	2022-23 (Rs)	2021-22 (Rs.)
Revenue from operations		10,00,000	8,00,000
Employee benefit expenses		2,50,000	1,00,000
Other expenses		5,50,000	4,00,000
Tax rate 50%			

34. From the following information, calculate 'Cash Flows from OperatinActivities': 6

Particulars	Amount (Rs.)
Surplus i.e Balance in statement of Profit and Loss	6,28,000
Provision for Tax	1,50,000
Proposed Dividend for the previous year	72,000

Depreciation	1,40,000
Loss on Sale of Machinery	30,000
Gain on Sale of Investments	20,000
Dividend Received on Investments	6,000
Increase in Current Liabilities	1,61,000
Increase in Current Asset (other than cash and cash equivalents)	6,00,000
Decrease in Current Liabilities	64,000
Income Tax paid	1,18,000

MARKING SCHEME FOR 2024 CBSE BOARD QUESTION PAPER - 1

MARKING SCHEME

Senior Secondary School Examination, 2024

ACCOUNTANCY [Paper Code — 67/1/3]

Q. No.	EXPECTED ANSWER / VALUE POINTS

PART A
(Accounting for Partnership Firms and Companies)

1. Q. (a) Dan, Elf and Furhan were partners in a firm….

Ans.

	Date	Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
(C)		Furhan's Capital A/c Dr. To Dan's Capital A/c	27,000	27,000

1 MARK

OR

(b) Sia, Tom and Vidhi were partners in a firm….

Ans.

Date	Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
	Sia's Capital A/c Dr. Tom's Capital A/c Dr. Vidhi's Capital A/c Dr. To Profit & Loss A/c	30,000 20,000 10,000	60,000

1 MARK

2. Q.(a) Money received in advance from shareholders…

Ans. (B) Credited to calls in advance account 1 MARK

OR

(b) An offer of securities or invitation….

Ans (C) Private placement of shares 1 MARK

3. Q. Xeno Ltd. issued 25,000 equity shares….

Ans. (C) Rs.13,500 1 MARK

4. Q. Atul, Beena and Sita were partners in a firm…. 1 MARK

Ans. (B) 4:7:5:4

OR

Q. Rushil and Abheer were partners in a firm…. 1 MARK

Ans. (C) 2:2:3

5.	Q. Alfa Ltd. invited applications for…. 1 MARK Ans. (D) Rs.26,00,000
6.	Q. Assertion (A): Irredeemable debentures are also known as… Ans. (A) Both Assertion (A) and Reason (R) are correct and reason (R) is the correct explanation of Assertion (A). 1 MARK
	Read the following hypothetical….
7.	Q. The amount of interest on capital… Ans. (D) Rs.3 1 MARK
8.	Q. Babita's share in profit…. Ans. (C) 1 MARK
9.	Q. Abhay, Boris and Chetan were partners in a firm…. Ans. (A) Rs.17,500 1 MARK
10.	Q. Piyush, Rajesh and Avinash were partners in a firm… Ans. (D) Old partners in sacrificing ratio1 MARK
11.	Q. Assertion(A): Each partner is a principal…. Ans. (B) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A). 1 MARK
12.	**Q.** Reserve capital is that part… Ans. (C) Uncalled 1 MARK
13.	Q. (a) A share of Rs.100 on which Rs.80 is received…. Ans. (D) Rs.20 1 MARK **OR** (b) Shiv Ltd. forfeited 500 shares of 10 each…. Ans. (A) Rs.3,000 1 MARK
14.	Q. (a) Anju, Divya and Bobby were partners in a firm…. **Ans.** (C) 3:1 1 MARK **OR** Q. (b) Mita, Veena and Atul were partners in a firm…. **Ans.** (B) 8:7 1 MARK
15.	Q. Aavya, Mitansh and Praveen were partners in a firm. Ans. (D) Rs.15,000 1 MARK
16.	Q. Alex, Benn and Cole were partners in a firm… Ans. (A) Rs.75,000 1 MARK

17.

Q. Anmol, Badal and Cheenu were partners in a firm…

Ans.

Gain = New share - Old Share
Anmol's Gain= 1/3 - 5/12 = -1/12 (sacrifice)
Cheenu's Gain = 2/3 - 3/12 = 5/12 (gain)

In the books of Anmol, Badal and Cheenu

Journal

Date	**Particulars**	**L.F**	**Dr. Amount (Rs.)**	**Cr. Amount (Rs.)**
	Cheenu's Capital A/c Dr.		50,000	
	To Anmol's Capital A/c			10,000
	To Badal's Capital A/c			40,000
	(Goodwill treated on Badal'sretirement without opening Goodwill account)			

2

= 3 MARK

18.

Q. Pran and Ron were partners in a firm….

Ans.

Calculation of Normal Adjusted Profit

Year	Profit (Rs.)	Adjustment (Rs.)	Adjusted Profit(Rs.)
2019-20	50,000	-	50,000
2020-21	90,000	-	90,000
2021-22	80,000	-	80,000
2022-23	70,000	10,000	80,000
TOTAL			3,00,000

Average Profit= (Total Adjusted Profit)/ No. of years
= 3,00,000/4 = Rs.75,000

$$\text{Normal Profit} = \text{Capital Employed} \times \frac{\text{Normal Rate of Return}}{100}$$

$$= 3,00,000 \times \frac{15}{100} = \text{Rs.}45,000$$

Super Profit = Average Profit – Normal Profit
= 75,000 - 45,000 = Rs.30,000

$$\text{Goodwill} = \text{Super Profit} \times \frac{100}{\text{Normal Rate of Return}}$$

$$= 30,000 \times \frac{100}{15}$$

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

19. Q. (a) Sunrise Ltd. acquired assets of Rs.3,60,000…..

Ans.

In the books of Sunrise Ltd.

JOURNAL

Date	Particulars	L.F	Dr. Amount (Rs.)	Cr. Amount (Rs.)
	Sundry Assets A/c Dr.		3,60,000	
	Goodwill A/c Dr.		2,20,000	
	To Creditors A/c			1,00,000
	To Moonlight Ltd			4,80,000
	(Assets acquired and liabilities taken over from Moonlight Ltd)			
	Moonlight Ltd. Dr.		4,80,000	
	Discount on Issue of Debentures A/c Dr.			
	To 9% Debentures A/c		20,000	
	(Purchase consideration settled by issuing 5,000 9% debentures at 4% discount)			5,00,000

Working Note:

No. of debentures = (Purchase Consideration) / Issue Price (½)

= 4,80,000/ 96

= 5,000

OR

(b) Q. Grapple Ltd. took over assets of Rs.25,00,000…..

Ans. In the books of Grapple Ltd.

JOURNAL

Working Note:

No. of debentures = (Purchase Consideration) / Issue Price

= 18,00,000/ 120

= 15,000

20.

Q. (a) Mohan, Suhaan and Adit were partners in a firm….

Ans Solution:

In the Books of Mohan, Suhaan and Adit

JOURNAL

Date	Particulars	L.F	Dr. Amount (Rs.)	Cr. Amount (Rs.)	
	Adit's Current A/c Dr. To Suhaan's Current A/c (Adjustment entry for Interest on Capital credited at a higher rate)		1,000	1,000	(1)

Working Notes:

Statement of Adjustment

Particulars	Mohan Rs.	Suhaan Rs.	Adit Rs.	
Interest on capital to be debited	(6,000)	(3,000)	(3,000)	(2) =3 MARK
Profit to be credited now (Rs.12,000 in 3:2:1)	6,000	4,000	2,000	
Adjustment	-	1,000 Cr.	(1,000) Dr.	

(NOTE: Full credit be given if working notes are prepared in any other form)

OR

(b) Q. Manoj and Nitin were partners in a firm….

Ans. In the Books of Manoj and Nitin

JOURNAL

Date	Particulars	L.F	Dr. Amount (Rs.)	Cr. Amount (Rs.)	
	Manoj's Capital A/c Dr. To Nitin's Capital A/c (Adjustment entry for omission of Interest on Capital and Interest on Drawings)		2,000	2,000	(1)

Working Notes:

Calculation of Opening Capital

Particulars	**Manoj Rs.**	**Nitin Rs.**	
Closing Capital	90,000	80,000	½
Add: Drawings	40,000	20,000	
Less: Profit (Rs.30,000 in 2:1)	(20,000)	(10,000)	
Opening Capital	1,10,000	90,000	

Statement of Adjustment

Particulars	**Manoj Rs.**	**Nitin Rs.**	
Amount to be credited Interest on Capital	11,000 (3,000)	9,000 (2,000)	(1 ½) = 3 MARK
Less: Interest on Drawings	8,000	7,000	
Amount to be debited now (Rs.15,000 in 2:1)	(10,000)	(5,000)	
Adjustment	(2,000) Dr	2,000 Cr	

(NOTE: Full credit be given if working notes are prepared in any other form

21. Q. Shivalik Ltd. was registered with an authorised capital….

Ans. Shivalik Ltd.

BALANCE SHEET (extract) As a ……

Particulars	Note No.	Amount (Rs.)	
I Equity and Liabilities 1. Shareholders’ Funds (a) Share Capital	1	4,68,000	(1)

Notes to Accounts:

Particulars	Amount Rs.	
1. **Share Capital**		
Authorised Capital		
1,00,000 equity shares of Rs.10 each	10,00,000	(1)
Issued Capital		
50,000 equity shares of Rs.10 each	5,00,000	(1)
Subscribed Capital		
Subscribed & fully paid-up		
46,000 equity shares of Rs.10 each	4,60,000	
Add: Share Forfeiture A/c	8,000	(1) = 4 MARK
	4,68,000	

22. Q. Archana, Vandana and Arti were partners in a firm….

Ans.

Dr Realisation A/c Cr

23. Q. Jatin, Kartik and Lakhan were partners in a firm….

Ans.

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**	

To Kartik's Executor's A/c/ Legal Representatives A/c (½)	1,44,500	By Bal b/d	60,000	
		By General Reserve A/c	20,000	(1/2)
		By Interest on Capital A/c	3,000	(1)
		By Jatin's Capital A/c	28,000	(1)
		By Lakhan's Capital A/c	12,000	(1)
		By Profit and LossSuspense A/c	21,500	(1)
	1,44,500		1,44,500	(1)

Working Notes:

(i) Goodwill = $\frac{2 \times 2,40,000}{4}$ = 1,20,000

Kartik's Share in firm's Goodwill = 1,20,000 x 5/15 = 40,000 Gaining ratio between Jatin and Lakhan = 7:3

(ii) Kartik's Share in the Profit upto the date of death

= 1,29,000 x 6/12 x 5/15 = 21,500

NOTE: No marks to be awarded for the working notes

24.

Q.(a) On 1st April,2022, Zoltas Ltd. issued…..

Ans

(a) Books of Zoltas Ltd.

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Date	Particulars	L.F	Dr Amount (Rs.)	Cr Amount (Rs.)	
2022	(i)				
Apr 1	Bank A/c Dr.		19,00,000		
	To Debenture Application & Allotment A/c			19,00,000	(1)
	(Application money received for 20,000 7% Debentures)				
	(ii)				
Apr 1	Debenture Application & Allotment A/c Dr		19,00,000		(2)
	.Discount on issue of Issue of Debentures A/c Dr		1,00,000		
	. To 7% Debentures A/c			20,00,000	
	(Debentures issued at 5% discount)				
	(iii)				
023	Securities Premium A/cDr.		70,000		(1)
Mar 31	Statement of Profit and Loss Dr.		30,000		
	To Discount on Issue of Debentures A/c			1,00,000	=6 marks
	(Discount on issue of debentures written off)				

(b)

Discount on Issue of Debentures A/c

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
1.4.22	To 7% Debentures A/c	1,00,000	31.3.23	By Securities Premium A/c	70,000
				By Statement of Profit and Loss	30,000
		1,00,000			1,00,000

25. Q.(a) Qumtan Ltd. invited applications….

Ans..

In the Books of Qumtan Ltd.

JOURNAL

Date	**Particulars**	**L.F**	**Dr. Amount (Rs.)**	**Cr. Amount (Rs.)**
	(i)			
	Bank A/c Dr.		12,80,000	
	To Equity Share Application and Allotment A/c			12,80,000
	(Application and allotment money received on 1,60,000 shares)			
	(ii)			
	Equity Share Application and Allotment A/c Dr.		12,80,000	
	To Equity Share Capital A/c			5,00,000
	To Securities Premium A/c			3,00,000
	To Bank A/c			4,80,000
	(Application money transferred to Share Capital and Securities Premium; excess amount returned)			
	(v)			
	Equity Share First & Final Call A/c Dr.		8,00,000	
	To Equity Share Capital A/c			5,00,000
	To Securities Premium A/c			3,00,000
	(Share First & Final Call money			

		due)			
		(vi) Bank A/c Dr. Calls- in- Arrears A/c Dr. To Equity Share First & Final Call A/c (Share first and final call moneyreceived except on 200 shares)		7,98,400 1,600	8,00,000
		Alternatively Bank A/c Dr. To Equity Share First & Final Call A/c (Share first and final call money received except on 200 shares)		7,98,400	7,98,400
		(vii) Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Calls- in- Arrears A/c To Share Forfeiture A/c (200 equity shares forfeited for non-payment of first and final call)		2000 600	1600 1000
		Alternatively Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Equity Share First and Final Call A/c To Share Forfeiture A/c (200 equity shares forfeited for non-payment of first and final call)		2000 600	1600 1000

	(viii)			
	Bank A/c Dr.		1000	
	Share Forfeiture A/c Dr.		1000	2000
	To Equity Share Capital A/c(200 forfeited shares reissued)			

OR

(b) Printkit Limited invited applications…..

Ans

In the books of Printkit Limited

JOURNAL

Date	Particulars	L.F	Dr. Amount (Rs.)	Cr.Amount (Rs.)
	(i)			
	Bank A/c Dr.		4,50,000	
	To Equity Share Application A/c			4,50, 000
	(Application money received on 1,50,000 shares)			
	(ii)			
	Equity Share Application A/c Dr.		4,50,000	
	To Equity Share Capital A/c			2,40,000
	To Equity Share Allotment A/c			1,40,000
	To Calls-in- Advance A/c			40.000
	To Bank A/c			30,000
	(Application money transferred to Share Capital and 10,000 shares rejected; excess amount adjusted to Share Allotment A/c and calls-in- advance			
	(iii)			
	Equity Share Allotment A/c Dr.		1,60,000	
	To Equity Share Capital A/c (Allotment money			1,60,000

	due on 80,000 shares)			
	(iv) Bank A/c Dr.		20,000	
	To Equity Share Allotment A/c(Allotment money received after adjusting excess application money)			20,000
	(v) Equity Share First & Final Call A/c Dr.		4,00,000	
	To Equity Share Capital A/c (Share First & Final Call money due)			4,00,000
	(vi) Bank A/c Dr.		3,60,000	
	Calls- in- Advance A/c Dr.		40,000	
	To Equity Share First & Final Call A/c (Share first and final call money received after adjusting calls- in-advance)			4,00,000
				=6 marks

26. Q. (a) Shubhi and Revanshi were partners in a firm....

Ans.

Dr. **REVALUATION A/c** Cr.

Particulars	**Amount Rs.**	**Particulars**	**Amount Rs.**	
To Fixed Assets A/c ½	27,000	By Stock A/c ½	7,000	
		By Loss transferred to Partners' Capital A/c: ½ Shubhi- 12,000 Revanshi- 8,000	20,000	(1 ½)
	27,000		27,000	

Dr. **PARTNERS' CAPITAL A/c** Cr.

Particulars	Shubhi Rs.	Revanshi Rs.	Pari Rs.	Particulars	Shubhi Rs.	Revanshi Rs.	Pari Rs.	

To Revaluation A/c ½	12,000	8,000		By Bal b/d ½	60,000	32,000		(4 ½)
To Cash A/c ½	6,000			By General Reserve A/c ½	18,000	12,000		=6 mark
To Bal c/d 1	90,000	60,000	50,000	By Cash A/c ½			50,000	(1 ½)
				By Premium for Goodwill A/c ½	30,000	20,000		
				By Cash ½ A/c		4,000		
	1,08,000	68,000	50,000		1,08,000	68,000	50,000	

OR

(b)Rishi, Shashi and Trishi were partners in a firm....

Dr. REVALUATION A/c Cr

Particulars	Amount Rs.	Particulars	Amount Rs.	
To Fixed Assets A/c ½	24,000	By Stock A/c	6,000	(4 ½)
		½By Loss transferred to Partners' Capital A/c: ½ Rishi- 9,000 Shashi- 3,000 Trishi- 6,000	18,000	= 6 marks
	24,000		24,000	

Dr. PARTNERS' CAPITAL A/c Cr.

Particulars	Rishi Rs.	Shashi Rs.	Trishi Rs.	Particulars	Rishi Rs.	Shashi Rs.	Trishi Rs.
To Revaluation	9,000	3,000	6,000	By Bal b/d	36,000	30,000	20,000

A/c ½							
To Stock A/c ½		26,000		½By General Reserve A/c	15,000	5,000	10,000
To Shashi's Capital A/c½	1,800		1,200	By Rishi's Capital A/c		1,800	
To Shashi's LoanA/c ½		9,000		By Trishi's CapitalA/c ½		1,200	
To Bal c/d ½	40,200		22,800				
	51,000	38,000	30,000		51,000	38,000	30,000

PART B OPTION - I
(Analysis of Financial statements)

27. Q. (a) Analysis of Financial Statements is useful…

Ans. (B) Trade Payables

(1)

OR

(b) ______________________ratios are calculated to determine…..

Ans. (C) Solvency (1)

28. Q. (a) The transaction 'Acquisition of machinery……

Ans. (D) No flow of cas (1)

OR

(b)The transaction ' Capital Gains tax….

Ans. (B) Investing Activities(1)

29. Q. The quick ratio of a company is …..

Ans. (B) Sold goods on credit(1)

30. Q. Identify which of the following transactions….

Ans. (D) Amount received from debtors(1)

31. Q. Classify the following items under major heads….

Ans.

Items	**Major Heads**	**Sub heads**
(a) Cheques-in-hand	Current Assets	Cash and cash Equivalents
(b) Marketable Securities	Current Assets	Current Investments
(c) Trademarks	Non-Current Assets	Fixed Assets/ Property, Plant and Equipment and Intangible Assets - Intangible Assets

32.

Q. From the given information, calculate …..

Ans

(a) Trade Receivables Turnover Ratio = Credit Revenue from Operations ½

Average Trade Receivables

Average Trade Receivables = Debtors + Bills Receivables

= 25,00,000 + 15,00,000

= Rs.40,00,000 ½

Trade Receivables Turnover Ratio = 80,00,000 = 2 times ½

40,00,000

(b) Current Ratio= Current Assets ½

Current Liabilities

Current Assets = Debtors + Bills Receivable

= 25,00,000 + 15,00,000

= Rs.40,00,000 ½

Current liabilities = Creditors + Bills Payables

= 13,00,000 + 7,00,000 = 20,00,000

Current Ratio = 40,00,000 = 2:1 ½

33.

Q. (a) From the given Balance Sheet of Geox Ltd., ………Geox Ltd

Common size Balance Sheet

As at March 31, 2022 and March 31, 2023

Particulars	Absolute Amounts		Percentage of Total Assets		
	31.3.2022 (Rs.)	31.3.2023 (Rs.)	31.3.2022 (%)	31.3.2023 (%)	
I - Equity and Liabilities:					
1. Shareholders' Funds					
(a) Share Capital	2,50,000	4,00,000	50	50	(½)
2. Non- Current Liabilities					(½)
(a) Long Term Borrowings	1,50,000	2,00,000	30	25	
3. Current Liabilities					
(a) Trade Payables	1,00,000	2,00,000	20	25	(½)
TOTAL	5,00,000	8,00,000	100	100	
II – Assets:					
1. Non – Current Assets					
(a) Fixed Assets/Property, Plant and Equipment and Intangible Assets	3,50,000	4,00,000	70	50	(½)
2. Current Assets					
(a) Inventories	70,000	2,00,000	14	25	(½)
(b) Trade Receivables	80,000	2,00,000	16	25	(½)
TOTAL	5,00,000	8,00,000	100	100	

OR

b)Q. From the following information, prepare a Comparative Statement of Profit and Loss…

Ans. Comparative Statement of Profit &Loss

For the year ended March 31, 2023

Particulars	2021- 22 (Rs.)	2022-23 (Rs.)	Absolute Increase or Decrease (Rs.)	Percentage Increase or Decrease (%)
I Revenue from Operations	8,00,000	10,00,000	2,00,000	25
II Less: Expenses				
Employee Benefit Expenses	1,00,000	2,50,000	1,50,000	150
Other Expenses	4,00,000	5,50,000	1,50,000	37.5
III Profit before Tax	3,00,000	2,00,000	(1,00,000)	(33.3)
IV Less: Tax @ 50%	1,50,000	1,00,000	(50,000)	(33.3)
V Profit after Tax	1,50,000	1,00,000	(50,000)	(33.3)

34. Q. From the following information….

Ans.

Cash Flows from Operating Activities

Particulars	**Details Rs.**	**Amount Rs.**	
Net Profit before Tax and Extraordinary items Adjustments for Non- Cash and Non- operating items Add: Depreciation Loss on Sale of Machinery Less: Gain on Sale of Investments Dividend Received on Investments Operating profit before Working Capital changes Add: Increase in Current Liabilities Less: Increase in Current Assets Decrease in Current LiabilitiesCash generated from operations Less: Income Tax paid Net cash inflows from Operating Activities	8,50,000 1,40,000 30,000 (20,000) (6,000) 9,94,000 1,61,000 (6,00,000) (64,000) 4,91,000 (1,18,000)	**3,73,000**	(½) (½) (½) (½) (½) (½) (½)

Calculation of Net Profit before Tax and Extraordinary items

Surplus = 6,28,000

+ Provision for Tax = 1,50,000 (1)

+ Proposed Dividend = 72,000

8,50,000

=6 marks

2024 CBSE BOARD QUESTION PAPER 2
CLASS 12 ACCOUNTANCY

PART-A
(Accounting for Partnership Firms and Companies)

1. Kanha, Resham and Nisha were partners in a firm. Nisha had given a loan of **Rs.**1,00,000 to the firm @ 10% p.a. The accountant of the firm is emphasizing that interest on loan will be paid @ 6% p.a. At what rate ther interest on loan will be paid to Nisha?

(A) 6% p.a. (B) 10% p.a.

(C) 8% p.a. (D) No interest on loan will be paid. **1**

2. Gupta and Sharma are partners in a firm sharing profit in the ratio of 4:1. They admitted Preeti as a new partner for 1/4th share in the profits, which she acquired wholly from Gupta. New profit sharing ratio of Gupta, Sharma and Preeti will be:

(A) 2:1:1 (B) 11:4:5

(C) 3:3:2 (D) 7:5:4 **1**

3. Aditya, Vishesh and Nimesh were partners in a firm sharing profits and losses equally. Aditya died on 1s July, 2023. Remaining partners decided to continue the business of the firm and decided to share future profits in the ratio of 4:3. The gaining ratio of Vishesh and Nimesh will be:

(A) 4:3 (B) 3:2

(C) 5:2 (D) 1:1 **1**

4. (a) Vishant Ltd. Invited applications for issuing 6,000 equity shares of **Rs.**10 each at 10% premium. The issue was fully subscribed. The amount per share was payable as follows: On application -**Rs.** 3, on allotment - **Rs.**3 (including premium), on first call - **Rs.**3 and on final call - **Rs.**2. Ashish the holder of 200 shares paid the entire money along with allotment. The total amount received on allotment was

(A) **Rs.**18,000 (B) **Rs.**19,000

(C) **Rs.**25,000 (D) **Rs.**21,000 **1**

OR

(b) M Ltd. forfeited 5,000 equity shares of **Rs.** 10 each issued at a premium of 10% for non-payment of final call of **Rs.**2 per share. The minimum amount at which these shares can be reissued as fully paid up will be

(A) **Rs.**5,000 (B) **Rs.**10,000

(C) **Rs.**12,000 (D) **Rs.**50,000 **1**

5. **Assertion (A) :** Under the fixed capital method, partners' capital accounts always show a credit balance.

Reason (R) : Under the fixed capital method, all items like share of profit or loss, interest on capital, drawings, interest on drawings are recorded in a separate account called partners' current account.

Choose the correct alternative from the following

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

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

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

(D) Assertion (A) is incorrect, but Reason (R) is correct. **1**

6. (a) Vanya and Aanya were partners in a firm sharing profit and losses in the ratio of 3:2. Their capital were Rs 5,00,000 and Rs1,00,000 respectively. Vanya was entitled to interest on capital @ 8% p.a. and Aanya was entitled to salary @ Rs 5,000 per month. The net profit before any appropriation was 1,75,000. Vanya's share in divisible profit will be

(A) **Rs.**45,000	(B) **Rs.**30,000
(C) **Rs.**37,500	(D) **Rs.**40,000 **1**

OR

(b) Omkar and Shiva were partners in a firm. Omkar was entitled to a salary of **Rs.**20,000 p.a. while Shiva was entitled to salary of **Rs.**50,000 p.a. Net profit for the year ended 31s March, 2023 after charging salary of Omkar and Shiva was **Rs.**5,60,000. The total amount credited to Omkar's capital account will be:

(A) **Rs.**2,45,000	(B) **Rs.**2,65,000
(C) **Rs.**3,15,000	(D) **Rs.**3,00,000 **1**

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

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

Choose the correct option from the following:

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

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

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

(D) Assertion (A) is incorrect, but Reason (R) is correct. **1**

8. (a) Arnav Ltd. purchased assets worth **Rs.**24,00,000. It issued 9% debentures of **Rs.**100 each at a discount of 4% for payment of **1**

the purchase consideration. The number of debentures issued to vendor were:

(A) 24,000 (B) 25,000
(C) 30,000 (D) 28,000

OR

(b) On 1st May, 2023, Amrit Ltd. issued 10,000, 10% debentures of **Rs.**100 each at a premium of 10% redeemable at a premium of 10%. Loss on issue of debentures will be

(A) **Rs.**2,00,000 (B) **Rs.**1,30,000
(C) **Rs.**1,00,000 (D) **Rs.**80,000 **1**

9. (a) Riya, Rita and Renu were partners in a firm. On 31st March, 2023 Renu retired. The amount payable to Renu **Rs.**2,17,000 was transferred to her loan account. Renu agreed to receive interest on this amount as per the provisions of Partnership Act, 1932. The rate at which interest would be paid to Renu is

(A) 9% p.a. (B) 6% p.a.
(C) 12% p.a. (D) 10% p.a. **1**

OR

(b) Ravi, Vani and Toni were equal partners in a firm. After the retirement of Vani, the capital balances of Ravi and Toni were **Rs.**1,56,000 and **Rs.**1,08,000 respectively. The new capital of the firm was determined at **Rs.**2,80,000. It was decided that the capital will be in proportion of the profit sharing ratio of the remaining partners. Toni will bring _________ for deficiency of his new capital.

(A) **Rs.**40,000 (B) **Rs.**12,000
(C) **Rs.**20,000 (D) **Rs.**32,000 **1**

Read the following hypothetical situation and answer questions **10** and **11**:

Aditi and Saurabh were partners in a firm sharing profits and losses in the ratio of 2:1. On 1st April, 2022 their capitals were **Rs.**5,00,000 and **Rs.**4,00,000 respectively. Before any appropriation, the firm earned a Net profit of **Rs.**81,000 for the year ended 31st March, 2023. According to the partnership deed, interest on capital was to be provided @ 10% p.a.

10. Interest on capital will be provided to Aditi and Saurabh in which of the following ratio?

(A) 5:4 (B) 2:1
(C) 1:1 (D) 8:1 **1**

11. Interest on Aditi's capital will be:

(A) **Rs.**50,000 (B) **Rs.**45,000
(C) **Rs.**40,500 (D) **Rs.**54,000 **1**

12. Vishnu and Mishu are partners in a firm. Mishu draws a fixed amount at the end of every quarter. Interest on drawings is charged @ 15% p.a. Ata the end of the year interest on Mishu's drawings amounted to **Rs.**9,000. Interest on drawings was charged on drawings of Mishu for:
(A) 6 months (B) 7½ months
(C) 4½ months (D) 4 months **1**

13. On the dissolution of a partnership firm there were debtors of **Rs.**34,000. Debtors of **Rs.**1,000 became bad and 60% was realized from the remaining debtors. Which account will be debited and by how much amount on the realisation from debtors ?
(A) Realisation A/c by **Rs.**33,000 (B) Profit & Loss A/c by **Rs.**1,000
(C) Cash A/c by **Rs.**19,800 (D) Debtors A/c by **Rs.**14,200 **1**

14. (a) Which one of the following items is not dealt through Profit and Loss Appropriation Account?
(A) Interest on Capital (B) Interest on Drawings
(C) Rent paid to partners (D) Partner's salary **1**

OR

(b) At the time of admission of a partner, the Balance Sheet of the firm showed a workmen compensation reserve of **Rs.**80,000. The claim for workmen compensation was estimated at **Rs.**1,00,000. The shortfall of **Rs.**20,000 will be
(A) debited to Revaluation Account
(B) credited to Revaluation Account
(C) debited to Partners' Capital Accounts
(D) credited to Partners' Capital Accounts **1**

15. As per the provisions of Companies Act, 2013 Securities Premium cannot be utilized for:
(A) buy back of shares
(B) issue of partly paid bonus shares
(C) writing off discount on issue of debentures
(D) writing off preliminary expenses **1**

16. If vendors are issued fully paid shares of **Rs.**1,25,000 in purchase consideration of net assets of **Rs.**1,50,000, the balance of **Rs.**25,000 will be credited to:
(A) Statement of Profit and Loss
(B) Goodwill Account
(C) Capital Reserve Account **1**
(D) Profit and Loss Adjustment Account

17. Reeha, Meenu and Sara were partners in a partnership firm sharing profits and losses in the ratio of 2:2:1. With effect from 1st April, 2023, they agreed to share profits and losses equally. On that date, there was General Reserve of **Rs.**50,000 in the books of the firm. It was agreed that:

(i) Goodwill of the firm be valued at **Rs.**3,00,000.

(ii) Profit on revaluation of assets and re-assessment of liabilities amounted to **Rs.**30,000.

Pass necessary journal entries for the above transactions in the books of the firm. **3**

18. (a) Mahesh Ltd. purchased Plant and Machinery from Ish Ltd. For **Rs.**4,50,000. **Rs.**50,000 was paid by cheque to Ish Ltd. and the balance by issuing 6% debentures of 100 each at a discount of 20%.

Pass the necessary Journal Entries for the above transactions in the books of Mahesh Ltd. **3**

OR

(b) Manika Ltd. forfeited 500 shares of **Rs.**100 each for non-payment of first call of **Rs.**20 per share and second and final call of **Rs.**25 per share. 250 of these shares were reissued at **Rs.**50 per share fully paid up. Pass the Journal Entries for forfeiture and reissue of shares. **3**

19. (a) Aayush and Krish are partners sharing profits and losses equally. They decided to admit Vansh for an equal share in the profits. For this purpose, the goodwill of the firm was to be valued at four years purchase of super profits.

The balance sheet of the firm on 31.3.2023 before admission of Vansh was as follows:

Balance Sheet of Aayush and Krish as on 31.3.2023

Liabilities		**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Capitals :			Machinery	75,000
Aayush	90,000		Furniture	15,000
Krish	50,000	1,40,000	Stock	30,000
General Reserve		20,000	Debtors	20,000
Loan		25,000	Cash	50,000
Creditors		5,000		
		1,90,000		**1,90,000**

The normal rate of return is 12% per annum. Average profit of the firm for the last four years was **Rs.**30,000. Calculate Vansh's share of Goodwill. **3**

OR

(b) Varun, Tarun, Arun and Barun were partners in a firm sharing profits in the ratio of 5:3:2:2. Arun retired on 31st March, 2023. Varun, Tarun and Barun decided to share future profits equally. On Arun's retirement, Goodwill of the firm was valued at **Rs.**9,00,000. Showing your workings clearly, pass the necessary Journal entry for treatment of Goodwill on Arun's retirement without opening goodwill account. **3**

20. Atul and Gita were partners in a firm sharing profits and losses in the ratio of 3:2. Their fixed capitals were **Rs.**4,00,000 and **Rs.**2,00,000 respectively. After the accounts for the year were prepared, it was noticed that interest on capital @ 6% p.a., as provided in the partnership deed, was not credited to the capital accounts of partners before distribution of profits.
Pass the necessary adjusting Journal entry. Show your workings clearly. **3**

21. Ronit Ltd. was registered with an authorised capital of **Rs.**75,00,000 divided into 75,000 equity shares of **Rs.**100 each. The company invited applications for issuing 45,000 shares.
The amount was payable as follows: **Rs.**30 per share on application, **Rs.**30 per share on allotment, 25 per share on first call and balance on final call.
Applications were received for 42,000 shares and allotment was made to all the applicants. Charvi, to whom 3,300 shares were allotted, failed to pay both the calls. Her shares were forfeited. Present the share capital in the Balance Sheet of the company as per Schedule III, Part of the Companies Act, 2013. Also prepare notes to accounts. **4**

22. Ram. Ravi and Rohan were partners sharing profits in the ratio of 2:3:1. On 31" March, 2023, their Balance Sheet was as follows :

Balance Sheet of Ram, Ravi and Rohan as on 31.3.2023

Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Creditors	3,62,000	Cash	14,000
General Reserve	18,000	Bank	2,96,000
Capitals		Stock	80,000
Ram		Debtors	
1,00,000		3,00,000	
Ravi	6,00,000	Less: Provision for	2,90,000
2,00,000		doubtful debts	50,000
		10,000	2,50,000

Rohan 3,00,000	**9,80,000**	Investments Land	**9,80,000**

Rohan died on 30th September, 2023. On the death of a partner the partnership deed provided for the following:

(i) Goodwill was to be valued at two years purchase of average profit of last three years. The profits for the last three years were: 2020-21 **Rs.**45,000, 2021-22 **Rs.**90,000 and 2022-23 **Rs.**1,35,000.

(ii) Deceased partner's share of profit till the date of his death will be calculated on the basis of average profit of last three years.

Prepare Rohan's Capital Account to be rendered to his executors. **4**

23. (a) Lazal Ltd. invited applications for issuing 2,00,000 equity shares of **Rs.**10 each, at 20% premium. Amount per share was payable as follows: 5 on application; **Rs.**4 (including premium) on allotment; and balance on first and final call. Public applied for 3,20,000 shares, out of which applications for 20,000 shares were rejected and shares were allotted on pro-rata basis to the remaining applications. Kavita, an applicant of 15,000 shares failed to pay allotment and call money. Her shares were forfeited.

Pass necessary Journal entries for the above transactions in the books of the company. **6**

OR

(b) Chand Ltd. Invited applications for issuing 1,00,000 equity shares of **Rs.**10 each at a premium of **Rs.**2 per share. The amount per share was payable as follows: **Rs.**4 (including premium) on application, **Rs.**5 on allotment and balance on first and final call. Applications were received for 1,80,000 shares of which applications for 30,000 shares were rejected and remaining applicants were allotted shares on pro-rata basis. Mansi holding 5,000 shares failed to pay first and final call money and her shares were forfeited.

Pass necessary Journal entries for the above transactions in the books of the company. **6**

24. (a) Anikesh and Bhavesh are partners in a firm sharing profits in the ratio of 7 : 3. Their Balance Sheet as on 31st March, 2023 was as follows:

Balance Sheet of Anikesh and Bhavesh as on 31st March, 2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Creditors	60,000	Cash	36,000
Outstanding wages	9,000	Debtors 54,000	
General Reserve	15,000	Less : Provision for	
		doubtful debts	48,000
Capital :		6,000	60,000

Anikesh 1,20,000		Stock	1,20,000
Bhavesh 1,80,000	3,00,000	Furniture	1,20,000
	3,84,000	Machinery	3,84,000

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

(i) Chahat will bring Rs. 90,000 as her capital and Rs. 30,000 as her share of Goodwill premium.
(ii) Outstanding wages will be paid.
(iii) Stock will be reduced by 10%.
(iv) A creditor of Rs. 6,300, not recorded in the books, was to be taken into account.

Pass necessary Journal Entries for the above transactions in the books of the firm. **6**

OR

(b) Prina, Qadir and Kian were partners in a firm sharing profits in the ratio of 7 : 2 : 1. On 31st March, 2023 their Balance Sheet was as follows:

Balance Sheet of Prina, Qadir and kian as on 31st March, 2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals		Land	12,00,000
Prina 9,60,000		Building	9,00,000
Qadir 8,40,000		Furniture	3,60,000
Kian 9,00,000	27,00,000	Stock	6,60,000
General Reserve	3,00,000	Debtors 6,00,000	
Wokkmen's		Less : Provision for	
Compensation Reserve	5,40,000	doubtful debts	5,70,000
Creditors	3,60,000	30,000	2,10,000
	39,00,000	Cash at Bank	39,00,000

On the above date Qadir retired on the following terms:

(i) Goodwill of the firm was valued at Rs. 12,00,000.
(ii) Land was to be appreciated by 30% and building was to be depreciated by Rs. 3,54,000.
(iii) A provision of 6% is to be maintained on debtors.
(iv) Liability for workmen's compensation was determined at Rs. 1,40,000.
(v) Amount payable to Qadir was transferred to his loan account.
(vi) Total capital of the new firm was fixed at Rs. 16,00,000 which will be adjusted according to their new profit ratio by opening current accounts.

Prepare Revaluation Account and Partners' Capital Accounts. **6**

25. Pass the necessary journal entries for the following transactions on the dissolution of the partnership firm of Tina and Rina after the various assets (other than cash and bank) and external liabilities have been transferred to realization account:

(i) There was an outstanding bill for repairs for which Rs. 20,000 were paid.

(ii) The firm had stock of Rs. 80,000. Tina took over 50% of the stock at a discount of 20% while the remaining stock was sold off for Rs. 52,000.

(iii) The firm had 100 shares of Rs. 10 each which were taken over by the partners at market value of Rs. 20 per share in their profit sharing ratio of 3 : 2.

(iv) Realisation expenses of Rs. 4,000 were paid by Rina.

(v) Tina had given a loan of Rs. 40,000 to the firm which was duly paid.

(vi) Rina agreed to pay off her husband's loan of Rs. 10,000 at a discount of 10%. **6**

26. Pass necessary journal entries relating to issue of debentures and to write off discount/loss on issue of debentures in the books of Ajanta Ltd. in the following cases:

(i) 200, 9% debentures of Rs. 1,000 each are issued at 10% discount and redeemable at par. Balance in Securities Premium account is Rs. 15,000.

(ii) 300, 11% debentures of Rs. 1,000 each are issued at 5% discount and redeemable at a premium of 10%. Balance in Securities Premium account is Rs. 35,000. **6**

PART-B
OPTION-I
(Analysis of Financial Statements)

27. (a) The tool of 'Analysis of Financial Statements' which helps to assess the profitability, solvency and efficiency of an enterprise is known as:

(A) Cash flow statements (B) Comparative statement

(C) Common size statement (D) Ratio analysis **1**

OR

(b)____________ is also known as the acid Test Ratio.

(A) Current ratio (B) Quick ratio

(C) Gross profit ratio (D) Return on investment ratio **1**

28. Quick ratio of Megamart Ltd. is 1:5:1. Which of the following transactions will result in decrease in this ratio?

(A) Sale of goods costing Rs. 10,000 for Rs. 12,000.

(B) Cash collected from trade receivables Rs. 41,000.

(C) Purchase of goods for cash Rs. 38,000.

(D) Creditors were paid Rs. 11,000. **1**

29. (a) Statement I: Financing activities relate to long term funds or capital of an enterprise.

Statement II: Separate disclosure of cash flows arising from financing activities is important because they represent the extent to which expenditures have been made for resources intended to generate future income and cash flows:

Choose the correct option from the following:

(A) Both Statement I and Statement II are correct.
(B) Both Statement I and Statement II are incorrect.
(C) Statement I is incorrect and Statement II is correct.
(D) Statement I is correct and Statement II is incorrect. **1**

OR

(b) What will be the effect of transaction 'Payment of employee benefit expenses' on the cash flow statement?

(A) Outflow from operating activities.

(B) Outflow from investing activities.

(C) Outflow from financing activities.

(D) No effect on cash flow. **1**

	Purchased (Rs.)	Sold (Rs.)
Investments	2,00,000	1,80,000
Goodwill	3,00,000	-----

30.

From the above information, 'Cash flows from investing activities' will be:

(A) Inflow Rs. 3,20,000 (B) Out flow Rs. 3,20,000

(C) Outflow Rs. 20,000 (D) Inflow Rs. 20,000 **1**

31. Classify the following items under Major Heads and Sub-Heads (if any) in the Balance Sheet of a company as per Schedule III, Part I of the Companies act, 2013:

(i) Accrued Income (ii) Capital Advances

(iii) Capital work-in-progress **3**

32. A business has a current ratio of 3:1 and quick ratio of 1.2:1. If working capital is Rs. 1,80,000, calculate total current assets and inventory. **3**

33. (a) Prepare a Common Size Balance Sheet of X Ltd. from the following information: **4**

Balance Sheet of X Ltd. as on 31st March, 2023

Particulars	Note No.	31.3.2023 (Rs.)	31.3.2022 (Rs.)
I. Equity and Liabilities:			
1. Shareholders' funds			
(a) Equity Share Capital		30,00,000	15,00,000
(b) Reserve and Surplus		10,00,000	5,00,000
2. Non-current liabilities		20,00,000	20,00,000
3. Current liabilities		20,00,000	10,00,000
Total		**80,00,000**	**50,00,000**
II. Assets:			
1. Non-current assets		40,00,000	30,00,000
2. Current assets			
(a) Inventories		40,00,000	20,00,000
Total		**80,00,000**	**50,00,000**

OR

(b) From the following information prepare a Comparative Statement of Profit and Loss of Y Ltd: **4**

Particulars	31.3.2023	31.3.2022

Revenue from operations (Rs.)	40,00,000	20,00,000
Purchase of stock in trade (Rs.)	24,00,000	12,00,000
Change in inventories (% of purchase of stock in trade)	25%	20%
Other expenses (Rs.)	2,00,000	1,60,000
Tax rate	40%	40%

34. Following is the Balance Sheet of Bharat Gas Ltd. as at 31.3.2023:

Balance Sheet of Bharat Gas Ltd. as at 31.3.2023

Particulars	Note No.	31.3.2023 (Rs.)	31.3.2022 (Rs.)
I Equity and Liabilities:			
1. Shareholders' fund			
(a) Share capital		14,00,000	10,00,000
(b) Reserve and Surplus	1	5,00,000	4,00,000
2. Non-current Liabilities			
Long term borrowings		5,00,000	1,40,000
3. Current liabilities			
(a) Trade payables		1,00,000	60,000
(b) Short term provisions	2	80,000	60,000
Total		**25,80,000**	**16,60,000**
II Assets:			
1. Non-current Assets			
(a) Fixed Assets (Property, plant and equipment and intangible assets			
(i) Tangible assets (Property, plant and equipment)	3	16,00,000	9,00,000
(ii) Intangible assets	4	1,40,000	2,00,000
2. Current Assets			
(a) Inventories		2,50,000	2,00,000
(b) Trade receivables		5,00,000	3,00,000
(c) Cash and cash equivalents		90,000	60,000
Total		**25,80,000**	**16,60,000**

Notes to Accounts:

Note No.	Particulars	31.3.2023 (Rs.)	31.3.2022 (Rs.)
1.	Reserve and Surplus:		
	Balance in Statement of Profit and Loss	5,00,000	4,00,000
		5,00,000	4,00,000
2.	Short term provisions:		
	Provision for Taxation	80,000	60,000
		80,000	60,000

3.	Tangible Assets: (Property, plant and equipment) Machinery Less:Accumulated Depreciation	15,50,000 (2,50,000)	10,00,000 (1,00,000)
		16,00,000	9,00,000
4.	Intangible Assets: Goodwill	1,40,000	2,00,000
		1,40,000	2,00,000

Adjustments: During the year a machine costing Rs. 3,00,000 on which accumulated depreciation was Rs. 45,000 was sold for Rs. 1,35,000.

Calculate 'Cash flows from Operating Activities'. **6**

MARKING SCHEME FOR 2024 CBSE BOARD QUESTION PAPER -2

MARKINGSCHEME SeniorSchoolCertificateExamination,2024 **ACCOUNTANCY (Subject Code–055)** **[PaperCode :67/4/1]** **MaximumMarks:80**	
	PART-A (ACCOUNTINGFORPARTNERSHIPFIRMSANDCOMPANIES)
Q. No.	EXPECTEDANSWER/VALUEPOINTS
1.	Q. Kanha, Resham and………………………………. Ans.(B) 10%p.a. (1)
2.	Q. Gupta and Sharma……………………………………. Ans.(B)11:4:5 (1)
3.	Q.Aditya, Vishesh and Nimesh………………………… Ans.(C)5:2 (1)
4.	Q. (a) Vishant Ltd. ………………………………………. Ans.(B)₹19,000 (1) Or Q. (b) M Ltd. forfeited …………………………………… Ans.(B)₹10,000 (1)
5.	Q.Assertion………………………………………………… Ans.(A)BothAssertion(A)andReason(R)arecorrectandReason(R)isthecorrectexplanationof Assertion (A). (1)
6.	Q.(a) Vanya and Aanya………………………………… Ans.(A)₹45,000 (1) Or

	Q.(b) Omkarand Shiva………………………………… Ans.(D)₹3,00,000 (1)
7.	Q.Assertion (A)………………………………………… Ans.(A)BothAssertion(A)andReason(R)arecorrectandReason(R)isthecorrectexplanationof Assertion (A). (1)
8.	Q. (a) Arnav Ltd.…………………………………… Ans.(B)25,000 (1) Or Q.(b)On 1stMay,2023………………………………… Ans.(C)₹1,00,000 (1)
9.	Q.(a) Riya,Rita and…………………………………… Ans.(B) 6%p.a. (1) Or Q.(b) Ravi, Vaniand ………………………………… Ans.(D)₹32,000 (1)
Read the following hypothetical	
10.	Q. Interest on capital………………………………………. Ans.(A)5:4 (1)
11.	Q. Interest on……………………………………………. Ans.(B)₹45,000 (1)
12.	Q.Vishnu and Mishu………………………………………… Ans.(C) 4½ months (1)
13.	Q. On the dissolution………………………………………… Ans.(C) Cash A/c by ₹19,800 (1)

14. Q.(a) Which one of…………………………………………..

Ans.(C) Rent paid to partners
(1)

Or

Q.(b) At the time of …………………………………

Ans.(A)debited to Revaluation Account
(1)

15. Q. As per the provisions……………………………………

Ans.(B)issue of partlypaidbonus shares
(1)

16. Q.If vendors ………………………………………………

Ans.(C)Capital Reserve Account

(1)

17. **Q Reeha, Meenu………………………………………………**

Ans. Books of Reeha, Meenu and SaraJournal

Date	Particulars		Debit Amount(₹)	*CreditAmount* (₹)
2023 Apr 1	General Reserve A/c Dr		50,000	
	To Reeha's Capital A/c			20,000
	To Meenu's Capital A/c			20,000
	To Sara's Capital A/c			10,000
	(General Reserve,transferred to partners'capital ccounts in old ratio)			
"	RevaluationA/c Dr		30,000	
	To Reeha's Capital A/c			12,000
	To Meenu's Capital A/c			12,000
	To Sara's Capital A/c			6,000
	(Profit on revaluation of assets and reassessment of liabilities transferred to partners'capital accounts in old ratio)			
"	Sara's Capital A/cDr		40,000	
	To Reeha's Capital A/c			20,000
	To Meenu's Capital A/c			20,000
	(Share of good will adjusted to capital account of partners in their sacrificing ratio1:1)			

	Note-No marks to be awarded for calculation of Sacrificing /Gaining Share.

18.

Q.(a) Mahesh Ltd. ……………………………………………

Ans.

Books of Mahesh Ltd.

Journal

Date	Particulars		Debit Amount(₹)	*Credit Amount* (₹)
	Share Capital A/c Dr To Forfeited Shares A/c To Share first call A/c To Share second& final call A/c (Forfeiture of 500 shares for non payment of first and second call)		50,000	 27,500 10,000 12,500
	Alternatively Share Capital A/c Dr To Forfeited Shares A/c To Calls in Arrears A/c (Forfeiture of 500 shares for non payment of first and second call)		50,000	27,500 22,500
	BankA/c Dr. ForfeitedSharesA/c Dr. To Share Capital/c (Reissue of 250shares)		12,500 12,500	 25,000
	ForfeitedSharesc Dr To Capital Reserve A/c (Balance in forfeited shares accounttransferredto capital reserve account.)		1,250	 1,250

19. **Q.(a) Aayush and Krish………………………………………**

Ans.

Capital Employed=Aayush's Capital+ Krish's Capital +General Reserve

= ₹90,000+₹50,000+₹20,000

= ₹1,60,000

Or

Capital Employed=Total Assets- External Liabilities(Loan +Creditors)

= ₹1,90,000-₹25,000-₹5,000=₹1,60,000

Capital Employed=₹1,60,000… ....½

Normal Profit=12% ofCapitalEmployed

=12/100 x₹1,60,000

=₹19,200 ……………………………..½

Average Profit =₹30,000

Super Profit=Average Profit -Normal Profit

=₹30,000- ₹19,200

=₹10,800 …………………..…1

Goodwill= Super Profit x No. of years of purchase Firm's Goodwill = ₹10,800 x4

=₹43,200…………………………………..½

Vansh's share of Goodwill= ₹43,200x1/3

=₹14,400………………………½

Or

Q.(b) Varun, Tarun……………………………………………

Ans. Books of Varun,Tarun,Arun and Barun

Journal

Date	*Particulars*	*L. F*	*Debit Amount(₹)*	*Credit Amount(₹)*	
2023 March 31	Tarun's Capital A/c Dr Barun'sCapital A/c. Dr To Varun's Capital A/c To Arun's Capital A/c (Shareofgoodwilladjustedtocapitalaccounts of partners in their gaining ratio1:2)		75,000 1,50,000	75,000 1,50,000	**1** ½

Working Notes:

Calculation of Gaining Share:-

Gaining Share= New Share- Old Share

Varun's Gain= 1/3-5/12= -1/12 (Sacrifice) **1½**

Tarun's Gain=1/3- 3/12=1/12
= 3 marks

Barun's Gain=1/3-2/12=2/12

20.

Q.AtulandGita………………………………………..

Ans.

Books of Atul and Gita Journal

Date	*Particulars*	*L.F*	*Debit Amount (₹)*	*Credit Amount (₹)*	*1*
	Gita's Current A/c Dr To Atul's Current A/c (Adjustment for omission of Interest on Capital)		2,400	2,400	

Note:- If an examinee has written Capital A/c instead of Current A/c ,full credit is to begiven.

Working Notes:-

Adjustment Table

Particulars	Atul		Gita	
	Dr (₹)	Cr(₹)	Dr(₹)	Cr(₹)
Interest on Capital tobecredited		24,000		12,000
Loss to be debited intheratio of 3:2	21,600		14,400	
Net Effect		2,400	2,400	

Note:-Full credit to be given if working notes are given in any other form.

21. **Q.Ronit Ltd……………………………………………**

Ans.

Balance Sheet of Ronit Ltd.
(An Extract)as
at…………………………

Particulars	Note No.	₹
I.EQUITY & LIABILITIES		
Shareholders' Funds	1	40,68,000

Notes to Accounts

Particulars	₹	
1.**ShareCapital**		1 + 3 = 4 Marks
Authorized Capital		
75,000EquityShares of ₹100 each 1	75,00,000	
Issued Capital		
45,000EquityShares of ₹100 each 1	45,00,000	
Subscribed Capital Subscribed and fully paid up		
38,700EquitySharesof ₹100 each ....½	38,70,000	
+Forfeited SharesA/c (3300 x60) ....½	1,98,000	
	40,68,000	

22.

Q.Ram,Ravi and……………………………………

Ans.

Dr Rohan's Capital A/c Cr

Particulars	*Amount* ₹	*Particulars*	*Amount* ₹
To Rohan's Executor's ½ A/c	3,40,500	By Balance b/d ½	3,00,000
		By GeneralReserve A/c 1	3,000
		By Ram's Capita lA/c(goodwill)½	12,000
		By Ravi's Capital A/c(goodwill)½	18,000
		By Profit &Loss Suspense A/c 1	7,500
	3,40,500		3,40,500

Working Notes:

1. Calculation of Goodwill
2.

Average profit= 45,000 + 90,000 +
1,35,000 =
₹90,0003

Firm's Goodwill=Average Profit x 2
= ₹90,000 x 2
=₹ 1,80,000

Rohan's share of goodwill=₹1,80,000 x 1/6
=₹30,000

3. Calculation of Rohan's share of Profit=₹90,000 x 1/6 x 6/12
= ₹7,500

Note-No marks to be awarded for working notes.

23.

Q. (a) Lazal Ltd..............................

Ans.

Books of Lazal Ltd.

Journal

Or

Q. (b) Chand Ltd. invited……………………………….

Ans.

Books of
Chand
Ltd.
Journal

Date	*Particulars*	*L .F*	*Debit Amount (₹)*	*Credit Amount (₹)*
	Bank A/c Dr To Equity Share Application A/c (Application money received 1,80,000 shares) on		7,20,000	7,20,000
	Equity Share Application A/c Dr To Equity Share Capital A/c To Securities Premium A/c To Equity Share Allotment A/cTo Bank A/c (Application money transferred to Equity share capital A/c, Securities Premium A/c & Excess money received adjusted towards allotment and money refunded on rejected applications)		7,20,000	2,00,00 2,00,00 2,00,00 1,20,000
	Equity Share Allotment A/c Dr To Equity Share Capital A/c (Amount due on allotment)		5,00,000	5,00,000
	Bank A/c Dr To Equity Share Allotment A/c (Allotment money received)		3,00,000	3,00,000
	Equity Share first & final Call A/c Dr To Equity Share Capital A/c (Money due on First and Final Call)		3,00,000	3,00,000

			Bank A/c Dr		2,85,000	
			Calls in Arrears A/c Dr		15,000	
			To Equity Share first & final call A/c (First and final call money received except that on 5,000 shares			3,00,000
			Alternatively			
			Bank A/c Dr		2,85,000	
			To Equity Share first & final call A/c (First and final call money receivedexcept that on 5,000 shares)			2,85,000
			Equity Share Capital A/c Dr		50,000	
			To Calls in Arrears A/c			15,000
			To Forfeited Shares A/c (Forfeiture of 5,000 shares for non payment of first and final call)			35,000
			Alternatively			
			Equity Share Capital A/c Dr		50,000	
			To Equity Share first & final call A/c			15,000
			To Forfeited Shares A/c (Forfeiture of 5,000 shares for non payment of first and final call)			35,000

24. **Q. (a) Anikesh and Bhavesh……………….**

Ans.

Books of Anikesh and Bhavesh

Journal

Date	*Particulars*	*L .F*	*Debit Amount (₹)*	*Credit Amount*
	General Reserve A/c Dr To Anikesh's Capital A/c To Bhavesh's Capital A/c (General Reserve balance transferred partners' capital account in old ratio)		15,000	 10,50 4,50
	Cash A/c /Bank A/c Dr Dr To Chahat's Capital A/c To Premium for goodwill A/c (Amount brought in by Chahat as her capitaland her share of goodwill)		1,20,000	 90,00 30,00
	Premium for goodwill A/c Dr Dr To Anikesh's Capital A/c To Bhavesh's Capital A/c (Goodwill premium brought in by new partner shared by old partners in their sacrificing ratio)		30,000	 21, 9,00
	Outstanding Wages A/c Dr To Cash/ Bank A/c (Outstanding wages paid)		9,000	 9,0
	Revaluation A/c Dr To Stock A/c To Creditors A/c (Decrease in the value of stock and increase in the value of creditors on revaluation recorded)		12,300	 6,0 6,3
	Anikesh's Capital A/c Dr Dr Bhavesh's Capital A/c Dr To Revaluation A/c (Loss on revaluation of assets and reassessment of liabilities transferred to partners' capital account in old ratio)		8,610 3,690	 12,3

Or

Q. (b) Prina, Qadir and…………………………

Ans.

Dr Revaluation A/c Cr

Particulars	Amount(₹)	Particulars	Amount(₹)
To Building A/c ½ To Provision for doubtful debts A/c ½	3,54,000 6,000	By Land A/c ½	3,60,00
	3,60,000		3,60,00

Dr Partners' Capital A/c Cr

Particulars	Prina ₹	Qadir ₹	Kian	Particulars	Prina	Qadir ₹	Kian
To Qadir's Capital A/c			30,00	By balance b/d		8,40,000	9,00,000
To Qadir's Loan A/c		12,20,000		By Workme Compensatio Reserve A/	2,80,000	80,000	40,000
To Kian's Current A/c ½			7,40,000	By Prina's Capital A/c (goodwill)		2,10,000	
To Balance c/d ½	14,00,000		2,00,000	By Kian's Capital A/c (goodwill) ½ By General Reserve A/c ½ By Prina's Current A/c ½	2,10,000 1,60,000	60,000	30,000
	16,10,000	12,20,000	9,70,0		16,10,000	12,20,000	9,70,000

			0 0				

25.

Q. Pass the ………………………

Ans.

Books of Tina and Rina

Journal

Date	Particulars	L .F	Debit Amount (₹)	Credit Amount
	(i) Realisation A/c DrTo Bank/ Cash A/c (An outstanding bill for repairs paid)		20,000	20,
	(ii) Tina's Capital A/c Dr Cash /Bank A/c Dr To Realisation A/c (Stock partially taken over by Tina, apartner and partially realized.)		32,000 52,000	84,00
	(iii) Tina's Capital A/c Dr Rina's Capital A/c Dr To Realisation A/c (Shares acquired by partners intheir profit sharing ratio)		1200 800	200
	(iv) Realisation A/c Dr To Rina's Capital A/c (Realisation expenses paid by Rina credited to her capital account)		4000	400

	(v) Tina's Loan A/c Dr To Bank/ Cash A/c (Partner's Loan paid)		40,000	40,000
	(vi) Realisation A/c Dr To Rina's Capital A/c .(Loan taken over by Rina, a partner		9000	9000

26\. Q. Pass necessary…………………

Ans. Books of Ajanta Ltd.

e	*Particulars*	*L .F*	*Debit Amount (₹)*	*Credit Amount (₹)*	
	Bank A/c Dr Dr. To Debenture Application and Allotmen tA/c (Application money on 9% Debentures received)		1,80,000	1,80,000	
	Debenture Application and Allotment A/c Dr. Discount on issue of Debentures A/c Dr. To 9% Debentures A/c (Debentures application money transferred to 9% Debentures Account)		1,80,000 20,000	2,00,000	
	Securities Premium A/c Dr Dr. Statement of Profit & Loss Dr. To Discount on issue of Debentures A/c (Discount on issue of debentures written off)		15,000 5,000	20,000	
	Bank A/c Dr. Dr. To Debenture Application and Allotment A/c (Application money on 11% Debentures received)		2,85,000	2,85,000	1

		Debenture Application and Allotment A/c Dr. Loss on issue of Debentures A/c Dr. Dr. To 11% Debentures A/c To Premium on redemption of Debentures A/c (Debentures application money transferredto 11% Debentures A/)		2,85,000 45,000	3,00,000 30,000	1
		Securities Premium A/c Dr. Statement of Profit & Loss Dr. To Loss on issue of Debentures A/c (Loss on issue of debentures written off) **Alternatively** Securities Premium A/c Dr. Statement of Profit & Loss Dr. To Discount on issue of Debentures A/c To Loss on issue of Debentures A/c (Loss on issue of debentures written off)		35,000 10,000 35,000 10,000	45,000 15,000 30,000	1x 6 = 6 mark

PART-B
OPTION -I
(Analysis of Financial Statements)

27.	Q. (a)The tool of………………………………………………… Ans. (D) Ratio Analysis 1 Or Q. (b)___________is also…………………………………………… Ans. (B) Quick ratio 1
28.	Quick Ratio…………………………………………………………….. Ans. (C) Purchase of goods for cash ₹38,000. 1
29.	Q. (a) Statement I……………………………………………………… Ans. (D) Statement I is correct and Statement II is incorrect. 1

Or

Q. (b) What will be the……………………………………………

Ans . (A) Outflow from Operating Activities

1

30. From the above…………………………………………………………

Ans. (B) Outflow ₹3,20,000

1

31. Classify the…………………………………………………………..

Item	**Major Head**	**Sub Head**
Accrued Income	Current Assets	Other Current Assets
Capital Advances	Non- Current Assets	Long term Loans & Advances
Capital work in progress	Non- Current Assets	Fixed Assets/ Property, Plant & Equipment and Intangible Assets- Capital Work in Progress.

32. **Q. A business…………………………….**

Ans.

Total Current Assets= Working Capital + Current LiabilitiesWorking Capital = ₹1,80,000

Working Capital= Current Assets- Current Liabilities

Therefore, ₹1,80,000= Current Assets- Current Liabilities

Current Assets= 1,80,000 + Current Liabilities .... ½

Current Ratio 3 : 1

Current Ratio = Current Assets/ Current Liabilities

$$\text{Therefore,}\quad \frac{3}{1} = \frac{1,80,000+ \text{Current Liabilities}}{\text{Current Liabilities}}$$

3 Current Liabilities= 1,80,000+ Current Liabilities

Current liabilities= ₹90,000 .... ½

Current Assets= 1,80,000 + Current LiabilitiesCurrent Assets= 1,80,000 + 90,000

Current Assets= ₹2,70,000 .... ½

Quick Ratio= 1.2:1

Quick Ratio= Quick Assets/ Current Liabilities1.2/1= Quick Assets/ 90,000

So, Quick Assets = 1·2 □ 90,000= ₹1,08,000 **1**

Inventory = Current Assets- Quick Assets

= 2,70,000 – 1,08,000

= ₹1,62,000……………. ½ **= 3 marks**

33

Q.(a) Prepare a……………………………

Ans.

Common Size Balance Sheet of X Ltd. as at 31 3.2022 and 31.3.2023

Particulars	Note No.	Absolute Amount 31.3.2022 ₹	Absolute Amount 31.3.2023 ₹	% of Balance Sheet Total 31.3.2022	% of Balance Sheet Total 31.3.2023	
I. Equity and Liabilities:						
1. Shareholders' Funds						
(a) Equity Share Capital		15,00,000	30,00,000	30	37.5	
(b) Reserves and Surplus		5,00,000	10,00,000	10	12.5	
2. Non-current liabilities		20,00,000	20,00,000	40	25	
3. Current Liabilities		10,00,000	20,00,000	20	25	**= 4 Marks**
TOTAL		50,00,000	80,00,000	100	100	
II. Assets:						
1. Non-current Assets		30,00,000	40,00,000	60	50	
2. Current Assets						
(a) Inventories		20,00,000	40,00,000	40	50	
TOTAL		50,00,000	80,00,000	100	100	

Q.(b) From the following………………..

Ans.

Comparative Statement of Profit and Loss of Y Ltd.for the year ended 31.3.2023

Particulars	Note No.	31.3.2022 ₹	31.3.2023 ₹	**Absolute Increase/Decrease ₹**	**% Increase/ Decrease**	
I. Revenue from Operations		20,00,000	40,00,000	20,00,000	100	

II. EXPENSES Purchase of Stock in tradeChange in inventories Other expenses		12,00,000 2,40,000 1,60,000	24,00,000 6,00,000 2,00,000	12,00,000 3,60,000 40,000	100 150 25	
TOTAL EXPENSES		16,00,000	32,00,000	16,00,000	100	
III. Profit before Tax (I-II)		4,00,000	8,00,000	4,00,000	100	
IV. Tax @40%		1,60,000	3,20,000	1,60,000	100	
V. Profit after Tax(III-IV)		2,40,000	4,80,000	2,40,000	100	

33.

Q. Following is the…………………………..

Ans.

Cash flow from Operating Activities

Particulars	Amount ₹	Amount ₹	
Net Profit before Tax & Extra Ordinary Items	1,80,000		
Adjustment for Non-cash and Non-operating items			
Add:			
Goodwill written off....................½	60,000		
Depreciation 1	1,95,000		
Loss on sale of Machinery...........1	1,20,000		
	5,55,000		
Operating Profit before working capital changes Add- Decrease in Current Assets Increase in Current Liability			
Increase in Trade Payables........½	40,000		
Less: Increase in Current Assets Decrease in Current Liability			
Increase in Inventories.................½	(50,000)		
Increase in Trade Receivables ....½	(2,00,000)		
Cash Generated from Operations	3,45,000		
Less: Tax Paid.......½	(60,000)		
Cash flow from operating ½		2,85,000	

activities…

***Calculation of Net Profit before Tax and Extraordinary items:*……….** 1

Net Profit for the year	₹ 1,00,000
+ Provision for tax	+ ₹80,000

Net Profit before Tax and Extraordinary items= ₹1,80,000

Working Notes:-

Accumulated

Depreciation A/c

Dr

Cr

Particulars	₹	Particulars	₹
To Machinery A/cTo balance c/d	45,000 2,50,000	By balance b/d By Depreciation A/c	1,00,000 1,95,000
	2,95,000		2,95,000

Note:- No marks to be awarded for working notes. 1 x 5 =6 mark

BOARD QUESTION PAPER 3
ACCOUNTANCY

PART-A
(Accounting for Partnership Firms and Companies)

1. A partnership firm has 45 partners. It wants to admit 7 more partners into partnership. Only------------ more partners can be admitted in the partnership firm according to Companies Act, 2013.

(A) 1 (B) 6
(C) 5 (D) 3 **1**

2. A, B and C were partners in a firm sharing profits and losses in the ratio of $\frac{1}{2}$: $\frac{1}{3}$: $\frac{1}{4}$. D was admitted in the firm for o1/6th share. C would retain his original share. The new profit-sharing ratio will be:

(A) 12:8:5:5 (B) 21:14:18:12
(C) 21:14:15:10 (D) 2:2:1:1 **1**

3. (a) If all the forfeited shares are reissued, the balance, if any, left in the Forfeited Shares Account is transferred to:

(A) General Reserve Account
(B) Securities Premium Account
(C) Capital Reserve Account
(D) Statement of Profit and Loss **1**

OR

(b) Raghav Ltd. forfeited 100 shares of 10 each issued at a premium of 20% for non-payment of first call Rs 3 per share and final call of Rs.1 per share. The minimum price at which these shares can be reissued will be:

(A) Rs.4 (B) Rs.6
(C) Rs.8 (D) Rs.10 **1**

4. **Assertion (A):** In partnership firm, the private assets of the partners can also be used to pay off the firm's debts.

Reason (R): The liability of the partners for acts of the firm is limited.

Choose the correct option from the following:

(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
(C) Assertion (A) is false, but Reason (R) is true.
(D) Assertion (A) is true, but Reason (R) is false. **1**

5. (a) Ridhima and Kavita were partners sharing profits and losses in ratio of 3: 2. Their fixed capitals were Rs 1,50,000 and Rs 2,00,000 respectively. The partnership deed provides for interest on capital @ 8% p.a. The net profit of the firm for the year ended 31s March, 2023 amounted to Rs 21,000. The amount of interest on capital credited to the capital accounts of Ridhima and Kavita will be:

(A) Rs12,000 and Rs16,000 respectively.
(B) Rs10,500 and Rs10,500 respectively.
(C) Rs9,000 and Rs12,000 respectively.
(D) Rs16,000 and Rs5,000 respectively. 1

OR

(b) Ruchika and Harshita were partners in a firm. Ruchika had withdrawn Rs 9,000 at the end of each quarter, throughout the year. The interest to be charged on Ruchika's drawings at 6% p.a. will be:

(A) Rs 540 (B) Rs 2,160
(C) Rs1,080 (D) Rs 810 **1**

6. (a) Aarav Ltd. issued 10,000, 9% debentures of Rs100 each at a premium of 5%, redeemable at a premium of 10%. Loss on issue of debentures account will be debited by:

(A) Rs10,00,000 (B) Rs1,00,000
(C) Rs1,50,000 (D) Rs1,05,000 **1**

OR

(b) Dove Ltd. issued 8,000, 11% debentures of Rs100 each at a premium of 5%. The total amount of interest on Debentures for one year will be:

(A) Rs 80,000 (B) Rs 92,400
(C) Rs 88,000 (D) Rs 880 **1**

7. **Assertion (A)**: Securities Premium cannot be utilized for writing off loss on sale of a fixed asset.

Reason (R): Securities Premium can be applied only for the purposes mentioned in the Companies Act, 2013. Choose the correct option from the following:

(A) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct reason of Assertion (A).
(B) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct reason of Assertion (A).
(C) Both Assertion (A) and Reason (R) are false.
(D) Assertion (A) is false, but Reason (R) is true. **1**

8. (a) Kriti, Hina and Nidhi were partners sharing profits in the ratio of 3:2:1 Nidhi retired. On the date of her retirement. Workmen Compensation Fund stood in the Balance Sheet at Rs1.50.000. Workmen Compensation Claim was Rs1,20,000. How much amount of Workmen Compensation Fund will be credited to Nidhi's Capital Account?

(A) Rs 30,000 (B) Rs 10,000
(C) Rs 5,000 (D) Rs 15,000 1

OR

(b) Rohit, Udit and Mohit were partners in a firm sharing profits in the ratio of 3: 2: 1. Mohit retired. The balance in his capital account after making the necessary adjustments on account of reserves and revaluation of **1** assets and liabilities was 1,80,000. Rohit and Udit agreed to pay him 2,00,000 in full settlement of his claim. Mohit's share of goodwill in the firm was.

(A) 1,80,000 (B) 2,00,000
(C) 40,000 (D) 20,000

9. On dissolution of a partnership firm, if realisation expenses are paid by the firm on behalf of a partner, then such expenses are debited to which of the following account:

(A) Realisation Account (B) Partner's Capital Account
(C) Partner's Loan Account (D) Bank Account

Read the following hypothetical situation and answer question numbers 10 and 11:

Keshav and Hitesh are partners sharing profits and losses in the ratio of 3: 2. On 31st March, 2023 after division of profit of Rs 15,000, their capitals were Rs 55,000 and Rs 45,000 respectively. During the year Keshav's drawings were Rs1,500 at the beginning of each quarter and Hitesh withdrew Rs 9,000 on 1s November, 2022.

After the final accounts have been prepared, it was discovered that interest on capital @ 5% p.a. and interest on drawings @ 8% p.a. have not been taken into consideration. **1**

10. Opening capital of Keshav was

(A) Rs 35,000 (B) Rs 39,000
(C) Rs 43,000 (D) Rs 52,000 **1**

11. Amount of interest to be charged on Hitesh's drawings will be:

(A) Rs 225 (B) Rs 4,500
(C) Rs 300 (D) Rs 7,200 **1**

12. Kewal Ltd. purchased sundry assets from Ganpati Ltd. for Rs28,60,000. The amount was paid by issuing fully paid shares of Rs100 each issued at a premium of 10%. The number of shares issued to Ganpati Ltd. were:

(A) 28,000 (B) 31,778
(C) 28,600 (D) 26,000 **1**

13. Sarita Ltd. forfeited 100 shares of Rs10 each. Rs 8 called up issued at a premium of Rs 2 per share to Ramesh for non-payment of allotment money of Rs 5 per share (including premium). The first and final call of Rs 2 per share was not made. Out of these 70 shares were reissued to Ashok as Rs8 called up for Rs10 per share. The gain on reissue will be:

(A) Rs 500 (B) Rs 400
(C) Rs 350 (D) Rs 300 **1**

14. Isha and Manish were partners in a firm sharing profits and losses in the ratio of 3: 2. With effect from 1st April, 2023, they agreed to share profits equally. On this date the goodwill of the firm was valued at Rs 3,00,000. The necessary journal entry for the treatment of goodwill without opening Goodwill Account will be: **1**

Date 2023	**Particulars**	**Dr. Amount**	**Cr. Amount**
(A) April, 1	Manish's Capital A/c Dr. To Isha's Capital A/c.	30,000	30,000
(B) April, 1	To Isha's Capital A/c.Dr. To Manish's Capital A/c.	30,000	30,000
(C) April, 1	Manish's Capital A/c.Dr. To Isha's Captital A/c.	3,000	30,000
(D) April, 1	To Isha's Capital A/c.Dr. To Manish's Capital A/c.	3,000	30,000

15. Mahi, Ruhi and Ginni are partners in a firm sharing profits and losses in the ratio of 6: 4: 1. Mahi guaranteed a profit of Rs 50,000 to Ginni. Net profit for the year ending 31s March, 2023 was Rs 1,10,000. Mahi's share in the profit of the firm after giving guaranteed amount to Ginni will be:

(A) Rs 20,000 (B) Rs 60,000

(C) Rs 40,000 (D) Rs 10,000 **1**

16. (a) Aditi, Sukriti and Niti were partners sharing profits in the ratio of 2 : 2 : 1 Sukriti died on 30th June, 2023. Net profit for the year ended 31 March, 2023 was Rs.4,50,000. If the deceased partner's share of profit is to be calculated on the basis of previous year's profit, the amount of profit credited to Sukriti's Capital Account will be:

(A) Rs.90,000 (B) Rs.45,000

(C) Rs.1,80,000 (D) Rs.1,12,500 **1**

OR

(b) Pawan, a partner was appointed to look after the process of dissolution of firm for which he was allowed a remuneration of Rs.75,000. Pawan agreed to bear the dissolution expenses. Actual dissolution expenses Rs.60,000 were paid by Pawan. Pawan's capital account will be credited by:

(A) Rs.75,000 (B) Rs.60,000

(C) Rs.15,000 (D) Rs.10,000 **1**

17. Anand, Ridhi and Shyam were partners in a firm sharing profits and losses in the ratio of 2 : 2 : 1. Their fixed capitals were Rs. 1,00,000, Rs.60,000 and Rs.40,000 respectively. For the year ended 31st March, 2023, interest on capital was credited to their capital accounts @ 9% p.a instead of 7% p.a. Pass the necessary adjusting Journal entry. **3**

18. (a) Mahesh, Ramesh and Naresh were partners in a firm sharing profits in the ratio of 5 : 3 : 2. From 1 April, 2023, they decided to share profits equally. On that date, there was a balance of Rs.3,60,000 in General Reserve and a debit balance of Rs.1,80,000 in the Profit and Loss Account. Pass single adjustment Journal entry for the above on account of change in the profit sharing ratio. **3**

OR

(b) Ravi, Guru, Mani and Sonu were partners in a firm sharing profits in the ratio of the 2 : 2 : 2 : 1. On 31st January, 2023, Sonu retired. On Sonu's retirement the Goodwill of the firm was valued at Rs. 1,40,000. The new profit sharing ratio among Ravi, Guru and Mani was agreed as 5 : 1 : 1. Showing your workings clearly, pass necessary Journal entry for the treatment of Goodwill in the books of the firm on Sonu's retirement without opening goodwill account. **3**

19. (a) Chavi Ltd. purchased machinery from Neo Ltd. It was agreed that the purchase consideration will be paid by issuing 10,000 equity shares of Rs.10 each at a premium of 10% and a bank draft of 50,000.

Pass the necessary Journal entries in the books of Chavi Ltd. for the above transactions. **3**

OR

(b) On 1 October, 2022 Ninza Ltd. issued 4,000, 8% Debentures of Rs.100 each at a discount of 10%. The company had a balance of Rs.50,000 in Securities Premium Account on the same date.

Pass necessary Journal entries for issue of debentures and to write off discount on issue of debentures **3**

20. Sunny and Rohan were partners in a firm sharing profits and losses in the ratio of 2 : 1. Their books showed that the capital employed on 31st March, 2023 was Rs. 7,00,000. The average profits earned by the firm were Rs.90,000. Calculate the value of goodwill on the basis of 5 years purchase of super profits assuming that the normal rate of return is 10%. **3**

21. Madhav, Raghav and Purav were partners in a firm sharing profits and losses in the ratio of 3 : 1 : 1. Their Balance Sheet as at 31st March, 2023 was as follows:

Balance Sheet of Madhav, Raghav and Purav as at 31 March, 2023

Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Creditors	1,00,000	Bank	20,000
General Reserve	50,000	Stock	1,10,000
Capitals:		Investment	70,000
Madhav 60000		Furniture	35,000
Raghav 1,00,000		Building	1,15,000
Purav 40,000	2,00,000		
	3,50,000		**3,50,000**

Purav died on 30th September, 2023. According to Partnership deed, his legal representatives are entitled to the following:

(i) Balance in his Capital Account.

(ii) Share of profit upto the date of death to be calculated on the basis of last year's profit. **4**

(iii) Share of goodwill calculated on the basis of three years purchase of average profits of last four years.

(iv) Interest on capital 12% p.a.

Purav's share of profit was Rs. 3,000 and the average profit of last four years were Rs. 50,000. Purav's drawings upto the date of death were Rs.10,000,

Prepare Purav's Capital Account to be rendered to his legal representatives.

22. On 1 April 2023, Khyati Ltd. was formed with an authorised capital of Rs.20,00,000 divided into 2,00,000 equity shares of Rs. 10 each. The company invited applications for issuing 1,80,000 equity shares. The company received applications for 1,70,000 equity shares. During the first year, Rs.8 per share were called and final call of Rs. 2 per share has not been made yet. Siya holding 2,000 shares and Piya holding 4,000 shares did not pay the first call of Rs.2 per share. All the shares of Siya and Piya were forfeited after the first call.

Present the share capital in the Balance Sheet of Khyati Ltd. as per Schedule III, Part I of Companies Act, 2013 and also prepare 'Notes to Accounts' for the same. **4**

23. (a) Murari Ltd. invited applications for issuing 80,000 equity shares of Rs.10 each at a premium of Rs 4 per share. The amount per share was payable as follows : Rs.5 on application and Rs.9 (including premium) on allotment.

Applications were received for 1,40,000 shares and allotment was made on pro-rata basis to all the applicants. Money overpaid on application was utilised towards sums due on allotment.

The allotment money was duly received except from Sameer who had applied for 1,400 shares. His shares were forfeited.

Pass the necessary journal entries in the books of Murari Ltd. to record the above transactions. Open calls-in-arrears account wherever required. **6**

OR

(b) Kavya Ltd. invited applications for issuing 30,000 shares of Rs. 10 each at a premium of Rs.2 per share. The amount was payable as follows:

On application and allotment	Rs.7 per share
On first and final call	Rs.5 per share (including Rs.2 premium)

Applications were received for 33,000 shares. Applications for 3,000 shares were rejected and money returned to the applicants. Applications for 30,000 shares were accepted in full.

The application and allotment money was duly received. The first and final call was made and money received except from a shareholder holding 500 shares. His shares were forfeited. All these shares were re-issued to Kartik as fully paid for Rs.8 per share.

Pass necessary journal entries for the above transactions in the books of Kavya Ltd. Open calls-in-arrears account wherever required. **6**

24. (a) Arnav, Bhavi and Chavi were in partnership sharing profits and losses in the ratio of 3 : 2 : 1. On 31st March, 2023, their Balance Sheet was as follows:

Balance Sheet of Arnav, Bhavi and Chavi as at 31st March, 2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals		Plant & Machinery	3,00,000
Arnav 1,80,000		Furniture	20,000
Bhavi 1,60,000		Debtors 3,50,000	
Chavi 1,00,000	4,40,000	Less: Provision for	
Creditors	2,50,000	doubtful debts 20,000	3,30,000
		Cash in hand	10,000
		Profit and Loss Account	30,000
	6,90,000		**6,90,000**

Chavı retired on the above date. It was agreed that:

(i) Plant and Machinery be valued at Rs.4,30,000.

(ii) The existing Provision for Bad Debts was to be increased by 50%.

(iii) Chavi's share of Goodwill was valued at Rs.80,000 and the same was to be treated without opening goodwill account.

(iv) The total amount to be paid to Chavi was brought in by Arnav and Bhavi in such a way as to make their capitals in proportion to their new profit sharing ratio.

Prepare Revaluation Account and Partners' Capital Accounts. **6**

OR

(b) Divya and Ekta were partners in a firm sharing profits in the ratio of 3 : 1. On 31st March, 2023 they admitted Sona as a new partner for 1/4th share in the profits of the firm. Their Balance Sheet on that date was as follows:

Balance Sheet of Divya and Ekta as at 31 March, 2023

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Capitals		Land and Building	5,00,000
Divya 10,00,000		Machinery	6,00,000
Ekta 7,00,000	17,00,000	Stock	1,50,000
General Reserve	3,20,000	Debtors	
Creditors	5,40,000	4,00,000	
		Less: Provision for	
		doubtful debts 30,000	
		Investments	3,70,000
		Cash	5,00,000
			4,40,000
	25,60,000		**25,60,000**

Sona will bring Rs.4,00,000 as her capital and her share of goodwill in cash. It was agreed that:

(i) Goodwill of the firm was valued at Rs.2,40,000.

(ii) Land & Building were valued at Rs.7,12,000.

(iii) Provision for doubtful debts was found to be in excess by Rs.8,000

(iv) A liability for Rs.20,000 included inn Creditors was not likely to arise.

(v) The capitals of Divya and Ekta will be adjusted on the basis of Sona's capital by opening current accounts.

Prepare Revaluation Account and Partners' Capital Account. 6

25. Pass the necessary journal entries for the following transactions on dissolution of the firm of Avyan and Shruti after various assets (other than cash) and third party liabilities have been transferred to Realisation Account:
   (i) Sunday creditors amounting to Rs.40,000 were settled at a discount of 10%.
   (ii) An unrecorded computer of Rs.50,000 was taken over by Shruti.
   (iii) Creditors of Rs.5,000 agreed to take over debtors of Rs.8,000 in full settlement of their claim.
   (iv) The firm had a debit balance of Rs.42,000 in the Profit and Loss Account on the date of dissolution.
   (v) There was an old furniture with the firm which had been written off completely from the books. This was sold for Rs.9,000.
   (vi) Realisation expenses amounting to Rs.11,000 were paid by Shruti. **6**

26. Pass Journal entries relating to issue of debentures in the books of Novex Ltd. in each of following cases:
   (i) Issued 30000, 10% Debentures of Rs.100 each at a premium of 10%, redeemable at par.
   (ii) Issued 4,000, 10% Debentures of Rs.100 each at a premium of 15%, redeemable at a premium of 10%.
   (iii) Issued 5,000, 10% Debentures of Rs. 100 each at a discount of 5%, redeemable at a premium of 10%. **6**

PART – B
OPTION – I
(Analysis of Financial Statements)

27. Which of the following is not a tool of Analysis of Financial Statements?
   (A) Ratio Analysis (B) Comparative Statement
   (C) Statement of Profit & Loss (D) Cash flow Statement
   1

28. (a) Total Assets Rs.3,00,000
   Non-current Assets Rs.2,60,000
   Non-current Liabilities Rs. 80,000
   Shareholders Funds Rs.2,00,000
   Current ratio calculated on the basis of above information will be:
   (A) 0.5 : 1 (B) 2 : 1 **1**
   (B) 1.5 : 1 (D) 1 : 1

OR

(b) When Current Ratio is 4 : 1, Current Assets are Rs.60,000 and
Quick Ratio is 2.5 : 1, the amount of 'Inventory' will be:
(A) Rs.22,500 (B) Rs.37,500
(C) Rs.15,000 (D) Rs.25,000 **1**

29. (a) Shyam Sunder Ltd is a financing company. Under which of the following activity will the amount of 'Interest paid on loan' be shown:
(A) Investing activity
(B) Financing activity
(C) Both Financing & Operating activity **1**
(D) Operating activity

OR

(b)	Particulars	1-4-2022	31-3-2023
	Provision for Tax	Rs.10,000	Rs.25,000

Tax paid during the year ended 31st March, 2023 was Rs.15,000. While calculating Net Profit before Tax and Extra ordinary items, the amount of provision for tax to be added is ________.
(A) Rs.30,000 (B) Rs.25,000
(C) Rs.10,000 (D) Rs.15,000 **1**

30. Which of the following transaction will result in flow of cash ?
(A) Cash withdrawn from bank Rs.71,000.
(B) Issue of 9% debentures of Rs.1,00,000 to the vendors of Machinery
(C) Received from debtors Rs.74,000. **1**
(D) Redeemed 10% debentures by converting into equity shares.

31. Under which major heads and sub-heads will the following items be placed in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013 :
(i) Stores and Spares
(ii) Calls-in-Advance
(iii) Income received in advance **3**

32. From the following information of Ajanta Ltd., calculate 'Inventory Turnover Ratio' :

	Rs.
Opening inventory	19,000
Closing inventory	21,000
Purchases	80,000
Wages	9,000
Carriage Outwards	2,000

Return Outwards	1,000
Revenue from operations	80,000
Carriage inwards	4,000
Rent paid	5,000

3

33. (a) From the following Statement of Profit and Loss of Shikha Ltd., prepare Comparative Statement of Profit and Loss for the year ended 31st March, 2023. 4

Shikha Ltd.

Statement of Profit & Loss for the year ended 31st March, 2023

Particulars	2022-23 (Rs.)	2021-22 (Rs.)
Revenue from operations	32,00,000	20,00,000
Expenses :		
Employee benefit expenses	9,60,000	6,00,000
Other expenses	6,40,000	4,00,000

Rate of Tax is 50%.

OR

(b) From the following information prepare a Common Size Statement of Profit and Loss of A Ltd. and B Ltd. for the year ended 31st March, 2023: 4

Particulars	A Ltd.	B Lt.
Revenue from operations (Rs.)	20,00,000	10,00,000
Other income (Rs.)	3,00,000	80,000
Expenses (Rs.)	10,40,000	4,80,000
Tax Rate	40%	40%

34. From the following Balance Sheet of Yogita Ltd., calculate ‘Cash Flows from Investing Activities’ and ‘Cash flows from Financing Activities’. Show your working properly. 6

Yogita Ltd.
Balance Sheet as at 31st March, 2023

Particulars	Note No.	31-3-2023 (Rs.)	31-3-2022 (Rs.)
I. Equity and Liabilities:			
(1) Shareholders' Funds			
(a) Share Capital		4,00,000	2,00,000
(b) Reserves and Surplus	1	2,00,000	1,00,000
(2) Non-Current Liabilities			
(a) Long term Borrowings	2	1,50,000	2,20,000
(3) Current Liabilities			
(a) Short term borrowings	3	1,00,000	---
(b) Trade payables		70,000	50,000
(c) Short term provisions	4	50,000	30,000
Total		**9,70,000**	**6,00,000**
II. Assets			
(1) Non-Current Assets			
(a) Fixed Assets (Property, plant and equipment and intangible assets)	5	7,00,000	4,00,000
(i) Tangible Assets (Property, plant and equipment)			
(2) Current Assets		1,70,000	1,00,000
(a) Inventories		1,00,000	50,000
(b) Trade Receivables		---	50,000
(c) Cash & Cash equivalents			
Total		**9,70,000**	**6,00,000**

Notes to Accounts:

Note No.	Particulars	31-3-2023 (Rs.)	31-3-2022 (Rs.)
1.	Reserves and Surplus		
	Balance in statement of Profit & Loss	1,50,000	80,000
	General Reserve	50,000	20,000
		2,00,000	**1,00,000**
2.	Long term borrowings		
	10% Bank Loan	1,50,000	2,20,000
		1,50,000	**2,20,000**
3.	Short term borrowings		
	Bank Overdraft	1,00,000	---
		1,00,000	**---**

4.	Short term provisions		
	Provision for tax	50,000	30,000
		50,000	**30,000**
5.	Tangible Assets (Property, plant & equipment)	7,90,000	
	Plant and Machinery	(90,000)	4,70.000
	Less: Accumulated depreciation		(70,000)
		7,00,000	**4,00,000**

Additional Information:

(i) Rs.50,000 was charged as depreciation on Plant and Machinery. A machinery costing Rs.60,000 (Book value Rs.45,000) was sold for Rs.42,000.

(ii) Bank loan was repaid on 1st April, 2022.

MARKING SCHEME FOR 2024 BOARD QUESTION PAER -3

MARKING SCHEME-67/5/1 ACCOUNTANCY (055) EXPECTED ANSWERS / VALUE POINTS	
Q. No	SECTION A (Accounting for Partnership Firms and Companies)
1.	Q. A partnership firm has….. Ans. (C) 5 1
2.	Q. A, B and C were partners in a firm…. (C) 21:14:15:10 1
3.	Q. (a) If all the forfeited shares are reissued…. Ans. (C) Capital Reserve Account 1 OR Q. (b) Raghav Ltd. forfeited………. Ans. (A) ₹4 1
4.	Q. Assertion (A): In partnership firm…. Ans. (D) Assertion (A) is true, but Reason (R) is false. 1
5.	Q. (a) Ridhima and Kavita……. Ans. (C) ₹9,000 and ₹12,000 respectively 1

	OR Q. (b) Ruchika and Harshita…. Ans. (D) ₹810 1
6.	Q. (a) Aarav Ltd. issued…… Ans. (B) ₹1,00,000 1 OR Q. (b) Dove Ltd. issued…… Ans. (C) ₹88,000 1
7.	Q. Assertion (A): Securities Premium….. 1 Ans. (B) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct reason ofAssertion (A).
8.	Q. (a) Kriti, Hina and Nidhi…. Ans. (C) ₹5,000 1 OR Q. (b) Rohit, Udit and Mohit were….. Ans. (D) ₹20,000 1
9.	Q. On dissolution of a partnership firm…. Ans. (B) Partner's Capital Account 1
Read the following hypothetical situation…..	
10.	Q. Opening capital of Keshav was…. Ans. (D) ₹52,000 1
11.	Q. Amount of interest to be charged…. Ans. (C) ₹300 1
12.	Q. Kewal Ltd. purchased…. Ans. (D) 26,000 1
13.	Q. Sarita Ltd. forfeited…. Ans. (C) ₹350 1
14.	Q. Isha and Manish…. Ans. (A) 1
15.	Q. Mahi, Ruhi and Ginni…. Ans. (A) ₹20,000 1
16.	Q. (a) Aditi, Sukriti and Niti….. Ans. (B) ₹45,000

1

OR

Q. (b) Pawan, a partner was appointed…..

Ans. (A) ₹75,000 1

17. Q. Anand, Ridhi and Shyam……

Ans.

Books of Anand, Ridhi and ShyamJournal

Date	Particulars	LF	Dr. Amount(₹)	Cr. Amount(₹)	
	Anand's Current A/c Dr. To Ridhi's Current A/c (Excess Interest allowed on capital, now rectified)		400	400	(1 ½)

Note: If an examinee has written Capital Account instead of Current Account, full credit is tobe given

Working Notes:

Table showing adjustment

Partners	Dr. Interest onCapital @2% (₹)	Cr. Profits (₹)	Net Effect	
			Dr. (₹)	Cr. (₹)
Anand	2,000	1,600	400	-
Ridhi	1,200	1,600	-	400
Shyam	800	800	-	-
	4,000	4,000	400	400

Note: In case an examinee has given only the journal entry correctly and has not shown the working, full credit should be given

18.

Q. (a) Mahesh, Ramesh and Naresh….
Ans.

Books of Mahesh, Ramesh and NareshJournal

Date	*Particulars*	*LF*	*Dr. Amount(₹)*
2023 Apr.1	Ramesh's Capital A/c Dr.		6,000
	Naresh's Capital A/c Dr.		24,000
	To Mahesh's Capital A/c		
	(Adjustment made for General Reserve and debit balance of Profit and loss Account on account of change in profitsharing ratio among partners)		

Working Notes:

19.

(i) Items to be adjusted:

₹

General reserve
3,60,000 Profit and
Loss Account (Dr.)
(1,80,000) 1 ½

(ii) Calculation of sacrifice/ gain:
Sacrificing share= Old share- new share
Mahesh: 5/10- 1/3 =5/30 (sacrifice)
Ramesh: 3/10- 1/3 = -1/30 (gain)
Naresh: 2/10- 1/3 = -4/30 (gain)
= 3 marks

Note: In case an examinee has given only the journal entry correctly and has not shown theworking, full credit should be given

20.

OR

Q. (b) Ravi, Guru, Mani and Sonu……

Ans.

Books of Ravi, Guru, Mani and SonuJournal

Date	*Particulars*	*LF*	*Dr.Amount(₹)*	*Cr.*
2023 Jan.31	Ravi's Capital A/c Dr. To Sonu's Capital A/c To Guru's Capital A/c To Mani's Capital A/c (Ravi compensated Sonu for his share of goodwill and to Guru and Mani for the sacrifice made by themon Sonu's retirement)		60,000	20, 20, 20,

Working Notes:

<u>(iii) Calculation of gaining share:</u>

Gaining share= New share- Old share

Ravi: 5/7- 2/7 =3/7 (gain)

Guru: 1/7- 2/7 = - 1/7 (sacrifice)

Mani: 1/7- 2/7 = - 1/7 (sacrifice) 1 =3 marks

Q. (a) Chavi Ltd. purchased…….

.

Books of Chavi Ltd. Journal

Date	*Particulars*	*LF*	*Dr.Amount (₹)*	*Cr.*
	(i) Machinery A/c Dr. To Neo Ltd.A/c (Machinery purchased from Neo Ltd.)		1,60,000	1,
	(ii) Neo Ltd. A/c Dr. To Equity Share Capital A/c To Securities Premium A/c To Bank A/c (Issued 10,000 equity shares of ₹10 each at a premium of 10% and bank draft in favour of Neo Ltd.)		1,60,000	1,

	Alternatively: (ii) (a) Neo Ltd. A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Issued 10,000 equity shares of ₹10 each at a premium of 10% to Neo Ltd.)		1,10,000	1,00 10
	(b) Neo Ltd. A/c Dr. To Bank A/c (Payment made to Neo Ltd. by a bank draft)		50,000	50

OR

Q. (b) On 1st October, 2022 Ninza Ltd.……

Ans.

Books of Ninza Ltd. Journal

Date	*Particulars*	*LF*	*Dr.Amount (₹)*	*Cr.Amount (₹)*	
2022 Oct.1	Bank A/cDr. To Debenture Application and Allotment A/c(Application money received on 4,000, 8% Debentures of ₹100 each)		3,60,000	3,60,000	1
”	Debenture Application and Allotment A/c Dr. Discount on issue of debentures Dr. To 8% Debentures A/c (Allotment of 4,000, 8% Debentures of ₹100 each ata discount of 10%)		3,60,000 40,000	4,00,000	= 3 mark
2023 Mar.31	Securities Premium A/cDr. To Discount on issue of debentures A/c (Discount on issue of debentures written off fromSecurities Premium account)		40,000	40,000	

Q. Sunny and Rohan were partners….

Ans.

Average Profits = ₹90,000

Normal Profits= $\frac{\text{Normal rate of return}}{100}$ x Capital Employed

= 10/100 x ₹7,00,000

= ₹70,000……………………………………………………1

Super Profits = Average Profits – Normal Profits

= ₹90,000 - ₹70,000

= ₹20,000…………………………………………………….

(1)

Goodwill = Super Profits x Number of years purchase

Goodwill = ₹20,000 x 5

= ₹1,00,000………………………………………………….. 1

= 3 marks

21.

Q. Madhav, Raghav and Purav were…….

Ans.

Books of Madhav, Raghav and Purav

Dr. Purav's Capital A/c Cr.

	Amount *₹*	*Particulars*	*Amount* *₹*	
To Drawings A/c	10,000	By Balance b/d ½	40,000	
To Purav's Legal Representatives/ Executors A/c	75,400	By General Reserve A/c ½	10,000	
		By Madhav's Capital A/c ½	22,500	
		By Raghav's Capital A/c ½	7,500	= 4 marks
		By Interest on Capital A/c ½	2,400	
		By P& L Suspense A/c	3,000	
	85,400		85,400	

22.

Q. On 1st April 2023, Khyati Ltd. was formed ……

Ans.

Khyati Ltd.

Balance Sheet as at ---- (An Extract)

Particulars	*Note no.*	*Amount (₹)*	
I. Equity and Liabilities 1. Shareholders' Funds (a) Share Capital	1	13,48,000	1

Notes to Accounts :

Particulars	*Amount (₹)*	
1. Share Capital		
Authorised Capital		
2,00,000 equity shares of ₹10 each	20,00,000	1
Issued capital		
1,80,000 equity shares of ₹10 each	18,00,000	1
Subscribed Capital		
Subscribed but not fully paid		
1,64,000 equity shares of ₹10 each, ₹8 called up	13,12,000	1
Add Forfeited Shares Account	36,000	=
	13,48,000	4 marks

23.

Q. (a) Murari Ltd. invited applications….

Ans.

Books of Murari Ltd.

Journal

Date	*Particulars*	*LF*	*Dr. Amount(₹)*	*Cr. Amount(₹)*	
	Bank A/c Dr. To Equity Share Application A/c (Application money received on 1,40,000 shares)		7,00,000	7,00,000	1
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Application money transferred to share capital accountand share allotment account)		7,00,000	4,00,000	1
	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c Dr. (Amount due on allotment)		7,20,000	4,00,000 3,20,000	1
	Bank A/c Dr. Calls in arrears A/c Dr.		4,15,800 4,200		1

	To Equity Share allotment A/c (Allotment money received except on 800 shares)			4,20,000	½
	Equity Share Capital A/c Dr. Securities Premium A/c Dr.To Share forfeiture A/c To Calls in arrears A/c (800 shares forfeited for non payment of allotment money)		8,000 3,200	7,000 4,200	1 ½

OR

Q. (b) Kavya Ltd. invited applications ………Ans.

Books of Kavya Ltd.

Journal

Date	Particulars	Dr. Amount(₹)	Cr. Amount (₹)	
	Bank A/c Dr. To Share Application and Allotment A/c (Application money received on 33,000 shares)	2,31,000	2,31,000	½
	Share Application and Allotment A/c Dr. To ShareCapital A/c To Bank A/c (Application money transferred to share capital account and balance refunded)	2,31,000	2,10,000 21,000	1
	Share First and final call A/cDr. To Equity Share Capital A/cTo Securities Premium A/c (Amount due on first and final call)	1,50,000	90,000 60,000	½
	Bank A/c Dr. Calls in arrears A/c Dr. To Share First and final call A/c (First and final call received except on 500 shares)	1,47,500 2,500	1,50,000	1

	Share Capital A/c Dr. Securities Premium A/c Dr. To Share forfeiture A To Calls in arrears A/c (500 shares forfeited for non payment of first and finalcall)	5,000 1,000	3,500 2,500	1
	Bank A/c Dr. Share forfeiture A/c Dr. To Share Capital A/c (Forfeited shares reissued as fully paid for ₹8 pershare)	4,000 1,000	5,000	1
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Gain on reissue of forfeited shares transferred toCapital Reserve A/c)	2,500	2,500	1 = 6 marks

24. Q. (a) Arnav, Bhavi and Chavi were in ,,,,,,,Ans.

Dr. Revaluation A/c

Particulars	*Amount ( )*	*Particulars*	*Amount ( )*	
To Provision for doubtful debts A/c ½	10,000	By Plant and Machinery A/c ½	1,30,000	
To Profit transferred to Partners' Capital A/c's: ½ Arnav 60,000 Bhavi 40,000 Chavi <u>20,000</u>	1,20,000			1 ½
	<u>1,30,000</u>		<u>1,30,000</u>	

Dr. Revaluation A/c

Particulars	*Arnav ₹*	*Bhavi ₹*	*Chavi ₹*	*Particulars*	*Arnav ₹*	*Bhavi ₹*	*Chavi ₹*
To Chavi's Capital A/c ½	48,000	32,000	-	By Balance b/d ½ By Revaluation	1,80,000	1,60,000	1,00,000

To Profit and Loss A/c ½	15,000	10,000	5,000	A/c ½	60,000	40,000	20,000
To Cash A/c ½	-	-	1,95,000	By Arnav's Capital A/c ½	-	-	48,000
To Balance c/d ½	3,18,000	2,12,000	-	By Bhavi's Capital A/c ½	-	-	32,000
				By Cash A/c ½	1,41,000	54,000	-
	3,81,000	2,54,000	2,00,000		3,81,000	2,54,000	2,00,000

OR

Q. (b) Divya and Ekta were partners in a firm…..

Dr. Revaluation A/c

Particulars	*Amount( )*	*Particulars*	*Amount( )*	
To Profit transferred to Partners' Capital A/c's: ½ Divya 1,80,000 Ekta 60,000	2,40,000	By Land and Building A/c ½ By Provision for doubtful debts A/c ½ By Creditors A/c ½	2,12,000 8,000 20,000	2
	2,40,000		2,40,000	

Revaluation A/c Cr

Particulars	*Divya* ₹	*Ekta* ₹	*Sona* ₹	*Particulars*	*Divya* ₹
To Partners Current A/c's 1	5,65,000	5,55,000	-	By Balance b/d ½	10,00,000
				By Cash A/c ½	-
To Balance c/d. ½	9,00,000	3,00,000	4,00,000	By Revaluation A/c ½	1,80,000
				By General Reserve A/c ½	2,40,000
				By Premium for Goodwill A/c ½	45,000
	14,65,000	8,55,000	4,00,000		14,65,000

25\. Q. Pass the necessary journal entries….

Ans.

Books of Avyan and Shruti Journal

Date	*Particulars*	*LF*	*Dr Amo (₹*
	(i) Realisation A/c Dr. To Cash/Bank A/c (Creditors settled at a discount of 10%)		36,
	(ii) Shruti's Capital A/c Dr. To Realisation A/c (Unrecorded computer taken over by Shruti) (iii) No entry		50,
	(iv) Avyan's Capital A/c Dr. Shruti's Capital A/c Dr. To Profit and Loss A/c (Debit balance of Profit and Loss Account distributed among the partners)		21,00 21,00
	(v) Bank/ Cash A/c Dr. To Realisation A/c (Old furniture which had been written off, sold)		9,
	(vi) Realisation A/c Dr. To Shruti's Capital A/c (Expenses of realisation paid by Shruti)		11,

26\. Q. Pass journal entries relating to issue of debentures…

Ans.

Books of Novex Ltd.

Journal

Date	*Particulars*	*LF*	*Dr. Amou (₹)*
	(i) Bank A/c Dr. To Debenture Application and Allotment A/c (Debenture Application money received)		33,00,
	Debenture Application and Allotment A/c. Dr. To 10% Debentures A/c To Securities Premium A/c (Debenture Application money transferred to Debentures and Securities Premium account)		33,00,
	(ii) Bank A/c Dr.		4,60,

				To Debenture Application and Allotment A/c(Debenture Application money received)			
				Debenture Application and Allotment A/c Dr. Loss on issue of Debentures A/c Dr. To 10% Debentures A/c To Securities Premium A/c To Premium on redemption of Debentures A/c(Debenture Application money transferred to Debentures and Securities Premium account and provision for premium on redemption of debenturesmade)		4,60, 40,	
				(iii) Bank A/c Dr. To Debenture Application and Allotment A/c(Debenture Application money received)		4,75,0	
				Debenture Application and Allotment A/c Dr. Loss on issue of Debentures A/c Dr. To 10% Debentures A/c To Premium on redemption of Debentures A/c (Debenture Application money transferred to Debentures and provision for premium on redemptionof debentures made) *Alternate Entry* Debenture Application and Allotment A/c Dr. Discount on issue of Debentures A/c Dr. Loss on issue of Debentures A/c Dr. To 10% Debentures A/c To Premium on redemption of Debentures A/c (Debenture Application money transferred to Debentures and provision for premium on redemptionof debentures made)		4,75, 75, 4,75, 25, 50,00	
	PART B OPTION 1 (Analysis of Financial Statements)						
	27.	Q. Which of the following is not a tool….. Ans. (C) Statement of Profit & Loss					

28. Q. (a) Total assets- ₹3,00,000……

Ans. (B) 2:1

OR

Q. (b) When Current Ratio is 4:1……….

Ans. (A) ₹22,500

29. Q. (a) Shyam Sunder Ltd…….

Ans. (D) Operating activity

OR

Q. (b) Tax paid during the year…..

Ans. (A) ₹30,000

30. Q. Which of the following transactions……

Ans. (C) Received from debtors ₹74,000

31. Q. Under which major heads ……

Ans.

S.No.	*Items*	*Heads*	*Sub Heads*
(i)	Stores and Spares	Current Assets	Inventories
(ii)	Calls- in- advance	Current Liabilities	Other Current Lia
(iii)	Income received in advance	Current Liabilities	Other Current Lia

32. Q. From the following information……

Ans. Inventory Turnover Ratio = Cost of Revenue from Operations/ Aver

Average Inventory = (Opening inventory + Closing inventory)/ 2

= (₹19,000 + ₹21,000)/2

= ₹20,000 ……………………………………………….

Cost of Revenue from Operations = Opening Inventory + Net purchases +
Closing Inventory

= ₹19,000 + (₹80,000 – ₹1,000) + (₹9,000 +
= ₹90,000…………………………………….

Inventory Turnover Ratio = ₹90,000/₹20,000

= 4.5 times ½ = 3 mark

33. Q. (a) From the following Statement of Profit and Loss ……………

Ans.

Shikha Ltd.

Comparative Statement of Profit and Lossfor the year ended March 31, 2023

	2021–22 (₹)	2022–23 (₹)	Absolute Increase/ Decrease (₹)
I. Revenue from Operations ½	20,00,000	32,00,000	12,00,000
II. Expenses:			
Employee benefit expenses ½	6,00,000	9,60,000	3,60,000
Other expenses ½	4,00,000	6,40,000	2,40,000
Total Expenses	10,00,000	16,00,000	6,00,000
III. Profit before Tax (I – II) 1	10,00,000	16,00,000	6,00,000
IV. Less : Tax @ 50% 1	5,00,000	8,00,000	3,00,000
V. Profit after Tax (III – IV) ½	5,00,000	8,00,000	3,00,000

OR

Q. (b) From the following information…..

Ans.

A Ltd. and B Ltd.

Common Size Statement of Profit and Loss

for the year ended 31st March 2023

Particulars		*Absolute Amounts*		*% c oper*
		A Ltd.	*B Ltd.* *(₹)*	*A Ltd.* *(₹)*
Revenue from Operations	½	20,00,000	10,00,000	100
Other Income	½	3,00,000	80,000	15
Total Revenue	½	23,00,000	10,80,000	115
Less: Expenses	½	10,40,000	4,80,000	52
Profit before Tax	1	12,60,000	6,00,000	63
Less : Tax @ 40%	½	5,04,000	2,40,000	25.2
Profit after Tax	½	7,56,000	3,60,000	37.8

Alternate Answer

A Ltd. and B Ltd.

Common Size Statement of Profit and Loss for the year ended 31st March 2023

Particulars		*Absolute* *A Ltd.*	*% of Revenue from operations A Ltd.*	*Absolut* *Amount* *B Ltd.* *(₹)*
Revenue from Operations	½	20,00,000	100	10,00,0
Other Income	½	3,00,000	15	80,0
Total Revenue	½	23,00,000	115	10,80,0
Less: Expenses	½	10,40,000	52	4,80,0
Profit before Tax	1	12,60,000	63	6,00,0
Less : Tax @ 40%	½	5,04,000	25.2	2,40,0
Profit after Tax	½	7,56,000	37.8	3,60,0

34.

Q. From the following Balance Sheet of Yogita Ltd……

Ans.

Calculation of Cash Flows from Investing Activities
31st March 2023

Particulars		(₹)	(₹)	
Purchase of Machinery	½	(3,80,000)		2
Sale of Machinery	1	42,000		
Net Cash used in Investing Activities	½		(3,38,000)	

Dr. *Plant and Machinery A/c*

Particulars	*Amount (₹)*	*Particulars*	*Amount (₹)*	
To Balance b/d	4,70,000	By Bank /Cash A/c	42,000	
To Bank/ Cash A/c (Balancing figure)	3,80,000	By Accumulated Depreciation A/c	15,000	
		By Statement of Profit & Loss	3,000	1
		By balance c/d	7,90,000	
	8,50,000		8,50,000	

Dr. *Accumulated Depreciation A/c*

Particulars	*Amount (₹)*	*Particulars*
To Plant and Machinery A/c	15,000	By Balance b/d
To Statement of Profit &Loss	15,000	By Depreciation A/c
To balance c/d	90,000	
	1,20,000	

Alternate Answer

Calculation of Cash Flows from Investing Activiti

for the year ended 31st March 2023

Particulars		(₹)	(₹)
Purchase of Machinery	½	(3,95,000)	
Sale of Machinery	1	42,000	
Net Cash used in Investing Activities	½		(3,53,000)

Dr. *Plant and Machinery A/c*

Particulars	*Amount* (₹)	*Particulars*	*Amount* (₹)	
To Balance b/d	4,70,000	By Bank A/c	42,000	
To Cash A/c (Balancing figure)	3,95,000	By Accumulated Depreciation A/c	30,000	
		By Statement of Profit & Loss	3,000	
		By Balance c/d	7,90,000	
	8,65,000		8,65,000	2

Dr *Accumulated Depreciation A/c* *Cr*

Particulars	*Amount* (₹)	*Particulars*	*Amount* (₹)	
To Plant and Machinery A/c	30,000	By Balance b/d	70,000	
To balance c/d	90,000	By Depreciation A/c	50,000	
	1,20,000		1,20,000	1

Calculation of Cash Flows from Financing Activities

for the year ended 31st March 2023

Particulars		(₹)
Issue of Share Capital	½	2,00,
Bank Overdraft raised	½	1,00,

Bank loan repaid	½	(70,
Interest on bank loan paid	1	(15,
Net Cash Inflows from Financing Activities	½	

****

2024-25 CBSE SAMPLE QUESTION PAPER -1

CLASS 12 ACCOUNTANCY

TIME ALLOWED: 3 HOURS **MAXIMUM MARKS: 80**

GENERAL INSTRUCTIONS:

1. This question paper contains **34** questions. All questions are compulsory.
2. This question paper is divided into two parts, Part **A** and **B.**
3. **Part - A** is **compulsory** for all the candidates.
4. **Part - B** has **two** options i.e. (i) Analysis of Financial Statements and (ii) Computerised Accounting. Students must attempt only one of the given options as per the subject opted.
5. Question Nos.**1** to **16** and **27** to **30** carries **1** mark each.
6. Questions Nos. **17** to **20**, **31**and **32** carries **3** marks each.
7. Questions Nos. from **21, 22** and **33** carries **4** marks each
8. Questions Nos. from **23** to **26** and **34** carries **6** marks each
9. There is no overall choice. However, an internal choice has been provided in **7** questions of **one mark**, **2** questions of **three marks**, **1** question of **four marks** and **2** questions of **six marks.**

Q. No.	**PART A** **(Accounting for Partnership Firms and Companies)**	**Marks**
1.	Vedikaa and Sakthi are partners sharing profit and losses in the ratio of 5:3. Their capital are Rs. 2,00,000 and Rs. 3,00,000. As per the partnership deed, interest on capital is charge against profit and available profit is Rs. 24,000. Compute Interest on capital @ 10% p.a. (a) Vedikaa – Rs. 20,000 and Sakthi Rs. 30,000 (b) Vedikaa – Rs. 9,600 and Sakthi Rs. 14,400 (c) Vedikaa – Rs. 9,000 and Sakthi Rs. 15,000 (d) Vedikaa – Rs. 9,400 and Sakthi Rs. 14,600	**(1)**
2.	Find the odd one: (a) Manager's commission (b) Rent paid to partner (c) Interest on loan by firm (d) Interest on loan by partner	**(1)**
3.	S, G and D established partnership firm on 1st October 2023 and sharing profit and losses in the ratio of 3:2:1. S provided guarantee	**(1)**

	profit Rs. 20,000 to D. On 31st March, 2024 the firm incurred loss of Rs. 60,000. Determine S's loss as on 31st March, 2024. (a) Rs. 30,000 (b) Rs. 20,000 (c) Rs. 50,000 (d) Rs. 60,000 **(or)** On 1st January, 2024, Vijay and Ajith agreed to form partnership firm in the ratio of 7:3. Vijay withdrew Rs. 2,000 per month for his personal use. Calculate interest on drawings @ 6 p.a. as on 31st March, 2024. (a) Rs. 720 (b) Rs. 180 (c) Rs. 60 (d) 100	
4.	**Assertion (A) :** Capital account of each partner continues to show the same balance year after year unless the introduction of capital and/(or) withdrawal of capital in fluctuating capital method. **Reason (R) :** Transactions are not related to capital account are debited (or) credited into partners current account. a) Both A and R are correct, and R is the correct explanation of A. b) Both A and R are correct, but R is not the correct explanation of A. c) A is correct but R is incorrect. d) A is incorrect but R is correct.	**(1)**
	Read the following hypothetical situation and answer Q. 5 and 6. Shafali and Anneke are partner in a firm sharing profit and losses in the ratio of 3:1. A per the partner deed, Shafali is to get of Rs. 10,000 per month and commission of 10% of net profit before charging any commission. Anneke is to get a salary of Rs. 20,000 p.a. and commission of 8% of the net profit after charging all commission. Profit after partner's salary but before commission to partners for the year ended 31st March, 2024 was Rs. 6,00,000.	
5.	How much commission received by Anneke? (a) Rs. 20,000 (b) Rs. 30,000 (c) Rs. 40,000 (d) Rs. 50,000	**(1)**
6.	How much was the divisible profit of Shafali? (a) Rs. 3,80,000 (b) Rs. 2,85,000 (c) Rs. 95,000 (d) Rs. 4,50,000	**(1)**
7.	A partnership firm has total assets Rs. 5,00,000 and total liabilities Rs. 3,00,000. If normal rate of return is 10% p.a. and goodwill is	**(1)**

valued at Rs. 50,000 at 2 years purchase of super profit, find out average profit.

(a) Rs. 25,000 (b) Rs. 20,000 (c) Rs. 45,000 (d) Rs. 50,000

(or)

Kani Enterprise is running partnership firm with three partners namely Kannan, Arun and Nirmal. The firm has land and building Rs. 5,00,000, machinery Rs. 3,00,000 and creditors Rs. 1,00,000. Further, found machinery was overvalued by Rs. 1,00,000. The average profit of the firm is Rs. 3,00,000 and the normal rate of returns is 10%. Find out capitalisation of super profit.

(a) Rs. 24,00,000 (b) Rs. 2,40,000 (c) Rs. 6,00,000 (d) Rs. 60,000

8. Due to change in profit sharing ratio, A's sacrifice is 3/10, while B's gain is 3/10. They decide to record the effect of the following without affecting the book figures. by passing an adjusting entry: **(1)**

General Reserve --------------------₹ 40,000

Profit and Loss (Cr.) --------------------₹ 20,000

Advertisement Suspense A/c (Dr.)--- ₹ 30,000

The necessary adjustment entry will be

a) Dr. B and Cr. A by ₹ 9,000

b) Dr. A and Cr. B by ₹ 9,000

c) Dr. A and Cr. B by ₹ 18,000

d) Dr. B and Cr. A by ₹ 9,000

(OR)

A, B and C are partners sharing profit and losses in the ratio of 3:2:1. With effect from 1st April, 2024 they decided to agreed to share 1:2:3 and determine the effect on the following transaction .

Liabilities	**Rs.**	**Assets**	**Rs.**
Investment Fluctuation Reserves	20,000	Investment (Cost)	1,00,000

Additional Information:

i) Market value of investment is Rs. 90,000

(a) Rs. 10,000 transferred to partners capital A/c in old ratio

(b) Rs. 20,000 transferred to partners capital A/c in sacrificing and gaining ratio

(c) Rs. 90,000 transferred to partners capital A/c in old ratio

(d) Rs. 10,000 transferred to partners capital A/c in sacrificing and gaining ratio

9. Akshara, Tajaswini and Ananya are partners in a firm and sharing profit and losses in the ratio of 4:3:3 and having adjusted fixed capital Rs. 2,00,000, Rs. 4,00,000 and Rs. 6,00,000. With effect from 1st April, 2024, they decided to change profit and loss sharing ratio as 2:3:5 and adjust the new capital by bringing (or) withdrawing of cash. Show the effect of Akshara. **(1)**

Date	**Particulars**	**L. F.**	**Dr. (Rs.)**	**Cr. (Rs.)**
A) 1.4.2024	Akshara's Current A/c Dr.		40,000	
	To Akshara's Capital A/c			40,000
	(Adjusted the capital as per new ratio)			
B) 1.4.2024	Cash A/c Dr.		40,000	
	To Akshara's Capital A/c			40,000
	(Adjusted the capital as per new ratio)			
C) 1.4.2024	Akshara's Capital A/c Dr.		40,000	
	To Cash A/c			40,000
	(Adjusted the capital as per new ratio)			
D) 1.4.2024	Cash A/c Dr.		40,000	
	To Akshara's Current A/c			40,000
	(Adjusted the capital as per new ratio)			

10. Match the following : **(1)**

Group – I	Group - II
A. General reserves	1. Old ratio – New ratio

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<tr><td>B. Sacrificing ratio</td><td>2.Credit to Revaluation A/c</td></tr>
<tr><td>C. Increase in the value of liabilities</td><td>3. Accumulated Profit</td></tr>
<tr><td>D. Increase in the value of asset</td><td>4. Debit to Revaluation A/c</td></tr>
</table>
(a) A- 2; B – 4; C- 1; D- 3
(b) A- 2; B – 3; C- 4; D- 1
(c) A- 3; B – 1; C- 4; D- 2
(d) A- 4; B – 3; C- 1; D- 2
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<td>11.</td>
<td>Shiva and Kannan are partners in firm. They admit Varun as a partner and give him share 3/10th share of Profits. This share will get 1/5th from Shiva and 1/10th from Kannan. The New profit sharing ratio will be 17:11:12.
Find out old profit sharing ratio.
(a) 5 :3 (b) 3:5 (c) 1:1 (d) 1:2</td>
<td>(1)</td>
</tr>
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<td>12.</td>
<td>Abdul, Jamal and Sidiqu were partners in a firm and Jamal retired from the partnership firm. On day of retirement, their capital were Rs. 4,00,000; Rs. 5,00,000; Rs. 6,00,000. Abdul and Siddique agreed to pay Jamal Rs. 6,00,000 in full settlement of his claim. Find out Jamal's goodwill.
(a) Rs. 1,00,000 (b) Rs. 2,00,000 (c) Rs. 1,50,000 (d) Nil</td>
<td>(1)</td>
</tr>
<tr>
<td>13.</td>
<td>Determine the amount due to James:
Capital A/c – Rs. 2,00,000
Loan A/c balance (Cr.) – Rs. 50,000
Value of Goodwill - Rs. 1,00,000
Revaluation Loss - Rs. 10,000
Share of Profit - 1/10th Share
(a) Rs. 2,63,000 (b) Rs. 2,60,000 (c) Rs. 2,50,000 (d) Rs. 2,53,000</td>
<td>(1)</td>
</tr>
<tr>
<td>14.</td>
<td>Arrange the sequence for settlement of accounts:
(1) In paying firm's debt to the third parties i.e. outside parties
(2) The residue, if any, is distributed among the partners in their profit – sharing ratio
(3) In paying to each partner ratably what is due to him on account of capital; and</td>
<td>(1)</td>
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	(4) In paying to each partner ratably what is due to him on account of loans (or) advances (a) 1, 2, 3, 4 (b) 2,3,4,1 (c) 1,3,4,2 (d) 1,4,3,2	
15.	**Assertion (A):** The Company can utilise security premium on security to purchase its own shares (or) other securities under section 68. **Reason (R) :** Section 52 (2) of the Companies Act, 2013 restricts the use of the amounts received as premium on securities to purchase its own shares (or) other securities under section 68. a) Both A and R are correct, and R is the correct explanation of A. b) Both A and R are correct, but R is not the correct explanation of A. c) A is correct but R is incorrect. d) A is incorrect but R is correct.	**(1)**
16.	Surya Ltd. issued 80,000, 8% Debentures of ₹ 100 each at certain rate of premium and to be redeemed at 10% premium. At the time of writing off Loss on Issue of Debentures, Statement of Profit and Loss was debited with ₹ 2,00,000. At what rate of premium, these debentures were issued? a) 10% b) 16% c) 6% d) 4% **(or)** Which of the following statement is correct? (a) A debenture holder is an owner of the company (b) A debenture holder can get his money back only on the liquidation of the company (c) A debenture issued at a discount can be redeemed at a premium (d) A debenture holder receives Interest only in the event of profits	**(1)**
17.	Sathish, Sundar, and Shiva are partners in a firm sharing profits and losses in the ratio of 1:2:3. Their fixed capitals were ₹3,00,000; ₹6,00,000, and ₹12,00,000, respectively. (a) Interest on capital for the year 2022-2023 was credited to them @ 6% p.a. instead of 5% p.a. The profit for the year after charging interest was ₹ 3,00,000.	**(3)**

(b) Further salary had credited Rs. 20,000 in Sathish A/c instead of Sundar.

Prepare the Adjustment Table and pass the Adjustment Entry.

(or)

Anu, Banu and Chinnu started a business PSM Ltd. with capitals ₹ 2,00,000, ₹5,00,000 and ₹6,00,000, respectively and agreed to share profit and losses in the ratio 2:3:5. Drawings made by the partners during the year were ₹ 10,000 each, respectively. Net Profit for the year was ₹ 72,000 for the year ended on 31.3.2024. In the Partnership Deed, the following were mentioned:

1. Interest on capital to be allowed @ 6% p.a.
2. ₹ 10,000 p.a. salary to be paid to Anu.
3. Interest on Drawings to be charged @ 5% p.a.
4. ₹ 10,000 to be transferred to Reserve.

Prepare Profit and Loss Appropriation A/c for the year ending on 31st March,2024.

18. Calculate goodwill of a firm on the basis of three years purchases of the Weighted Average Profits of the last four years. The profits of the last four years were: **(3)**

Years (ending 31st March)	**2020**	**2021**	**2022**	**202**
Amount (Rs.)	**25,000**	**27,000**	**46,000**	**53,**

a) On 1st April, 2020 a major plant repair was undertaken for ₹10,000 which was charged to revenue. The said sum is to be capitalized for goodwill calculation subject to adjustment of depreciation of 10% on Straight Line method balance method.

b) For the purpose of calculating Goodwill the company decided that the years ending 31.03.2020 and 31.03.2021 and 31.03.2022 be weighted as 1 each (being COVID affected) and for year ending 31.03.2023 weights be taken as 2 respectively.

19. Sun Ltd. issued 20,000 fully paid – up shares of Rs. 10 each for purchase of the following assets and liabilities from Moon Ltd. **(3)**

Land & Building – Rs. 3,00,000

Machinery - Rs. 2,00,000

Sundry Creditors – Rs. 1,00,000

You are required to pass journal entry to purchase Moon Ltd.

20. XYZ Ltd. purchased assets of the book value ₹ 6,00,000 and took over the liabilities of ₹ 2,00,000 from ABC Ltd. It was agreed that the purchase consideration, settled at **(3)**

₹ 4,00,000, be paid by issuing debentures of ₹ 100 each. Pass Journal entries if debentures are issued: (a) at par, (b) at a discount of 10%. It was agreed that any fraction of debentures be paid in cash.

(or)

Pass necessary Journal entries relating to the issue of debentures for the following:

(a) Issued ₹ 28,000; 10% Debentures of ₹ 100 each at a premium of 15% redeemable at par.

(b) (b) Issued ₹ 30,000; 10% Debentures of ₹ 100 each at a premium of 10% and redeemable at a premium of 15%.

21. Pass journal entries for the following transactions in the books of K, L and M sharing profit in the ratio of 5:2:3 at the time of dissolution of the firm. **(4)**

(i) Expenses incurred on dissolution of the firm Rs. 3,000 and paid by K.

(ii) Furniture Rs. 50,000 was taken by creditors of the book value of Rs. 60,000 in full settlement.

(iii) Realisation of goodwill Rs. 20,000

(iv) Loan by M is Rs. 30,000 and balance in capital A/c (Debit) is Rs. 50,000

22. VM Ltd. was formed with a capital of ₹10,00,000 divided into 10,000 Equity Shares of ₹100 each. Out of these 2,000 Equity Shares were issued to Ram Ltd. as fully paid-up in return for the purchase consideration for a Machinery acquired. 6,000 shares were offered to the public, and the issue was fully subscribed. The directors called ₹80 per share and received the entire amount in full except a call of ₹20 per share on 600 shares. **(4)**

Show the relevant items in the Balance Sheet of VM Ltd.

23. X and Y are partners in a firm sharing profit and losses in the ratio of 7:3. on 31st March, 2024, their balance sheet was as follows: **(6)**

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital		Machinery	50,000
X - 1,00,000		Land & Building	2,00,000
Y - 2,00,000	3,00,000	Goodwill	5,000

Workmen compensation reserves	10,000	Debtors - 20,000	
Sundry creditors	40,000	**Less:**	
Bills payables	10,000	Doubtful debts 500	19,500
		Stock	5,000
		Cash	80,500
	3,60,000		**3,60,000**

On 1st April, 2024 they decided to admit Z as new partner with 2/10th share and he has brought Rs. 1,00,000 as capital and goodwill in cash.

The following adjustments are made on the same day;

1. The workmen compensation claim determined Rs. 5,000
2. Machinery valued at Rs. 40,000
3. Land & Building valued at Rs. 3,00,000
4. Stock undervalued by Rs. 1,000
5. The goodwill of the firm valued at Rs. 2,00,000
6. The new capital of the firm is determined in the basis of new partner and the surplus (or) deficit amount adjusted through current A/c.

Prepare Revaluation A/c and Partners capital A/c.

24.

Dharshini, Beula and Niranjana were partners sharing profits as 40% , 30% and 30% respectively. On March 31, 2024 their Balance Sheet was as follows :

(6)

Liabilities	Rs.	Assets	Rs.
Sundry creditors	30,000	Bank	38,000
Employee Provident Fund	5,000	Sundry Debtors - 20,000 Less: Provision for Doubtful Debts - 1,000	19,000
Investment Fluctuation Fund	20,000		
Bills Payables	2,000	Land & Building	2,00,000
Capital A/c		Machinery	2,00,000
Dharshini - 4,00,000		Investment	1,50,000
Beula - 3,00,000		Stock	50,000
Niranjana - 2,00,000	6,00,000		
	6,57,000		6,57,000

On 31st March, 2024 Niranjana decided to retire from the partnership firm and Dharshini and Beula decided to continue with the following terms:

1. Investment brought down to Rs. 1,30,000
2. Machinery depreciated @ 10%
3. Land & Building revalued at Rs. 2,50,000
4. Stock took for Rs. 30,000 by Niranjana
5. Provision for doubtful debts created @10%.
6. Goodwill of the firm valued at Rs. 50,000

7. Niranjana was paid Rs. 22,800 in cash and the balance was transferred to his loan account payable in two equal installments together with interest @ 10% p.a.
Prepare Revaluation Account, Partners’, Capital Account

(or)

In the partnership agreement between X, Y and Z who were sharing profit and loss in the ratio of 4:2:2, the goodwill was to be valued on the date of death of any partner on the basis of such partner's share of 4 years profit calculated on average of 5 years profit immediately preceding the year of death less 10%. The firm's profit were Rs. 20,000 in 2014, Rs.60,000 in 2015, Rs. 80,000 in 2016 and losses of Rs. 10,000 in 2017 and Rs.4,000 in 2018. The deceased partner's share of profits for the period of his life-time in the year of death was to be passed on the average profit of the previous 3 years plus 10%. X died on 31st May 2019. His capital account showed a credit of Rs. 20,000 on 1st Jan 2019 and he has drawn Rs. 3,000 since that date. Interest on capital is to be allowed and interest on drawing is to be charged @5% irrespective of the period.
Prepare X's Capital Account.

(6)

25. Complete the following journal entries: **(6)**

Date	Particulars	L.F.	Dr.	Cr.
(i)	Share Capital A/c (100* Rs. 9) Dr To Forfeited Shares A/c To Calls – in – Arrears A/c (Being the forfeiture of 10 share, Rs.9 called – up, on which allotment money of Rs.3 and first call money)	-	900	? ?
	? Dr ? Dr To ? (Being the reissue of 100 shares fully paid – up at Rs.8)	- -	800 200	1,000
(ii)	Shares reissued @ Rs.10 (per share): (i) Share Capital A/c (100 * Rs. 9) Dr. To Forfeited Shares A/c (100 * Rs. 2) To Calls –in – Arrears A/c (100 * Rs.7) (Being the forfeiture of 100 shares, Rs. 9 called-up, on which allotment money of Rs.4 have not been received)	-	900	200 700
	(ii) ? Dr. To ? (Being the reissue of 100 shares, fully paid-up at par)	-	?	?
	(iii) ?	-	?	

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(?)</td><td></td><td></td><td>?</td></tr>
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<p>(or)</p>
<p>Kannan Ltd. invited applications for issuing 2,40,000 equity shares of Rs. 10 each at a premium of Rs. 4 per share. The amount was payable as under :
On application – Rs. 4 per share (including premium Rs. 2)
On allotment – Rs. 4 per share
On first and final call – Rs. 6 per share (including premium Rs. 2)
Applications for 3,00,000 shares were received and pro-rata allotment was made to all the applicants. Excess application money received on application was adjusted towards sums due on allotment. All calls were made and were duly received except from Roja, who failed to pay allotment and first and final call on 7,500 shares applied by her. These shares were forfeited. Afterwards, 40% of the forfeited shares were re-issued at Rs. 11 per share as fully paid-up.
Pass the necessary journal entries in the books of Karur Ltd. Open call-in-arrears and call-in-advance accounts wherever necessary.</p>
</td><td></td></tr>
<tr><td>26.</td><td>
<p>On 01 August, 2022, Rockstar Ltd. issued ₹ 40,00,000, 9% Debentures of ₹ 100 each at 5% Premium, to be redeemed at 12% Premium on March 31, 2023. Balance in Securities Premium before issue was</p>
<p>₹ 1,50,000.</p>
<p>You are required to</p>
<p>(i) Pass entries for issue of debentures.</p>
<p>(ii) Pass entry for writing off loss on Issue of debentures.</p>
<p>(iii) Prepare Loss on issue of debentures account.</p>
</td><td>(6)</td></tr>
</table>

	PART B **Option - I** **(Analysis of Financial Statements)**	
27.	Which of the following is an example of Horizontal Analysis? (a) Common Size Statement (b) Comparative Statement (c) Both (a) & B (d) None of the above (or)	(1)

Which of the following is not limitation of analysis of financial statements:

a) Window dressing

b) Price level changes ignored

c) Subjectivity

d) Inter -firm comparison possible

28. With the help of the following information find Debt Collection Period. **(1)**

	31st March, 2023 (Rs.)	31st March 2024 (Rs.)
Sundry Creditors	15,000	10,000
Bills Receivables	5,000	10,000
Provision for Doubtful Debts	3,000	2,500

Total Sales – Rs. 1,50,000; Sales returns – Rs. 5,000; Cash Sales – Rs. 25,000

(a) 55 Days (b) 60 Days (c) 61 Days (d) 56 Days

29. Operating activities is mainly concerned with ________ **(1)**

(a) Current assets and current liabilities

(b) Long term liabilities and stockholders activities

(c) Long term assets

(d) All of the above

30. Repayment of long term loans belong to **(1)**

(a) Operating Activities (b) Investing Activities

(c) Financing Activities (d) None of the above

(or)

Assertion (A): Written off fixed assets added into operating activity.

Reason (R) : Depreciation is not cash out flow, thus, it will be considered in cash flow statement.

a) Both A and R are correct, and R is the correct explanation of A.

b) Both A and R are correct, but R is not the correct explanation of A.

c) A is correct but R is incorrect.

d) A is incorrect but R is correct.

31. Classify the following items under major heads and sub-heads (if any) in the balance sheet of a company as per schedule III of the Companies Act, 2013. **(3)**

i) Marketable Securities
ii) Prepaid insurance
iii) Shares in listed companies
iv) Provision for tax
v) Security Premium Reserves
vi) Debentures

32. Quick assets Rs. 4,00,000; Inventory Rs. 70,000, Prepaid Expenses Rs. 30,000 and working capital Rs. 1,60,000. Calculate Current Ratio and Liquid Ratio. **(3)**

33. From the following statement of profit and loss of MGR Ltd. for the years ended 31st March, 2023 and 2024. Prepare common size statement. **(4)**

Particulars	31st March, 2024 (Rs.)	31st March, 2023 (Rs.)
Revenue from operations	8,00,000	5,00,000
Other income	80,000	50,000
Purchase of stock in trade	6,50,000	4,00,000
Change in inventories of stock in trade	(25,000)	10,000
Other expenses	10,000	10,000
Rate of income tax	30%	30%

(or)

From the following information, prepare Comparative Statement of Profit and Loss :

Particulars	31.3.2023 Rs.	31.3.2024 Rs.
Revenue from operations	6,00,000	8,00,000
Other Income	80,000	40,000
Expenses – 50% of Revenue from operations		
Income Tax Rate	40%	40%

34. The following information is provided for Shiva Ltd.: **(6)**

Particulars	**31st March, 2023 (Rs.)**	**31st March, 2024 (Rs.)**
Profit & Loss A/c	5,400 (Dr.)	37,800

Provision for Taxation	2,21,400	1,35,000
General Reserves	54,000	81,000
12% Debentures	1,18,800	2,41,000
8% Current Investments	54,000	1,08,000
Property, Plant and Equipments (Gross)	3,99,600	3,99,600
Accumulated Depreciation	1,29,600	1,62,000
Trade Receivables (Gross)	81,000	2,61,360
Provision for Doubtful debts	29,000	54,000
Inventories	1,33,000	81,000
Cash and Cash Equivalents	5,400	30,240

Additional Information:

(i) Income tax provided during the year Rs. 1,62,000

(ii) New debenture have been issued at the end of current financial year.

(iii) New investments have been acquired at the end of the current financial year.

You are required to calculate Net Cash Flow from Operating Activities.

MARKING SCHEME FOR 2024 SAMPLE QUESTION PAPPER -1

TIME ALLOWED: 3 HOURS

MAXIMUM MARKS: 80

GENERAL INSTRUCTIONS:

1. This question paper contains **34** questions. All questions are compulsory.

2. This question paper is divided into two parts, Part **A** and **B.**

3. **Part - A** is **compulsory** for all the candidates.

4. **Part - B** has **two** options i.e. (i) Analysis of Financial Statements and (ii) Computerised Accounting. Students must attempt only one of the given options as per the subject opted.

5. Question Nos.**1** to **16** and **27** to **30** carries **1** mark each.

6. Questions Nos. **17** to **20**, **31**and **32** carries **3** marks each.

7. Questions Nos. from **21, 22** and **33** carries **4** marks each

8. Questions Nos. from **23** to **26** and **34** carries **6** marks each

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

Q.No.

PART A

(Accounting for Partnership Firms and Companies)

Marks

1. **Vedikaa and Sakthi are partners sharing profit and losses in the ratio of 5:3. Their capital are Rs. 2,00,000 and Rs. 3,00,000. As per the partnership deed, interest on capital is charge against profit and available profit is Rs. 24,000. Compute Interest on capital @ 10% p.a.** **(1)**

(e) Vedikaa – Rs. 20,000 and Sakthi Rs. 30,000

(f) Vedikaa – Rs. 9,600 and Sakthi Rs. 14,400

(g) Vedikaa – Rs. 9,000 and Sakthi Rs. 15,000

(h) Vedikaa – Rs. 9,400 and Sakthi Rs. 14,600

Working Note:

	Vedikaa (Rs.)	**Sakthi (Rs.)**
Interest on capital	= Rs. 2,00,000 X 10/100	= Rs. 3,00,000 X 10/100
	= Rs. 20,000	= Rs. 30,000
Interest on capital ratio	2	3
As the profit is insufficient to the provide the actual Interest on capital, Distribute the available profit in the Interest on capital ratio i.e. 2:3	**= Rs. 24,000 X 2/5** **= Rs. 9,600**	**= Rs. 24,000 X 3/5** **= Rs. 14,400**

2. **Find the odd one:** **(1)**

(a) Manager’s commission (b) Rent paid to partner

(c) Interest on loan by firm (d) Interest on loan by partner

Explanation:

Interest on loan by firm is appropriation, rest are charge against profit

3. **S, G and D established partnership firm on 1st October 2023 and sharing profit and losses in the ratio of 3:2:1. S provided guarantee profit Rs. 20,000 to D. On 31st March, 2024 the firm incurred loss of Rs. 60,000. Determine S's loss as on 31st March, 2024.** **(1)**

(a) Rs. 30,000 (b) Rs. 20,000 (c) Rs. 50,000 **(d) Rs. 60,000**

Working Note:

	S (Rs.)	**G (Rs.)**	**D (Rs.)**
Actual Loss	(=Rs. 60,000 X 3/6)	(=Rs. 60,000 X 2/6)	(=Rs. 60,000 X 1/6)
	(= Rs. 30,000)	(Rs. 20,000)	(Rs. 10,000)
Adjustment of Deficiency	(Rs. 30,000)	NA	Rs. 10,000 loss+ Rs. 20,000 GP
Divisible Loss / profit	**(Rs. 60,000) Loss**	**(Rs. 20,000) Loss**	**Rs. 30,000 Profit**

(or)

On 1st January, 2024, Vijay and Ajith agreed to form partnership firm in the ratio of 7:3. Vijay withdrew Rs. 2,000 per month for his personal use. Calculate interest on drawings @ 6 p.a. as on 31st March, 2024.

(a) Rs. 720 (b) Rs. 180 (c) Rs. 60 (d) 100

Working Note:

= Rs. 2,000 X 3 X 6/100 X 6/12

4. **Assertion (A) : Capital account of each partner continues to show the same balance year after year unless the introduction of capital and/(or) withdrawal of capital in fluctuating capital method.** **(1)**

Reason (R) : Transactions are not related to capital account are debited (or) credited into partners current account.

a) Both A and R are correct, and R is the correct explanation of A.

b) Both A and R are correct, but R is not the correct explanation of A.

c) A is correct but R is incorrect.

d) A is incorrect but R is correct.

Explanation:

	Capital account of each partner continues to show the same balance year after year unless the introduction of capital and/(or) withdrawal of capital in ***fixed capital method, not fluctuating capital method.***	
	Read the following hypothetical situation and answer Q. 5 and 6. **Shafali and Anneke are partner in a firm sharing profit and losses in the ratio of 3:1. A per the partner deed, Shafali is to get of Rs. 10,000 per month and commission of 10% of net profit before charging any commission. Anneke is to get a salary of Rs. 20,000 p.a. and commission of 8% of the net profit after charging all commission. Profit after partner's salary but before commission to partners for the year ended 31st March, 2024 was Rs. 6,00,000.**	
5.	**How much commission received by Anneke?** (a) Rs. 20,000 (b) Rs. 30,000 **(c) Rs. 40,000** (d) Rs. 50,000 **Working Note:** = Rs. 6,00,000 – Rs. 60,000 (Shafali's Commission Rs. 6,00,000 X 10/100) = Rs. 5,40,000 X 8/108 **= Rs. 40,000**	**(1)**
6.	**How much was the divisible profit of Shafali?** (a) Rs. 3,80,000 **(b) Rs. 2,85,000** (c) Rs. 95,000 (d) Rs. 4,50,000 **Working Note:** = Rs. 6,00,000 – Rs. 1,20,000 (Shafali's salary Rs. 10,000 per month) – Rs. 20,000 (Anneke's salary) – Rs. 60,000 (Shafali's Commission Rs. 6,00,000 X 10/100) – Rs. 40,000 (Anneke's commission) = Rs. 3,80,000 X 3/4 **= Rs. 2,85,000**	**(1)**
7.	A partnership firm has total assets Rs. 5,00,000 and total liabilities Rs. 3,00,000. If normal rate of return is 10% p.a. and goodwill is valued at Rs. 50,000 at 2 years purchase of super profit, find out average profit. (a) Rs. 25,000 (b) Rs. 20,000 **(c) Rs. 45,000** (d) Rs. 50,000 **Working Note:** Capital Employed = Assets – liabilities = Rs. 5,00,000 – Rs. 3,00,000 =Rs. 2,00,000 Normal profit = Rs. 2,00,000 X 10/100	**(1)**

	= Rs. 20,000 Goodwill = Super profit X No. of years purchase Rs. 50,000 = super profit X 2 Super profit = Rs. 25,000 Average profit = super profit + normal profit = Rs. 25,000 + Rs. 20,000 **= Rs. 45,000** **(or)** Kani Enterprise is running partnership firm with three partners namely Kannan, Arun and Nirmal. The firm has land and building Rs. 5,00,000, machinery Rs. 3,00,000 and creditors Rs. 1,00,000. Further, found machinery was overvalued by Rs. 1,00,000. The average profit of the firm is Rs. 3,00,000 and the normal rate of returns is 10%. Find out capitalisation of super profit. **(a) Rs. 24,00,000** (b) Rs. 2,40,000 (c) Rs. 6,00,000 (d) Rs. 60,000 **Working Note:** Capital Employed = Assets – Liabilities = Rs. 5,00,000 + 3,00,000– 1,00,000– Rs. 1,00,000 = Rs. 6,00,000 Normal Profit = Capital employed X Normal rate of returns = Rs. 6,00,000 X 10/100 = Rs. 60,000 Super Profit = average profit – normal profit = Rs. 3,00,000 – Rs. 60,000 = Rs. 2,40,000 Goodwill = Super Profit X 100 / Normal Rate of Returns = Rs. 2,40,000 X 100/10 **Rs. 24,00,000**	
8.	Due to change in profit sharing ratio, A's sacrifice is 3/10, while B's gain is 3/10. They decide to record the effect of the following without affecting the book figures. by passing an adjusting entry: General Reserve --------------------Rs. 40,000 Profit and Loss (Cr.) --------------------Rs. 20,000 Advertisement Suspense A/c (Dr.)--- Rs. 30,000 The necessary adjustment entry will be	**(1)**

a) Dr. B and Cr. A by Rs. 9,000

b) Dr. A and Cr. B by Rs. 9,000

c) Dr. A and Cr. B by Rs. 18,000

d) Dr. B and Cr. A by Rs. 9,000

Working Note:

= Rs. 40,000 + Rs. 20,000 – Rs. 30,000

Net Effect= Rs. 30,000

= Rs. 30,000 X 3/10

= Rs. 9,000 Dr. B and Cr. A

(OR)

A, B and C are partners sharing profit and losses in the ratio of 3:2:1. With effect from 1st April, 2024 they decided to agreed to share 1:2:3 and determine the effect on the following transaction .

Liabilities	**Rs.**	**Assets**	**Rs.**
Investment Fluctuation Reserves	20,000	Investment (Cost)	1,00,000

Additional Information:

ii) Market value of investment is Rs. 90,000

(a) Rs. 10,000 transferred to partners capital A/c in old ratio

(b) Rs. 20,000 transferred to partners capital A/c in sacrificing and gaining ratio

(c) Rs. 90,000 transferred to partners capital A/c in old ratio

(d) Rs. 10,000 transferred to partners capital A/c in sacrificing and gaining ratio

Working Note:

= Market value – Book value

= Rs. 1,00,000 – Rs. 90,000

Loss = Rs. 10,000

= Rs.20,000 – Rs. 10,000

= Rs. 10,000 transferred to partners capital A/c in old ratio

9. Akshara, Tajaswini and Ananya are partners in a firm and sharing profit and losses in the ratio of 4:3:3 and having adjusted fixed capital Rs. 2,00,000, Rs. 4,00,000 and Rs. 6,00,000. With effect from 1st April, 2024, they decided to change profit and loss sharing ratio as 2:3:5 and adjust the new capital by bringing (or) withdrawing of cash. Show the effect of Akshara. **(1)**

Date	**Particulars**	**L.F.**	**Dr. (Rs.)**	**Cr. (Rs.)**

1.4.2024	Akshara's Current A/c Dr.		40,000	
	To Akshara's Capital A/c			40,000
	(Adjusted the capital as per new ratio)			
1.4.2024	**Cash A/c Dr.**		**40,000**	
	To Akshara's Capital A/c			**40,000**
	(Adjusted the capital as per new ratio)			
1.4.2024	Akshara's Capital A/c Dr.		40,000	
	To Cash A/c			40,000
	(Adjusted the capital as per new ratio)			
1.4.2024	Cash A/c Dr.		40,000	
	To Akshara's Current A/c			40,000
	(Adjusted the capital as per new ratio)			

Working Note:

Akshara's Sacrifice = 2/10; Ananya's Gain = 2/10.

Total Adjusted capital = Rs. 2,00,000 + Rs. 4,00,000 + Rs. 6,00,000 =Rs. 12,00,000

New Capital

	Akshara	**Tajaswini**	**Ananya**
New Capital	Rs. 12,00,000 X 2/10	Rs. 12,00,000 X 3/10	Rs. 12,00,000 X 5/10
	2,40,000	3,60,000	6,00,000
Less: Old capital	(2,00,000)	(4,00,000)	(6,00,000)
Deposit/Withdraw	**40,000 Deposit**	(40,000) Withdraw	-

10. Match the following : **(1)**

Group – I	Group - II

<table>
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<tr><td>A. General reserves</td><td>1. Old ratio – New ratio</td></tr>
<tr><td>B. Sacrificing ratio</td><td>2.Credit to Revaluation A/c</td></tr>
<tr><td>C. Increase in the value of liabilities</td><td>3. Accumulated Profit</td></tr>
<tr><td>D. Increase in the value of asset</td><td>4. Debit to Revaluation A/c</td></tr>
</table>
(a) A- 2; B – 4; C- 1; D- 3
(b) A- 2; B – 3; C- 4; D- 1
(c) A- 3; B – 1; C- 4; D- 2
(d) A- 4; B – 3; C- 1; D- 2
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<tr>
<td>11.</td>
<td>Shiva and Kannan are partners in firm. They admit Varun as a partner and give him share 3/10th share of Profits. This share will get 1/5th from Shiva and 1/10th from Kannan. The New profit sharing ratio will be 17:11:12. Find out old profit sharing ratio.
(a) 5 :3 (b) 3:5 (c) 1:1 (d) 1:2
Working Note:
Old share = new share + sacrificed share – gained share
Shiva’s = 17/40 + 1/5= 25/40
Kannan’s = 11/40 + 1/10 = 15/40
New ratio = 25:15 (or) 5:3
</td>
<td>(1)</td>
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<td>12.</td>
<td>Abdul, Jamal and Sidiqu were partners in a firm and Jamal retired from the partnership firm. On day of retirement, their capital were Rs. 4,00,000; Rs. 5,00,000; Rs. 6,00,000. Abdul and Siddique agreed to pay Jamal Rs. 6,00,000 in full settlement of his claim. Find out Jamal’s goodwill.
(a) Rs. 1,00,000 (b) Rs. 2,00,000 (c) Rs. 1,50,000 (d) Nil
Working Note:
Settlement amount - Rs. 6,00,000
Less: Jamal’s capital - <u>Rs. 5,00,000</u>
Jamal’s share of Goodwill – Rs. 1,00,000
</td>
<td>(1)</td>
</tr>
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<td>13.</td>
<td>Determine the amount due to James:
Capital A/c – Rs. 2,00,000
Loan A/c balance (Cr.) – Rs. 50,000
Value of Goodwill - Rs. 1,00,000
Revaluation Loss - Rs. 10,000
Share of Profit - 1/10th Share
(a) Rs. 2,63,000 (b) Rs. 2,60,000 (c) Rs. 2,50,000 (d) Rs. 2,53,000
</td>
<td>(1)</td>
</tr>
</table>

	Working Note: Amount due to James = Rs. 2,00,000 + Rs. 50,000 + Rs. 3,000 (Rs. 50,000 X 6/100) + Rs. 10,000 - Rs. 10,000 = Rs. 2,53,000	
14.	Arrange the sequence for settlement of accounts: (5) In paying firm's debt to the third parties i.e. outside parties (6) The residue, if any, is distributed among the partners in their profit – sharing ratio (7) In paying to each partner ratably what is due to him on account of capital; and (8) In paying to each partner ratably what is due to him on account of loans (or) advances (a) 1, 2, 3, 4 (b) 2,3,4,1 (c) 1,3,4,2 **(d) 1,4,3,2** **Explanation:** **Settlement of Accounts [Section 48]** 1. First settle to Outside parties 2. Second partner's loan 3. Third partner capital 4. At last Distribute the residual amount in profit sharing ratio	**(1)**
15.	Assertion (A): The Company can utilise security premium on security to purchase its own shares (or) other securities under section 68. Reason (R) : Section 52 (2) of the Companies Act, 2013 restricts the use of the amounts received as premium on securities to purchase its own shares (or) other securities under section 68. **a) Both A and R are correct, and R is the correct explanation of A.** b) Both A and R are correct, but R is not the correct explanation of A. c) A is correct but R is incorrect. d) A is incorrect but R is correct.	**(1)**
16.	Surya Ltd. issued 80,000, 8% Debentures of Rs. 100 each at certain rate of premium and to be redeemed at 10% premium. At the time of writing off Loss on Issue of Debentures, Statement of Profit and Loss was debited with Rs. 2,00,000. At what rate of premium, these debentures were issued? **a) 10%** b) 16% c) 6% d) 4%	**(1)**

Working Note:

Premium on redemption of debenture A/c is Rs. 8,00,000 (Rs. 80,00,000 X 10/100)

Less: Statement of Profit and Loss was debited with Rs. 2,00,000

Security Premium= Rs. 6,00,000

Therefore, Security Premium Rate = Security Premium Amount / No. debentures issued

= Rs. 6,00,000 / 60,000

= 10%

(or)

Which of the following statement is correct?

(a) A debenture holder is an owner of the company

(b) A debenture holder can get his money back only on the liquidation of the company

(c) A debenture issued at a discount can be redeemed at a premium

(d) A debenture holder receives Interest only in the event of profits

17. Sathish, Sundar, and Shiva are partners in a firm sharing profits and losses in the ratio of 1:2:3. Their fixed capitals were Rs.3,00,000; Rs.6,00,000, and Rs.12,00,000, respectively. **(3)**

(a) Interest on capital for the year 2022-2023 was credited to them @ 6% p.a. instead of 5% p.a. The profit for the year after charging interest was Rs. 3,00,000.

(b) Further salary had credited Rs. 20,000 in Sathish A/c instead of Sundar.

Prepare the Adjustment Table and pass the Adjustment Entry.

Solution:

Sathish's Current A/c Dr. 19,500
Shiva's Current A/c Dr. 1,500
To Sundar's Current A/c 21,000
(Past adjustment entry to rectify the errors)

Working Note:

Adjustment Table

Particulars	**Sathish (Rs.)**	**Sundar (Rs.)**	**Shiva (Rs.)**	**Total (Rs.)**
Interest on capital (correct)	15,000	30,000	60,000	-1,05,000

Interest on capital (wrong)	-18,000	-36,000	-72,000	1,26,000
Salary	-20,000	20,000	-	-
Distribution of Profit	3,500	7,000	10,500	-21,000
Net Effect	**-19,500**	**21,000**	**-1,500**	**0**
	Dr.	**Cr.**	**Dr.**	

(or)

Anu, Banu and Chinnu started a business PSM Ltd. with capitals Rs. 2,00,000, Rs.5,00,000 and Rs.6,00,000, respectively and agreed to share profit and losses in the ratio 2:3:5. Drawings made by the partners during the year were Rs. 10,000 each, respectively. Net Profit for the year was Rs. 72,000 for the year ended on 31.3.2024. In the Partnership Deed, the following were mentioned:

1. Interest on capital to be allowed @ 6% p.a.
2. Rs. 10,000 p.a. salary to be paid to Anu.
3. Interest on Drawings to be charged @ 5% p.a.
4. Rs. 10,000 to be transferred to Reserve.

Prepare Profit and Loss Appropriation A/c for the year ending on 31st March,2024.

Solution

Profit and Loss Appropriation A/c

Particulars	Rs.	Particulars	Rs.
Interest on capital		Net Profit	1,00,000
Anu - 12,000		Interest on Drawings	
Banu - 30,000		=Rs. 10,000 X 5/100 X 6/12	
Chinnu - <u>36,000</u>	78,000	= Rs. 250 X 3each partner	750
Anu's Capital A/c (Salary)	10,000		
General Reserves	10,750		
Gain Transferred to Capital A/c			
Anu - 400			
Banu - 600			
Chinnu - 1,000			
	2000		
	1,00,750		1,00,750

18. Calculate goodwill of a firm on the basis of three years purchases of the Weighted Average Profits of the last four years. The profits of the last four years were:

Years (ending 31st March)	**2020**	**2021**	**2022**	**2023**
Amount (Rs.)	**25,000**	**27,000**	**46,000**	**53,000**

a) On 1st April, 2020 a major plant repair was undertaken for Rs.10,000 which was charged to revenue. The said sum is to be capitalized for goodwill calculation subject to adjustment of depreciation of 10% on Straight Line method balance method.

b) **For the purpose of calculating Goodwill the company decided that the years ending 31.03.2020 and 31.03.2021 and 31.03.2022 be weighted**

(3) Formula = ½ WN= 1 ½ Ans = 1 M

as 1 each (being COVID affected) and for year ending 31.03.2023 weights be taken as 2 respectively.

Solution:

Year	Amount	Adjustment	Depreciation	Amount	Weights	Product
	Rs.	Rs.	Rs.	Rs.		Rs.
2020	25,000			25,000	1	25,000
2021	27,000	10000	-1,000	36,000	1	36,000
2022	46,000		-1,000	45,000	1	45,000
2023	53,000		-1,000	52,000	2	1,04,000
				Total	5	2,10,000

Goodwill = Weighted Average Profit X No. Years Purchase

=210000/5* 3 years

Goodwill =Rs. 1,26,000

19. Sun Ltd. issued 20,000 fully paid – up shares of Rs. 10 each for purchase of the following assets and liabilities from Moon Ltd. **(3)**

Land & Building – Rs. 3,00,000

Machinery - Rs. 2,00,000

Sundry Creditors – Rs. 1,00,000

You are required to pass journal entry to purchase Moon Ltd.

Solution:

Land & Building A/c	Dr. – 3,00,000	
Machinery	Dr. - 2,00,000	
To Sundry Creditors A/c		1,00,000
To Moon Ltd. A/c		2,00,000
To Capital Reserves A/c		2,00,000
(Purchased Moon Ltd.)		
Moon Ltd. A/c	Dr. – 2,00,000	
To Equity share capital A/c		2,00,000
(20,000 shares are issued for Rs. 10 each)		

20. XYZ Ltd. purchased assets of the book value Rs. 6,00,000 and took over the liabilities of Rs. 2,00,000 from ABC Ltd. It was agreed that the purchase consideration, settled at **(3)**

Rs. 4,00,000, be paid by issuing debentures of Rs. 100 each. Pass Journal entries if debentures are issued: (a) at par, (b) at a discount of 10%. It was agreed that any fraction of debentures be paid in cash.

1 ½ each

Solution:

a) Assets A/c Dr. 6,00,000

To Liabilities A/c 2,00,000

To ABC Ltd. 4,00,000

(Purchased ABC Ltd.)

ABC Ltd. A/c Dr. 4,00,000

To 10 Debentures A/c 4,00,000

(Issued 4,000 debentures @ Rs. 100 each)

Working Note:

No. Of debentures issued = Rs. 4,00,000 / Rs. 100 = 4,000

b) Assets A/c Dr. 6,00,000

To Liabilities A/c 2,00,000

To ABC Ltd. 4,00,000

(Purchased ABC Ltd.)

ABC Ltd. A/c Dr. 3,55,560

Discount A/c Dr. 44,440 (4,444 X Rs. 10)

To 10% Debentures A/c 4,00,000 (4,444 X Rs. 100)

(Issued 4,000 debentures @ Rs. 90 each)

Working Note:

No. Of debentures issued = Rs. 4,00,000 / Rs. 90 = 4,444

(or)

Pass necessary Journal entries relating to the issue of debentures for the following:

(c) Issued Rs. 28,000; 10% Debentures of Rs. 100 each at a premium of 15% redeemable at par.

(d) (b) Issued Rs. 30,000; 10% Debentures of Rs. 100 each at a premium of 10% and redeemable at a premium of 15%.

Solution:

Journal

Date	**Particulars**	**L. F.**	**Debit Amount Rs**	**Credit Amount Rs**
(a)	Bank A/c (280 debentures × 115) Dr.		32,200	

	To Debenture Application and Allotment A/c (Application money received)				32,200
	Debenture Application and Allotment A/c	Dr.		32,200	
	To 10% Debentures A/c				28,000
	To Securities Premium Reserve A/c				4,200
	(280; 10% Debentures issued at a premium of 15%)				
(b)	Bank A/c	Dr.		33,000	
	To Debenture Application and Allotment A/c (Application money received)				33,000
	Debenture Application and Allotment A/c	Dr.		33,000	
	Loss On Issue of debentures A/c	Dr.		4,500	
	To 10% Debentures A/c				30,000
	To Securities Premium Reserve A/c				3,000
	To Premium on Redemption of debentures A/c				4,500
	(300; 10% Debentures issued at a premium of 10% and redeemable at a premium of 15%)				

21. Pass journal entries for the following transactions in the books of K, L and M sharing profit in the ratio of 5:2:3 at the time of dissolution of the firm. **(4)**

(v) Expenses incurred on dissolution of the firm Rs. 3,000 and paid by K.

(vi) Furniture Rs. 50,000 was taken by creditors of the book value of Rs. 60,000 in full settlement.

(vii) Realisation of goodwill Rs. 20,000

(viii) Loan by M is Rs. 30,000 and balance in capital A/c (Debit) is Rs. 50,000

Solution:

(i) Realisation A/c Dr. 3,000 To K’s capital A/c 3,000

(ii) No entry

(iii) Cash / Bank A/c Dr. 20,000 To Realisation A/c 20,000

(iv) Loan by M A/c Dr. 30,000, Bank A/c Dr. 20,000 To M’s capital A/c 50,000

22. VM Ltd. was formed with a capital of Rs.10,00,000 divided into 10,000 Equity Shares of Rs.100 each. Out of these 2,000 Equity Shares were issued to Ram Ltd. as fully paid-up in return for the purchase consideration for a Machinery acquired. 6,000 shares were offered to the public, and the issue **(4)**

was fully subscribed. The directors called Rs.80 per share and received the entire amount in full except a call of Rs.20 per share on 600 shares.

Show the relevant items in the Balance Sheet of VM Ltd.

Solution:

(1 each)

Balance sheet of VM Ltd.

As on ____

Particulars	**Note No.**
I) Equity and Liabilities	
1. Shareholder's Fund	
(A) Share Capital	**1**

Notes to Accounts:

Note No.	**Particulars**
1.	Authorised capital : (10,000 equity shares @ 100 each)
	Issued Capital: (6,000 equity shares @ Rs. 100 each)
	Subscribed Capital and Fully Paid: (2,000 Eqiuty shares @ Rs. 100 each)
	Subscribed capital but not fully paid up 4,400 equity shares of Rs. 100 each, Rs. 80 per share paid up 600 equity shares of Rs. 100 each, Rs. 60 paid up

23. X and Y are partners in a firm sharing profit and losses in the ratio of 7:3. on 31st March, 2024, their balance sheet was as follows: **(6)**

Liabilities	**Rs.**	**Assets**	**Rs.**
Capital		Machinery	50,000
X - 1,00,000		Land & Building	2,00,000
Y - 2,00,000	3,00,000	Goodwill	5,000
Workmen compensation reserves	10,000	Debtors - 20,000	
Sundry creditors	40,000	**Less:**	
Bills payables	10,000	Doubtful debts - 500	19,500
		Stock	5,000

		Cash	80,500
	3,60,000		**3,60,000**

On 1st April, 2024 they decided to admit Z as new partner with 2/10th share and he has brought Rs. 1,00,000 as capital and goodwill in cash.

The following adjustments are made on the same day;

7. The workmen compensation claim determined Rs. 5,000
8. Machinery valued at Rs. 40,000
9. Land & Building valued at Rs. 3,00,000
10. Stock undervalued by Rs. 1,000
11. The goodwill of the firm valued at Rs. 2,00,000
12. The new capital of the firm is determined in the basis of new partner and the surplus (or) deficit amount adjusted through current A/c.

Prepare Revaluation A/c and Partners capital A/c.

Solution:

Revaluation A/c			
Dr.			Cr.
Particulars	**Rs.**	**Particulars**	**Rs.**
Machinery	10,000	Land & Building	1,00,000
Gain transferred to capital A/c		Stock	1,000
X - 70,700			
Y - 30,300	**91,000**		
	1,01,000		1,01,000

Dr. Capital A/c Cr.

Particulars	**X**	**Y**	**Z**	**Particulars**	**X**	**Y**	**Z**
Goodwill	3,500	1,500		Balance b/d	1,00,000	2,00,000	-
Balance c/d	**1,98,700**	**2,42,300**	**1,00,000**	Cash A/c			1,00,000
				Premium for goodwill	28,000	12,000	
				Workmen Compensation Reserves	3,500	1,500	1,00,000
				Revaluation A/c	70,700	30,300	
	2,02,200	2,43,800	1,00,000		2,02,200	2,43,800	1,00,000
Y's Current A/c		**1,23,800**		Balance b/d	1,98,700	2,42,300	1,00,000
				X's Current A/c	**81,300**		
Balance c/d	**2,80,000**	**1,20,000**	**1,00,000**				
	2,80,000	2,43,800			2,80,000	2,43,800	

1. New ratio

X's = 7/10 X 8/10 = 56/100

Y's = 3/10 X 8/10 = 24/100

Z's = 20/100

New ratio = 56 : 24 : 20 (or) 14 : 6 : 5

2. Valuation of goodwill

Premium for goodwill

X's= Rs. 2,00,000 X 2/10 X 7/10 = Rs. 28

Y's= Rs. 2,00,000 X 2/10 X 3/10 =Rs. 12,

3. Adjustment of capital

= Rs. 1,00,000 X 10/2

X's = Rs. 5,00,000 X 14/25 = 2,80,000

Y's = Rs. 5,00,000 X 6/25 = 1,20,000

Z's = Rs. 5,00,000 X 5/25 = 1,00,000

24. Dharshini, Beula and Niranjana were partners sharing profits as 40% , 30% and 30% respectively. On March 31, 2024 their Balance Sheet was as follows : **(6)**

Liabilities	Rs.	Assets	Rs.
Sundry creditors	30,000	Bank	38,000
Employee Provident Fund	5,000	Sundry Debtors - 20,000 Less: Provision for Doubtful Debts - 1,000	19,000
Investment Fluctuation Fund	20,000		
Bills Payables	2,000	Land & Building	2,00,000
Capital A/c		Machinery	2,00,000
Dharshini - 4,00,000		Investment	1,50,000
Beula - 3,00,000		Stock	50,000
Niranjana - 2,00,000	6,00,000		
	6,57,000		6,57,000

On 31st March, 2024 Niranjana decided to retire from the partnership firm and Dharshini and Beula decided to continue with the following terms:

8. Investment brought down to Rs. 1,30,000
9. Machinery depreciated @ 10%
10. Land & Building revalued at Rs. 2,50,000
11. Stock took for Rs. 30,000 by Niranjana
12. Provision for doubtful debts created @10%.
13. Goodwill of the firm valued at Rs. 50,000
14. Niranjana was paid Rs. 22,800 in cash and the balance was transferred to his loan account payable in two equal instalments together with interest @ 10% p.a.

Prepare Revaluation Account, Partners', Capital Accounts

Solution: **3+3**

Dr.	Revaluation A/c		Cr.
Particulars	Rs.	Particulars	Rs.
Provisional For doubtful debts	1,000	Land & Building	50,000
Machinery	20,000		
Stock	20,000		

Gain transferred to capital A/c			
Dharshini -3,600			
Beula - 1,800			
Niranjana - 1,800	**9,000**		
	50,000		50,000

Dr. Capital A/c Cr.

Particulars	Dharshini	Beula	Niranjana	Particulars	Dharshini	Beula	Niranjana
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Revaluation A/c			30,000	Balance b/d	4,00,000	3,00,000	2,00,000
Niranjana's capital A/c	12,000	9,000		Dharshini's capital A/c			12,000
Bank A/c			**22,800**	Beula's capital A/c			9,000
Niranjana's Loan A/c			**1,70,000**	Revaluation A/c	3,600	1,800	1,800
Balance c/d	**3,91,600**	**2,92,800**					
	4,03,600	3,01,800	2,22,800		4,03,600	3,01,800	2,22,800

Working Note:

1. Change in Profit sharing ratio

Old ratio = 4:3:3

New ratio = 4:3

Gaining ratio = 4:3

2. Adjustment of Goodwill

Goodwill = Rs. 70,000

Niranjana's Goodwill = Rs. 70,000 X 3/10

= Rs.21,000

Dharshini's = 21,000 X 4/7 = Rs.12,000

Beula's = Rs. 21,000 X 3/7 = Rs. 9,000

(or)

In the partnership agreement between X, Y and Z who were sharing profit and loss in the ratio of 4:2:2, the goodwill was to be valued on the date of death of any partner on the basis of such partner's share of 4 years profit calculated on average of 5 years profit immediately preceding the year of death less 10%. The firm's profit were Rs. 20,000 in 2014, Rs.60,000 in 2015, Rs. 80,000 in 2016 and losses of Rs. 10,000 in 2017 and Rs.4,000 in 2018. The deceased partner's share of profits for the period of his life-time in the year of death was to be passed on the average profit of the previous 3 years plus 10%. X died on 31st May 2019. His capital account showed a credit of Rs. 20,000 on 1st Jan 2019 and he has drawn Rs. 3,000 since that date. Interest on capital is to be allowed and interest on drawing is to be charged @5% irrespective of the period.

Prepare X's Capital Account.

Solution:
X's Capital A/c

Particular	Amount	Particular	Amount
To Drawings	3,000	By Balance b/d	20,000
To Interest on Drawing	150	By Interest on Capital A/c	1,000
(R 3,000x5/100)		(R 20,000 x 5/100)	
To X's Executor A/c	49,172	By P&L Suspense A/c (Share of Profit)	5,042
		By Y's Capital A/c (Share of Goodwill)	13,140
		By Z's Capital A/c (Share of Goodwill)	13,140
	52,322		52,322

Working Note:

1. Calculation of X's share of Goodwill
A. Average profit of 5 years = Rs. 20,000 + Rs. 60,000 + Rs. 80,000 – Rs. 10,000 – Rs. 4,000
5 years
B. 4 Years Average Profit = R 29,200 x 4
= R 1,16,800
C. X's share of profit = Rs. 1,16,800 x 4/8 Rs. 58,400
D. Value of firm's goodwill = Rs. 58,400 - 10% of Rs. 58,400
= Rs. 52,560
E. X's share of Goodwill = Rs. 52,560 x 4/8
= Rs. 26,280
2. Calculation of X's share of Profit
A. Average Profit of 3 years = Rs. 80,000 – Rs. 10,000 – Rs. 4,000
3.
= Rs. 22,000
B. Estimated Profit 2019 = Rs. 22,000 + 10% of Rs. 22,000 Rs. 24,200
C. Estimated profits for 5 months = Rs. 24,200 x 5/12 Rs. 10,083
D. X's share of profit = Rs. 10,083 x 4/8= Rs. 5,042

25. Complete the following journal entries: **(6)**

Date	Particulars	L.F.	Dr.	Cr.
(i)	Share Capital A/c (100* Rs. 9) Dr To Forfeited Shares A/c To Calls – in – Arrears A/c (Being the forfeiture of 10 share, Rs.9 called – up, on which allotment money of Rs.3 and first call money)	-	900	? ?
	? Dr ? Dr To ? (Being the reissue of 100 shares fully paid – up at Rs.8)	- -	800 200	1,000
(ii)	Shares reissued @ Rs.10 (per share):	-	900	

	(i) Share Capital A/c (100 * Rs. 9) Dr. To Forfeited Shares A/c (100 * Rs. 2) To Calls –in – Arrears A/c (100 * Rs.7) (Being the forfeiture of 100 shares, Rs. 9 called-up, on which allotment money of Rs.4 have not been received)			200 700
	(ii) ? Dr. To ? (Being the reissue of 100 shares, fully paid-up at par)	-	?	?
	(iii) ? To ? (?)	-	?	?

Solution:

Date	Particulars	L.F.	Dr.	Cr.
(i)	Share Capital A/c (100* Rs. 9) Dr To Forfeited Shares A/c To Calls – in – Arrears A/c (Being the forfeiture of 10 share, Rs.9 called – up, on which allotment money of Rs.3 and first call money)	-	900	**200** **700**
	Bank A/c (100 * Rs. 8) Dr **Forfeited share A/c** (100 * Rs.2) Dr To **share capital A/c (100 * Rs.10)** (Being the reissue of 100 shares fully paid – up at Rs.8)	- -	800 200	1,000
(ii)	Shares reissued @ Rs.10 (per share): (i) Share Capital A/c (100 * Rs. 9) Dr. To Forfeited Shares A/c (100 * Rs. 2) To Calls –in – Arrears A/c (100 * Rs.7) (Being the forfeiture of 100 shares, Rs. 9 called-up, on which allotment money of Rs.4 have not been received)	-	900	200 700
	(ii) **Bank A/c (100 * Rs.10)** Dr. To **Share capital A/c (100 * 10)** (Being the reissue of 100 shares, fully paid-up at par)	-	1,000	1,000
	(iii) **Forfeited Shares A/c** To **Capital Reserves A/c** (Being the gain on reissue transferred to capital reserve)	-	200	200

(or)

Kannan Ltd. invited applications for issuing 2,40,000 equity shares of Rs. 10 each at a premium of Rs. 4 per share. The amount was payable as under :
On application – Rs. 4 per share (including premium Rs. 2)
On allotment – Rs. 4 per share
On first and final call – Rs. 6 per share (including premium Rs. 2)
Applications for 3,00,000 shares were received and pro-rata allotment was made to all the applicants. Excess application money received on application was adjusted towards sums due on allotment. All calls were made and were duly received except from Roja, who failed to pay allotment and first and final call on 7,500 shares applied by her. These shares were forfeited. Afterwards, 40% of the forfeited shares were re-issued at Rs. 11 per share as fully paid-up.
Pass the necessary journal entries in the books of Karur Ltd. Open call-in-arrears and call-in-advance accounts wherever necessary.

Solution:

Date	Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
	Bank A/c Dr. To Equity Share Application A/c (Application received on 3,00,000 shares)	12,00,000	12,00,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c To Equity Share Allotment A/c (Application transferred to share capital, securities premium reserve, share allotment)	12,00,000	4,80,000 4,80,000 2,40,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Allotment due on 2,40,000 shares)	9,60,000	9,60,000
	Bank A/c Dr. **Calls in arrears A/c Dr.** **To Equity Share Allotment A/c** **(Allotment received)**	**7,02,000** **18,000**	**7,20,000**
	Equity Share First & Final call A/c Dr. **To Equity Share Capital A/c** **To Securities Premium Reserve A/c** **(First call due on 2,40,000 shares)**	**14,40,000**	**9,60,000** **4,80,000**
	Bank A/c Dr. **Calls in arrears A/c Dr.** **To Equity Share First & Final call A/c** **(First & Final call received)**	**14,04,000** **36,000**	**14,40,000**
	Share Capital A/c Dr. **Securities Premium Reserve A/c Dr.** **To Calls in arrears A/c** **To Share Forfeiture A/c** **(6,000 shares forfeited for non payment of allotment and first and final call)**	**60,000** **12,000**	**54,000** **18,000**

	Bank A/c Dr. **To Equity Share Capital A/c** **To Securities Premium Reserve A/c** **(2400 shares reissued for Rs.11 per share fully paid)**	**26,400**	**24,000** **2,400**
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Gain on reissue of forfeited shares transferred to capital reserve)	7,200	7,200

26. On 01 August, 2022, Rockstar Ltd. issued Rs. 40,00,000, 9% Debentures of Rs. 100 each at 5% Premium, to be redeemed at 12% Premium on March 31, 2023. Balance in Securities Premium before issue was Rs. 1,50,000. **(6)**

You are required to

(i) Pass entries for issue of debentures.

(ii) Pass entry for writing off loss on Issue of debentures.

(iii) Prepare Loss on issue of debentures account.

Solution:

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
Aug 1,	Bank A/c	Dr	42,00,000	
2022	To Debenture Application & Allotment A/c			42,00,000
	(Being Application money including premium received)			
Aug 1,	Debenture Application & Allotment A/c	Dr.	42,00,000	
2022	Loss on Issue of Debentures A/c	Dr	4,80,000	
	To 9% Debentures A/c			40,00,000
	To Security Premium A/c			2,00,000
	To Premium on Redemption of Debentures A/c			4,80,000
	(Being Debentures issued at premium redeemable at premium)			

Loss on Issue of Debentures A/c

Dr **Cr**

Date	Particulars	Rs.	Date	Particulars	Rs.
2022			2023		

Aug-01	To Premium on Redemption of Debentures	4,80,000	Mar-31	By Security Premium	3,50,000
				By Statement of Profit and Loss	1,30,000
		4,80,000			4,80,000

PART B
Option - I
(Analysis of Financial Statements)

27. Which of the following is an example of Horizontal Analysis? **(1)**

(a) Common Size Statement **(b) Comparative Statement**

(c) Both (a) & B (d) None of the above

(or)

Which of the following is not limitation of analysis of financial statements:

a) Window dressing

b) Price level changes ignored

c) Subjectivity

d) Inter -firm comparison possible

28. With the help of the following information find Debt Collection Period. **(1)**

	31st March, 2023 (Rs.)	31st March 2024 (Rs.
Sundry Creditors	15,000	10,000
Bills Receivables	5,000	10,000
Provision for Doubtful Debts	3,000	2,500

Total Sales – Rs. 1,50,000; Sales returns – Rs. 5,000; Cash Sales – Rs. 25,000

(a) 55 Days (b) 60 Days **(c) 61 Days** (d) 56 Days

Working Note:

Trade receivables ratio = total credit sales / average trade receivables

= Rs. 1,50,000 – Rs. 5,000 – Rs. 25,000 / (Rs. 15,000 + Rs. 5,000 + Rs. 10,000 +

Rs. 10,000)/2

= Rs. 1,20,000 / Rs. 20,000

Trade receivables ratio= 6

Debt. Collection Period = 366 / Trade receivables ratio

	= 366 / 6 = 61 days	
29.	Operating activities is mainly concerned with ________ **(a) Current assets and current liabilities** (b) Long term liabilities and stockholders activities (c) Long term assets (d) All of the above	**(1)**
30.	Repayment of long term loans belong to (a) Operating Activities (b) Investing Activities **(c) Financing Activities** (d) None of the above (or) Assertion (A): Written off fixed assets added into operating activity. Reason (R) : Depreciation is not cash out flow, thus, it will be considered in cash flow statement. a) Both A and R are correct, and R is the correct explanation of A. b) Both A and R are correct, but R is not the correct explanation of A. c) A is correct but R is incorrect. **d) A is incorrect but R is correct.** **Reason:** Depreciation is not cash out flow and as subtracted from net profit , it will be added back.	**(1)**
31.	Classify the following items under major heads and sub-heads (if any) in the balance sheet of a company as per schedule III of the Companies Act, 2013. vii) Marketable Securities viii) Prepaid insurance ix) Shares in listed companies x) Provision for tax xi) Security Premium Reserves xii) Debentures **Solution**:	**(3)**

S. No.	**Particulars**	**Main-Head**	**Sub-Head**

1.	Marketable Securities	Current Assets	Short Term Investments
2.	Prepaid insurance	Current Assets	Other Current Assets
3.	Shares in listed companies	Non – Current Assets	Non – Current Investments
4.	Provision for tax	Non – Current Liabilities	Short term Provision
5.	Security Premium Reserves	Shareholders Fund	Reserves and Surplus
6.	Debentures	Non – Current liabilities	Long – term borrowings

32. Quick assets Rs. 4,00,000; Inventory Rs. 70,000, Prepaid Expenses Rs. 30,000 and working capital Rs. 1,60,000. Calculate Current Ratio and Liquid Ratio. **(3)**

Solution:

Current Ratio = Current Assets / Current Liabilities

Current Assets = Quick Assets + Inventory + Prepaid Expenses

= Rs. 4,00,000 + Rs. 70,000 + Rs. 30,000

= Rs. 5,00,000

Current Liabilities = Current Assets – Working capital

= Rs. 5,00,000 – Rs. 1,60,000

= Rs. 3,40,000

Current Ratio = Rs. 5,00,000 / Rs. 3,40,000

=1.47 : 1

Liquid Ratio = Quick Assets / Current Liabilities

= Rs. 4,00,000 / Rs. 3,40,000

= 1.18 : 1

33. From the following statement of profit and loss of MGR Ltd. for the years ended 31st March, 2023 and 2024. Prepare common size statement. **(4)**

Particulars	31st March, 2024 (Rs.)	31st March, 2023
Revenue from operations	8,00,000	5,00,000
Other income	80,000	50,000
Purchase of stock in trade	6,50,000	4,00,000
Change in inventories of stock in trade	(25,000)	10,000

Other expenses	10,000	10,000
Rate of income tax	30%	30%

Solution:

Particulars	Note No.	Absolute Amount (Rs.)		Percentage o from Operati sales)
		31st March, 2023 (Rs.)	31st March, 2024 (Rs.)	31st March, 2023
I. Revenue from operations		5,00,000	8,00,000	100
II. Other Income		50,000	80,000	10
III. Total Revenue (I+II)		5,50,000	8,80,000	110
IV. Expenses				
(a) Purchase of stock-in-trade		4,00,000	6,50,000	80
(b) Change in inventories of stock in trade		10,000	-25,000	2
(c) Other expenses		10,000	10,000	2
Total Expenses		4,20,000	6,35,000	84
V. Profit before tax (III-IV)		1,30,000	2,45,000	26
VI. Income Tax		39000	73500	7.8
VII. Profit after tax (V-VI)		91,000	1,71,500	18.2

(or)

From the following information, prepare Comparative Statement of Profit and Loss :

Particulars	31.3.2023 Rs.	31.3.2024 Rs.
Revenue from operations	6,00,000	8,00,000
Other Income	80,000	40,000
Expenses – 50% of Revenue from operations		
Income Tax Rate	40%	40%

Solution:

Comparative Statement of Profit & Loss
for the years ending 31 March 2023 & 2024

Particulars	31.3.2023	31.3.2024	Absolute Change	Percen change
	Rs.	Rs.	Rs.	(%)
Revenue from Operations	6,00,000	8,00,000	2,00,000	33.33
Add: Other Income	80,000	40,000	-40,000	-50.00
Total Revenue	6,80,000	8,40,000	1,60,000	23.53
Less: Expenses	2,00,000	1,50,000	-50,000	-25.00

Profit before tax	4,80,000	6,90,000	2,10,000	43.75	
Less: Tax	1,92,000	2,76,000	84,000	43.75	
Profit after tax	2,88,000	4,14,000	1,26,000	43.75	

34. The following information is provided for Shiva Ltd.: (6)

Particulars	**31st March, 2023 (Rs.)**	**31st March, 2024 (Rs.)**
Profit & Loss A/c	5,400 (Dr.)	37,800
Provision for Taxation	2,21,400	1,35,000
General Reserves	54,000	81,000
12% Debentures	1,18,800	2,41,000
8% Current Investments	54,000	1,08,000
Property, Plant and Equipments (Gross)	3,99,600	3,99,600
Accumulated Depreciation	1,29,600	1,62,000
Trade Receivables (Gross)	81,000	2,61,360
Provision for Doubtful debts	29,000	54,000
Inventories	1,33,000	81,000
Cash and Cash Equivalents	5,400	30,240

Additional Information:

(iv) Income tax provided during the year Rs. 1,62,000

(v) New debenture have been issued at the end of current financial year.

(vi) New investments have been acquired at the end of the current financial year.

You are required to calculate Net Cash Flow from Operating Activities.

Solution:

Cash Flow Statement of Shiva Ltd.

For the year ended 31st March, 2024

Particulars	**Rs.**	**R**
Cash Flow From Operating Activities: Difference in P&L as per balance sheet		**4**
Add: **(i)** Transfer to general reserves	**27,000**	
(ii) Provision for Tax	**1,62,000**	
(iii) Debenture Interest	**14,256**	
(iv) Depreciation	**32,400**	
(v) Increase in provision for doubtful debts	**27,000**	

		Less: Income from investments	**(4,320)**	
		Cash flow from Operations before working capital changes		**3,01,53**
		(i) Decrease in Trade Payables	**(10,800)**	
		(ii) Increase in Trade Receivables	**(1,80,360)**	
		(iii) Decrease in inventory	**54,000**	**(1,37,1**
		Cash flow from operation before tax		**1,64,37**
		Less : Tax paid (Rs. 2,21,400 + Rs. 1,62,000 – Rs. 1,35,000)		**(2,48,4**
		Net Cash Used in Operating Activities		**(84,024**

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2024-25 SAMPLE PAPER 2
SAMPLE QUESTION PAPER

SUBJECT-ACCOUNTANCY (055)

CLASS XII (2024-25)

TIME:3 HOURS **MAX.MARKS 80**

GENERAL INSTRUCTIONS:

1. This question paper contains 34 questions. All questions are compulsory.
2. This question paper is divided into two parts, part A and part B
3. Part A is compulsory for all the candidates.
4. Part B has two options i.e. (i) Analysis of Financial Statements and (ii) Computerised Accounting
   Students must attempt only one of the given options as per the subject opted.
5. Question Nos. 1 to 16 and 27 to 30 carries 1 mark each.
6. Question Nos. 17 to 20 and 31 and 30 carries 3 marks each.
7. Question from 21, 22 and 33 carries 4 marks each.
8. Question Nos. from 23 to 26 and 34 carries 6 marks each.
9. There is no overall choice. However, an internal choice has been provided in 7 questions of 1 mark, 2 questions of 3 marks, 1 question of 4 marks and 2 questions of 6 marks.

Q.	PART A (ACCOUNTING FOR PARTNERSHIP FIRMS AND (COMPANIES)	Marks

No.		
1.	**Axar, Bhanu and Zubin are partners in a firm. The partnership agreement provides for Interest on Drawings @12% per annum. Which of the following accounts will be debited to transfer interest on drawings to Profit and Loss Appropriation Account?** a) Interest on Drawings Account b) Bank Account c) Partners Current Account d) Partners' Capital Account	1
2.	**Assertion (A): Deficiency in the guaranteed profit may be borne by the remaining partners in their profit- sharing ratio.** **Reasoning (R): Deficiency in the guaranteed profit maybe borne by the remaining partners equally.** ***In the context of the above two statements, which of the above options is correct?*** a) Both Assertion (A) and Reason (R) are correct and Reason is the correct explanation for Assertion. b) Both Assertion (A) and Reason (R) are correct but Reason (R) is not the correct explanation for Assertion (A) c) Assertion (A) is false and Reason (R) is true. d) Assertion (A) is true and Reason (R) is false.	1
3.	**A and B are partners in the ratio 3:2. C is admitted as a partner and he takes 1/4th of his share from A. B gives 3/16th from his share to C. What is the share of C?** a) 1/4 b) 1/16 c) 1/6 d) 1/3	1
4.	**Dev, Anil and Aman were partners sharing profits in the ratio of 2:1:1. Anil retired from the firm on 1st April 2023 and Dev and Aman decided to share future profits equally. As on that date, goodwill of the firm was valued at Rs. 1,00,000. The amount of goodwill that will be paid by Aman to the retiring partner will be:** a) Rs. 25,000 b) Rs. 50,000 c) Rs. 75,000 d) Rs. 1,00,000	1

	OR **X, Y and Z are partners in a firm sharing profits and losses in the ratio of 6:4:1. X guaranteed a profit of Rs.15,000. The net profit for the year ending 31st March, 2024 was Rs. 99,000. X's share of the profit of the firm will be:** a) Rs. 30,000 b) Rs. 15,000 c) Rs. 48,000 d) Rs. 45,000	
5.	**Ahana and Sampriti are partners in a firm since 2011. They have not registered the firm yet. On 1st April 2023, their capitals were Rs. 80,00,000 and Rs. 50,00,000 respectively.** **On the same date Ahana advanced Rs. 3,00,000 by way of loan to the firm, whereas Sampriti had borrowed Rs. 6,00,000 from the firm on 1st of December, 2023.** **It was agreed to allow and charge interest on loan by partners and loan to partners @10% p.a. Profit for the year ended 31st March 2024 was Rs. 5,30,000.** **Based on the above case, answer the following questions:** **A. Interest on Loan by Sampriti:** i) Rs. 20,000 ii) Rs. 30,000 iii) Nil iv) Rs. 18,000 **B. Interest on loan given by Ahana to the firm will be:** i) Rs. 30,000 ii) Rs. 8,333 iii) Nil iv) Rs. 15,000	1
6.	**If the partnership deed does not exist:** a) Interest will be charged @6% p.a. on drawings by partners b) Interest will be charged @7% p.a. on drawings by partners c) Interest will be charged @8% p.a. on drawings by partners d) Interest will not be charged on drawings by partners	1
7.	**A and B are partners in a firm having a capital of Rs. 54,000 and Rs. 36,000 respectively. They admitted C for 1/3rd share in the profits. C brought a proportionate amount of capital. The capital brought in by C would be:** a) Rs. 90,000 b) Rs. 45,000 c) Rs. 5,400 d) Rs. 3,600	1
8.	**If the existing profit- sharing ratio among A,B and C of 3:2:1 is changed to 1:2:3, then the partners whose share will be unaffected is/are:**	1

	a) A b) B c) C d) A and C **OR** **X,Y and C are partners in a firm sharing profits and losses in the ratio of 6:4:1. X guaranteed a profit of Rs. 15,000 to Z. The net profit for the year ending 31st March, 2024 was Rs. 99,000. X's share in the profit of the firm will be :** a) Rs. 30,000 b) Rs. 15,000 c) Rs. 48,000 d) Rs. 45,000	
9.	**When shares are forfeited, Share Capital Account is debited with:** a) Nominal (face) value of shares b) called up share capital c) paid up value of shares d) market value of shares **OR** **Anuradha Ltd. issued 2,00,000 7% debentures of Rs. 100 each at a discount of 5% redeemable at a premium of 5%. Discount on issues and premium of redemption were accounted for through " Loss on issue of debentures account". On issue of debentures, "Loss on Issue of debentures account" will be:** a) Credited by Rs. 10,00,000 b) Debited by Rs. 10,00,000 c) Debited by Rs. 20,00,000 d) Credited by Rs. 20,00,000	1
10.	**Assertion (A): Reserve Capital and Capital Reserve are synonymous terms, i.e., they mean the same.** **Reason (R): Reserve Capital is the capital which the company resolves to call on its winding up. Capital Reserve is a reserve to which capital profits are transferred.** ***In the context of the above two statements, which of the following is correct?*** a) Assertion (A) and Reason(R) are correct but the Reason (R) is not the correct explanation of Assertion (A) b) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A) c) Both Assertion (A) and Reason (R) are not correct d) Assertion (A) is not correct but the Reason (R) is correct	1

11.	**Access value of net assets over purchase consideration at the time of purchase of business is :** a) Credited to the capital reserve. b) Debited to the Goodwill account. c) Credited to the general reserve account. d) Credited to the vendor's account. OR **Debentures issued as Collateral Security:** a) Are recorded in the books. b) Are not recorded in the books. c) May or may not be recorded in the books. d) None of these.	1
12.	**Attire Ltd, issued a prospectus inviting applications for 12,000 shares of Rs.10 each payable Rs.3 on application, Rs. 5 on allotment and balance on call. Public had applied for a certain number of shares and application money was received. Which of the following application money, if received restricts the company to proceed with the allotment of shares, as per SEBI guidelines?** a) Rs. 36,000 b) Rs. 45,000 c) Rs. 30,000 d) Rs. 32,000	1
13.	**Divya Ltd. forfeited 7,000 equity shares of Rs. 100 each issued at a premium of 10%, for non-payment of first and final call of Rs. 40 per share. The maximum amount of discount at which these shares can be reissued will be:** a) Rs. 2,80,000 b) Rs. 4,20,000 c) Rs. 4,90,000 d) Rs. 3,50,000	1
14.	**A and B are partners in a firm having capitals of Rs. 54,000 and Rs. 36,000 respectively. They admitted C for 1/3rd share in the profits. C brought a proportionate amount of capital. The capital brought in by C would be:** a) Rs. 90,000 b) Rs. 45,000 c) Rs. 5,400 d) Rs. 3,600	1
15.	**Green and Orange are partners. Green draws a fixed amount at the beginning of every month. Interest on Drawings is charged @8%p.a. At the end of the year interest on Green's drawing's amounted to Rs. 2,600. Monthly drawings of Green were :** a) Rs. 8,000	1

b) Rs. 60,000

c) Rs. 7,000

d) Rs. 5,000

Or

A,B and C are partners, their partnership deed provides for interest on drawings at 8% per annum. B withdrew a fixed amount in the middle of every month and his interest on drawings amounted to Rs. 4,800 at the end of the year. What was the amount of his monthly drawings?

a) Rs. 10,000
b) Rs. 5,000
c) Rs. 1,20,000
d) Rs. 48,000

16. **On the basis of the following data, how much final payment will be made to a partner on the firm's dissolution? The Credit Balance of capital account of the partner was Rs. 50,000. Share of loss on realisation amounted to Rs. 10,000. Firms liability taken over by him was for Rs. 8,000** 1

a) Rs. 32,000

b) Rs. 48,000

c) Rs. 40,000

d) Rs. 52,00

17. X,Y and Z are partners in a firm sharing profits and losses in the ratio of 1:2:3. Z retires and his Capital Account after making all adjustments of reserve and gain (profit) on revaluation exists at Rs. 3,60,000. X and Y agreed to pay him Rs. 4,50,000 in full settlement of his claim. X and Y decided to share future profits in the ratio of 1:3. Calculate the missing values in the following journal entries: 3

Date	Particulars	LF	Dr.	Cr.
	X's Capital A/c …. Dr.		?	
	Y's Capital A/c ….Dr.		?	
	To Z's Capital A/c			?
	(Z's share of goodwill credited to Z and debited to the gaining partners in their gaining ratio)			

18. Atul and Mithun are partners sharing profits in the ratio 3:2. 3
Balances as on 1st April 2023 were as follows:
Capital Accounts (Fixed): Atul- Rs. 5,00,000 and Mithun- Rs. 6,00,000
Loan Accounts: Atul- Rs. 3,00,000 (Cr.) and Mithun- Rs. 2,00,000 (Dr.)
It was agreed to allow and charge interest @8%p.a. Partnership deed provided to

allow interest on capital @10% p.a. Interest on Drawings was charged Rs. 5000 each. Profit before giving effect to above was Rs. 2,28,000 for the year ended 31st March 2024. Prepare Profit and Loss Appropriation Account

OR

A,B And C were partners. their fixed capitals were Rs. 60,000 , Rs. 40,000 and Rs. 20,000 respectively. Their profit sharing ratio was 2:2:1. According to the Partnership Deed they were entitled to interest on capital @5%p.a. In addition, B was also entitled to draw a salary of Rs. 1,500 per month. C was entitled to a commission of 5% on the profits after charging interest on capital, but before charging the salary payable to B. The net profits for the year were Rs. 80,000 were distributed in the ratio of their capitals without providing for any of the above adjustments. Showing your workings clearly, pass the necessary adjustment entry

19 Exe limited purchase assets of the book value Rs. 4,00,000 and to cover the liabilities of rs 50,000 from Mohan Bros it was agreed that the purchase consideration settled at rupees 3,80,000 be paid by issuing debentures of rupees 100 each pass journal entries if debentures are issued : 3

(i)At par

(ii)At a discount of 10%

(iii)At a premium of 10%

It was agreed that any fraction of debentures be paid in cash

OR

Disha Ltd. forfeited 500 shares of Rs. 100 each issued at 10% premium, Rs. 90 called up, on which the shareholders did not pay Rs. 30 per share on allotment (including premium) and first call of Rs. 20 per share. Out of these, 300 shares were reissued for Rs. 80 per share, fully paid up.

Pass necessary journal entries for forfeiture and reissue of shares.

20. Profits of a firm for the last 5 years were: 3

Year	31st March, 2020	31st March, 2021	31st March, 2022	31st March, 2023	31st March, 2024
Pofit(Rs.)	40,000	48,000	60,000	50,000	36,000

Calculate value of goodwill on the basis of three years' purchase of the weighted average profit after assigning weights

21.	Newbie Ltd. was registered with an authorized capital of Rs. 5,00,000 divided into 50,000 equity shares of Rs. 10 each. The company offered to the public for subscription 30,000 equity shares of Rs.10 each at a premium of Rs.20 per share. Applications for 28,000 shares were received and allotment was made to all applicants. All calls were made and duly received except the final call of Rs. 2 per share on 200 shares. Show the 'Share Capital' in the Balance Sheet of Newbie Ltd. as per Schedule (III) of the Companies Act ,2013. Also , prepare Note to Accounts for the same.	4
22.	Pass necessary Journal entries for the following transactions on the dissolution of a partnership firm of Mita and Sonu on 31st March,2022 after the various assets other cash and third party liabilities have been transferred to the Realisation Account . (a) Creditors of Rs 90,000 took over Land and Building of Rs 2,00,000 in full settlement of their claim. (b) Sonu tok over debtors amounting to Rs 50,000 at Rs 40,000. (c) Realisation expenses Rs 1,800 were paid by Sonu. (d) A machine which was not recorded in the books was taken over by Mita at Rs 11,000 while its expected market value was Rs 15,000. (e) Sonu agreed to pay off his wife's loan of Rs 20,000. (f) Profit on dissolution amounted to Rs 50,000.	4
23.	Yash Ltd. invited applications for 50,000 equity shares of Rs. 10 each at a premium of 10%. The amount was payable as follows: On application Rs. 3 per share; on allotment (including premium) Rs. 3 per share and on first and final call, the balance amount. Applications were received for 1,20,000 shares and shares were allotted on a pro-rata basis to all applicants. The excess money received on application was to be adjusted towards sums due on allotment. Application money in excess of sums due on allotment was refunded. A shareholder who applied for 6,000 shares could not pay the first and final call money and his shares were forfeited. The forfeited shares were reissued for Rs. 60,000 fully paid up. Pass necessary journal entries for the above transactions in the books of Yash Ltd. OR Karur limited invited applications for issuing 2,40,000 equity shares of Rs. 10 each at a premium of Rs. 4 per share. The amount was payable as under: On application - Rs. 4 per share (including premium of Rs. 2) On allotment - Rs. 4 per share, On first and final call- Rs. 6 per share (including premium Rs. 2) Applications for 3,00,000 shares were received and *pro rata* allotment was made to all the applicants. Excess applications money receipt on application was adjusted towards sum due on allotment. All calls were made and were duly received except	6

from Rohini, who failed to pay allotment and first and final call on 7,500 shares applied by her. These shares were forfeited. Afterwards 40% of the forfeited shares were reissued at Rs. 11 per share as fully paid up.

Pass the necessary journal entries in the books of Karur limited open call in arrears and calls in advance account where ever necessary.

24.

Anil and Vimal were partners sharing profits and losses in the ratio of 3 : 2. Their Balance Sheet as at 31st March, 2022 was under:

6

Balance Sheet of Anil and Vimal as at 31st March, 2022

Liabilities	AMT RS.	AMT RS.	Assets	AMT RS.	AMT \RS.
Creditors		20,000	Cash at Bank		50,000
Outstanding Electricity Bill		30,000	Debtors	80,000	
Capitals			<u>Less</u>: Provision for Bad Debts	(2000)	78000
Anil	3,00,000		Stock		1,12,000
Vimal	2,00,000	5,00,000	Machinery		3,00,000
			Profit and Loss A/c		10,000
		5,50,000			5,50,000

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

1.Mani will bring Rs. 1,00,000 as her capital and Rs. 50,000 as her share of goodwill premium in cash.

2.Outstanding electricity bill will be paid off.

3.Stock was found overvalued by Rs. 12,000.

Pass the necessary journal entries in the books of the firm on Mani's admission

OR

A,B and C were partners in a firm sharing profits in the ratio 2:2:1 . On 31st March,2018 their balance sheet was as follows:

Balance Sheet of A,B and C

Liabilities	Amount	Assets	Amount
Sundry Creditors	45,000	Cash at Bank	42,000
Employees provident fund	13,000	Debtors - 60,000	
General Reserve	20,000	Less: Provision for doubtful debts- 2,000	58,000
Capitals :		Stock	80,000
A – 1,60,000		Furniture	90,000
B – 1,20,000		Plant and Machinery	1,80,000
C – 92,000	3,72,000		
	4,50,000		**4,50,000**

B retired on the above date and it was agreed that:

1.Plant and Machinery was undervalued by 10%.

2.Provision for doubtful debts was to be increased to 15% on debtors.

3.Furniture was to be decreased to Rs. 87,000

4.Goodwill of the firm was valued at Rs. 3,00,000 and B’s share was to be adjusted through the capital accounts of A and C

5.Capital accounts of the new firm were to be in the new sharing profit ratio of the continuing partners **.**

Prepare Revaluation account, Partner’s Capital accounts and the Balance Sheet of the reconstituted firm

25.

Naveen, Kavita and Vishesh were partners in a firm sharing profits and losses in the ratio of 5:4:1. Their Balance Sheet as at 31st March, 2019 was as follows:

BALANCE SHEET OF NAVEEN, KAVITA AND VISHESH as on 31st March,2019

Liabilities	Amount	Assets	Amount
Capitals:		Plant and Machinery	5,50,000

6

Naveen 3,00,000		Stock	1,20,0000
Kavita 2,00,000		Debtors	1,30,000
Vishesh 1,00,000	6,00,000	Cash	40,000
Profit for the year 2018-19	1,50,000	Advertisement expense	20,000
Sundry Creditors	1,10,000		
	8,60,000		8,60,000

Naveen died on 30th June, 2019. According to the partnership deed, in addition to the deceased partner's capital, the executors are entitled to:

(i) His share in profits till the date of death on the basis of average profits of the last two years. The profit for the year 2017-18 was Rs50,000.
(ii) His share in the goodwill of the firm. Goodwill was to be calculated on the basis of two years' purchase of the average profits of the last two years. Naveen withdrew Rs60,000 on 1st June, 2019.

Prepare Naveen's Capital Account which is to be rendered to his executor.

26. On 1st June 2023 P Ltd. issued 6,000 12% debentures, of Rs. 100 each at par redeemable at a premium of 7% at the end of 3rd year. 6

Pass the journal entries for the issue of debentures and writing of loss on issue of debentures. Also prepare loss on issue of debentures account.

PART B
Option - I
(Analysis of Financial Statements)

27. **As per Schedule III, Part I of the Companies Act, 2013, "Unclaimed Dividend" is shown in the Balance sheet of a company under the head:** 1

a) Shareholders Fund
b) Current Liabilities
c) Current Assets
d) Non- Current Liabilities

OR

Which of the following will be classified as non-current Assets as per Schedule III, Pat I of the companies?

a) Investment in Shares

b) Unclaimed Dividend

c) Capital work-in-progress

d) Capital Advances

28.	**The Current Ratio of a company is 2:1. Which of the following transactions would decrease the ratio?** a)Purchase of good worth Rs. 80,000 on cash b)Sale of furniture worth Rs. 50,000 c)Purchase of goods worth Rs. 50,000 on credit d)Paid creditors Rs. 40,000	1
29.	**Given below are two statements - Statement (A) and Statement (B) :** **Statement (A): Increase in General Reserve is deducted to Net Profit for the year to determine 'Net profit before Tax' and Extraordinary Items.** **Statement (B): Increase in value of goodwill is an investing activity** **Choose the correct alternative from the following:** a) Both statement (A) and statement (B) are correct. b) Statement (A) is correct and statement (B) is incorrect. c) Statement (A) is incorrect and statement (B) is correct. d) Both statement (A) and statement (B) are incorrect.	1
30.	**Paid Rs. 4,00,000 to acquire shares in R.V. Ltd. and received a dividend of Rs. 40,000 after acquisition. These transactions will result in** a) Cash used in investing activities Rs.4,00,000 b) Cash generated from financing activities Rs. 4,40,000 c) Cash used in investing activities Rs. 3,60,000 d) Cash generated from financing activities Rs. 3,60,000	1
31.	**Under which sub-headings, will the following items be placed in the Balance Sheet of a company as per Schedule III Part I of the Companies Act, 2013 :** a) Capital Reserve b) Bonds c) Loans repayable on demands d) Vehicles e) Goodwill f) Loose tools	3
32.	A company has a liquid ratio of 1.5:1 and a current ratio 2:1. Its Inventory Turnover Ratio was 6 times. It had total current assets of Rs. 2,00,000.	3

Find out Revenue from Operations if the goods are sold at 25% profit on cost.

33. Prepare a Common-size Balance Sheet of L.X Ltd. from the following information :

4

Particulars	Note no	31st March,2019 Rs.	31st March,2018 R.s.
e) EQUITY AND LIABILITIES		-	-
i)Shareholders' Funds		20,00,000	10,00,000
ii)Non-Current liabilities		20,00,000	5,00,000
iii)Current liabilities		10,00,000	5,00,000
Total		50,00,000	20,00,000
f) ASSETS			
i)Non-Current Assets		30,00,000	12,50,000
ii)Current Assets		20,00,000	7,50,000
Total		50,00,000	20,00,000

OR

From the following statement of profit and loss of Suntrack Ltd. for the years ended 31st March,2023 and 2024, prepare Comparative Statement of Profit and Loss:

Particulars	Note No.	31st March,2024	31st March,2023
Revenue from operations		20,00,000	12,00,000
Other Incomes		12,00,000	9,00,000
Expenses		13,00,000	10,00,000

34. From the following Balance Sheet of DCX Ltd. and the additional information as at 31st March,2018,Prepare a Cash Flow Statement:

6

BALANCE SHEET OF DCX LTD.as at 31 March,2018

Particulars	Note No.	31st March,2018 Rs.	31st March,2017 Rs.

4. **EQUITY AND LIABILITIES**			
I. Shareholder'sFunds			
e) Share Capital		30,00,000	21,00,000
f) Reserve and Surplus	1	4,00,000	5,00,000
II. **Non-Current Liabilities**			
Long-term Borrowings	2	8,00,000	5,00,000
III.**Current Liabilities**			
1. Trade Payables		1,50,000	1,00,000
2. Short term provisions	3	76,000	56,000
TOTAL		<u>44,26,000</u>	<u>32,56,000</u>
2. **ASSETS**			
D) Non-Current Assets			
Property, Plant and Equipment and Intangible Assets:			
(i) Property, Plant and Equipment	4	27,00,000	20,00,000
(ii)Intangible Assets		8,00,000	7,00,000
E) Current Assets			
(i) Current Investments		89,000	78,000
(ii) Inventories		8,00,000	4,00,000
(iii) Cash and Cash Equivalents		37,000	78,000
Total		<u>44,26,000</u>	<u>32,56,000</u>

Notes to Accounts:

Particulars	31st March ,2018 Rs.	31st March ,2017 Rs.
e) Reserves and Surplus	4,00,000	5,00,000
Surplus,i.e., Balance in Statement of Profit and Loss	4,00,000	5,00,000
f) Long term Borrowings	8,00,000	5,00,000
8% Debentures	8,00,000	5,00,000
g) Short-term Provisions	76,000	56,000
Provision for Tax	76,000	56,000
h) Property, Plant and Equipment		
Machinery	33,00,000	25,00,000
Less: Accumulated Depreciation	(6,00,000)	(5,00,000)
	27,00,000	27,00,000

Additional Information:

(i) During the year a machinery costing Rs.8,00,000 on which accumulated depreciation was Rs.3,20,000 was sold for Rs.6,40,000.

(ii) Debentures were issued on 1st April,2017.

SAMPLE QUESTION PAPER-2 (ANSWERS)

<table>
<tr><th>Q. No</th><th>PART A
(Accounts for partnership Firms and Companies)</th><th>Marks</th></tr>
<tr><td>1.</td><td>B) Bank Account</td><td>1</td></tr>
<tr><td>2.</td><td>B) Both Assertion(A) and Reason(R) are True but Reason is not the correct explanation for Assertion</td><td>1</td></tr>
<tr><td>3.</td><td>A) ¼</td><td>1</td></tr>
<tr><td>4.</td><td>A) Rs 25,000</td><td>1</td></tr>
<tr><td>5</td><td>A)(i) Rs 20,000</td><td>1</td></tr>
<tr><td></td><td>B)(i) Rs 30,000</td><td>1</td></tr>
<tr><td>6.</td><td>D) Interest will not be charged on drawings by partners</td><td>1</td></tr>
<tr><td>7.</td><td>B) Rs 45,000</td><td>1</td></tr>
<tr><td>8.</td><td>i)(b) B II) (C)Rs. 48,000</td><td>1</td></tr>
<tr><td>9..</td><td>i) (b) called up share capital ii) (c)Debited by Rs. 20,00,000</td><td>1</td></tr>
<tr><td>10.</td><td>D)Assertion (A) is not correct but the Reason (R) is correct</td><td>1</td></tr>
<tr><td>11.</td><td>A)Credited to the capital reserve
C) may or may not be recorded in the books</td><td>1</td></tr>
<tr><td>12.</td><td>C)Rs. 30,000</td><td>1</td></tr>
<tr><td>13.</td><td>B)Rs. 4,20,000</td><td>1</td></tr>
<tr><td>14.</td><td>B)Rs. 45,000</td><td>1</td></tr>
<tr><td>15.</td><td>I) D) Rs. 5,000
A)Rs. 10,000</td><td>1</td></tr>
<tr><td>16.</td><td>B)Rs. 48,000</td><td>1</td></tr>
<tr><td>17.</td><td>
<table>
<tr><th>Date</th><th>Particulars</th><th>L.F</th><th>Dr.Rs</th><th>Cr.Rs</th></tr>
<tr><td></td><td>X’s Capital a/c Dr
Y’s Capital a/c Dr
To Z’s Capital a/c
(Z’s share of goodwill credited to Z and debited to the gaming partners in their gaining ratio)</td><td></td><td>15,000
75,000</td><td>-
-
90,000</td></tr>
</table>
</td><td>3</td></tr>
</table>

WORKING NOTES

i) Calculation of hidden Goodwill:

Amount agreed to be paid to Z in full settlement of his claim 4,50,000

less: Z’s Capital (after all adjustments) (3,60,000)

Hidden Goodwill (for Z’s Share) 90,000

ii) Calculation of gaining Ratio

Gain of a partner= New profit share - old profit share

X’s Gain = 1/ 4 - 1/ 6 = 3-2/12 = 1/ 12 ; Y’s Gain 3/ 4 - 2/ 6 = 9-4/ 12 = 5/ 12

Gainings Ratio of X and Y = 1/ 12 : 5/ 12 = 1 : 5

18. PROFIT AND LOSS APPROPRIATION ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2024

3

dr.

cr.

Particulars	Amount (Rs.)	Amount (Rs.)	Particulars	Amount(Rs.)	Amount(Rs.)
To Interest On Capital:			By profit	228000	
Atul’s Current A/c	50,000		Add= Interest on loan to Mithun	16000 244000	
Mithun’sCurrent A/c	60,000	110000	Less = Interest On Atul’s Loan	24000	220000
To profit transferred to:			By interest on drawings:		
Atul’s current a/c	72000		Atul’s current a/c	5000	
Mithun’s current a/c	48000	120000	Mithun’s current a/c	5000	10,000
		230000			230000

WORKING NOTES:

Calculation of interest on partner’s loan:

Interest on Loan to Mithun: 2,00,000 x 8/100

= Rs. 16,000

Interest on Loan from Mithun: 3,00,000 x 8/100

= Rs. 24,000

Calculation of Interest on partner’s capital:

Interest on Atul's capital = 5,00,000 x 10/1000
= Rs.50,000
Interest on Mithun's Capital= 6,00,000 X 10/100
= Rs.. 60,000

OR

ADJUSTMENT

DATE	PARTICULARS	LF	DEBIT	CREDIT
	A's Current A/c dr.		16080	
	To B's Current A/c			14253
	To C's Current A/c			1827
	(Being interest on capital, salary and commission of partners omitted, now rectified)			

	A		B		C		FIRM	
Particulars	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Profit credited wrongly	40,000		26667		13333			80,000
Interest on Capital		3000		2000		1000	6000	
Salary				18,000			18,000	
Commission						3700	3700	
Profit distributed 2:2:1							52300	
	40,000	23920	26667	40920	13333	15160	80000	80000

Net effect 16080 (Dr.) 14253 (Cr.) 1827(cr.)

19. 3

Journal

Date	Particulars	L. F.	Debit Amount Rs	Credit Amount Rs
	Assets A/c Dr.		4,00,000	
	Goodwill A/c (balancing figure) Dr.		30,000	
	To Liabilities A/c			50,000
	To Mohan Bros. A/c			3,80,000
	(Asset and liabilities purchased from Mohan Bros.)			

Case 1 When Debentures are issued at Par

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Mohan Bros. Dr.		3,80,000	

	To Debenture A/c (Issued 3,800 debentures at par)			3,80,000

Working Note:

No. of debentures to be issued = Purchase Consideration / Issue Price

= 3,80,000 / 100

-

= 3,800 debentures

Case 2 When Debentures are issued at 10% discount

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Mohan Bros. Dr. Discount on issue of Debenture A/c Dr. To Debenture A/c To Bank A/c (Issued 4,222 Debentures of Rs 100 each at 10% discount to Mohan Bros. and fraction of debentures is paid in cash)		3,80,000 42,220	 4,22,200 20

Working Note:

No. of debentures to be issued = Purchase Consideration / Issue Price

= 3,80,000 / 100 - 10

= 3,80,000 / 90

= 4,222.2 debentures

Case 3 When Debentures are issued at 10% premium

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Mohan Bros. Dr. To Debenture A/c To Securities Premium A/c To Bank A/c (Issued 3,454 Debentures of Rs 100 each at 10% premium to Mohan Bros. and fraction of debentures is paid in cash)		3,80,000	 3,45,400 34,540 60

Working Note:

No. of debentures to be issued = Purchase Consideration / Issue Price

= 3,80,000

-

100 + 10
= 3,80,000
110
= 3,454.6 debentures

OR

Journal Entries in the books of Disha Ltd.

Date	Particulars	L.F	Dr R.s	Cr R.s
i)	Share Capital a/c Dr Security Premium a/c Dr To Share Forfeiture a/c To calls in arrears a/c (Being shares forfeited for the non payment of allotment and first call)		45000 5000	- - 25000 25000
ii)	Bank a/c Dr Share Forfeiture a/c Dr To Share Capital a/c (Being out of forfeited shares 300 shares are reissued)		24000 6000	- - 30000
iii)	Share Forfeiture a/c Dr To Capital Reserve a/c (Being gain on 300 shares transferred to capital reserve account)		9000	- 9000

Working Notes:

(i) Share Capital = 500 × 90 = 45000
Security Premium = 500 × 10 = 5000
Share forfeited = 500 × 50 = 25000
Calls in arrear = 500 × 50 = 25000
(ii) Bank = 300 × 80 = 24000
Share Capital = 300 × 100 = 30000
(iii) Capital Reserve = (24000×300)/500 – 6000 = 15000 – 6000 = 9000

20. 3

Year Ended A	Profit B	Weight C	Weighted business profit D=BC
31st March 2020	40,000	1	40,000
31st March 2021	48,000	2	96,000
31st March 2022	60,000	3	1,80,000
31st March 2023	50,000	4	2,00,000
31st March 2024	36,000	5	1,80,000

Total		15	6,96,000

Weighted Average Normal Business Profit = Total of Weighted Normal Business Profits / Total weights
= Rs. 6,96,000 / 15 = Rs.46,400

Goodwill= Weighted Average Normal Business Profit No of Years Purchase
= Rs. 46,400 3 = Rs. 1,39,200

21.

NEWBIE LTD. BALANCE AS AT…..

4

Particulars	Note number	Amount
Equity and liabilities shareholders funds. Share capital	1	2,79,600

Note to accounts:

Particulars	Amount
1. **Share capital** **authorized capital** 50,000 equity shares of rupees 10 each	5,00,000
Issued capital 3 0,000 equity shares of rupees 10 each	3,00,000
Subscribed Capital **Subscribed and fully paid up** 27,800 equity shares of rupees 10 each.	2,78,000
Subscribed but not fully paid up 200 equity shares of Rs. 10 each 2000 Less: Calls-in-Arrears (200X2) 400	1600
	2,79,600

22

4

Date	Particulars	L.F	Dr Rs	Cr Rs
2022 Mar 31				
b)	Sonu's Capital a/c Dr To Reaslisation a/c (Debtors taken over by Sonu)		40,000	- 40,000
c)	Realisation a/c Dr		1,800	-

	To Sonu’s Capital a/c (Realisation expenses paid by Sonu			1,800
d)	Mita’s Capital a/c Dr To Realisation a/c (Unrecorded Machine taken by mia)		11,000	- 11,000
e)	Realistaion a/c Dr To Sonu’s Capital a/c (Sonu paid his wife’s loan)		20,000	- 20,000
f)	Realisation a/c Dr To Mitas’s Capital a/c To Sonu’s Capital a/c (Profit on Realisation transferred to Partner’s Capital Accounts equally)		50,000	- 25,000 25,000

23.

6

JOURNAL OF YASH LTD.

Date	Particulars	LF	DEBIT	CREDIT
	Bank a/c (1,20,000X3) Dr. To equity shares application A/c (Application money received)		3,60,000	3,60,000
	Equity Shares Application A/c Dr. To equity share capital A/c (50,000 X 3) To Equity Shares Allotment A/c (50,000 × 3) To Bank A/c (20,000 × 3) (Application money adjusted)		3,60,000	1,50,000 1,50,000 60,000
	Equity Shares Allotment A/c Dr. (50,000X3) To Equity Share Capital A/c (50,000 X2) To Securities Premium A/c (50,000X1) (Allotment money due)		1,50,000	1,00,000 50,000
	Equity Shares First and Final Call A/c Dr. (50,000X5) To Equity Share Capital A/c (Call money due)		2,50,000	2,50,000
	Bank A/c Dr. Calls-in- Arrears A/c (2500X5) Dr. To Equity Shares First and Final Call A/c (Call money received except on 2,500 shares)		2,37,500 12,500	2,50,000

	Equity Share Capital A/c Dr. (2500X10) To Calls-in-arrears A/c (2500X5) To Forfeited Shares A/c (2500X5) (Forfeiture of 2500 shares for non payment of call money)		25,000	12,500 12,500
	Bank A/c Dr. To share capital A/c (2500X10) To securities premium A/c (2500X14) (2500 shares reissued for Rs. 60,000 fully paid-up)		60,000	25,000 35,000
	Forfeited Shares A/c Dr. To Capital Reserve A/c (Gain on reissue of 2500 shares transferred to Capital Reserve)		12,500	12,500

Working Notes:

1. No. of allotted shares to defaulting shareholders = 50,000/1,20,000X6,000 = 2500 shares.
2. Total allotment is adjusted from excess application money.

OR

Date	Particulars	LF	DEBIT	CREDIT
	Bank A/c Dr. To Equity share Application A/c (Application money received on 3,00,000 equity shares)		12,00,000	12,00,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Security Premium A/c To Equity Share Allotment A/c (Amount of application transferred to Share Capital and access money is adjusted towards allotment)		12,00,000	4,80,000 4,80,000 2,40,000
	Equity Shares Allotment A/c Dr.. To Equity Share Capital A/c (Allotment money due on 2,40,000 enquiry shares at rupees 4 per share)		9,60,000	9,60,000

	Bank A/c Dr. Calls-in-arrears A/c Dr. To equity shares allotment a/c (Allotment money received Allotment money received)		7,02,000 18,000	7,20,000
	Equity shares first and final call A/c Dr. To equity share capital A/c To securities premium A/c (First call money due on 2,40,000 shares at rupees 6 per share)		14,40,000	9,60,000 4,80,000
	Bank A/c dr. Call-in-arrears A/c dr.(6000X6) To equity shares first and final call A/c (First and final call money received)		14,04,000 36,000	14,40,000
	Share capital A/c (6000X10) Dr. Securities premium A/c (6000X2) Dr. To call in arrears A/c To forfeited shares A/c (6000 shares forfeited for non payment of allotment and first and final call)		60,000 12,000	54,000 18,000
	Bank A/c Dr. To equity share capital A/c To securities premium A/c (2400 shares reissued for rupees 11 per share paid fully)		26,400	24,000 2,400
	Forfeited Shares A/c Dr. To Capital Reserve A/c (Gain on reissue of forfeited shares transferred to Capital Reserve)		7,200	7,200

Working notes:

1. Number of shares allotted to Rohini = 7500X 2,40,000/3,00,000 = 6000 Shares.
2. Calculation of the amount due but not received on allotment from Rohini:

Application money received on shares applied. (7500X4)

Money due on shares allotted. (6000X4)

Access application money adjusted on allotment(A-B)

Allotment money due on shares allotted(6000X4)

Allotment money due but not received. Rs. 24,000 - Rs. 6000= C

3. Calculation of gain and reissue to be transferred to capital reserve:

Amount forfeited = 30,000 -12,000 = Rs. 18,000
Amount forfeited on reissue = 18,000X 2400/6000
Less: Loss on reissue Nil
Transfer to Capital Reserve Rs. 7,400

24.

In the book's of Anil and Vimal
JOURNAL

6

DATE	PARTICULARS	LF	DEBIT	CREDIT
2022 1Apr.	Anil's Capital A/c ...Dr.		6,000	
	Vimal's Capital A/c ...Dr.		4,000	
	To Profit and Loss A/c			10,000
	(Being the loss transferred to Old Partners' Capital Accounts in their old ratio)			
1 Apr.	Bank A/c ...Dr.		1,50,000	
	To Mani's Capital A/c			1,00,000
	To Premium for Goodwill A/c			50,000
	(Being the capital and premium for goodwill brought in cash by Mani)			
1 Apr.	Premium for Goodwill A/c ...Dr.		50,000	
	To Anil's Capital A/c			30,000
	To Vimal's Capital A/c			20,000
	(Being premium for goodwill credited to Anil and Vimal in their sacrificing ratio, i.e., 3 : 2).			
1 Apr.	Outstanding Electricity Bill A/c ...Dr.		20,000	
	To Bank A/c			20,000
	(Being outstanding electricity bill paid)			
1 Apr.	Revaluation A/c ...Dr.		12,000	
	To Stock A/c			12,000
	(Being decrease in value of stock)			
1 Apr.	Anil's Capital A/c ...Dr.		7,200	
	Vimal' s Capital A/c ...Dr.		4,800	
	To Revaluation A/c			12,000
	(Being loss on revaluation transferred to old partners' capital accounts in their old ratio)			

OR

REVALUATION ACCOUNT

Liabilities	Rs.	Assets	Rs.
To provision for doubtful debts	7,000	By Plant and Machinery a/c	20,000
To Furniture a/c	3.000		
To Profit transferred to:			
A Capital a/c – 4,000			
B Capital a/c – 4,000			
C Capital a/c – 2,000	10,000		
	20,000		**20,000**

PARTNER'S CAPITAL ACCOUNT

Particulars	A	B	C	Particulars	A	B	C
To B Capital a/c	80,000	-	40,000	By Balance B/D	1,60,000	1,20,000	92,000
To B's Loan a/c	-	2,52000	-	By General Reserve	8,000	8,000	4,000
To Balance a/c	92,000		58,000	By Revaluation a/c	4,000	4,000	2,000
				By A Capitals a/c		80,000	
				By C Capitals a/c		40,000	
	1,72,000	2,52,000	98,000		1,72,000	2,52,000	98,000

25. 6

NAVEEN’S CAPITAL ACCOUNT

Dr. Cr.

PARTICULARS	Rs.	PARTICULARS	RS.
To Drawings A/c	60,000	By balance b/d	3,00,000
To advertisement expenditure A/c (20,000X5/10)	10,000	By profit and loss A/c (1,50,000X5/10)	75,000
To Naveen’s Executor's A/c	4,17,000	By profit and loss suspense a/c	12,500
		By Kavita’s capital A/c	80,000
		By Vishes’s Capital A/c	20,000
	4,87,000		4,87,000

WORKING NOTES:

Calculator of Naveen’s share of profit till death

Average profit of the last two years = 1,50,000+ 50,000/2 = Rs. 1,10,000

Naveen’s share of profit = Rs. 1,00,000 X 5/10 X 3/12 = Rs. 12,500

Adjustment of goodwill = Firms goodwill = Average Profit X No. of years purchase = Rs. 1,00,000 X 2 = Rs. 2,00,000

Naveen’s Share of goodwill = Rs. 2,00,000 X 5/10 = Rs. 1,00,000 which has been debited to Kavita and Vishesh in their gaining ratio

26.

JOURNAL OF P LTD.

Particulars	Dr.(Rs)	Cr.(Rs)
Bank A/c Dr. To debentures applications and Allotment A/c (Application money received for 6,000 , 12% debentures)	6,00,000	6,00,000
Debentures applications and Allotment A/c Dr. Loss on issue of debentures A/c To 12%debenture A/c To premium on redemption of Debenture A/c (Debentures allotted and premium payable on redemption A/c)	6,00,000 42,000	6,00,000 42,000
Statement of Profit and Loss A/c Dr. To loss on issue of debentures A/c (loss on issue of debentures written off)	42,000	42,000

NOTES:

1. Loss on issue of debentures is written off in the year debentures are allotted.
2. Loss on issue of debentures is written off from the statement of profit and loss because the company does not have balance in securities premium.

Dr. LOSS ON ISSUE OF 12% DEBENTURES A/C CR.

Date	Particulars	Amount	Date	Particulars	Amount
2023 June 1	To premium on redemption on debentures A/c	42,000	2024 March31	By statement of profit and loss (final A/c)	42,000
		42,000			42,000

6

PART B
Option - I
(Analysis of Financial Statements)

27. I) (B) Current Liabilities 1

ii) (C) Capital work in progress

28. c)Purchase of goods worth Rs. 50,00 on credit 1

29. C)Statement (A) is incorrect and statement (B) is correct. 1

30. C) Cash used in investing activities 1

31. 3

Sr. no	Items	Sub-headings
1.	Capital Reserves	Reserves and surplus
2.	Bonds	Long term borrowings
3.	Loans payable on demand	Short term borrowings
4.	Vehicles	Property, plant and equipment and intangible asset
5.	Goodwill	Property, plant and equipment and intangible asset
6.	Loose tools	Inventories

32. Current Ratio = Current Assets/Current Liabilities 3

2/1 = Rs. 2,00,000/Current Liabilities

Current Liabilities = Rs, 2,00,000/2 = Rs. 1,00,000

$$\text{Liquid Ratio} = \frac{\text{Liquid Asset (current assets-inventories)}}{\text{Current liabilities}}$$

$$\frac{1.5}{1} = \frac{\text{Rs. 2,00,000 - Inventories(stock)}}{\text{Rs. 1,00,000}}$$

Rs. 1,50,000 = Rs. 2,00,000 - Inventories

Inventories (stock) = Rs. 2,00,000 - Rs. 1,50,000 = Rs. 50,000

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operations}}{\text{Average Inventory}}$$

6 = <u>Cost of Revenue from Operations</u>

Rs. 50,000

Cost of Revenue from Operations = Rs. 50,000 6 = Rs. 3,00,000

Revenue from Operations = Cost of revenue from Operations + Gross Profit = Rs. 3,50,000+Rs. 75,000(Rs. 3,00,000 x 25/100)

= Rs. 3,75,000

33. 4

Particulars	Absolute Amounts		Percentage of Balance of Balance Sheet Total	
	31st March 2018 (Rs)	31st March 2019 (RS)	31st March 2018(%)	31st March 2019(%)
i) EQUITY AND LIABILITIES				
1.Shareholders' Funds	10,00,000	20,00,000	50.00	40
2.Non-Current Liabilities	5,00,000	20,00,000	25.00	40
3.Current Liabilities	5,00,000	10,00,000	25.00	20
Total	20,00,000	50,00,000	100.00	100
ii) ASSETS				
1. Non-Current Assets	12,50,000	30,00,000	62.50	60
2. Current Assets	7,50,000	20,00,000	37.50	40
Total	20,00,000	50,00,000	100.00	100

OR

COMPARATIVE STATEMENT OF PROFIT AND LOSS for the year ended 31st March, 2018 and 2019.

Particulars	Note No.	31st March, 2018 Rs.	31st March, 2019 Rs.	Absolute Change (Increase/ Decrease) Rs.	Percentage Change (Increase/ Decrease) %
		(A)	(B)	(C=B-A)	(D=C/A ×100)
I. Revenue from Operations II. Add: Other Income III. Total Revenue IV. Less: Expenses		4,00,000 80,000 4,80,000 2,00,000	3,00,000 40,000 3,40,000 1,50,000	(1,00,000) (40,000) (1,40,000) (50,000)	(25.0) (50.0) (29.17) (25.0)
V. Profit before Tax VI. Less: Tax		2,80,000 1,12,000	1,90,000 76,000	(90,000) (36,000)	(32.14) (32.14)
VII. Profit before Tax		<u>1,68,000</u>	<u>1,14,000</u>	<u>(54,000)</u>	<u>(32.14)</u>

34	Particulars	Rs	Rs
	i) **Cash Flow from Operating Activities** Net Profit before Tax and Extraordinary Items (WN 1 *Add:* Depreciation on Machinery(WN 3) Interest on Debentures *Less:* Gain on sale of Machinery Operating Profit before Working Capital Changes *Add:* Increase in Current Liabilities: Trade Payables *Less:* Increase in Current Assets : Inventories Cash Generated from Operations *Less*: Tax Paid *Cash Used in Operating Activities*	(24,000) 4,20,000 64,000 (1,60,000)	
		3,00,000 50,000 (4,00,000) (50,000) (56,000)	
		(16,00,000) (1,10,000) 6,40,000	(1,06,000)
	ii) **Cash Flow from Investing Activities** Purchase of Machinery Purchase of Intangible Assets Proceeds from Sale of Machinery		

	Cash Flow from Investing Activities		(10,60,000)
	iii) **Cash Flow from Financing Activities** Proceeds from Issue of Shares Proceeds from Issue of Debentures Interest paid on Debentures	 9,00,000 3,00,000 (64,000)	
	Cash Flow from financing Activities		11,36,000
	iv) **Net Decrease in Cash and Cash Equivalents (i + ii + iii)** *Add:* Opening Balance Cash and Cash Equivalents: Current Investments	78,000 78,000	(30,000) 1,56,000
	v) **Closing Balance of Cash and Cash Equivalents** Current Investments Cash and Cash Equivalents	89,000 37,000	1,26,000

3.Dr. ACCUMULATED DEPRECIATION ACCOUNT Cr.

Particulars	Amt(Rs.)	Particulars	Amt (Rs.)
To Machinery A/C	3,20,000	By Balance *b/d*	5,00,000
To Balance *c/d*	6,00,000	By Depreciation A/c (Statement of Profit & Loss) (Bal.Fig.)	**4,20,000**
	9,20,000		9,20,000

2024-25 SAMPLE PAPER 3

CLASS 12 ACCOUNTANCY

TIME: 3 HRs. M.MARKS: 80

General Information:

1. This question paper contains 34 questions. All Questions are compulsory.
2. This question paper is divided into two parts. Part A and B
3. Part A is compulsory for all candidates.
4. Part B has two options .Candidates have to attempt only one of the given Options.
   Option: I Analysis of Financial Statements
   Option: II Computerised accounting
5. Question Nos 1 to 16 and 27 to 30 carries 1 mark each.
6. Question Nos 17 to 20,31 and 32 carries 3 mark each.
7. Question Nos 21,22 and 33 carries 4 mark each.
8. Question Nos 23 to 26 and 34 carries 6 mark each
9. There is no overall choice. However, an internal choice has been given provided in few questions in each of the parts.

PART-A

(ACCOUNTING FOR PARTNERs.HIP AND COMPANIES)

Q.NO	Questions	Marks
1.	Amit and Amir were partner’s in a firm with the capitals of Rs. 80,000 and Rs. 40,000 respectively. The firm earned a profit of, Rs. 30,000 during the year .Amit share in the profit will be : a) Rs. 20,000 b) Rs. 10,000 c) Rs. 15,000 d) Rs. 18,000 or Mohit, sumit, and Rohit are partner’s sharing profits and losses in the ratio 2:2:1.Sumit is entitled to commission of 15% on the net profit after charging such commission .The net profit before charging commission is Rs. 9,20,000. The amount of commission payable to sumit will be : a).Rs. 1,20,000 b)Rs. 1,38,000 c) Rs. 48,000 d) Rs. 55,200	1
2.	When a new partner is admitted, the balance of ‘General Reserve’ appearing in the balance sheet is credited to a) Profit and loss adjustment a/c c) Old partner’s capital a\c b) Revaluation a/c d) All partner’s capital a/c or L and M were partner’s in a firm sharing profit and loss ratio of 7:3 .N was admitted as a new partner for a 3/13 share in the profits of the firm .The new profit sharing ratio will be a). 7:3;7 b) 7:3;3 c) 3:7;7 d) 1:1;1	1
3.	Assertion (A) : When a partner is retired from the firm it is necessary to calculate gaining ratio. Reason (R): Share of goodwill of retiring partner is compensated by gaining partner in gaining ratio only. a). (A) is correct but (R) is wrong b) Both(A) and(R) are correct,but (R) is not correct explanation of (A) c) Both(A) and(R) are incorrect, d) Both(A) and(R) are correct ,and (R) is correct explanation of (A)	1
4.	What will be the correct sequence of events ? i) Forfeiture of shares ii) Default on calls iii) Re-issue of shares iv) Amount transferred to capital reserve options a). i,iv,ii,iii b) ii,iv,i,iii c) ii,i,iii,iv d) iii,iv,i,ii	1
5.	Z ltd .alloted 2,000 shares of Rs. 10 each fully called up to the public. Out of these shares, final call Rs. 3 on 200 shares were not received. What amount is shown under the head share capital in the balance sheet of the company? a) Rs. 20,000 b) Rs. 19,400 c) Rs. 20,600 d) Rs.10,500 or X ltd ,purchased building of Y ltd for Rs.4,00,000.The consideration was paid by issue of 10% debentures of Rs. 100 each at a discount of Rs. 20. 10% Debentures account is credited with a).Rs. 5,20,000 b) Rs. 5,00,000 c) Rs. 4,80,000 d) Rs. 3,20,000	1
6.		

7.	Excess value of net assets over purchase consideration at the time of purchase of business is a.)Credited to the Capital reserve b) Debited to goodwill account c) Credited to general reserve a/c d) Credited to vendor a/c	1
8.	Pratiba ltd ,forfeited 7,000 equity shares of Rs. 100 each issued at a premium of 10%,for non-payment of first and final call of 40 per share. The maximum amount of discount at which these shares can be reissued will be. a). Rs. 2,80,000 b) Rs. 4,20,000 c) Rs. 4,90,000 d) Rs. 3,50,000 or On forfeiture of 100 shares of Rs. 50 each,Rs. 2,500 were credited to share forfeited account .These shares were re-issued at Rs. 25 per share fully paid up.The amount credited to ‘Capital reserve a\c will be. a). Rs. 2,500 b) Rs. 5,000 c) Rs. 3,000 d) No amount.	1
9.	Alfa ltd.issued 20,000, 8% debentures of Rs. 10 each at par. The debentures are redeemable at a premium of 20% after 5 year. The amount of loss on redemption of debentures should be A). Rs. 50,000 b) Rs. 40,000 c) Rs. 30,000 d) Rs. 16,000	1
10.	Elect ltd .issued 10,000 : 6% debentures of Rs. 100 each at a premium of Rs. 10. It will credit 6% debenture a/c a). Rs. 11,00,000 b) Rs. 10,00,000 c) Rs. 9,00,000 d) Rs. 8,00,000 or The Part of called up capital which has been actually received from his shareholder is known as a).Nominal capital b) Issued capital c) Paid up capital d) Reserve capital	1
11.	The balance sheet of a firm under dissolution shows Debtor at Rs. 60,000 and provision for doubtful debts at Rs. 2,500,If Debtor of Rs. 10,000 proved bad and remaining realised 90% of its value, The amount to be credited to realisation will be: a). Rs. 54,000 b) Rs. 42,750 c) Rs. 48,000 d) Rs. 45,000	1
12.	X and Y are partner’s sharing profits in the ratio 3:2. C is admitted for 1/5th share of profit. He is to bring proportionate capital in the firm. The capitals of X and Y after all adjustments are : X Rs. 2,00,000 and Y Rs. 1,60,000. C capital will be: a). Rs. 72,000 b) Rs. 60,000 c) Rs. 90,000 d) Rs. 82,000	1
13.	Kani,mani and vani are partners in a firm sharing profits ratio 4:3:2. Kani died on 30.06.2023, profits of the accounting year 2022-23 were Rs. 72,000.Thsi year profit is assumed to accrue in same rate. How much share in profits for the period of 1st April,2023 to 30.06.2023 will be credited to Kani’s a/c. a).Rs. 8,000 b) Rs. 32,000 c) Rs. 16,000 d) Rs. 18,000	1
	Bagi and Das shared profit and losses in the ratio of 3: 2 w.e.f 1st April ,2019 they agreed to share profits equally. The goodwill of the firm valued at Rs 60,000. The adjustment entry will be : a) Dr .Y and X Cr Rs. 6,000 b). Dr .X and Y Cr Rs. 6,000	1

14.	c)). Dr .X and Y Cr Rs. 600 d) Dr .Y and X Cr Rs. 600	
	Assertion (A): Commission provided to partner is shown in Profit and loss a/c.. Reason(R) : Commission provided to partner is charge against profits and is to be provided at fixed rate.. a). (A) is correct but (R) is wrong b) Both(A) and(R) are correct, but (R) is not correct explanation of	1
.	(A) c) Both(A) and(R) are incorrect d) Both(A) and(R) are correct ,and (R) is correct explanation of (A)	
	Read the following paragraph and answer the following Question from 15 and 16 Arjun, Bhim and Nakul are partners sharing profits and losses in the ratio of 14:5:6. Bhim retires and gives 5 /25th of his share to Arjun and remaining share to Nakul. Goodwill of the firm is valued at 2 years' purchases of super profits based on average profits of last 3 years. Profit for the last 3 year are Rs.`	
	50,000, `Rs. 55,000 and `Rs. 60,000 respectively. Normal profits for the similar	1
15	firm are ` 30,000. Goodwill already exist in the books of the firm at `Rs.	
16.	75,000. Profit for the first year after Bhim's retirement was `Rs. 1,00,000..	
	What will be the amount of super profit? (a) `Rs. 55,000    (b) `Rs. 25,000 (c) Rs.` 50,000 (d) None of these	1
	Bhim's share of goodwill will be	3
17.	(a) Rs.` 50,000   (b)Rs. ` 25,000 (c) Rs.` 10,000    (d) Rs.` 20,000	
	Venkat ltd, purchased the following assets of velu ltd. Land and Building of Rs. 60,00,000 at 84,00,000: Plant machinery of Rs. 40,00,000 at Rs. 36,00,000. The Purchase consideration was Rs. 1, 10, 00,000. Payment was made by issuing a cheque in favour of Velu ltd.of Rs. 20,00,000 and remaining by issue of 8% Debentures of Rs. 100 each at a premium of Rs. 20%.. Pass necessary journal entries for the above	
18.	transaction in the books of Venkat ltd. Or On 1st July, 2022,Mahi ltd ,issued 10,000 ,9% debentures of Rs. 200 each at a discount of 5% redeemable after 5 year at a premium of 10%. All the debentures were subscribed and allotment was made. It has balance in securities premium of Rs. 1, 00,000. Pass the journal entries for issue of debentures and writing off the loss on issue of debentures	3
	A,B and C sharing profits and losses in the ratio of 5:3:2.They decide to	
19.	share the profits and losses in the ratio of 2:3:5 with effect 1st April ,2023.They also decide to record the effect of the following without affecting their book values, by passing an adjustment entry. Particulars Book values Rs. General Reserve 1,50,000 Contingency Reserve 25,000 Profit and loss A/c (Cr) 75,000 Advertisement Suspense a/c (Dr) 1,00,000. Show your workings clearly.	3
	Aman, Prabu and Vinay are in partnership sharing profits in the ratio of	

	4 : 3 : 1. Prabu takes retirement on 30th June, 2019. The firm's profits for various year were : 2014 (profit ` 3,24,444), 2015 (profit ` 80,000), 2016 (profit ` 10,000), 2017 (loss ` 10,000), 2018 (profit ` 40,000) and 2019 (profit ` 50,000).	
20.	Aman and Vinay decided to share future profits in the ratio of 3 : 2. Goodwill is to be Valued on the basis of 2 yeaRs.' purchase of average profit of 4 completed year immediately preceding the year of retirement of a partner. Pass the journal entry to record Prabu's share of goodwill. Or	
21	X ,Y and Z are partners in a firm sharing profits and losses in the ratio of 5:3:2. Their fixed capital were Rs. 3,00,000.Rs. 2,00,000 and Rs. 1,00,000 respectively. For the year ended 31st march ,2023, interest on capital was credited to them @10% p.a instead of 8% p.a. Pass necessary adjustment journal entry. Show your working notes clearly.	3
	Average profit of the firm is Rs. 1,50,000 .Total tangible assets in the firm are Rs. 14,00,000 and outside the liabilities are Rs. 4,00,000.In the same type of business, the normal rate of return is 10% of the capital employed. Calculate the value of goodwill by capitalising of super profit method.	4
22.	X, Y and Z were partners in a firm sharing profits in 3 : 2 : 1 ratio. The firm closes its books on 31st March every year. Y died on 12th June, 2019. On Y's death, the goodwill of the firm was valued at ` 60,000. His share in the profits of the firm till the time of his death was to be calculated on the Basis of previous year's profit which was ` 1,50,000. According to Y's will, the executor Should donate his share to an orphanage for girls. Pass necessary journal entries for the treatment of goodwill and Y's share of profit at the time of his death.	4
23	Raji Style ltd was registered with capital of Rs. 85,00,000 divided into equity shares of Rs.100 each. The company invited applications for issuing 45,000 shares. The amount payable as follows: On application Rs. 25, On allotment Rs. 35, On First call Rs. 25, Balance on final call. Applications were received for 42,000 shares and allotment was to all the applicants. Kamala ,to whom 3,300 shares allotted ,failed to pay both calls. Her shares were forfeited. Present the share capital in the balance sheet of the company as per schedule III, Part I of the companies act,2013. Also prepare 'Notes to accounts' for the same.	6
24.	Pass the necessary journal entries for the issue of debentures for the following transactions. i) Anil ltd, issued 800, 7%debentures of Rs. 500 each at a premium of 20%, to the vendor for machinery purchased from them costing Rs. 4,80,000 ii) Suji ltd, issued 5,000 ,8% debentures of Rs. 200 each at a premium of Rs. 5% ,redeemable at a premium of 10%. iii) Maha ltd, issued 1,000,9% debentures of Rs. 100 each at a discount	6

of 5% ,redeemable at a premium of 10%.

Pass Necessary journal entries for the following transactions , on the dissolution of a partnership firm of Rajan and Ravi on 31st march,2022 after the various assets(other than cash) and third party liabilities have been transferred to Realisation account.

a) Rajan took over stock amounting Rs. 50,000 at Rs. 40,000
b) Creditor of 1,00,000 took over Machinery of 2,00,000 in full settlement of the claim.
c) There was an unrecorded assets of Rs. 15,000 which was taken over by Ravi at Rs. 9,000
d) Realisation expenses Rs. 3,000 were paid by Ravi
e) Bank loan Rs. 16,000 was paid off
f) Profit on Dissolution amounted Rs. 5,000

25.

6

Ajay,Babu and Chand were partners in a firm in the ratio of 3:2:1 .On 31st march 2022, their Balance sheet was as follows:

Liabilities		Amount Rs.	Assets	Amount Rs.
Creditor		84,000	Bank	17,000
General Reserve		21,000	Debtor	23,000
Capital account:			Stock	1,10,000
Ajay	60,000		Investments	30,000
Babu	40,000		Furniture	10,000
Chand	20,000	1,20,000	Machinery	35,000
		2,25,000		2,25,000

On the above date ,Dani was admitted as a new partner and it was decided that:

i).The new profit sharing ratio between Ajay,babu ,chand and dani will be 2:2:1:1.
ii). Goodwill of the firm was valued at Rs. 90,000 and Dani brought his share of goodwill premium in cash
iii) The market value of Investment Rs. 24,000
iv) Machinery will be reduced to Rs. 29,000
v) A creditor of Rs. 3,000 was not likely claim the amount and hence to be written off.
vi) Dani will bring proportionate capital so as to give him1/6th share in the profits of the firm.

Prepare Revaluation account, and Partners capital account.

Or

Chintan, Ayush and Sudha were partners in a firm sharing profits and losses in the ratio of 5 :3 : 2. On 31st March, 2019, their Balance Sheet was as follows

Liabilities	Amount Rs.	Assets	Amount Rs.

CreditoRs.	10,000	Bank	15,000
General Reserve	20,000	DebtoRs. 60,000	
Provident Fund	30,000	Less:Prov.	
Capital account:		Bad debts 5,000	55,000
Chintan 90.000		Stock	30,000
Ayush 60,000		Furniture	60,000
Chand 40,000	1,90,000	Machinery	90,000
	2,50,000		2,50,000

Chintan retired on the above date and it was agreed that

(i) Debtors of `Rs. 5,000 were to be written-off as bad debts and a provision of 5% on debtor for bad and doubtful debts was to be created.

(ii) Goodwill of the firm on Chintan's retirement was valued at Rs.` 1,00,000 and Chintan's share of the same will be adjusted by debiting the capital accounts of Ayush and Sudha

(iii) Stock was revalued at Rs.` 36,000.

26. (iv) Furniture was undervalued by Rs.` 9,000.

(v) Liability for workmen's compensation of `Rs. 2,000 was to be created.

(vi) Chintan was to be paid Rs.` 20,000 by cheque and the balance was to be transferred to his loan account. Pass the necessary journal entries in the books of the firm on Chintan's retirement. 6

a).Rachna ltd, invited applications for issuing 2,00,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share .The amount was payable as follows:

On application : Rs. 5 per share (including premium)
27. On allotment : Rs. 3 per share
On First and final call: Balance

Applications were received for 2, 50,000 shares .Applications for 1
10,000 shares were rejected and prorate allotment was made to the
remaining applicant's .Over payments received on applications were
adjusted towards sum due on allotment.

All calls were made duly received except allotment and first and final
call from sam who applied for 7,200 shares .His shares were forfeited
28 .Half of the forfeited shares were reissued for 48,000 as fully paid up.
Pass the necessary journal entries for the above transactions in the books 1
of Rachna ltd.

OR

29. b). Pass necessary journal entries for forfeiture and reissue of shares in
the following cases. 1

i) Dell ltd forfeited 5,000 shares of kavi ,who applied for 6,000 shares
for non-payment of allotment of Rs. 5 per share and first and final
call of Rs. 2 per share .Only application money of Rs. 3 per share
was
paid by him . out of these 3,000 shares were reissued @Rs. 12 per 1
share as fully paid up.

ii) Jezzy ltd forfeited shares3,000 shares of Rs. 10 each(issued at Rs.2

premium) for non-payment of first call of Rs. per share. Final call of
30. Rs. 3 per share was not yet made.
Out of these 2,000 shares were reissued at Rs.10 per share fully paid up

3

Part-B
(Analysis of Financial Statements)

.
Which of the following is not an activity ratio?
a) Inventory turnover ratio b) Interest Coverage ratio
31 c) Working capital turnover ratio d) Trade Receivable turnover ratio
or
Which of the following is not the limitation of financial statements?
a) Ignore the qualitative aspects b) Personal bias
32. c) Ignore price level changes d) provide information about the profitability of business 3

If current ratio of a firm is 2.5:1 and current liabilities are Rs. 4,00,000.Its working capital will be 4
a) Rs. 6,00,000 b) Rs. 7,50,000 c) Rs. 8,00,000 d) Rs. 14,00,000

Which of the following is not a cash flow from operating Activities?
a) Cash proceeds from sale of goods and services
b) Cash payments to supplier of goods
33. c) Cash proceeds from sale of Investments
d) Cash payments to employees.
Or
Statement-I : Increase in bank overdraft is a finance activity
Statement-II : Proceeds from sale of building is an investing activity.
a).Both statements are correct b) Both statements are incorrect
c) Statement I is correct and statement II is incorrect
d)Statement I is incorrect and statement II is correct

Match the transactions given in column II with their correct category given in column I for the purpose of preparation of cash flow statement.

Column I	Column II
A. Investing activity	i) Interest paid
B. Financing activity	ii) Purchase of goodwill
C. Operating activity	iii) Cash receipts from sale of goods

a) A-iii ,B-i, C-ii b) A-ii ,B-i, C-iii c) A-i ,B-iii, C-ii d) A-ii ,B-iii, C-i

Classify the following the items under major heads and sub heads (if any) in the balance sheet of the company as per schedule III. Part I of the companies Act,2013:
34. a) Provision for warranties b) Licenses and franchise c) Goods in transit

a) From the following information, calculate the Inventory turnover ratio. Average Inventory Rs. 60,000 ,Revenue from operations 6.00.000,the rate of gross loss on sales is 10%

b).From the following information, calculate Debt to equity ratio.
Long term borrowings Rs. 2,00,000 , Long term provisions Rs. 1,00,000, Current Liabilities Rs. 50,000 , Non-Current assets 3,60,000 , Current assets Rs. 90,000. 6

From the following particulars of Zee ltd for the year ended 31st march 2022 and 2023 ,Prepare comparative statement of profit and loss.

ParticulaRs.	2021-22	2022-23
Revenue from operations	5,00,000	8,00,000
Cost of revenue from operations	70% of Revenue from operations	
Other expenses	5% of Revenue from operations	
Rate of Income tax	50%	

OR

From the following particulars of Star ltd for the year ended 31st march 2022 and 2023, Prepare Common size statement of profit and loss.

Particulars	2022-23	2021-22
Revenue from operations	15,770	11,800
Cost of revenue from operations	3,400	3,000
Employee benefit expenses	6,600	6,000
Rate of Income tax	50%	50%

The balance sheet along with notes accounts of Crack ltd as at 31st march 2022 is given below.

Particulars	Note No	31st March 2022	31st March 2021
I.EQUITY AND LIABILITIES			
1.ShareholdeRs. Fund			
a) Share Capital		9,00,000	5,00,000
b) Reserve and surplus	1	90,000	1,10,000
2.Non-current Liabilities			
Long-term borrowings	2	3,00,000	2,00,000
3.Current Liabilities			
Trade Payables		60,000	80,000
Total		13,50,000	8,90,000
II.ASSETS			
1.Non-Current Assets			
Property, plant and equipment and Intangible assets:			
i)Property ,Plant and Equipment	3	7,46,000	5,24,000
ii)Intangible assets	4	36,000	76,000
2.Current assets			
a) Current Investments		1,30,000	20,000
b) Inventories		2,00,000	1,30,000
c) Cash and cash Equivalents		2,38,000	1,40,000
Total		13,50,000	8,90,000

Notes to accounts

Particulars	31st March 2022	31st March 2021

1.**Reserve and surplus** Surplus i.e Balance statement of profit and loss	90,000	1,10,000
2.**Long-term borrowings** 9% Debentures	3,00,000	2,00,000
3.**Property ,Plant and Equipment**		
Plant and machinery	8,86,000	6,04,000
Accumulated Depreciation	(1,40,000)	(80,000)
	7,46,000	5,24,000
4.Intangible assets Goodwill	36,000	76,000

Additional information:

1.A machinery of the book value of Rs. 90,000(Depreciation provided thereon Rs. 23,000) ,was sold at a profit of Rs. 12,000.

2. 9% Debentures were issued on 1st April 2021.

Prepare cash Flow Statement.

MARKING SCHEME FOR SAMPLE PAPER 3

PART-A

(ACCOUNTING FOR PARTNERs.HIP AND COMPANIES

Q.No

1. C or A
2. C or B
3.D
4.C
5. B or B
6.A
7.B or D
8.B
9.B or C
10.D
11.C
12.A
13.A
14.A
15.B
16.C
17.75,000 Debentures (or)

Sec.Premiuma/c Rs. 1,00,000, Statement of profit &loss a\c Dr Rs. 2,00,000 ,To Loss on issue of debentures a\c Rs. 3,00,000.

18. C capital a\c Dr ,To A capital a/c Rs. 45,000

19. Aman capital a/c Dr 6,000, Vinay capital a/c Dr 16,500 ,To Prabu capital a/c 22,50 (Or)

Y current a/c Dr ,To Z current a/cRs. 400

20. Goodwill 5,00,000

21. Y capital a/c Dr , To Y executor a/cRs. 30,000

22. Shareholder's Fund : Share capital Rs. 40,68,000.

23. i)Vendor a/c DrRs. 4,80,000, To 9%Debenture a/c , Rs.4,00,000 and Sec.premium a/c Rs.80,000

ii) Bank a/c Dr , To Debenture application and allotment Rs.10,50,000

iii) Bank a/c Dr , To Debenture application and allotment Rs. 95,000

24. i) Rajan capital a/c Dr ,To Realisation a/c Rs. 40,000

ii) No entry

iii) Ravi capital a/c Dr , To Realisation a/c Rs. 9,000

iv) Realisation a/c Dr To Ravi capital a/c Rs. 3,000

v) Realisation a/c Dr To Bank a/c Rs. 16,000

vi)) Realisation a/c Dr Rs. 5,000 To Rajan capital a/c Rs.2,500 , To Ravi capital a/c Rs. 2,500

25. Revaluation Loss Rs. 9,000

Capital a/c ; Ajay- Rs.85,500 Babu-Rs. 47,000 Chand - Rs. 23,500 Dani - Rs. 29,400

26. a.Share Forfeiture a/c Dr, To Capital Reserve Rs. 12,000 (or)

b. i) Capital reserve Rs. 10,800

ii) Capital reserve Rs. 10,000

Part-B

(Analysis of Financial Statements

27. B or D

28. B

29. C or A

30.B

31. a) Provision for warranties	Non-current liabilities	- long term provision
b) Licenses and franchise	Non-current Assets -	Property and Intangible assets
c) Goods in transit	Current assets	Inventories

32. a. Inventory turnover ratio = 11 times

b. Debt equity ratio = 3:1

33. Including choice question:
First one Comparative and Choice is Common-size:

Particulars	Comparative statement	Common size statement	
Revenue from operations	60	100 (2022-23)	100 (2022-21)
Cost of revenue from operations	60	21.56	25.42
Other expenses/Employee benefit expenses	60	41.85	50.85
Rate of Income tax	60	11.86	18.29

34. Cash flow from Operating Activities	28,000
Cash flow from Investing Activities	(2,93,000)
Cash flow from Financing operating Activities	4,73,000
Net increase in cash equivalent	2,08,000
Add: 20,000 + 1,40,000	1,60,000
Cash and Cash Equivalent.	3,68,000

THE END