केन्द्रीय विद्यालय संगठन

KENDRIYA VIDYALAYA SANGATHAN

ACCOUNTANCY

BENGALURU REGION

SUPPORT MATERIAL

CLASS- XII

2024
2025

OUR INSPIRATION

SHRI DHARMENDRA PATLE

Deputy Commissioner

KVS RO BENGALURU

SHRI P C RAJU

Assistant Commissioner

KVS RO BENGALURU

SHRI R PRAMOD

ASSISTANT COMMISSIONER

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ASSISTANT COMMISSIONER

KVS RO BENGALURU

KENDRIYA VIDYALAYA SANGATHAN

BENGALURU REGION

CONTENT AND REVIEW TEAM

COORDINATOR : SHRI KAMLESH RAUTELA ,Principal KV AFS BIDAR

Name Of The Teacher	Name Of KV
Mr. T V Loganathan	KV ASC AND CENTRE
MR. JAGADEESH	KV MYSORE
MRS. GLORY	KV NO. 02 JALAHALI
MR. MUTHU I M	KV MEG & CENTRE
Mrs. Rachana Baberwal	KV HEBBAL
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Mrs. Isha Mahajan	KV No. 01 Jalahali
Mr. Narendra Verma	KV Donomalai
Mrs. Mamta	KV M G Railway
Mr. Vasanth Kumar	KV CRPF Yelahanka
Mr. P Shekhar Babu	KV No. 01 Hubli
MR. RAHUL	KV BELGAUM CANTT
MRS. KRISHNA	KV NAL

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Accountancy (Code No. 055)

Class-XII (2024-25)

Theory: 80 Mark **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 Appropriationaccount- 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 acharge 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 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,**	**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, 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**

adjustment of capital accounts and preparation of capital, current account andbalance 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 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.	treatment of goodwill as per AS-26, treatmentof revaluation of assets and re-assessment ofliabilities, 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. • 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-3 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

• **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 collateral security-concept, interest on debentures (concept of TDS is excluded). Writing off discount / loss on issueof 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)**	**and differentiate between equity shares andpreference shares and different types of share capital.** • **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.** • **state the meaning of redemption of debentures.**

Part B: Financial Statement Analysis

Unit 4: 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 andprofit (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 Quickratio. • **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 asper 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 5: 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)	**After going through this Unit, the students will be able to:** • state the meaning and objectives of cash flow statement.

Note: ***(i) Adjustments relating to depreciation and amortization, profit or loss on sale of assets includinginvestments, dividend (both final and interim) and tax.*** ***(ii) Bank overdraft and cash credit to be treated asshort term borrowings.*** ***(iii) Current Investments to be taken as Marketablesecurities unless otherwise specified.***	• **develop the understanding of preparation of Cash Flow Statement using indirect methodas 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.

CHAPTER - 1
ACCOUNTING FOR PARTNERSHIP FIRM- FUNDAMENTALS

Meaning of Partnership

Partnership is an agreement between two or more persons to carry on legal business with profit motive carried on by all or any one of them acting for all.
Registration of partnership is not compulsory. Unregistered firms have to suffer much, so registration is very much beneficial**.**

What is a Partnership Deed? The document that consists of terms of agreement for a partnership is called a partnership deed. It does not necessarily have to be written, but a written one is preferred. A partnership can come into existence only after all the partners have signed the deed.

Accounting Rules in the Absence of Partnership Deed

(a) Profit and loss must be shared equally.
(b) Interest on capital will not be allowed.
(c) Interest on drawings will not be charged.
(d) Remuneration to partners will not be paid.
(e) Interest @ 6% per annum will be allowed on loan advanced by the partners to the firm.

Fixed Capital Account

The capital account, whose balance remains unchanged is called fixed capital account. In this case partners current accounts are prepared separate from Capital Accounts.

Fluctuating Capital Account

The capital account, wherein the balance of partners capital account is allowed to change is known as fluctuating capital account.

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.

Calculation of Interest on Capital.

Interest on capital is allowed to partners, if it is provided the partnership agreement. In these cases, it should be that interest on capital will be allowed out of profit only. It means that Interest capital cannot exceed the amount of profit. If the profit is lesser than the interest itself, partners will be allowed interest only up to the amount of profit in the ratio of their interest on capital or capital (both being the same)

Calculation of Capital in the Beginning

Capital at the end of the year : xxxx

Add: Drawings etc. debited to capital during the year : xxxx

Less: Profit etc. credited to capital Accounts : xxxx

Less: Additional Capital introduced during the year : xxxx

Illustration 11

(Interest on capital). Ravi and Kishore are partners and they had 40,000 and 60,000 in their respective capital accounts as on 1st Jan. 2013. Ravi paid in further 5,000 on 1st, August 2013 and another 5,000 on 15.11.2013. Compute the interest on capital to be allowed to Ravi assuming the rate of interest to be 6% p.a.

Solution: Interest on capital to he allowed to Ravi will be calculated as follows:

On 40,000 for full year- 403100 x 6/100 = 2,400

On 5,000 for 5 months –

5,000× 6/100×5/12 = 125

On 5.000 for 1% mouths- 5,000×6/100×1.2/12 = 37.50

Total Interest allowed to =2,562.50

Illustration 1

(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.

Sl no	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.

<u>METHODS OF CALCULATING INTEREST ON DRAWINGS</u>

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 = Amount of drawings × 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

Monthly Drawings

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

What is 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 19 (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 30.000. Prepare Profit and Loss Appropriation Account. 10.000. The net profits

Solution

Dr. P/L Appropriation A/c Cr

Date	Particulars	Amount	Date	Particulars	Ampont
	To Profit transferred to: A's Capital A/c 12,000 B's Capital A/c 8,000 C's Capital A/c 10,000	30,000		Particulars By P/L A/c (Net Profit)	30,000
		30,000			30,000

(b) Guarantee by One Partner to Another Partner

Illustration 23 (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 6.000 irrespective of the profit of the firm. Any excess payable to C on account of such guarantee shall be born by A. Profit earned during the year 2015 were 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		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		1,000	
	To C's Capital A/C			1,000

Illustration 24 (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 10,000 as share of profit every year any deficiency arising on that account shall be met by A. The profit for the two years ending 31st December 2013 and 2014 were 30,000 and 90,000 respectively. Prepare Profit and Loss Appropriation Account for the two years.

Solution

Profit and loss appropriation a/c

Particulars	RS	Particulars	RS
To NP transfer to partner	30,000	By Net profit	30,000
A capital 10000			
B " 10000			
C ,, 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 30 (Past Adjustments), Wahid and Shahid are equal partners. Their capitals are 40,000 and 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

Wahid's Capital A/c	2,000	
To Shahid's Capital A/c		2,000

(Being adjustment of interest on capital, which was not credited)

Working Note:

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

Interest on Shahid'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 12,000, the total interest would have been divided equally between Wahid and Shahid as 6,000 each. Now, the adjustment will be made as under:

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

Illustration 31 (Adjustment of omission of interest on capital), A, B, C and D are partners sharing profits equally. Their capital accounts stand as: A 3,000, B₹5,000, C₹8.000 and D 10,000. After the accounts for the year have been prepared, it is discovered that interest at 10% p.a. as provided for in the partnership agreement has not credited to the Partner's Capital Account before distributing profits. Instead of ultering the signed Balance Sheet, decided to make an adjusting entry at the beginning of the new year crediting or debiting the partners' accounts. the necessary Journal entries.

Solutions Journal Entry.

Jan. 1	A's Capital A/c	Dr.	350

B's Capital A/c	Dr.	350	
To C's Capital A/c			150
To D's Capital A/c			150

Distribution of Profit among Partner

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.

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

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

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

To Salary to Partner's A/C

5. Partner's Commission:

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

Commission to Partner A/C Dr.

To Partner's Capital/Current A/C

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

Profit and Loss Appropriation A/C Dr.

T o Commission to Partner's capital/current A/C

6. Share of Profit or Loss after appropriations:

(a) If Profit:

Profit and Loss Appropriation A/C Dr.

To Partner's capital/current A/C

(b) If 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.

The Proforma of Profit and Loss Appropriation Account is given as follows :

Profit and Loss Appropriation Account

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	Capital/Current A/c	xxxx
	xxxx		xxxx

MULTIPLE CHOICE QUESTIONS

Sr.No	Question:
1	For which one of the following, the balance in the Securities premium Reserve Account cannot be used? (A) To write off the preliminary expenses of the company (B) To pay a premium on the redemption of preference shares of the company. (C) To pay interest on the debentures of the company D) To pay for buyback of its own shares
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 Supper 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 profitafter charging all commissions. Net Profit for the year ended 31st March, 2021 wasRs 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% P.a (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 Shaluand 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. 6,00,000 b. Rs. 5,00,000 c Rs. 4,00,000 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. 20,000 d. 36,000
18	Rani and Shyam is partner 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
21	In the absence of partnership deed partner share profit and loss in a. Ratio of Capital Employed b. ratio c. 2:1 d. 1:2
22	(A&E) A, B, and C are partner's sharing profits in the ratio of 5:3:2According to the partnership agreement C is to get a minimum amount of Rs. 10,000 as his share of profits every year. The net profit for the year ended 31st March, 2019 amounted to Rs. 40,000. How much amount contributed by A? a. Rs. 1.350 b. Rs . 1,250 c. Rs. 750 d. Rs. 1,225
23	The relation of the partner with the firm is that of a. An owner b. An agent and A Principal c. An agent d. Manager
24	If the partner carries on the business that is similar to firm competition with the firm and profit earned from it, the profit a. Shall be retained by the partner b. Shall be paid to firm c. Can be retained or gained to the firm d. Both (A) and (B).
25	Closing entry for interest on loan allowed to partners a. Interest on partner's loan …Dr. To Profit and Loss A/c b. Interest on loan …Dr. To Profit and Loss Appropriation A/c c. Profit and Loss Appropriation A/c …Dr. To interest on partner's loan A/c d. Profit and Loss Appropriation A/c …Dr.

	To interest on loan A/c
26	Features of a partnership firm are : (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 tor all as an agent. (D) All of the above
27	Which of the following statement is true? (A) a minor cannot be admitted as a partner (B) a minor can be admitted as a partner, only into the benefits of the partnership (C) a minor can be admitted as a partner but his rights and liabilities are same of adult partner (D) none of the above
28	The relation of partner with the firm is that of: (A) An Owner (B) An Agent (C) An Owner and an Agent (D) Manager
29	What should be the minimum number of persons to form a Partnership : (A) 2 (B) 7 (C) 10 (D) 20
30	Number of partners in a partnership firm may be : (A) Maximum Two (B) Maximum Ten (C) Maximum One Hundred (D) Maximum Fifty
	Q.NO ANSWER 1. C 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 A 18 C 19 A 20 B 21 B 22 A 23 B 24 B 25 C 26 D 27 B 28 C 29 A 30 D

ASSERTION REASONING QUESTIONS

Q. NO	QUESTION
1	Assertion: Ram spends thrice the time that Yami 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' purchaseto 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 inspite ofregular and consistent losses year after year. Reason (R) : When Capital Accounts are fixed , losses are recorded in Partners' CurrentAccount. (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 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 an 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 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) 14,400 (b) 7,200 (c) 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 8,000. Profits for the year ended March 31, 2020 was 36,000. The share of profits of the partners will be:	1

	(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	
5	Karam Singh and Suleman decided to start a partnership firm. They contributed capitals of "2,00,000 and 1,00,000 respectively. On 1st April, 2019. Suleman expressed his willingness to admit Inderjeet, a very creative and intelligent person, as a partner without 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	3
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	4

	of profit. 35.660	
	ANSWERS	
1	B	1
2	B	1
3	1 PARTNERS 2 FIRM	1
4	B	1
5	I. Part: Share of divisible profit: Karam Singh 72,200; Suleman 72,200 and Inderjeet 36,100	3
6	Part: Raj will withdraw 50,000 from his capital and Suri will bring additional capital of 50,000. Interest on Capitals: Raj 17,000 and Suri 15,000.	3
7	Deficiency borne by Pinki and Deepti 500 each	3
	Devisable profit of Ajit, Choudhary and Vishal are Rs. 6000 Rs. 4000 Rs2000 respectively	3

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CHAPTER- 2

Goodwill

Meaning of Goodwill

Over a period of time, a well - established business develops an advantage of good name, reputation and wide business connections. This helps the business to earn more profits as compared to a newly setup business. In accounting, the monetary value of such advantage is known as –goodwill‖.

Factors Affecting the Value of Goodwill

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

(i) Nature of business: A firm that produces high value added products or having as table demand disable to earn more profits and therefore has more goodwill.

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

(iii) Efficiency of management: A well-managed concern usually enjoys the advantage of highproductivity and cost efficiency. This leads to higher profits and so the value of good willalso be high.

(iv) Market situation: The monopoly condition or limited competition enables the concerned to earn high profits which leads to higher value of goodwill.

(v) Special advantages: The firm that enjoys special advantages like import licenses, low rate and assured supply of electricity, long-term contracts for supply of materials, well-known collaborators, patents, trademarks etc. enjoy higher value of goodwill.

There are 2 types of good will Purchased good will and self generated goodwill.

As per AS – 26,purchased goodwill is recorded in the books of accounts.

Need for Valuation of Goodwill

In a partnership firm, goodwill needs to be valued in the following circumstances:

(i) Change in the profit-sharing ratio amongst the existing partners;

(ii) Admission of new partner;

(iii) Retirement of a partner;

(iv) Death of a partner; and

(v) issolution of a firm involving sale of business as a going concern.

(vi) Amalgamation of partnership firm

Methods of Valuation of Goodwill

1. Average Profits Method

(a) Simple Average

Stepwise procedure to calculate Goodwill under this method:

Step1: Work out profits or losses given for each of the past year after taking intoaccount abnormalities, if any.

Step2: Calculate average by dividing the total profit of all the years by the number ofyears.

Step3: Goodwill= Average Profit x Number of year's purchase.

(b) Weighted Average

This is a better method than the simple average method. It takes into account the importance of each year. Under this method, earlier years are less important than the recent years. Thus, each year's profit is multiplied by its respective number (weight) in chronological order.

The latest year will be given the highest weight and the earliest year will be given lowest weight. Each profit figure will be multiplied by its weight and then the total of these products will be calculated. This total will be divided by the total of weights.

Then Goodwill = Weighted average x number of years' purchase

2. Super Profit Method

Stepwise procedure to calculate Goodwill under this method:

Calculate the average profit,

(i) Calculate the normal profit on the capital employed on the basis of the normal rate of return, Formula = **Normal Profit = Capital Employed x NRR /100**

(ii) Calculate the super profits by deducting normal profit from the average profits,

Formula: **Super Profit = Average Profit - Normal Profit**

(iii) **Goodwill = Super profits x number of years 'purchase.**

Capitalisation Method

Under this method the goodwill can be calculated in two ways: (a) by capitalizing the average profits, or (b) by capitalizing the super profits.

(a) Capitalisation of Average Profits: This involves the following steps:

(i) As certain the average profits based on the past few years' performance.

(ii) Capitalize the average profits on the basis of the normal rate of return to ascertain the capitalised value of average profits as follows**:**

Average Profits x 100/Normal rate of Return

(iii) certain the actual capital employed (net assets) by deducting outside liabilities from the total assets (excluding goodwill).

(iv) Capital Employed/Net Assets = Total Assets (excluding goodwill) – Outside Liabilities

(v) Compute the value of goodwill by deducting net assets from the capitalised value of average profits, i.e.(ii)–(iii).

(b) Capitalisation of Super Profits: It involves the following steps.

(i) Calculate capital employed of the firm, which is equal to total assets minus outside liabilities.

(ii) Calculate **Normal profit = Capital Employed X Normal Rate of Return/100**

(iii) Calculate average profit for past years, as specified.

(iii) **Super profits = average profits/Actual profit - normal profits**

(iv) Goodwill = Super Profits × 100/ Normal Rate of Return

Note: In other words, goodwill is the capitalised value of super profits. The amount of goodwill worked out by this method will be exactly the same as calculated by capitalising the average profits.

ACCOUNTING TREATMENT OF GOODWILL

GOODWIL TO BE ADJUSTED THROUGH PARTNERS' CAPITAL/CURRENT ACCOUNTS ORBY RAISING AND WRITING OFF GOODWILL

Treatment of existing Goodwill appearing in the Balance Sheet:

Journal entry:

Old Partners' Capital/Current a/c………………Dr. (In Old profit sharing ratio)

To Goodwill a/c

(Being the existing goodwill is written off)

Method 1: When goodwill is adjusted through partners' capital /current accounts Journal Entry:

Gaining Partners' Capital/ Current a/c………Dr. (in Gaining ratio)

To Sacrificing Partners 'Capital /Current a/c (in sacrificing ratio)(Being the compensation of gaining partners to Sacrificing partners)

Method 2: When Goodwill is raised and Written off

Goodwill a/c…………………………….Dr. (Full revised value of Goodwill)

To Old Partners' Capital/ Current a/c (In old Profit sharing ratio)

(Being the goodwill raised and credited to Partners Capital accounts in old profit sharing ratio)

All Partners Capital/ Current a/c .... Dr. (In new profit sharing ratio)

(Including Incoming or new partner)

To Goodwill a/c (With value of Goodwill)

(Being the goodwill debited to Partners Capital accounts in New profit sharing ratio)

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CHAPTER: 3

Reconstitution: Change in Existing Profit Sharing Ratio

Meaning of Partnership and Reconstitution of Firm:

Partnership:

As per Section 4 of the Indian Partnership Act, 1932, "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."

Reconstitution of firm:

Partnership agreement defines the relationship among the partners and whenever there is change in relationship, it results in reconstitution of the firm. Such reconstitution of the firm always leads to change in profit-sharing ratio among the partners. A firm is reconstituted, whenever there is a:

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 or more partnership firms.

Concept of Change in the Profit Sharing Ratio among existing partners:

Meaning:

i. It means reconstitution of the firm whereby the profit-sharing ratio among all the partners changes.
ii. It can be due to change in capital contribution or increased participation in management by one or more partners.
iii. It can also be on account of one or more partner(s) acquiring share of profit in the business from another partner(s). Therefore, the aggregate amount of gain of one (or more) partner(s) is equal to the aggregate amount loss/sacrifice borne by other partner(s).
iv. Therefore, if the share of one (or more) partner(s) increases then share of profit of one (or more) partner(s) decreases.
v. It leads to dissolution of partnership but not the dissolution of the firm. This is because the existing partnership agreement ends and the new agreement comes into effect.

Adjustment for Change in Profit Sharing Ratio:

Issues that need to be considered at the time of change in Profit Sharing Ratio:

i. Determining Sacrificing and Gaining ratio,
ii. Treatment for Goodwill,
iii. Accounting treatment for Reserves and Accumulated Profit or losses,

iv. Revaluation of Assets and Reassessment of Liabilities, and
v. Adjusting the capital accounts of the partners for the same.

Meaning and the Computation of Sacrificing and Gaining Ratio:

The prime purpose of computing the sacrificing and gaining ratio is to determine the amount of compensation (goodwill) that the gaining partner shall pay to the sacrificing partner. Following points help us in understanding their meaning:

i. **Sacrificing Ratio:** It is that ratio in which one or more partners forego their share of profits in favour of one or more partners of the firm. In simple terms, it the ratio of sacrifice made by one or more partners.
   Sacrificed Share = Old Share – New Share
ii. **Gaining Ratio:** It is that ratio in which one or more partners gain share of profit as a result of sacrifice made by other partners of the firm. In simple terms, it the ratio of gained share in profits of two or more partners in terms of the ratio.

   Gaining Share = New Share – Old Share

Accounting Treatment of Goodwill:

AS-26 on Intangible Assets: Following are the points specified for Goodwill by AS-26 on Intangible Assets:

i. It should be recorded in the books only when consideration in money or money's worth has been paid.
ii. It should not be recorded in the books in the event of admission, retirement, death or change in the profit sharing ratio among the partners as no consideration is paid for such goodwill.
iii. In case, where no consideration is paid for goodwill, it has to be adjusted through the Partners' Capital Account.
iv. In case the goodwill is raised in the books, it should be written off immediately.
v. In case of change in profit sharing ratios, compensation payable by the gaining partner for his gain to the sacrificing partner or partners is known as Goodwill or Premium for Goodwill.

Premium on Goodwill:

i. Whenever there is increase in the profit share of a partner, it means that such partner purchases share of profit from other partner or partners by acquiring his or their share.
ii. The partner whose share of profit increases should compensate the partner or partners whose share(s) is decreased i.e. gaining partners should compensate sacrificing partner(s).
iii. This compensation payable by the gaining partner for his gain to the sacrificing partner or partners is known as Goodwill or Premium for Goodwill.
iv. Amount of Compensation Payable is calculated as follows: o 4
   Compensation Payable= Value of Firm's Goodwill x Share of Profit Gained

Entry to be passed to adjust Goodwill, when there is a change in the profit sharing ratio and no Goodwill Account is Opened:

i. In case of Fluctuating Capitals:

Gaining Partners' Capital A/cs …Dr. [In gaining ratio]

To Sacrificing Partners' Capital A/cs [In sacrificing ratio]

(Being the adjustment made for goodwill on change in profit-sharing ratio)

ii. In case of Fixed Capitals:

Gaining Partners' Current A/cs …Dr. [In gaining ratio]

To Sacrificing Partners' Current A/cs [In sacrificing ratio]

(Being the adjustment made for goodwill on change in profit sharing ratio)

Entry to be passed to adjust Goodwill, when there is a change in the profit sharing ratio and when Goodwill Account is Opened:

i. In case of Fluctuating Capitals:

Goodwill A/c …Dr. [In Old Profit Sharing Ratio]

To Partners' Capital A/cs

(Being the goodwill raised and credited to Partners' Capital Accounts in Old Profit Sharing
Ratio)

Partners' Capital A/cs …Dr. [In New Profit Sharing Ratio]

To Goodwill A/c

(Being the goodwill debited Partners' Capital Accounts in New Profit Sharing Ratio)

iii. In case of Fixed Capitals:

Goodwill A/c …Dr. [In Old Profit Sharing Ratio]

To Partners' Current A/cs

(Being the goodwill raised and credited to Partners' Current Accounts in Old Profit

Sharing Ratio) Partners' Current A/cs …Dr. [In New Profit Sharing Ratio]

To Goodwill A/c

(Being the goodwill debited to Partners' Current Accounts in New Profit Sharing Ratio)

Accounting treatment for goodwill that is existing in the books of the firm:

Writing off the amount of goodwill by debiting it to the Partners' Capital Accounts or the Current Accounts in their old profit sharing ratio and by crediting Goodwill Account.

All Partners' Capital/Current A/c's …Dr. [in old ratio]

To Goodwill A/c [with exiting book value of goodwill]

Such goodwill appearing in the books of account is written off because fresh valuation of goodwill is made which includes the value of already existing goodwill.

In order to avoid the double recording of goodwill, already existing goodwill is to be written off and only the fresh goodwill is to be recorded.

Where the partners decide to carry forward the value of goodwill in the books of account, net effect of increase or decrease is to be given to the goodwill value.

Treatment of Reserves, Accumulated Profits or Losses that exist in the books of account at the time of change in profit sharing ratio:

If any reserves and accumulated profits or losses exist in the books of firm at the time of change in profit sharing ratio, they are to be transferred to the Partners' Capital Accounts or their Current Accounts in their old profit sharing ratio as such existing reserves and profits are earned before the reconstitution of the firm

Workmen Compensation Reserve:

i. It is a reserve that is set aside or appropriated out of firm's profits to meet any of the possible liabilities with respect to employees' compensation, if it arises.
ii. ii. Claim with respect to such liabilities may or may not arise.
iii. iii. The amount of claim may or may not be equal to the amount of reserves.

Accounting Treatment of Workmen Compensation Reserve under different situations:

Following are the journal entries for explaining accounting treatment of Workmen Compensation Reserve under different situation:

a. When claim against workmen compensation reserve does not exist: In this situation, amount of this reserve is transferred to Partners' Capital Accounts in their old profit sharing ratio. Entry to be passed is:
 Workmen Compensation Reserves A/c …Dr.
 To Partners' Capital (or Current) A/c
 (Being workmen compensation reserves credited to partners' capital or current accounts in their old profit sharing ratio)

b. When claim for workmen compensation reserve exists: In such situation, treatment shall depend on the amount of liabilities:
   i. **Claim is equal to reserves:** Amount of reserves is transferred to Provision for Workmen Compensation Claim Account. Entry to be passed:

Workmen Compensation Reserves A/c …Dr.

To Provision for Workmen Compensation Claim

A/c (Being the provision made for estimated compensation claim)

ii. **Claim amount is lower than the reserve:** Excess of Workmen Compensation Reserve over the Workmen Compensation Claim is credited to all partners in their old profit sharing ratio. Entry is:

Workmen Compensation Reserve A/c …Dr.

To Provision for Workmen Compensation Claim A/c To Partners' Capital or Current A/c

(Being the surplus of Workmen Compensation Reserve transferred to Partners' Capital or Current Account in their old profit sharing ratio)

iii. **Claim amount is higher than the reserve:** Amount in excess of reserve is debited to Revaluation Account as the loss is to be borne by the partners in old profit sharing ratio. Entry is:

- Workmen Compensation Reserve A/c …Dr.

  Revaluation A/c …Dr.

  To Provision for Workmen Compensation Claim A/c

  (Being amount of estimated claim debited to Workmen Compensation Reserve and Revaluation Account)
- Partners' Capital or Current A/cs …Dr. (In Old Ratio)

  To Revaluation A/c

  (Being the loss on revaluation transferred to Capital or Current Account of partners in their old profit sharing ratio)

Investments Fluctuation Reserve:

It is a reserve which is set aside out of the profits to meet fall in the market value of investments.

In order to decide the treatment of this reserve, it is necessary to first determine whether the book value and the market value are same or different and if different, which value is higher and which is lower.

Accounting Treatment of Investment Fluctuation Reserve:

i. **When Book Value and Market Value are same:** Entry has to be passed to transfer the amount of Investment Fluctuation Reserve to Partners' Capital or Current Accounts in their

old profit sharing ratio as below:

Investment Fluctuation Reserve A/c …Dr.

To Partners' Capital (or Current) A/cs [In Old Ratio]

ii. **When Market Value if less than the Book Value:** In this case, treatment of Investments Fluctuation Reserve shall depend on the quantum of decrease, which has 3 possibilities as follows:

a. **Fall in Value is Less than Investments Fluctuation Reserve:** The amount of Investment Fluctuation Reserve to the extent of fall in value, is transferred to Investment Account and balance is distributed among the partners in their old profit sharing ratio for which following entry is to be passed: Investment Fluctuation Reserve A/c …Dr. To Investment A/c [Book Value – Market Value] To Partners' Capital (or Current) A/cs [In Old Ratio]

Fall in Value is Equal to Investments Fluctuation Reserve: In this case, amount of Investment Fluctuation Reserve is transferred to Investment Account and no amount is distributed among the partners. Entry for the same is as follows: Investment Fluctuation Reserve A/c …Dr. To Investment A/c

b. **Fall in Value is More than Investments Fluctuation Reserve:** In this case, amount of Investments Fluctuation Reserve along with balance amount of fall in value is transferred to Investment Account and the amount in excess of reserve is debited to the Revaluation Account for which following entries are passed:

Investment Fluctuation Reserve A/c …Dr.
Revaluation A/c …Dr.
To Investment A/c

Partners' Capital (or Current) A/cs …Dr. [In Old Ratio]

To Revaluation A/c

iii. **When there is an Increase in Market Value of Investment:** In this case, total amount of Investment Fluctuation Reserve is distributed among partners and increase in value of investment is credited to Revaluation Account for which following entry is to be passed:

Investment Fluctuation Reserve A/c …Dr.

To Partners' Capital (or Current) A/cs [In Old Ratio]

Investment A/c …Dr.

To Revaluation A/c [Investment Brought up to Market

Value] Revaluation A/c …Dr.

To Partners' Capital (or Current) A/cs [In Old Ratio]

Adjustment of Accumulated Profits, Losses and Reserve through Partners' Capital Accounts, i.e. When Accumulated Profits, Losses and Reserves are to be retained in the Books: If the partners of the firm decide that the existing balances of Profit and Loss Account or Reserve should continue to appear at the same amount in the Balance Sheet of the reconstituted firm, then an adjustment entry for the net effect of accumulated profits, losses and reserves is passed since they were earned in past.

Such entry is passed through the Partners' Capital Accounts using the following steps:

Step 1: Net effect of Reserves, Accumulated Profits and Losses is to be

calculated. Step 2: Gain/Loss of Share is to be calculated.

Step 3: Share of Gaining and Sacrificing Partners in the Net Accumulated Profits, Losses and Reserves is to be calculated as below:

- For Gaining Partner = Net Effect Share × Gained

- For Sacrificing Partner = Net Effect Sh × are

Sacrificed Step 4: Adjustment entries are to be passed

as follows:

- In case if Positive Effect (Net Profit):

Gaining Partners' Capital/Current A/cs

To Sacrificing Partners' Capital/Current A/cs

- In case of Negative Effect (Net Loss):

Sacrificing Partners' Capital/Current A/cs …Dr.

To Gaining Partners' Capital/Current A/cs

Treatment of reserves, accumulated profits and losses when nothing is mentioned in the question:

Journal Entries to be passed for the mentioned transactions are as follows:

a. For distributing reserves and accumulated profits:

General Reserves A/c …Dr.

Profit and Loss A/c …Dr.

Workmen Compensation Reserves A/c* …Dr.

Investment Fluctuation Reserve A/c** …Dr.

To All Partners' Capital A/c (In old profit sharing ratio)

*Amount of workmen compensation reserve distributed shall be excess of reserves over liability.

**Amount of investment fluctuation reserve distributed shall be excess of reserve over difference between Book Value and Market Value.

b. For writing off accumulated losses:
All Partners' Capital A/c …Dr. (In old profit sharing
ratio) To Profit and Loss A/c

Accounting Treatment for revaluation of assets and reassessment of liabilities: In the event of change in profit sharing ratio of the partners, assets are revalued and liabilities are to be reassessed. Such revaluation will result in gain or loss which is to be distributed to the partners in their old profit sharing ratio. The partners are not necessarily required to record the revised values in the books of the firm. The partners may decide to:

I Record revised values of assets and liabilities;

or

II Not to record the revised values of assets and liabilities

Accounting treatment under each of the option is different and hence, partners need to be careful of the treatment for the option chosen.

I. **Accounting Treatment when revised values of assets and liabilities are to be recorded:** In such situation, revaluation of assets and reassessment of liabilities are to be recorded in an account known as 'Revaluation Account' or 'Profit and Loss Adjustment Account'.

• Understanding Revaluation Account:

In the event of change in profit sharing ratio of the partners, assets are revalued and liabilities are to be reassessed. Such revaluation will result in gain or loss which is to be distributed to the partners in their old profit sharing ratio. For the purpose recording such increase or decrease on revaluation, revaluation account is maintained.

• Features of Revaluation Account are as follows:

i. Increase in assets value and decrease in liabilities are to be credited to the Revaluation Account.

ii. ii. Decrease in assets and increase in liabilities are to be debited to the Revaluation Account.

iii. iii. Unrecorded assets are credited and unrecorded liabilities are to be debited to the revaluation account.

iv. iv. If the credit side is bigger than the debit side of the account, it is referred as gain or profit on revaluation.

v. v. If the debit side is bigger than the credit side of the account, it is referred as loss on revaluation.

vi. vi. Finally, such profit or loss is credited or debited to the Partners' Capital or Current Accounts in their old profit-sharing ratio.

• Accounting entries to record the Revaluation of Assets and Reassessment of Liabilities:

i. Increase in the value of an asset:

Asset A/c (Individually) …Dr.

To Revaluation A/c

ii. Decrease in the value of an asset:

Revaluation A/c …Dr.

To Asset A/c (Individually)

iii. Increase in the amount of a liability:

Revaluation A/c ...Dr.

To Liability A/c (Individually)

iv. Decrease in the amount of a liability:

Liability A/c (Individually) …Dr.

To Revaluation A/c

v. Recording an unrecorded asset:

Unrecorded Asset A/c …Dr.
To Revaluation A/c

vi. Recording an unrecorded liability:

Revaluation A/c …Dr.
To Unrecorded Liability A/c

vii. Transfer of Balance in Revaluation Account:

a. In case of gain in Revaluation Account:

Revaluation A/c …Dr. (Individually in old profit sharing ratio)
To Partners' Capital (or Current) A/cs

b. In case of loss in Revaluation Account:

Partners' Capital (or Current) A/cs …Dr.
To Revaluation A/c (Individually in old profit sharing ratio)

• Expenses on Reconstitution of the Firm:

i. Expenses that are incurred by the firm to give effect to the change in profit sharing ratio may be incurred as remuneration to a partner or as payment to an outside party for rendering of services. These expenses are debited to the Revaluation Account being an expense incurred in the event of reconstitution of the firm.

ii. Following entry is passed when remuneration is paid to a partner:

Revaluation A/c …Dr.
To Concerned Partners' Capital A/c
(Being the remuneration credited to concerned Partners' Capital Account)

Generally, remuneration paid to the partner is the consideration paid for the services rendered by him.

iii. This remuneration may sometimes include expenses that are borne by the partner. In the absence of information as to who paid the expenses, it is assumed that partner has paid the expenses. If the partner is to bear the expenses and also has been paid by him, no entry is passed.

iv. If expenses that were to be borne by the partner but are paid by the firm, entry is passed as follows:

Concerned Partners' Capital A/c …Dr.
To Cash/Bank A/c
(Being the expenses to be borne by the partner paid by the firm)

v. If expenses are incurred and paid by the firm:

Revaluation A/c …Dr.
To Cash/Bank A/c
(Being the expenses for reconstituting the firm)

It implies that the amount borne by the firm is debited to the Revaluation Account.

• Specimen of a Revaluation Account:

REVALUTION ACCOUNT

Particulars	Amount	Particulars	Amount
To Assets (individually) -Decrease in value on revaluation To Liabilities (individually) -Increase in amount on reassessment To Unrecorded Liabilities A/c To Partners' Capital A/c (Remuneration) To Cash/Bank A/c (Expenses) To Gain (Profit) on Revaluation transferred to Partners' Capital (or Current) A/cs*	… … … … … …	By Assets (individually) -Increase in value on revaluation By Liabilities (individually) -Decrease in amount on reassessment By Unrecorded Assets A/c By Loss on Revaluation transferred to Partners' Capital (or Current) A/cs*	… … … …

*Only one will appear at a time Note: If Revaluation Account is prepared by an entity, assets and liabilities will appear in the Balance Sheet of the reconstituted firm at their revised (changed) values.

• Treatment for profit or loss arising from the revaluation of assets and reassessment of liabilities:

In the event of change in the profit sharing ratio, assets are revalued and liabilities are reassessed. This is basically done to increase or decrease the value of assets and liabilities up to the date of change in profit sharing ratio.

ii. The net gain or loss arising on account of such revaluation and reassessment is for the period before the change in profit sharing ratio. Such gain or loss is therefore, credited or debited to the Partner's Capital Accounts in their old profit sharing ratio.

II. Accounting Treatment when revised values of assets and liabilities are not to be recorded: When revised values of assets and liabilities are not to be recorded in the books, gain or loss on revaluation is adjusted through Partners' Capital Accounts by passing adjustment entry to the Capital or Current Accounts. For the treatment mentioned above, following steps should be followed:

i. Calculate net effect of Revaluation (i.e. net effect of increase or decrease in assets and liabilities).

ii. Calculate the share of sacrifice or gain by the partners using formula as follows:

Sacrifice/(Gain) = Old Share – New Share

iii. Calculate proportionate amount of net effect of revaluation.

For Gaining Partner = Share Gained * Net Effect ofRevaluation

For Sacrificing Partner = Share Sacrificed * Net Effect of Revaluation

iv. Journal entry is to be passed for the amount determined in the previous step as follows:

• In case of gain or profit on revaluation:

Gaining Partners' Capital A/cs …Dr.

To Sacrificing Partners' Capital A/cs

- In case of loss on revaluation:

Sacrificing Partners' Capital A/cs …Dr.

To Gaining Partners' Capital A/cs

Adjustment of Capital:

- **Need to Adjust Capital:**

In the event of change in profit sharing ratio, adjustments are made for change in values of assets and liabilities, goodwill and distribution of reserves, accumulated profits and losses, change in partners' capitals.

ii. Also, if the partners decide total capital of the firm and also that the capital shall be in profit sharing ratio of the partners, then also capital of the partners has to be adjusted.

iii. In case the partners' capital(s) fall(s) short or has shortage of the required capital, then such partner(s) will have to bring more capital.

iv. In case the partners' capital(s) is (are) surplus (excess) of the required capital, then such partner(s) may withdraw surplus or excess capital.

v. Any shortage or surplus of Capital can be adjusted through Current Accounts.

vi. Accounting Treatment:

- **For Adjusting Shortage of Capital:**

Bank A/c or Concerned Partners' Current A/c …Dr.

To Concerned Partners' Capital A/c

- **For Adjusting Surplus of Capital:**

Concerned Partners' Capital A/c …Dr.

To Bank A/c or Concerned Partners' Current A/c

- **Adjustment of Partners' Capital, if total Capital of the new firm is already given:**

i. When total Capital of the new firm (reconstituted firm) is already given, then it is divided among the partners in their new profit-sharing ratio. This respective share of capital will be their new capital.

ii. Once this is done, the surplus (excess) or deficit (shortage) capital is calculated by comparing the new capital and present adjusted capital.

CHAPTER 3

CHANGE IN PROFIT SHARING RATIO AMONG EXISTING PARTNERS QUESTIONS AND ANSWERS

1. Amit and Sumit are partners in a firm sharing profits in the ratio of 2:1. It was decided by them to share profits equally w.e.f. 1-04-2019. Calculate the sacrificing and gaining ratio.
   Solution:
   Old Profit sharing ratio = 2: 1
   New Profit Sharing Ratio = 1:1
   Sacrifice Ratio = Old Profit Share – New Profit Share
   Amit = 2/3 – 1/2 = 4/6-3/6= 1/6 (Sacrifice)
   Sumit = 1/3- 1/2 = 2/6-3/6= -1/6 (Gain)

2. Anu and Bala Shared profits and losses in the ratio of 3:2. With effect from 1st April 2019, they decided to share profits equally. Goodwill of the firm was valued at Rs.50,000. Pass necessary journal entries for the accounting of goodwill:
   a. When goodwill is adjusted through Partner's Capital A/c
   b. When goodwill is raised and written off.

   Solution:

   a. When goodwill is adjusted through Partner's Capital A/c

Date	Particulars	LF	Dr (Rs.)	Cr.(Rs.)
2019 April 1	Bala's Capital A/c Dr. To Anu's Capital A/c (Goodwill adjusted on Change in Profit Sharing Ratio)		5,000	 5,000

Working Note: Calculation of Compensation to be paid by Gaining Partner to Sacrificing Partner

Sacrifice Ratio = Old Profit Share – New Profit Share

Partner	Old Share	New Share	Calculation	Sacrifice	Gain
Anu	3/5	½	3/5-1/2 = 6-5/10=1/10	1/10	
Bala	2/5	½	2/5- ½ = 4-5/10= -1/10		1/10

Amount of Compensation = 50,000 x 1/10 = 5,000

   b. When goodwill is raised and written off.

Date	Particulars	LF	Dr (Rs.)	Cr.(Rs.)
2019 April 1	Goodwill A/c Dr. To Bala's Capital A/c To Anu's Capital A/c (Goodwill raised and credited in Old Profit Sharing Ratio)		50,000	 30,000 20,000

	Bala's Capital A/c D r Anu's Capital A/c Dr To Goodwill a/c (Goodwill written off by debited in Partners capital account in New Profit sharing Ratio)		25,000 25,000	 50,000

3. X, Y, Z are partners sharing profits and losses in the ratio of 5:3:2. They decided to share future profits and losses in the ratio of 2:3:5 with effect from 1st April 2019. Following is the extract of their balance sheet as on 31st March 2019:

Liabilities	Rs	Assets	Rs
General Reserve Profit and Loss A/c Workmen Compensation Reserve	75,000 37,500 12,500	Advertisement Suspense A/c	50,000

Pass necessary Journal Entries

Solution:

Date	Particulars	LF	Dr (Rs.)	Cr.(Rs.)
2019 April 1	General Reserve A/c Dr . Workmen Compensation Reserve A/c Dr. Profit and Loss A/c Dr. To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Transfer of reserves and accumulated profits to old partners in their old profit sharing ratio)		75,000 12,500 37,500	 62,500 37,500 25,000
	X's Capital A/c Dr. Y's Capital A/c Dr. Z's Capital A/c Dr. To Advertisement Suspense a/c (Transfer of balance of Advertisement Suspense a/c to old partners in their old profit sharing ratio)		25,000 15,000 10,000	 50,000

4. A, B and C are partners sharing profits and losses in the ratio of 5:3:2. Their balance sheet as on 31st March,2019 stood as follows:

Liabilities	Rs	Assets	Rs

Capital A/cs X Y Z General Reserves Workmen Compensation Reserve	 3,50,000 2,50,000 3,00,000 20,000 30,000	Land and Building Machinery Stock Bills Receivable Sundry Debtors Cash in Hand	2,60,000 3,50,000 90,000 70,000 1,00,000 25,000
Sundry Creditors	50,000	Cash at Bank	1,05,000
	10,00,000		10,00,000

They decided to share profits and losses in the ratio of 2:2:1 w.e.f 1st April 2019. They agreed that :

(i) Land and 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.5,000 is not to claim the dues. Hence it is to be written back.

(vi) A claim on account of Workmen Compensation is Rs.10,000

(vii) An expense of Rs. 2,000 was paid by the firm for getting the value of Land and Building certified from a Chartered engineer.

Pass the journal entries and prepare Revaluation Account, Partners Capital Account and Balance Sheet.

Solution:

Date	Particulars	LF	Dr (Rs.)	Cr.(Rs.)
2019 April 1	General Reserve A/c Dr. To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Transfer of G.reserves to old partners in their old profit sharing ratio)		20,000	 10,000 6,000 4,000
	Workmen Compensation Reserve A/c Dr. To Workmen Compensation Claim A/c To X's Capital A/c To Y's Capital A/c To Z's Capital A/c (Workmen Compensation Reserve, after adjusting claim, credited to old partners in their old profit sharing ratio)		30,000	 10,000 10,000 6,000 4,000
	Land and Building A/c Dr. Stock A/c Dr. To Revaluation A/c (Increase in value of land and 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 the 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.		2,000	

	To Cash/ Bank (Expense for valuation of Land and Building)			2,000
	X's Capital A/c Dr. Y's Capital A/c Dr. Z's Capital A/c Dr. To Revaluation A/c (Loss on revaluation debited to Partners Capital Account in their old profit sharing ratio)		9,250 5,550 3,700	 18,5000

REVALUATION ACCOUNT

Particulars	Rs	Particulars	Rs
To Machinery To Provision for Dbtful Debts To Cash/Bank (Expenses)	52,500 5,000 2,000	By Land & Building a/c By Stock A/c By Sundry Creditors By Loss Transferred to Capital A/c X 9,250 Y 5,550 Z 3,700	26,000 10,000 5,000 18,500
	59,500		59,500

PARTNERS CAPITAL ACCOUNTS

Particulars	X	Y	Z	Particulars	X	Y	Z
Revaluation A/c	9,250	5,550	3,700	By Balance	3,50,000	2,50,000	3,00,000
				By General Reserve	10000	6,000	4,000
To Balance c/f	3,60,750	2,56,450	3,04,300	Workmen Comp. Reserve	10,000	6,000	4,000
	3,70,000	2,62,000	3,08,000		3,70,000	2,62,000	3,08,000

BALANCE SHEET (REVISED)

Liabilities	Rs	Assets	Rs
Capital A/cs X Y Z Workmen Compensation Claim Sundry Creditors	 3,60,750 2,56,450 3,04,300 10,000 45,000	Land and Building Machinery Stock Bills Receivable Sundry Debtors 1,00,000 Less Prov DD 5,000 Cash in Hand Cash at Bank	2,86,000 2,97,500 1,00,000 70,000 95,000 23,000 1,05,000
	9,76,500		9,76,500

Chapter 4 - Partnership Accounts- Admission of a partner.

General Notes.

1. **Reconstitution**- Partnership is created by an agreement. Whenever there is a change in the existing agreement, it amounts to reconstitution of the partnership firm.
2. **Situations in which a firm is considered as reconstituted**:

a) Admission of a new partner.

b) Change in profit sharing ratio among existing partners.

c) Retirement or death of a partner.

d) Amalgamation of two partnership firms.

3. **Admission of a New Partner**. It is a case of reconstitution of partnership in which old agreement comes to an end and a new agreement comes into existence with all partners including the new partner.
4. **Why a new partner need to be admitted**? A new partner is admitted to an existing firm :

a) For providing additional capital for expansion of the business.

b) For acquiring additional managerial skill which is required for the efficient running of the business.

c) To encourage a capable employee by taking him/her into partnership. (**Concept of employee participation**).

d) To increase the goodwill of the business by taking reputed and renowned person into partnership.

5. <u>**Mode of admission**.</u>

a) A new partner is admitted only with the consent of all the existing partners, unless otherwise agreed upon.

b) A new partner acquires **two** rights on his admission.

   i. A share in the future profits of the firm (Remember that the new partner has no rights to get a share in the accumulated profits and past losses of the firm)

   ii. A share in the assets of the firm (Here assets means net assets)

c) At the time of admission of a partner, partnership is dissolved because the firm continues its business. Only the old partnership comes to an end and new partnership agreement comes into existence.

d) The following persons (other than a minor) are not entitled for admission to a partnership firm:

   i. Person disqualified by any law.

   ii. Person of unsound mind.

e) The new partner is entitled to get a specific share in the future profits of the firm, which is decided by the existing partners

f) As the new partner gets a share in future profits of the firm, it will be the share sacrificed by old partner(s). The ratio (if any) in which old partners sacrifice their share to new partner is called **Sacrificing Ratio**. (Sacrificing share = Old share - New share).

g) A sacrificing ratio is calculated to determine the amount of compensation that a new partner should pay to the old partners for the share of profit sacrificed by them.

h) This compensation is called, "**Premium for Goodwill**". (Remember, **premium for goodwill is equal to new partner's share in the total goodwill of the firm**. For this purpose the goodwill of the firm is valued).

i) To record the Premium for goodwill in the books of the firm, **two** journal entries are passed:

i. Cash/ Bank A/c Dr ii. Premium for Goodwill A/c Dr

To Premium for Goodwill A/c. To Sacrificing Partners' Capital A/c.

j) A new partner can be exempted from sharing the losses of the firm (partner in profits only) with the consent of all other partners.

6. **Accounting Treatment for Admission of a new Partner**. At the time of admission of a new partner, the following adjustments are required:

(a) Adjustment of profit sharing ratio - calculation of **New Ratio** and **Sacrifice Ratio**.

(b) Adjustment of accumulated profits and losses - such profits and losses are shared among old partners.

(c) Adjustment of profit or loss on revaluation of assets and reassessment of liabilities.

(d) Adjustment of goodwill. Valuation and treatment of goodwill.

(e) Adjustment of capital balance of the partners - adjustment of old partners' capital in proportion to their new profit sharing ratio and calculation of new partner's capital in proportion to his share in the firm.

7. **Multiple Choice Questions**.

A. Calculation of New Ratio and Sacrifice Ratio (students need to solve these questions)

1. L and M are partners in a firm sharing profits and losses in the ratio 7:3. N is admitted as a new partner for $3/13^{th}$ 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

2. P and Q are partners in a firm sharing profits in the ratio 7:3. R is admitted into the firm for $2/5^{th}$ share of profits which he takes from P and Q in the ratio 2:1. The new ratio will be:

(a) 7:3:4 (b) 13: 5:12 (c) 11:8:5 (d) 14:5:13

3. A and B are partners in a firm sharing profits in the ratio 3:2. C is admitted as a partner. The new profit sharing ratio of A, B and C is 7:3:2. The sacrificing ratio of A and B is:

(a) 3:2 (b) 1:9 (c) 2:5 (d) 8:7

4. A and B are partners sharing profits in the ratio 5:3. They admitted C into the firm as a new partner for $3/8^{th}$ share which he acquired $2/8^{th}$ from A and $1/8^{th}$ from B. The new profit sharing ratio of A, B and C will be:

(a) 3:2:3 (b) 2:3:3 (c) 5:5:6 (d) 9:1:6

5. A, B, C and D are partners. A and B share 2/3rd of profits equally and C and D share remaining profits in the ratio of 3:2. Find the profit sharing ratio of A, B, C and D.

(a) 5:5:3:2 (b) 7:7:6:4 (c) 25:25:8: 6 (d) 3:9:8:3

6. X and Y are partners sharing profits and losses in the ratio 5:3. On admission Z brings ₹ **70,000** in cash for his capital and ₹ **40,000** against premium for goodwill. New profit sharing ratio between X, Y and Z is 7:5:4. The sacrificing ratio of X and Y is:

(a) 3:1 (b) 1:3 (c) 4:5 (d) 5:9

B. **Treatment of Goodwill.** (students need to solve these questions)

7. K and L were partners sharing profits and losses in the ratio 3:1. M was admitted for 1/5th share in the profits. M was unable to bring her share of goodwill premium in cash. The journal entry recorded in the books of the firm for premium for goodwill was:

Date	Particulars	LF	Dr. Amount	Cr. Amount
	M's current a/c		24,000	
	Dr			8,000
	To K's Capital a/c			16,000
	To L's Capital a/c			
	(amount of goodwill premium adjusted through M's current a/c in sacrifice ratio)			

The new profit sharing ratio of K, L & M will be:

(a) 41:7:12 (b) 13:12:10 (c) 3:1:1 (d) 5:3:2

8. When a new partner does not bring his share of goodwill in cash, the amount is debited to:

(a) Cash a/c. (c) Capital accounts of old partners.

(b) Current account of new partner. (d) Premium for goodwill a/c.

9. A and B are partners in a firm with capital of ₹ **1,80,000** and ₹ **2,00,000** respectively. C was admitted for 1/3rd share in profits and C brings ₹ **3,40,000** as capital. Calculate the amount of goodwill (Hidden Goodwill Method).

(a) ₹**2,40,000** (b) ₹**1,00,000** (c) ₹**1,50,000** (d) ₹ **3,00,000**

10. A and B were partners in a firm sharing profits in the ratio of 3:2. They admitted C into the firm as a new partner. Goodwill of the firm was valued at ₹**2,00,000**. C brings his share of goodwill premium of ₹**20,000** in cash, which is entirely credited to A's capital account. Calculate the new profit sharing ratio.

(a) 5:4:1 (b) 4:5:1 (c) 3:2:1 (d) 1:1:1.

11. A and B are partners sharing profits and losses in the ratio 2:1. C is admitted for 1/4th share of profits which he acquires equally from A and B. C brings ₹ **30,000** as goodwill premium, it will be credited to old partners as:

(a) ₹ **15,000 each.**

(b) ₹**20,000,** ₹ **10,000 respectively.**

(c) ₹**10,000,** ₹**20,000 respectively.**

(d) ₹**30,000** credited to A's capital account.

12. Shreya and Seemant are equal partners in a business that supplies handmade toys to children's stores. The the capital of their firm is ₹**2,00,000.** in the past 2 years, they have earned a profit of ₹**60,000** and ₹**80,000** respectively.

Their friends Arsh and Sejal are equal partners in a similar business that supplies handmade toys to children's stores. The capital of their firm is ₹ **3,00,000**, with a profit at the normal rate of return at ₹ **18,000** and ₹ **20,000** in the past two years.

Trishant decides to join the firm of Shreya and Seemant as a new partner. As goodwill calculations are going on, Trishant changes his mind and decides to join the firm of Arsh and Sejal instead for $1/5^{th}$ share in the future profits which he will get equally from Arsh and Sejal.

In order to reconstitute the firm, what elements must they now take into consideration?

(a) Only the new profit sharing ratio.

(b) Share of goodwill and new profit sharing ratio.

(c) Only the share of goodwill.

(d) Share of goodwill, new profit sharing ratio and sacrificing ratio.

C. **Treatment of Accumulated Profits & Reserves.** (students need to solve these questions)

13. Amar and Amal were partners in a firm sharing profits and losses in the ratio 1:5. on 1^{st} April 2023, Anand is admitted to the firm for $1/5^{th}$ share in the profits. On the date of Anand's admission the balance sheet of Amar and Amal showed a debit balance of ₹ **60,000** in the profit and loss account. The accounting treatment for the same in the books of accounts of the firm on Anand's admission will be:

(a)	Amar Captial a/c	Dr	10,000	
	Amal Capital a/c	Dr	50,000	
	To P & L a/c			60,000
(b)	P & L a/c	Dr	60,000	
	To Amar capital a/c			10,000
	To Amal capital a/c			50,000
(c)	Revaluation a/c	Dr	60,000	
	To P & L a/c			60,000
(d)	P & L a/c	Dr	60,000	
	To Revaluation a/c			60,000

14. When a new partner is admitted, the balance of "General Reserve" appearing in the balance sheet of old firm is credited to:

(a) Profit & Loss appropriation account. (c) Revaluation account.

(b) Capital account of all partners. (d) Capital account of old partners.

15. If, at the time of admission, some profit and loss account appears in the books, it will be transferred to:

    (a) Profit & Loss adjustment account. (c) Old partners' capital account.

    (b) Revaluation account. (d) All partners' capital account.

16. A and B are partners sharing profits and losses in the ratio of 3:2. They admit C as a new partner for 1/5th share in profit. C pays ₹**1,00,000** as goodwill. The ratio of A, B and C in the new firm would be 3:1:1. Goodwill will be credited to:

    (a) Only A ₹ **1,00,000**. (c) A ₹ **60,000**, B ₹ **40,000.**

    (b) Only N ₹ **1,00,000.** **(d)** A ₹**75,000**, B ₹**25,000**

17. P and Q share profits and losses equally. They have ₹**20,000** each as capital. They admit R as equal partner and goodwill of the firm was valued at ₹**30,000**. R is to bring ₹**30,000** as his capital and necessary cash towards his share of goodwill. Goodwill account will not remain open in the books. If profit on revaluation is ₹ **13,000**, the closing balance of the capital accounts of P, Q and R are:

    (a) ₹**31,500;** ₹**31,500;** ₹**30,000.** (c) ₹**26,500;** ₹**26,500;** ₹**30,000.**

    (b) ₹**31,500;** ₹**31,500;** ₹**20,000.** (d) ₹**20,000;** ₹**20,000;** ₹**30,000**

D. **Revaluation of Assets & Liabilities, Adjustment of Capital Balance of Partners**.

18. A and B are partners in a firm sharing profits and losses in the ratio 4:1. On 1st April ,2023, they admit C as a partner for 1/4th share in the profits of the firm. The balance sheet of A and B showed Stock of ₹ **45,000**. On admission of new partner, the stock was found undervalued by 10%. The Journal Entry to give effect to the above adjustment on C's admission will be:

(a)	Revaluation a/c	Dr 5,000	
	To Stock a/c		5,000
(b)	Stock a/c	Dr 4,500	
	To Revaluation a/c		4,500
(c)	Stock a/c	Dr 5,000	
	To Revaluation a/c		5,000
(d)	Revaluation a/c	Dr 4,500	
	To Stock a/c		4,500

19. L and M are partners sharing profits in the ratio 3:2 respectively. N was admitted for 1/5th share of profit. Machinery of book value ₹ **80,000** would be appreciated by 10% Building of book value ₹**2,00,000** would be depreciated by 20%. Unrecorded debtors of ₹ **1,250** would be brought into books new and a creditor amounting to ₹**2,750** died and need not pay anything on this account. What will be the profit/ loss on revaluation?

(a) Loss ₹ **28,000.** (c) Loss ₹ **40,000.**

(b) Profit ₹ **28,000.** (d) Profit ₹ **40,000**

20. Ganga and Jamuna are partners sharing profits and losses in the ratio of 2:1. They admit Saraswati for 1/5th share in future profits. On the date of admission, Ganga's capital was ₹**1,02,000** and Jamuna's capital was ₹ **73,000.** Saraswati brings ₹ **25,000** as her share of goodwill premium and she agrees to contribute proportionate amount of capital in cash for her share in the business. How much capital will be brought by Saraswati?

(a) ₹**43,750** (b) ₹**37,500** (c) ₹ **50,000** (d) ₹ **40,000**

Or

A and B are partners sharing profits and losses in the ratio of 5:4. They admitted C for 1/5th profit, for which he paid ₹ **90,000** against capital and ₹**45,000** against goodwill. Find the capital balance of each partner taking C's capital as base capital.

(a) ₹**2,00,000;** ₹**90,000;** ₹**90,000.** (c) ₹**2,00,000;** ₹**160,000;** ₹**90,000.**

(b) ₹**3,00,000;** ₹**2,40,000;** ₹**1,35,000.** (d) ₹**3,00,000;** ₹**1,35,000;** ₹**1,35,000.**

A. In the absence of partner's sacrificing share, old ratio = sacrificing ratio.

B. **If partners' capitals are fixed, the new partner's share of goodwill will be credited sacrificing partners' current account in place of capital account.**

8. **Recent Board Exam MCQs**.

1. At the time of admission of a partner, the Balance Sheet of the firm showed a Workmen Compensation Reserve (WCR) of ₹ **80,000.** The claim for workmen compensation was estimated at ₹**1,00,000**. The short fall of ₹**20,000** will be: (March, 2024)

(a) Debited to Revaluation Account.

(b) Credited to Revaluation Account.

(c) Debited to Partners' Capital Accounts.

(d) Credited to Partners' Capital Account.

2. Gupta and Sharma are partners in a firm sharing profits in the ratio of 4:1. They admitted Preeti as a new partner for 1/4th share in the profits, which acquired wholly from Gupta. New profit sharing ratio of Gupta, Sharma and Preeti will be:(March, 2024)

(a) 2:1:1 (b) 11:4:5 (C) 3:3:2 (d) 7:5:4

3. Rohit and Mohit were partners sharing profits and losses in the ratio of 2:1. The capital Accounts as on 31.03.2022 had a credit balance of ₹ **1,09,000** and ₹**66,000** respectively. They admitted Sahil as a new partner on 1st April 2022 for 1/5th share in profits. Sahil brought ₹**25,000** as his share of goodwill premium. He agreed to contribute capital in new profit-sharing ratio. The amount of capital brought by Sahil was: (March 2023)

(a) ₹**40,000** (b) ₹ **32,000** (c) ₹ **12,50,000** (d) ₹ **50,000.**

4. On the reconstitution of a firm, the value of the land was appreciated by ₹ **2,00,000** and Plant and Machinery reduced to ₹ **7,00,000** from ₹ **10,00,000**. Gain or Loss on revaluation will be: (2023)

(a) Gain ₹ **1,00,000**. (c) Loss ₹ **5,00,000.**

(b) Loss ₹ **1,00,000.** (d) Gain ₹ **5,00,000.**

5. Amit and Sumit were partners in a firm with fixed capitals of ₹ **6,00,000** and ₹ **4,00,000** respectively. Kavi was admitted as a new partner for 1/5th share in the profits of the firm. Kavi brought ₹ **40,000** as his share of goodwill premium and ₹ **3,00,000** as his capital. The amount of goodwill premium credited to Sumit will be: (March 20230)

(a) ₹ **20,000** (b) ₹ **24,000** (c) ₹ **16,000** (d) ₹ **40,000.**

6. On admission of a new partner, the old partners share the gain or loss on revaluation of assets and reassessment of liabilities in which of the following ratio: (March 2023)

(a) Equally. (c) In new profit sharing ratio.

(b) In old profit sharing ratio. (d) In sacrificing ratio.

7. Asha and Nisha were partners in a firm sharing profits and losses in the ratio 3:1. Charu was admitted as a new partner for 1/4th share in the profits of the firm which she acquired equally from Asha and Nisha. The new profit sharing ratio of Asha, Nisha and Charu will be: (March 2023)

(a) 3:1:4 (b) 1:1:2 (c) 5:1:2 (d) 1:2:1.

Short answer Questions (questions carrying 3 or 4 marks).

9. Aayush and Aarushi are partners sharing profits and losses in the ratio of 3:2. They admitted Naveen into the partnership for 1/4th share. Goodwill of the firm is valued at three years' purchased of super profits. Average net profit of the firm was ₹ **20,000**. Capital investment in the business was ₹ **50,000** and Normal Rate of Return was 10%. Calculate the amount of goodwill premium brought by Naveen.

Solution: Normal Profit = 50,000 x 10% = 5,000

Super Profit = Average Profit - Normal Profit 20,000 - 5,000 = 15,000

Goodwill = Super Profit x No. Of years' purchase 15,000 x 3 = 45,000.

Naveen's share of goodwill = 45,000 x 1/4 = 11,250

10. **New partner brings his capital and goodwill in kind and cash**. A and B are partners in a firm sharing profits in the ratio 2:1. They admitted C as a new partner for 1/4th share in profit, which he takes equally from A and B. C brought the following assets towards his share of capital and goodwill: Stock ₹ **20,000**, Machine ₹ **40,000**, Furniture ₹ **60,000** and Cash ₹ **30,000**. The Goodwill of the firm was valued at ₹ **2,00,000.** Record the necessary Journal Entries for the same.

Solution:

Date	Particulars	LF	Dr.Amount	Cr. Amount
1	Stock A/c Dr		20,000	
	Machinery A/c Dr		40,000	
	Furniture A/c Dr		60,000	
	Cash A/c Dr		30,000	

	To Premium for goodwill A/c (2,00,000 x1/4) To C's Capital A/c (balancing figure) (for amount of goodwill and capital brought in by kinds by C)			50,000 1,00,000
2	Premium for Goodwill A/c Dr To A's Capital A/c To B's Capital A/c (for C's share of goodwill transferred to A & B capital accounts in their sacrificing ratio, 1:1)		50,000	25,000 25,000
			2,00,000	2,00,000

11. **Hidden Goodwill and Calculation of Premium for Goodwill**. A and B are partners sharing profits and losses equally with capitals of ₹ **50,000** each. They admitted C as a new partner for 1/4th share in profits. C brings ₹ **60,000** as his capital. Find the firm's Hidden Goodwill and amount of premium. Give Journal Entries for the same.

Solution:

Hidden Goodwill = Desired capital of the new firm - Existing capital of all partners.

Desired total capital of new firm = New partner's capital / New partner's share

= **₹60,000 / 1/4 = ₹60,000 x 4/1 = ₹ 2,40,000.**

Existing total capital of new firm = **₹50,000 + ₹50,000 + ₹60,000 = ₹ 1,60,000.**

Hidden Goodwill = **2,40,000 - 1,60,000 = ₹ 80,000**.

Amount of Premium = **₹80,000 x 1/4 = ₹ 20,000.**

Date	Particulars	LF	Dr.Amount	Cr. Amount
1	Cash A/c Dr To C's Capital A/c (for amount of capital brought in by C)		60,000	60,000
2	C's Current a/c Dr To A's Capital A/c To B's Capital A/c (for transfer of C's share of premium from his current account to sacrificing partners' capital account in sacrificing ratio, 1:1)		20,000	10,000 10,000

12. **Treatment for past profits and losses of the firm, at the time of admission of a partner**. A and B are partners sharing profits and losses in the ratio of 3:2. They decided to admit C into the firm for a 5th share in future profits. At the time of admission of C, the balance sheet of A and B showed the following balances:

a) Profit and Loss account credit balance of ₹ **20,000**

Date	Particulars	LF	Dr.Amount	Cr. Amount
1	Profit & Loss A/c Dr To A's Capital A/c To B's Capital A/c (for distribution of undistributed profit among A and		20,000	12,000 8,000

	B)			

b) General Reserve of ₹ **10,000.**

Date	Particulars	LF	Dr.Amount	Cr. Amount
1	General Reserve A/c Dr To A's Capital A/c To B's Capital A/c (for distribution of general reserve among A and B)		10,000	 6,000 4,000

c) Profit & Loss account debit balance of ₹ **15,000**

Date	Particulars	LF	Dr.Amount	Cr. Amount
1	A's Capital A/c Dr B's Capital A/c Dr To Profit & Loss A/c (for sharing of accumulated loss among A and B)		9,000 6,000	 15,000

d) Workmen Compensation Reserve of ₹ **12,000**

Date	Particulars	LF	Dr.Amount	Cr. Amount
1	Workmen Compensation Reserve A/c Dr To A's Capital A/c To B's Capital A/c (for transfer of WCR in old ratio to A & B)		12,000	 7,200 4,800

e) Workmen Compensation Reserve ₹ **12,000** and a claim is estimated at ₹**2,000.**

Date	Particulars	LF	Dr.Amount	Cr. Amount
1	Workmen Compensation Reserve A/c Dr To Provision for WC Claim A/c To A's Capital A/c To B's Capital A/c (for surplus in WCR transferred to A & B in old ratio)		12,000	 2,000 6,000 4,000

f) Workmen Compensation Reserve ₹**12,000** and a claim is estimated at ₹**14,000.**

Date	Particulars	LF	Dr.Amount	Cr. Amount
1	Workmen Compensation Reserve A/c Dr Revaluation A/c Dr To Provision for WC Claim A/c (for shortfall of WCR charged from revaluation A/c)		12,000 2,000	 14,000
2	A's Capital A/c Dr B's Capital A/c Dr To Revaluation A/c (for loss on revaluation transferred to A & B capital in old ratio, 3:2))		1,200 800	 2,000

g) Investment Fluctuation Reserve Account of ₹ **60,000** and there is no change in the value of investment.

Date	Particulars	LF	Dr.Amount	Cr. Amount
1	Investment Fluctuation Reserve A/c Dr To A's Capital A/c To B's Capital A/c		60,000	 36,000 24,000

	(for IFR transferred to A & B in old ratio)			

h) Investment Fluctuation Reserve Account of ₹ **60,000** and the value of Investment is reduced from ₹ **90,000** to ₹ **70,000.**

Date	Particulars	LF	Dr.Amount	Cr. Amount
1	Investment Fluctuation Reserve A/c Dr To Investment A/c (loss on revaluation) To A's Capital A/c To B's Capital A/c (for loss on revaluation of investment is adjusted to IFR account and balance in IFR transferred to A & B in old ratio)		60,000	 20,000 24,000 16,000

Long Answer Questions (6 marks) **Preparation of Revaluation Account, Capital Account**

13. Madhav and Girdhari were partners in a firm sharing profits and losses in the ratio 3:1. their balance sheet as at 31st March 2023 was as follows: (CBSE March 2023)

Balance Sheet of Madhav and Girdhari as on 31st March 2023.

Liabilities	Amount ₹	Assets	Amount ₹
Capital: Madhav 3,00,000 Girdhari 2,00,000	5,00,000	Machinery Investment	4,70,000 1,10,000
Workmen Compensation Fund	60,000	Debtors 1,20,000	
Creditors	1,90,000	Less provision BDD 10,000	1,10,000
Employee's Provident Fund	1,10,000	Stock	1,40,000
		Cash	30,000
	8,60,000		8,60,000

On 1st April 2023, they admitted Jyoti into partnership for 1/4th share in the profits of the firm. Jyoti brought ₹**1,86,000** as her capital and ₹**40,000** as her share of goodwill premium in cash. The following terms were agreed upon:

i. Stock was found undervalued by ₹**23,000**.
ii. 20% of the investments were taken over by Girdhari at book value.
iii. Claim on account of workmen's compensation amounted to ₹**70,000**, which was to be paid later.
iv. Creditors included a sum of ₹**27,000** which was not likely to be claimed.

Prepare Revaluation Account and Partners' Capital Account on Jyoti's admission.

Solution:

Dr. Revaluation A/c Cr.

Particulars	Amount ₹	Particulars	Amount ₹
To Claim on WCF	10,000	By Stock	23,000
To Gain on revaluation to Capital:		By Creditors	27,000
Madhav Capital 30,000			
Girdhari Capial 10,000	40,000		
	50,000		50,000

Dr. Capital A/c of Madhav, Girdhari and Jyoti Cr.

Particulars	Madhav	Girdhari	Jyoti	Particulars	Madhav	Girdhari	Jyoti
To Investment		22,000		By Balance b/d	3,00,000	2,00,000	---
				By Cash	---	---	1,86,000

				By Premium	30,000	10,000	---
To Balance c/d	3,60,000	1,98,000	1,86,000	By Revaluation a/c	30,000	10,000	---
	3,60,000	**2,20,000**	**1,86,000**		**3,60,000**	**2,20,000**	**1,86,000**

Balance Sheet of Madhav, Girdhari and Jyoti as on 1st April 2023

Liabilities	Amount ₹	Assets	Amount ₹
Capital: Madhav 3,60,000		Machinery	4,70,000
Girdhari 1,98,000		Investment (1,10,00 - 22,000)	88,000
Jyoti 1,86,000	7,44,000	Debtors 1,20,000	
Claim on WCF	70,000	Less Provision BDD 10,000	1,10,000
Creditors (1,90,000 - 27,000)	1,63,000	Stock (1,40,000 + 23,000)	1,63,000
Employee's Provident Fund	1,10,000	Cash (30,000+1,86,000+40,000)	2,56,000
	10,87,000		**10,87,000**

(as per CBSE question paper, balance sheet is not required, but it is prepared to check the answers)

14. Anikesh and Bhavesh are partners in a firm sharing profits and losses in the ratio of 7:3. Their Balance Sheet as on 31st March 2023 was as follows: (CBSE March 2024)

Liabilities	Amount ₹	Assets	Amount ₹
Creditors	60,000	Cash	36,000
Outstanding wages	9,000	Debtors 54,000	
General Reserve	15,000	Less Provision BDD 6,000	48,000
Capitals: Anikesh 1,20,000		Stock	60,000
Bhavesh 1,80,000	3,00,000	Furniture	1,20,000
		Machinery	1,20,000
	3,84,000		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 ₹ **90,000** as her capital and ₹ **30,000** as her share of goodwill premium in cash.

ii. Outstanding wages will be paid.

iii. Stock will be reduced by 10%

iv. A creditor of ₹ **6,300,** not recorded in the books, was to be taken into account.

Pass Journal Entries for the above transactions in the books of the firm.

Journal Entries in the books of the firm Anikesh, Bhavesh and Chahat

Date	Particulars	LF	Dr.Amount	Cr.Amount
1.	General Reserve A/c Dr To Anikesh Captial A/c To Bhavesh Capital A/c (General Reserve is distributed to old partners in old ratio)		15,000	 10,500 4,500
2.	Cash A/c Dr To Chahat Capital A/c To Premium for Goodwill A/c (Chahat brings her capial and premium for goodwill in cash)		1,20,000	 90,000 30,000
3.	Premium for Goodwill A/c Dr		30,000	

	To Anikesh Capital A/c To Bhavesh Capital A/c (The amount of premium for goodwill is shared among old partners in their sacrificing ratio)			21,000 9,000
4.	Outstanding wages A/c Dr To Cash A/c (Outstanding wages were settled)		9,000	 9,000
5.	Revaluation A/c Dr To Stock A/c To Unrecorded Creditors A/c (The loss on stock and unrecorded creditors are brought into accounts)		12,300	 6,000 6,300
6.	Anikesh Capital A/c Dr Bhavesh Capital A/c Dr To Revaluation A/c (The loss on revaluation account is transferred to old partners' capital account in old ratio)		8,610 3,690	 12,300
	Total		**1,98,600**	**1,98,600**

Work Sheets for Accountancy.
Chapter II – Admission of a Partner (weightage 12 marks)

Module 1 Calculation of New Ratio and Sacrifice Ratio

1. A and B are partners in a firm sharing profits and losses in the ratio 3:2. On 1st April 2023, they admit C into the firm for 1/5 share in future profits and losses. Calculate new ratio and sacrifice ratio.

Remaining share = Total share – Share given to new partner

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New share = Remaining Share X old share.

New share of A ……

New share of B ……

Share of C in new denominator …………………………………………………………………………………………

New Ratio of A, B & C = …………………………………………………………………………………………………

Sacrifice Share = Old share – New Share

Sacrifice share of A = ……………………………………………………………………………………………………

Sacrifice share of B = ……………………………………………………………………………………………………

Sacrifice ratio of A : B = ………………………………………………………………………………………………

2. P and Q are partners in a firm sharing profits and losses in the ratio 2:1. On 1st April 2022 They admit R into the firm for 1/3 share in future profits and losses. Calculate New Ratio and Sacrifice Ratio.

3. K & L are partners in firm sharing profits and losses in the ratio 5:3. On 1st April 2022, they admit M into the firm for 1/5 share in future profits and losses. Calculate the New Ratio and Sacrifice Ratio.

4. A, B & C are partners in a firm sharing profits and losses in the ratio 3:3:2. On 1st April 2022, they admit D into the firm for 1/5 share in future profits and losses. Calculate New Ratio and Sacrifice Ratio.

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5. P, Q & R are partners in a firm sharing profits in the ratio 3:2:1. They admit S for 1/6 share in future profits. Calculate New Ratio and Sacrifice Ratio.

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Module 2 Calculation of New Ratio and Sacrifice Ratio – when new partner acquires his share from old partners in certain ratio.

6. A and B are partners in a firm sharing profits and losses in the ratio 3:2. They admit C into the firm for 1/5 share, which he acquires equally from A and B. Calculate New Ratio and Sacrifice Ratio.

Calculation of share sacrificed by each old partner.

Share sacrificed by A = Share of C X Rate of sacrifice = ……………………………………………………

Share sacrificed by B = Share of C X Rate of Sacrifice = ……………………………………………………

New Share of A = Old share – Share sacrificed = …………………………………………………………………

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New Share of B = Old share – Share Sacrificed = ………………………………………………………………

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New Ratio of A, B & C = ……………………………………………………………………………………………………

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Sacrifice Ratio = 1:1 (the ratio at which new partner acquires his share from old partners)

7. K and L are partners sharing profits and losses in the ratio 3:2. They admit M into the firm for $\frac{1}{4}$ share in future profits and losses. M acquires his share equally from K and L. Calculate New Ratio and Sacrifice Ratio.

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8. P and Q are partners in a firm sharing profits and losses in the ratio 5:3. They admit R into the firm for 1/5 share in future profits and losses. R acquires his share from P and Q in the ratio 3:2. Calculate New Ratio and Sacrifice Ratio.

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9. X and Y are partners in a firm sharing profits and losses in the ratio 3:2. They admit Z into the firm for $\frac{1}{4}$ share in future profits and losses. Z acquires his share from X and Y in the ratio 3:1. Calculate New Ratio and Sacrifice Ratio.

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10. A, B and C are partners in a firm sharing profits and losses in the ratio 4:3:3. They admit D into the firm for 1/3 share in future profits and losses. D acquires his share from A, B and C in the ratio 3:2:1. Calculate New Ratio and Sacrifice Ratio.

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Module 3 Treatment of Goodwill

11. A and B are partners in a firm sharing profits and losses in the ratio 3:2. They admit C into the firm for $\frac{1}{4}$ share of profits. C brings ₹ 90,000 for her capital and ₹ 20,000 as premium for goodwill. Pass Journal entries for C's Capital and Premium for goodwill, assuming that the premium for goodwill is retained in the business.

te	ticulars		. Amt	. Amt

12. A and B are partners in a firm sharing profits and losses in the ratio 3:2. They admit C into the firm for 1/5 share of profits. C brings ₹ 80,000 for her capital and ₹ 30,000 as premium for goodwill. Pass Journal entries for C's Capital and Premium for goodwill, assuming that half of the premium for goodwill is retained in the business.

te	rticulars		. Amt	. Amt

13. A and B are partners in a firm sharing profits and losses in the ratio 2:1. They admit C into the firm for 1/5 share of profits. C brings ₹ 1,20,000 for her capital and ₹ 60,000 as premium for goodwill. Pass Journal entries for C's Capital and Premium for goodwill, assuming that 1/3 of the premium for goodwill is withdrawn by A and B.

te	rticulars		. Amt	. Amt

14. A and B are partners sharing profits and losses 70% and 30% respectively. They admit C for whom 40% profit given. C brings ₹ 1,50,000 for her capital and required amount as premium in cash. Goodwill of the firm is valued at ₹ 1,80,000. Pass Journal entries to record C's capital and premium. Assume that the whole amount of premium is withdrawn.

te	rticulars		. Amt	. Amt

Module 4 Treatment of Goodwill – new partner brings only a part of premium.

15. P and Q are partners in a firm sharing profits and losses equally. They admit R into the firm for 1/5 share in future profits. Net worth of the new firm is ₹ 5,00,000 and goodwill is valued at ₹ 2,00,000. R brings ₹ 1, 20,000 in cash including his capital in full. Pass Journal Entries assuming that partners capitals are fixed.

te	rticulars		. Amt	. Amt

16. K and L are partners in a firm sharing profits and losses in the ratio 5:3. They admit M into the firm for 1/5 share which he gets equally from K and L. Net worth of new firm is fixed at

₹ 4,00,000 and the goodwill is valued at ₹ 80,000. M brings ₹ 90,000 including his capital in full. Pass Journal Entries assuming that partners' capital are fluctuating.

te	rticulars		. Amt	. Amt

17. Mohit and Rohit are partners sharing profits and losses equally. They admit Punith into the firm for $\frac{1}{4}$ share in future profits. Punith has to bring ₹ 80,000 for his capital and required amount of premium in cash. Goodwill of the firm is valued at ₹ 1,20,000. Punith is able to bring ₹ 98,000 in full including his capital. Pass Journal Entries assuming that: (a) Partners' capitals are fixed (b) Partners' capital are fluctuating.

te	rticulars		. Amt	. Amt

te	rticulars		. Amt	. Amt

18. Srihari and Murali are partners in a firm sharing profits and losses equally. They admit Madhav into the firm for a 5th share in future profits. Goodwill of the firm is valued at ₹ 1,50,000. Murali brings ₹ 1,00,000 for his capital and was unable to pay premium. Pass Journal Entries assuring that partners capitals are fixed.

te	ticulars		. Amt	. Amt

Module 5 Treatment of Goodwill – new partner brings only full /part of premium, and goodwill already appears in the books.

19. Ajay and Bijay are partners in a firm sharing profits and losses equally. They admit Cibin into the firm for ½ share in future, which he gets equally from Ajay and Bijay. Cibin brings ₹ 1,50,000 for his capital. Goodwill of the firm is valued at ₹ 60,000. Goodwill already appears in the books at ₹ 20,000 and partners decided not to show any goodwill account in the books. Pass Journal Entries, if:

(a) Cibin brings his capital and premium in full, and capital are fixed.

te	ticulars		. Amt	. Amt

(b) Cibin brings his capital and premium in full, and capitals are fluctuating.

te	ticulars		. Amt	. Amt

(c) Cibin brings his capital and premium in full, and Ajay and Bijay decided to withdraw whole amount of premium.

te	rticulars		. Amt	. Amt

(d) Cibin brings his capital and premium in full, and Ajay and Bijay decided to withdraw half of the premium.

te	rticulars		. Amt	. Amt

(e) Cibin brings his capital in full and 50% of premium in cash. Partners capitals are fixed. Ajay and Bijay decided to withdraw the premium in full

te	rticulars		. Amt	. Amt

(f) Cibin brings his capital in full and 50% of premium in cash. Partners capitals are fluctuating. Ajay and Bijay decided to withdraw the premium in full

te	rticulars		. Amt	. Amt

(g) Cibin brings his capital in full and no premium. Partners capitals are fixed.

te	rticulars		. Amt	. Amt

(h) Cibin brings his capital in full and no premium. Partners capitals are fluctuating.

te	rticulars		. Amt	. Amt

Module 6. Treatment of Goodwill – Hidden Goodwill

20. Ajay and Bijoy are partners in a firm sharing profits and losses in the ratio 3:2. Their capital balance on 31st March 2022 were: ₹ 2,50,000 and ₹ 1,50,000 respectively. They admit Ravi

into the firm for 5th share in future profits. Ravi brings ₹ 1,50,000 for his capital and sufficient amount of premium in cash.

a. Calculate Ravi's share of goodwill.
b. Pass Journal entries for Ravi's capital and premium, assuming that the amount of premium retained in the business.

Working Notes for calculation of premium.
Hidden Goodwill = Required Capital – Actual Capital.
Required Capital = Ravi's capital / Ravi's share.
………
Actual Capital = Capital of Ajay + Capital of Bijoy + Capital of Ravi.
………
Hidden Goodwill = ………………………………………………………………………………………………………
Share of Ravi in Goodwill = Total Goodwill x Share of Ravi
= ………………………………………………………………………………………………

te	rticulars		. Amt	. Amt

21. Anil and Akash are partners in a firm sharing profits and losses equally with capital balances of ₹1,50,000 and ₹1,40,000 respectively. They admit Atul into the firm for a 5th share in future profits. Atul brings ₹ 1,10,000 for his capital and required amount of premium in cash. Calculate (a) Total Goodwill of the firm, (b) Atul's share of goodwill and (c) Pass Journal Entries.

Solution:

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te	rticulars		. Amt	. Amt

Assume that half of the premium is withdrawn by Anil and Akash. Pass Journal Entries.

te	·ticulars		. Amt	. Amt

Assume that whole amount of premium is withdrawn.

te	·ticulars		. Amt	. Amt

Module7 Treatment of Accumulated Profits at the time of Admission of a partner.

Note. All accumulated profits given in the balance sheet to be divided among old partners in their old ratio.

Model Journal Entry: Accumulated Profits/ Reserves a/c Dr

To Old Partners' Capital a/c

Example: A and B are partners in partnership firm sharing profits and losses in the ratio 3:2. On 1st April 2023, they admit C into the firm for 1/5 share in future profits and losses. On the day of admission, firm's balance sheet showed General Reserve of ₹ 90,000 and loss on sale of old machinery ₹ 20,000. Pass journal entry for division of Reserve. Also show the working notes:

Solution: Net Reserve to be shared = General Reserve – Loss on Sale of Machinery.

= 90,000 – 20,000 = 70,000

A's share of Net Reserve = 70,000 x 3/5 = 42,000,

B's share of Net Reserve = 70,000 x 2/5 = 28,000.

Journal Entry:

te	·ticulars		. Amt	. Amt

	neral Reserve a/c Dr		70,000	
	To A's Capital a/c			42,000
	To B's Capital a/c			28,000
	eneral reserve shared among A and B)			

22. Ajay and Amal are partners in a firm sharing profits and losses in the ratio 2:1. On 1st April 2023, they admit Azad into the firm for $\frac{1}{4}$ share in future profits. On the day of admission, the firm's balance sheet has Reserve Fund ₹ 40,000 and Deferred Revenue Expenditure ₹ 10,000. Show necessary notes and pass journal entry.

Solution:

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………………………………………………………………………………………

te	rticulars		. Amt	. Amt

23. Krupa and Kamla are partners in a firm sharing profits and losses in the ratio 3:2. On 1st April 2023, they admit Krishna into the firm for 1/5 share in future profits which she acquired from Krupa. The balance sheet of the firm on 31st March 2023 was as follows:

Liabilities		₹	Assets	₹
neral Reserve		40,000	sh at bank	60,000
orkmen Compensation Fund		30,000	btors	40,000
editors		60,000	ock	50,000
pital: Krupa	1,30,000		chinery	80,000
Kamla	1,20,000	2,50,000	ilding	1,50,000
		3,80,000		3,80,000

Pass Journal Entry for distribution of accumulated reserves/ profits.

Journal Entries:

te	rticulars		. Amt	. Amt

24. In Question 104, the WCF has a liability of ₹ 18,000. Pass Journal entry for distribution of accumulated profits/ reserves.

Journal Entries:

te	rticulars		. Amt	. Amt

25. In Question 104, the liability on WCF is estimated at ₹42,000. Pass Journal entry for distribution of profits.

te	rticulars		. Amt	. Amt

Module 8. Revaluation of assets and liabilities- Admission of a Partner.

Hints to solve the problems:

1. Decrease in the value of asset – Revaluation account Debit side.
2. Increase in the value of asset – Revaluation account Credit side.
3. Increase in the provision for BDD – Revaluation account Debit side.
4. Decrease in the provision for BDD – Revaluation account Credit side.
5. Stock undervalued – difference in Revaluation account credit side.
6. Stock overvalued – difference in Revaluation account debit side.
7. Unrecorded asset – revaluation account credit side.
8. Outstanding/ new liability- revaluation account debit side.
9. Increase in the value of liability – revaluation account debit side.
10. Decrease in the value of liability – revaluation account credit side.
11. Liability on WCF/ WAF less than WCF/ WAF – difference to partners capital account credit side.
12. Liability on WCF/ WAF more than WCF / WAF – difference to revaluation account debit side.

Dr. Model Revaluation Account. Cr.

rticulars (only difference)	₹	rticulars (only difference)	₹
set decrease		set increase	
ovision for BDD -increase		ovision for BDD – decrease	
ock overvalued		ock undervalued	
itstanding/ New liability		recorded asset	
ibility increases		ibility decreases	
ibility on WCF/WAF crease more than fund)			
t Profit to Old Partners		t Loss to Old Partners	
	XXXXX		XXXXX

IF CREDIT TOTAL MORE THAN DEBIT SIDE TOTAL - NET PROFIT.

26. Amal and Bimal are partners in a firm sharing profits and losses in the ratio 3:2. On 1st April 2023, they admit Kamal into the firm for 1/5 share in future profits. On 31st March 2023, the balance sheet of Amal and Bimal was as follows:

Liabilities		₹	Assets	₹
neral Reserve		40,000	sh at bank	60,000
orkmen Compensation Fund		30,000	btors	40,000
editors		60,000	ock	50,000
pital: Amal	1,30,000		chinery	80,000
Bimal	1,20,000	2,50,000	ilding	1,50,000
		3,80,000		3,80,000

Assets and liabilities revalued as follows:

a. Debtors need a provision of 5%, stock was undervalued by ₹ 3,000. Machinery depreciated by 10%, building revalued at ₹ 1,60,000.
b. Of the creditors an amount of ₹ 3,000 ma not be cleared.
c. There was an outstanding repair bill of ₹ 2,000 to be settled.
d. The liability on workmen compensation fund estimated at ₹ 18,000.

Prepare Revaluation Account.

Dr. Revaluation Account. Cr.

rticulars	₹	rticulars	₹

27. A and B are partners in a firm sharing profits and losses in the ratio 3:2. They admit C into the firm for 1/4 share in future profits. The Balance sheet of the firm as on 31st March 2023 was as follows:

bilities		nount ₹	sets		nount ₹
editors		50,000	sh at bank		40,000
C F		20,000	btors	60,000	
			ss Provision	(2,000)	58,000
neral Reserve		30,000	ock		52,000
pital: A	90,000		chinery		50,000
B	80,000	1,70,000	ilding		70,000

	2,70,000		2,70,000

The following terms were agreed:

a. C brings ₹ 60,000 for his share of capital and ₹ 30,000 for his share of premium in cash. The amount of premium is retained in the business.

b. Debtors need a provision of 5% for bad and doubtful debts. Stock was overvalued by ₹2,000. Machinery to be depreciated by 20%. building revalued to ₹ 60,000.

c. There was an outstanding bill for repairs ₹4,000 to be brought to the books.

d. Liability on WCF estimated at ₹ 24,000 to be brought into the books

Prepare Revaluation Account and capital Account of the partners.

Dr. Revaluation Account. Cr.

rticulars	₹	rticulars	₹

Dr. Capital Account of A, B and C Cr.

rticulars				rticulars			

28. K and L are partners sharing profits and losses in the ratio 3:2. on 1st July 2023, they admit M into the firm for 1/5 share in future profits. The Balance Sheet of the firm as on 31st March 2023 was as follows:

bilities	ount ₹	sets	ount ₹
editors	50,000	h at bank	40,000
tstanding Bills	10,000	btors 60,000 s Provision BDD (3,000)	57,000
rkmen Compensation Reserve	40,000	ock	53,000
neral Reserve	30,000	chinery	50,000
ital: K 80,000 L 70,000	1,50,000	lding	80,000
	2,80,000		2,80,000

The following terms were agreed:

a. M brings ₹ 60,000 for his capital and ₹ 40,000 for premium in cash. Partners decided to retain the premium in the firm.

b. Debtors all are good, no provision is required. Stock was undervalued by ₹ 7,000. Machinery depreciated by 20% and building revalued to ₹ 60,000.

c. There is a bill for damages ₹ 5,000, an unrecorded investment of ₹ 10,000 to be brought into books.

d. Liability on workmen compensation reserve is estimated at ₹ 25,000.

Prepare Revaluation Account and Capital Account of partners.

Dr. Revaluation Account. Cr.

ticulars	₹	ticulars	₹

Dr. Capital Account of K,L and M Cr.

ticulars				ticulars			

RETIREMENT OF A PARTNER

POINTS TO REMEMBER:

- Retirement of a partner means ceasing to be partner of the firm. A partner may retire (i) of there is agreement of this effect (ii) all partners give consent (iii) At will by giving written notice.
- In case of retirement the existing partnership deed comes to end and the new once comes into existence among the remaining partner.
- Amount due to Retiring/Deceased Partner (To be credited to his capital account)

1. Credit Blanca of his capital.
2. Credit Balance of his current account (if any).
3. Share of Goodwill. (By gaining partners)
4. Share of Reserves of 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. (By 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 business loss up to the date of Retirement/Death (To p & L) suspense A/C)

- Accounting Treatment

1. Calculation of new profit sharing ratio and gaining ratio
2. Treatment of goodwill.
3. Evaluation a/c preparation with the adjustment in the respect of unrecorded assets /liabilities.
4. Distribution of reserves and accumulated profits/loss.
5. Ascertainment of share of profit/loss till the date of retirement. death.
6. Adjustment of capital if required.
7. Settlement of the Accounts due to Retired/Deceased 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 from the outgoing partner. Gaining Ratio = New Ratio -Old Ratio.

Calculation of the two ratios.

Following situations may arise

1. When no information about new ratio or gaining ratio is given in question

In this case it considered that the share of the retraining partner is acquired the remaining partners in the old ratio. Then no need to calculate the new paining ratio as it will be the same as before.

2. Gaining ratio is given which is different than the old ratio in this case, new share of continuing partner = old share + gained from outgoing partner.
3. if the new ratio is given the Gaining ratio = New Ratio -Old Ratio

TREATMENT OF GOODWILL

According to AS26, Good will account can't be raised as only purchased goodwill is recorded in books. Therefore only adjustment entry is done for goodwill

- Steps to be followed

1. When old good will appears in the books then first of all this is to be writeoff in the old ratio. Remember Old Goodwill old Ratio

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

2. After written off of goodwill adjustment of retiring partner's share goodwill will be made through the following journal entry.

Remaining Partner's Capital, A/C Dr. (in gaining ratio)
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 also after making all adjustment with respect to reserves, revaluation of assets and liabilities etc. then extra amount is treated as his share of goodwill (known as hidden goodwill).

- 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 and loss on revaluation is transferred among all the partners in old ratio.

- Adjustment of Reservation and Surplus (Profits)

(a) General Reserve A/cDr.
Reserve Fund A/cDr.
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 requirement, the excess will be transferred to the Capital A/c in old ratio

(c) Workmen Compensation Fund A/cDr
(d) Investment Fluctuation Funds A/cDr.
To All Partner's Capital A/cs

(c) For distributing accumulated losses
All partner's Capital/Current A/cDr. (inold ratio)
To P & L A/c

- Disposal of the Amount Due to the Retiring Partner

This outgoing partners A/c is settled as per the terms of partnership deed. Three cases may be there as given below –

1. When the retiring partner is paid full amount either in cash or by cheque.

Retiring Partner's Capital A/c Dr.
To Cash Bank A/c

2. When the retiring partner is paid nothing in cash then the whole amount due is transferred to his loan A/c

Retiring Partner's Capital A/c Dr.
To retiring partner's Loon A/c

3. When Retiring Partner is partly paid in cash and the remaining amount in treated Loan.

Retiring Partner's Capital A/c Dr. (Total Amount due)
To Cash Bank A/c (Amount Paid)
To Retiring Partner's Loan A/c (Amount of Loan)

- Adjustment of Capitals
- At the time of retirement/death, the remaining partners may decide to adjust their capitals in their new profit sharing Ratio. ThenThe sum of their capitals will be treated as the total capital of the new firm which will be divided in their New Profit Sharing Ratio.
- Excess of Deficiency of capital in the individual capital A/c is calculated.
- Such excess or shortage is adjusted by withdrawal or contribution in case or transferring to their current A/cs.

Journal Entries

(a) For excess Capital withdrawn by the Partners

Partner's capital A/c Dr.
    To Cash/Bank A/c

(b) For deficiency, cash will be brought in by the partner

Cash/Bank A/c Dr.
    To Partner's capital A/c

MULTIPLE OPTION QUESTIONS:

1. A , B and C are partners sharing profits and losses in the ratio of 1 :2:2. A retired from the firm and on the date of retirement his capital was Rs. 300000; Balance of General Reserve- Rs. 400000 and Profit on Revaluation of assets and liabilities-Rs. 30000. What is the amount due to A on his retirement?

(a) Rs. 386000
(b) Rs. 472000
(c) Rs. 304500
(d) Rs. 304500

2. A , B and C are partners sharing profits and losses in the ratio of (3/.6):(2/6):(1/6) B retired from the firm. What will be the gaining ratio between the remaining partners?

(a) 2 : 1
(b) 3 : 2
(c) 3 : 1
(d) 5 : 1

3. E , F and G were partners sharing profits and losses in the ratio of 2 : 2 : 1 respectively. G is retired from the firm and his capital on the date of retirement was Rs. 40000; Profit on Revaluation of assets and liabilities was Rs. 25000 and General Reserve was Rs. 5000. What will be the journal entry for the payment of amount due to G ?

(a)G's Capital A/c Dr 41000
    To Bank A/c 41000
(b)G's Capital A/c Dr 46000
    To Bank A/c 46000
(c) G's Capital A/c Dr 40000
    To Bank A/c 40000
(e) None of the above

There are two statements marked as Assertion (A) and Reason(R) from questions- no 4 to 6 Read the statements and choose the appropriate option from the options given below;

(a) Both Assertion (A) and Reason(R) are true and Reason (R) is 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 true but Reason(R) is false

(d) Assertion (A) is false but Reason(R) is true)

4. Assertion (A): There is need of finding the gaining ratio in case of retirement and death of a partner.
Reason (R): The gaining ratio is used by the remaining partner to compensate the share of the outgoing or dead partner.

5. Assertion(A): Rent to partner is shown in Profit& Loss Appropriation Account
Reason (R): Rent to partner is a charge against profit

6. Assertion(A): At the time of retirement of a partner, beside the Retiring partner if a continuing partner also sacrifices his profit share, he along with the retiring partner will get a share in the firm's goodwill equal to the profit share sacrificed.
Reason (R): Goodwill is paid by the gaining partners to the sacrificing partners for sacrificing their profit share.

7. Match the following items:

i) At the time of retirement of a partner, profit on revaluation is credited to:	A) Capital Account of retiring partner
ii) At the time of retirement of a partner, loss on revaluation is debited to:	B) Capital Accounts of all partners in old ratio
ii) At the time of retirement of a partner, goodwill appearing in the Balance Sheet is debited to	C) Capital Accounts of remaining partners in new ratio
	D) Capital Accounts of remaining partners in old ratio.

Options

a) i – B, ii – B, iii – B
b) i – A, ii – B, iii – C
c) i – C, ii – A, iii – B
d) i – D, ii – B, iii – A

A. B, C and D are partners sharing profits in the ratio of 3:3:2: 2 respectively. D retires and A, B and C decide to share the future profits in the ratio of 3:2:1. Goodwill of the firm is valued at Rs. 6,00,000. Goodwill already appears in the books at Rs. 4,50,000. The profits for the first year after B's retirement amount Rs, 12,00,000.
On the basis of the above information answer the following questions

8. The journal entry for treatment of old goodwill in the books is:
(a) Dr. A's Capital A/c, B's Capital A/C, Capital A/c and D's Capital A/c by 1,12,500 each and Cr. Goodwill A/c 4,50,000
(b) Dr. Goodwill A/c 4,50,000; Cr, A's Capital A/c and B's Capital A/c by 1,35,000 each; Cr. C's Capital A/c and D's Capital A/c by 90,000 each
(c) Dr. A's Capital A/c and B's Capital Ale by 1,35,000 each; Dr. C's Capital A/c and D's Capital A/c by 90,000 each, Cr Goodwill A/c by 4.50,000
(d) None of these

9. What will be the journal entry for the treatment of goodwill valued on retirement?
(a) Dr. A's Capital A/c and B's Capital A/c by 1,20,000 and 20,000 respectively, Cr. C's Capital A/c and D's Capital A/c by 20,000 and 1,20,000 respectively.
(b) Dr. A's Capital A/c and B's Capital A/c by 1,35,000 each; Cr. C's Capital A/c and D's Capital A/c by 1,35,000 each
(c) Dr. A's Capital A/c and B's Capital A/c by 90,000 and 1,35,000 respectively. Cr. C's Capital A/c and D's Capital A/c by 1,35,000 and 90,000 respectively.
(d) None of these

10. The share of profit for the first year to A, Band C will be:
(a) Rs. 3,00,000 each
(b) Rs. 6,00,000; Rs. 4,00,000 and Rs. 2,00,000
(c) Rs. 2,00,000; Rs. 4,00,000 and Rs. 6,00,000
(d) None of these

Answer **1.(a) 2. (c) 3. (b) 4. (a) 5. (d) 6. (a) 7. (a) 8. (c) 9. (a) 10. (b)**

QUESTIONS FOR PRACTICE (3 MARKS)

11. R, S & T are partners in a firm sharing profit & loss in the ratio of 2 : 2 : 1. T Retires and his balance in capital a/c after adjustment for reserve & revaluation of assets & liabilities comes out to be Rs. 50000. Rs. & S agree to pay him Rs. 60000. Give journal entry for the adjustment of goodwill.
Answer : New ratio between R & S = gaining ratio = 2:2 or 1:1
T's share of goodwill (hidden) = 60000- 50000 = 10000
Hence adjustment entry is
Journal

R's capital A/c Dr.	5,000	
S's capital A/c Dr.	5,000	
To T's capital A/c		10,000
(T's share of goodwill adjustment in gaining ratio i.e. 1:1)		

12. P, Q and R are partner's sharing profits and losses in the ratio 3:2:1. P retires and on that date there was workmen's compensation fund amount Rs. 30,000.In the Balance Sheet. But actual liability on this account was for Rs. 12,000 on that date. Give Journal Entry.
Answer: Excess amount in Workmen's Compensation Fund = Rs. 30,000 – Rs. 12,000 = Rs. 18,000 (Cr.)This will be transferred to all partner's Capital A/c in old ratio
Journal

Workmen Compensation Fund A/c Dr.	30,000	
To P's capital A/c		9,000
To Q's capital A/c		6,000
To R's capital A/c		3,000
To Claim for workmen compensation fund A/c		12,000

(Excess amount in Workmen Compensation Fund capital A/cs in old ratio) is transferred to partners)

13. A, B and C are partner sharing profits in the ratio of 3:2:1. A retires on 31st July 2015. The profits of the firm for the year ending 31st March 2015 year Rs. 42000. Calculate A's share for the period from 1st April to 31st July 2015 on basis of last year's profits. Pass necessary journal entry also.

Answer : A's Profit = Preceding year's profit x Proportionate Periodx Share of A

=Rs. 42,000x 4/12 x 3/6 = Rs. 7,000

Journal Entry

Profit and Loss Suspense a/c	Dr. 7,000	
To A's Capital A/c		7,000
(A's share of profit transferred to his capital A/c		

14. D , E and F are partners sharing profits and losses in the ratio of 1:2:1 . After all adjustments on E's retirement with respect to General Reserve , Goodwill and Revaluation etc. the balances in their capital accounts stood at Rs. 80,000 , 40,000 and 10,000 respectively. It was decided that the amount payable to E will be brought by D and F in such a way as to make their capital proportionate to their profit sharing ratio. What will be the amount to be brought in by D and F ?

Answer:

Adjusted old capitals of continuing partners i.e D and F = 80000 and 40000

Calculation of total capital of the new firm:

Adjusted capital of D = 80000

Adjusted capital of F = 40000

Amount payable to E = 10000

Total capital of new firm = 130000

New profit sharing ratio between D and F after retirement of E = 1 : 1

Calculation of new capitals of the continuing partners:

D s new capital = 130000 X 1/2 = 65000

F s new capital = 130000 X 1/2 = 65000

Amount to be brought in or withdrawn by D

New capital = 65000

Adjusted capital (given) = 80000

Cash brought in/paid off = (-15000)

Amount to be brought in or withdrawn by F

New capital = 65000

Adjusted capital (given) = 40000

Cash brought in/paid off = 25000

D will withdraw Rs. 15000 and F will bring Rs. 25000

(4 MARKS)

15. X, Y and Z are partners in a firm sharing profits in the ratio of 2:2:1 X retires and after all adjustments the Capital A/cs of the Y and Z have a balance of Rs. 70,000 and Rs. 50,000 respectively. They decided to adjust their capitals in new profit sharing ratio by withdrawing or bringing cash. Give necessary Journal entries and show your working clearly.

Answer: The capital of the new firm

= Total Capital of Y and Z after adjustments

= 70,000 + 50,000

= 1,20,000

	Y (Rs.)	Z (Rs.)
New Capital based on New Ratio i.e. 2:1 (total being 1,20,000) Existing capital after adjustments	80000 70,000	40,000 50,000
Cash is being brought or paid off	10,000 (brought in)	10,000 (to be paid

Journal Entries

1. Bank A/c Dr. 10,000
   To Y's Capital A/c 10,000

(Amount to be brought in by Y)

2. Z's Capital A/c Dr. 10,000
   To Bank A/c 10,000
   (Amount to be withdrawn by Y)

16. M. N. & P are partners in a firm P retires & the goodwill of firm is valued at 30000. M & N decide to share future profits in the ratio of pass necessary adjustment entries, if goodwill A/c already appears in books at 18000

Answer: Old ratio of M, n &p= 1:1:1 (sharing ratio in not given it true as equal) New ratio = 3:2

M's gain = 3/5 1/3 = 4/15

N's gain = 2/5 – 1/3 1/15

Gaining ratio = 4:1

Ps share of goodwill = = Rs. 10,000

Journal

1. M's capital A/c Dr. 6.000
   N's capital A/c Dr. 6,000
   P's capital A/c Dr. 6,000
   To Goodwill A/c 18,000
   (Being the existing goodwill written off in old ratio i.e. 1:1:1)
2. M's capital A/c Dr. 8,000
   N's capital A/c Dr. 2,000
   To P's Capital A/c 10,000
   (Being adjustment made for goodwill on retirement in giving ratio i.e., 4 : 1)

17. A, B and C were partners in a firm sharing profits in the ratio of 5 : 3 : 2. Goodwill appeared at ₹ 90,000 and general reserve at ₹ 50,000 in the books of the firm. B decided to retire from the firm. On the date of his retirement, goodwill of the firm was valued at Rs.2,40,000. The new profit sharing ratio of A and C was 2 : 3. Record necessary journal entries on Narendra's retirement.

Answer: Journal Entries

1. A's capital A/c Dr 45,000
   B's capital A/c Dr 27,000
   C's capital A/c Dr 18,000
   To Goodwill A/c 90,000

(Being the existing goodwill written off in old-ratio)

2. General Reserve A/c Dr 50,000
   To A's capital A/c 25,000
   To B's capital A/c 15,000

To C's capital A/c 10,000
(Being the general reserve distributed among old partners in old ratio)

3. C's capital A/c Dr 96,000
   To B's capital A/c 24,000
   To A's capital A/c 72,000

Working Note:
Calculation of Gaining Ratio
Gaining Ratio = New Share – Old Share
A = 2/5−5/10 = (1/10) sacrifice
C = 3/5−2/10 = 4/10 gain

(6 MARKS)

18. P, Q and R were partners in a firm sharing profits in the ratio of 3:2:1respectively. On March 31st, 2022, the balance sheet of the firm stood as follows:

Balance Sheet

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	13,000	Cash	4,700
Bills Payable	590	Debtors	8,000
Capital Accounts:		Stock	11,690
P 15,000		Buildings	23,000
Q 10,000		Profit and Loss	1,200
R 10,000	35,000	Account	
	48,590		48,590

Q retired on the above-mentioned date on the following terms:
(i) Buildings to be appreciated by ₹7,000
(ii) A provision for doubtful debts to be made at 5 % on debtors.
(iii)Goodwill of the firm is valued at ₹ 18,000 and adjustment to be made by raising and writing off the goodwill.
(iv)₹ 2,800 was to be paid to Q immediately and the balance in his capital account to be transferred to his loan account carrying interest as per the agreement.
(v) Remaining partner decided to maintain equal capital balances, by opening current account
Prepare the revaluation account and partner's capital accounts.
Answer:

Dr. Revaluation A/c Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Provision for Doubtful Debts	400	By Building A/c	7000
To Partner's Capital A/c:			
P 3,300			
Q 2,200			
R 1,100	6600		
	7000		7000

Dr. Partner's Capital Accounts Cr

Particulars	P	Q	R	Particulars	P	Q	R
Goodwill A/c	13,500		4,500	Balance b/d	15,000	10,000	10,000
Profit & Loss	600	400	200	Revaluation A/c	3,300	2,200	1,100
Cash	—	2,800	—	Goodwill A/c	9,000	6,000	3,000
Q's Loan	—	15,000	—	R's Current A/c	----	----	1,900
P's Current A/c	1,900	—	----				
Balance c/d	11,300	----	11,300				
	27,300	18,200	16,000		27,300	18,200	16,000

19. Vijay, Vivek and Vinay are partners in a firm sharing profits in 2:2:1 ratio, On 31.3.2015 Vivek retires from the firm. On the date of Vivek's retirement the balance sheet the firm was as follows:

Balance Sheet of Vijay, Vivek and Vinay

Liabilities		Amount (₹)	Assets		Amount (₹)
Creditors		54,000	Bank		55,000
Bill Payable		24,000	Debtor	12,000	
Outstanding Rent		4,400	Less: Provision for	800	
Provision for Legal Claim		12,000	Doubtful		11,200
Capital :			Stock		18,000
Vijay	92,000		Furniture		8,200
Vivek	60,000		Premises		1,94,000
Vinay	40,000	1,92,000			
		2,86,400			2,86,400

On Vivek's retirement it was agreed that :

(i) Premises will be appreciated by 5% and furniture will be appreciated by Rs. 2,000 Stock will be depreciated by 10%

(ii) Provision for bad debts was to be made at 5% on debtors and provision legal damages to be made for Rs. 14,400.

(iii) Goodwill of the firm is valued at Rs. 48,000.

(iv) Rs. 50,000 from Vivek's Capital A/c will be transferred to his Loan A/c and balance will be paid by cheque.

Prepare revaluation a/c, partners Capital A/cs

Answer:

Dr. Revaluation A/c Cr.

Particulars		Amount (₹)	Particulars	Amount (₹)
To Stock		1,800	By Premises	9,700
To Provision for legal Claim		2,400	By Furniture	2,000
To Profit Transferred			By Provision For doubtful debts	200
Vijay	3,080			
Vivek	3,080			
Vinay	1,540	7,400		
		11,900		11,900

Dr. Partner's Capital Accounts Cr

Particulars	Vijay	Vivek	Vinay	Particulars	Vijay	Vivek	Vinay

Vivek's Capital	12,800		6,400	Balance b/d	92,000	60,000	40,000
Vivek's Loan	–	50,000		Revaluation A/c	3,080	3,080	1,540
Bank	–	32,280		Vijay's Capital		12,800	
				Vinay's Capital		6,400	
Balance c/d	82,280		35,140				
	95,080	82,280	41,540		95,080	82,280	41,540

20. A, B and C were partners sharing profits & losses in the ratio of 5:3:2 respectively. The Balance Sheet as at 31st March, 2021 was as follows:

Liabilities	Rs	Assets	Rs
Sundry Creditors	40,000	Fixed Assets	1,25,000
Expenses Outstanding	5,000	Stock	55,000
Reserve	15,000	Debtors	60,000
Capitals: A	1,00,000	Cash	10,000
B	50,000		
C	40,000		
	2,50,000		2,50,000

B retires on 31-3-2021 and for this purpose, Goodwill was valued at three year's purchase of average profits, which were Rs 25,000. Fixed Assets were valued at Rs1,70,000. Stock was considered worth Rs 50,000.
B was to be paid in cash brought in by A and C in such a way so as to make their capitals proportionate to their new profit sharing ratio which is 3:2 respectively.
Prepare Revaluation Account and Partner's Capital Accounts.
Answer:

Dr. Revaluation A/c Cr

Particulars		Rs	Particulars	Rs
Stock		5,000	Fixed Assets	45,000
Profit transferred to				
A	20000			
B	12,000			
C	8,000	40,000		
		45,000		45,000

Dr. Partner's Capital Accounts Cr

Particulars	A	B	C	Particulars	A	B	C
				Balance b/d	1,00,000	50,000	40,000
				Reserve A/c	7,500	4,500	3,000
B'sCapitalA/c	7,500		15,000	A's Capital A/c		7,500	....
Balance c/d	1,20,000	89,000	36,000	C's Capital A/c		15,000	....
				RevaluationA/c	20,000	12,000	8,000
	1,27,500	89,000	51,000		1,27,500	89,000	51,000
Cash A/c	....	89,000	....	Bal. b/d	1,20,000	89,000	36,000
Bal.c/d	1,47,000	....	98,000	Cash A/c	27,000	....	62,000
	1,47,000	89,000	98,000		1,47,000	89,000	98,000

Gaining Ratio for adjustment of Goodwill =

A = 3/5-5/10 =1/10

C= 2/5-2/10 =2/10 1:2

Total capital of the new firm after the retirement of B: Rs

	Rs
Amount required for paying B	89,000
A's existing Capital	1,20,000
C's existing Capital	36,000
Total Capital required	2,45,000

This total capital of the new firm should be divided between A and C in their new profit sharing ratio:

A=2,45,000 x3/5 = Rs 1,47,000, C = 2,45,000x2/5 = Rs 98,000

Therefore, the cash brought in by A and C:

	A Rs	C Rs
Capital Required	1,47,000	98,000
Less :Existing Capital	1,20,000	36,000
	27,000	62,000

❖

Death of a Partner

Concept:

- When a partner dies, the reconstitution of the partnership takes places between/among the remaining partners as similar as when a partner retires.
- The partner who has died is known as deceased partner in the books of account.

Effect of Death of a Partner on Change in Profit Sharing Ratio:

- New Profit Share = Old Profit Share + Gained Share taken from Deceased Partner
- Gain of a Partner = New Profit Share – Old Profit Share

Treatment of Goodwill (as per AS 26):

- Deceased Partner's Share of Goodwill = Value of firm's Goodwill x Profit Share of Deceased Partner

Gaining Partner's Capital Accounts …Dr.
To Deceased Partner's Capital Account
To Sacrificing Partner's Capital Accounts (if any)
(Adjustment of goodwill made in gaining/sacrificing ratio)

Goodwill Already Appearing in Books:

- Any goodwill already appearing in the books (balance sheet) will be immediately written off (debited) to old partners' capital accounts in old profit sharing ratio.
- Here, the word 'old partners' includes the deceased or retired partner also.

All Partners' Capital/Current A/c …Dr (In old ratio)
To Goodwill A/c (With existing book value of goodwill)

Treatment for Revaluation of Assets and Reassessment of Liabilities:

- Same as done at the time of retirement of a partner

Treatment of Accumulated Reserves and Profits/Losses:

- Same as done at the time of retirement of a partner

Adjustment of Capital Accounts and Preparation of Current/Capital Accounts:

- Same as done at the time of retirement of a partner

Calculation of Deceased Partner's share of Profit till the date of death:

- Deceased Partner is entitled to get his share of profits till the date of death and he is also liable to bear his share of losses if any incurred in this period.
- When a partner dies on the date when firm closes its books, no specific calculation of his share of profit is required as already final accounts are prepared by the firm and share of profit/loss is transferred to capital/current accounts of all the partners in their respective ratio but dying on the date when firm closes its accounts is just a coincidence.
- In most cases a partner dies in mid of the year or in mid of any month and if firm does not prepare final accounts on that date, his share of profits is calculated on the basis of estimated profit either on Time Basis or on Sales/Turnover Basis:

(1) Estimating Profit on Time Basis:

Step1 Calculate Average Profit of the Profits/Losses given of the agreed years.
Step2 Calculate Profit for the period till the date of death = Average Profit x Months/12 or Days/365
Step3 Deceased Partner's Share of Profit = Profit for the period till the date of death x

Deceased Partner’s Share of Profit

(2) Estimating Profit on Sales/Turnover Basis:

Step1 Calculate % of Profit on the Sales given of Previous Year = Profit x 100/Sales (of previous year)

Step2 Calculate Profit for the period till the date of death = Sales for the period till the date of death x % of Profit/100

Step3 Deceased Partner’s Share of Profit = Profit for the period till the date of death x Deceased Partner’s Share of Profit

- The journal entry for both the above cases will be as follows:

  Profit and Loss Suspense Account …Dr.
  To Deceased Partner’s Capital Account
  (Profit for the period till the date of death is transferred)

Preparation of Deceased Partner’s Capital Account:

Dr. **Format of Deceased Partner’s Capital Account** Cr.

Particulars	Amount	Particulars	Amount
To Drawings A/c (if any) To Interest on Drawings A/c (if any) To Goodwill A/c (existing if any) To Current A/c (Debit if any) To Loan to Partner A/c (if any) To Revaluation A/c (Loss if any) To Profit & Loss A/c (Debit)/Deferred Revenue Exp. A/c (if any) To Profit & Loss Suspense A/c (Loss if any) **To Executor’s A/c (of Deceased Partner)** ***(Balancing Figure)***		By Balance b/d (Deceased Partner’s Capital Balance) By Reserves/Profit & Loss A/c (Credit if any) By Salary or Commission A/c (if any) By Interest on Capital A/c (if any) By Revaluation A/c (Profit) By Profit & Loss Suspense A/c (Profit) By Gaining Partner’s Capital A/cs (share of goodwill) By Current A/c (Credit if any) By Loan by Partner A/c (if any)	

Payment of Amount Due to Executor of Deceased Partner:

- When paid in Lump Sum on Death:

  Deceased Partner’s Executor’s A/c …Dr.
  To Bank A/c
  (Lump sum amount paid)

- When paid in annually installment along with interest:

  Interest A/c …Dr.
  To Deceased Partner’s Executor’s A/c
  (Interest due)
  Deceased Partner’s Executor’s A/c …Dr.
  To Bank A/c
  (Installment paid including interest)

Preparation of Deceased Partner's Executor's Account:

Dr. Format of Deceased Partner's Executor's Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
I Yr	To Bank A/c (immediate payment if any) To Balance c/d		I Yr	By Deceased Partner's Capital A/c By Interest A/c	
II Yr	To Bank A/c (Principal + Interest) To Balance c/d		II Yr	By Balance b/d By Interest A/c By Interest A/c	
III Yr	To Bank A/c (Principal + Interest) To Balance c/d		III Yr	By Balance b/d By Interest A/c By Interest A/c	
IV Yr	To Bank A/c (Principal + Interest)		IV Yr	By Balance b/d By Interest A/c By Interest A/c	

Multiple Choice Questions (MCQs)/One Mark Questions:

Q.1 Anay, Mitesh and Shaina were partners in a firm sharing profits in the ratio of 5:3:2. Mitesh died on 1st January, 2022. Anay and Shaina will acquire Mitesh's share in the ratio of:

(a) 1:1 (b) 3:2 (c) 5:3 (d) 5:2

Q.2 Venkatesh, Somesh and Mahesh were partners in a firm sharing profits in the ratio of 4:3:1. Mahesh died and his entire share was taken up by Venkatesh. The new profit sharing ratio of Venkatesh and Somesh will be:

(a) 1:1 (b) 3:5 (c) 5:3 (d) 5:2

Q.3 David, Amir and Balwinder are partners in a firm sharing profits and losses in the ratio of 7:5:8. Balwinder died on 28th August, 2022. His share in the profits of the firm till the date of the death was determined at ₹1,05,000. It will be debited to which of the following accounts?

(a) Profit and Loss Account (b) Profit and Loss Appropriation Account

(c) Profit and Loss Adjustment Account (d) Profit and Loss Suspense Account

Q.4 On death of a partner, the remaining partners' capital accounts are debited with deceased partner's share of goodwill in:

(a) Old Profit Sharing Ratio (b) New Profit Sharing Ratio

(c) Gaining Ratio (d) Equal Ratio

Q.5 Vijay, Kartik and Zubaid were partners in a firm sharing profits and losses in the ratio of 3:2:1. The profit of the firm for the year ended 31st March, 2010 was ₹3,00,000. Kartik died on 1st July 2010. What will be Kartik's share of profit up to the date of death assuming that profits in the year 2010-2011 have been accrued on the same scale as in the year 2009-10?

(a) ₹25,000 (b) ₹33,333 (c) ₹1,50,000 (d) ₹75,000

Instructions: Q.6 to **Q.10** are based on Assertion and Reason. In each question, on the basis of (A) and (R) given in the question, choose the correct choice from the options given below:
(a) Both **(A)** and **(R)** are wrong
(b) Only **(A)** is right and **(R)** is wrong
(c) Both **(A)** and **(R)** are right and **(R)** is the correct explanation of **(A)**
(d) Both **(A)** and **(R)** are right but **(R)** is not the correct explanation of **(A)**

Q.6 Assertion (A): A partnership will come to an end immediately whenever a partner dies, although the firm may continue with the remaining partners.
Reason (R): The payment of deceased partner's share will be received by his heirs/executors.

Q.7 Assertion (A): For the complete settlement of account, a deceased partner is entitled to get his share of profits till the date of his death along with the balance of his capital account till date.
Reason (R): He is also liable to bear his share of losses if any incurred in this period.

Q.8 Assertion (A): Deceased partner will get his share of Workmen Compensation Reserve remaining after claim, if any.
Reason (R): Unrecorded assets and liabilities are not accounted at the time of death of a partner.

Q.9 Assertion (A): On the death of a partner, his share of goodwill is compensated to him by the gaining partners.
Reason (R): As per AS-26, Goodwill is not recorded in the books of accounts unless some consideration is paid for it.

Q.10 Assertion (A): Realisation account is prepared on the death of a partner.
Reason (R): In the absence of agreement, interest on amount due to executor of deceased partner is paid @ 6.6% p.a.

Instructions: Read the following hypothetical situation and answer **Q.11** & **Q.12**
A, B and C were partners in a firm sharing profits in 3:2:1 ratio. The firm closes its books on 31st March every year. B died on 12-06-2007. On B's death the goodwill of the firm was valued at ₹1,20,000. 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 which was ₹3,00,000.
Q.11 How much amount will A compensate for B's share of goodwill?
(a) ₹10,000 (b) ₹30,000 (c) ₹20,000 (d) ₹40,000

Q.12 With what amount Profit and Loss Suspense Account will be debited?
(a) ₹60,000 (b) ₹1,00,000 (c) ₹10,000 (d) ₹20,000

Instructions: Q.13 to **Q.16** are statements based questions. In each question, two statements (A) & (B) are given, choose the correct alternative from the following:
(a) Both **(A)** and **(B)** are correct
(b) **(A)** is correct and **(B)** is incorrect
(c) **(A)** is incorrect and **(B)** is correct
(d) Both **(A)** and **(B)** are incorrect

Q.13 Statement (A): On death of a partner, partnership firm also ends.

Statement (B): Deceased partner receives his share in all accumulated reserves.

Q.14 Statement (A): Profit and Loss Appropriation Account is debited with deceased partner's share of profit till the date of death.
Statement (B): Loss on Revaluation Account is not borne by the deceased partner on the event of his death.

Q.15 Statement (A): Existing Goodwill is written off among all partners including deceased one in old profit sharing ratio.
Statement (B): Deceased partner's capital account is credited with his share of goodwill.

Q.16 Statement (A): Any deferred revenue expenditure is also borne by deceased partner.
Statement (B): A deceased partner gets share of profit for the whole year irrespective of the date of his death.

Q.17 Which of the following statements is incorrect about death of a partner?
(a) Deceased partner is entitled to get interest on capital till the date of death as agreed in the deed.
(b) Deceased partner is not liable to bear any loss occurred after the date of his death.
(c) Existing goodwill will be written off in gaining ratio.
(d) Profit on revaluation will be shared among all partners in old ratio.

Q.18 Which of the following statements is correct about death of a partner?
(a) Deceased partner is charged interest on his drawings till the date of death as agreed in the deed.
(b) Deceased partner's executor has a right to inspect the books of account till entire amount due to him is not paid.
(c) Executor of deceased partner is considered a partner in the absence of specific information.
(d) Interest on the amount due to executor of deceased partner is paid @ 10% p.a.

Q.19 Match the following in case of death of a partner:

(i) General Reserve	(A) Deceased Partner's Loan A/c is credited
(ii) Accumulated Losses	(B) Deceased Partner's Loan A/c is debited
(iii) For payment of installment	(C) Credited to Deceased Partner's Capital A/c
(iv) Interest provided on due amount	(D) Debited to Deceased Partner's Capital A/c

(a) (i) (D), (ii) (C), (iii) (A), (iv) (B)
(b) (i) (C), (ii) (D), (iii) (A), (iv) (B)
(c) (i) (C), (ii) (D), (iii) (B), (iv) (A)
(d) (i) (D), (ii) (A), (iii) (B), (iv) (C)

Q.20 Read the statement and choose the correct alternative:
Statement: Balance of Deceased Partner's Capital Account is transferred to his Executor's Account.
(a) False (b) True (c) Partly True and Partly False (d) None of these

Answer Key

1 (d)	**2 (c)**	**3 (d)**	**4 (c)**	**5 (a)**	**6 (d)**	**7 (c)**	**8 (b)**	**9 (c)**	**10 (a)**
11 (b)	**12 (d)**	**13 (c)**	**14 (d)**	**15 (a)**	**16 (b)**	**17 (c)**	**18 (a)**	**19 (c)**	**20 (b)**

Three Marks Questions:

Q.21 Abhishek, Bhomick and Chirag were partners in a firm sharing profits in the ratio of 2:2:1. Chirag dies on 31st July, 2012. Sales during the previous year up to 31st March, 2012 were ₹6,00,000 and profits were ₹1,50,000. Sales for the current year up to 31st July were ₹2,50,000. Calculate Chirag's share of profits up to the date of his death and pass necessary journal entry.

Solution:

Percentage of Profit on Sales = 1,50,000 x100 /6,00,000 = 25%

Profit up to the date of death= 2,50,000 x 25% = ₹62,500

Chirag's Share in this Profit = 62,500 x 1/5 = ₹12,500

Journal Entry

Date	**Particulars**	**L.F.**	**Debit Amount**	**Credit Amount**
2012			₹	₹
Jul. 31	Profit & Loss Suspense A/c Dr.		12,500	
	To Chirag's Capital A/c			12,500
	(Being Chirag's share in profit transferred to his capital account)			

Q.22 Kriti, Asma and Ayyar are partners sharing profits in the ratio 4:3:3. On Ayyar's death, the value of firm's goodwill was agreed at ₹30,000. Kriti and Asma agreed to share profits and losses in future in the ratio of 7:3 respectively.

Give necessary journal entry in relation to goodwill, without opening its account.

Solution:

Gained Share = New Share – Old Share

For Kriti 7/10 – 4/10 = 3/10

For Asma 3/10 – 3/10 = NIL

Ayyar's share in firm's goodwill = 30,000 x 3/10 = ₹9,000

Journal Entry

Date	**Particulars**	**L.F.**	**Debit Amount**	**Credit Amount**
			₹	₹
	Kriti's Capital A/c Dr.		9,000	
	To Ayyar's Capital A/c			9,000
	(Being adjustment for goodwill made without opening goodwill account)			

Q.23 Ritika, Monika and Himani were partners in a firm. Himani died on 30th November, 2023. Her share of profit from the closure of the last accounting year till the date of death was to be calculated on the basis of the average of four completed financial years of profits before death. Profits for the years ended 31st March, 2020, 2021, 2022 and 2023 were ₹50,000; ₹60,000; ₹1,20,000 and ₹1,30,000 respectively.

Calculate Himani's share of profit till the date of her death and pass necessary journal entry for the same.

Solution:

$$\text{Average Profit} = \frac{50,000 + 60,000 + 1,20,000 + 1,30,000}{4} = ₹90,000$$

Profit up to the date of death= 90,000 x 8/12 = ₹60,000

Himani's Share in this Profit = 60,000 x 1/3 = ₹20,000

Journal Entry

Date	**Particulars**	**L.F.**	**Debit**	**Credit**

			Amount	Amount
2023			₹	₹
Nov.30	Profit & Loss Suspense A/c Dr. To Himani's Capital A/c (Being Himani's share in profit transferred to his capital account)		20,000	20,000

Q.24 Harihar, Hemang and Harit were partners with fixed capitals of ₹3,00,000, ₹ 2,00,000 & ₹ 1,00,000 respectively. They shared profits in the ratio of their fixed capitals. Harit died on 31st May, 2020, whereas the firm closes its books of accounts on 31st March every year. According to their partnership deed, Harit's representatives would be entitled to get share in the interim profits of the firm on the basis of sales. Sales and profit for the year 2019-20 amounted to ₹8,00,000 and ₹3,20,000 respectively and sales from 1st April, 2020 to 31st May 2020 amounted to ₹ 1,50,000. The rate of profit to sales remained constant during these two years. You are required to: (i) Calculate Harit's share in profit. (ii) Pass journal entry to record Harit's share in profit.

Solution:

Percentage of Profit on Sales = 3,20,000 x100 /8,00,000 = 40%

Profit up to the date of death= 1,50,000 x 40% = ₹60,000

Profit sharing Ratio according to fixed capitals = 3:2:1

Harit's Share in this Profit = 60,000 x 1/6 = ₹10,000

Journal Entry

Date	Particulars	L.F.	Debit Amount	Credit Amount
2020			₹	₹
May 31	Profit & Loss Suspense A/c Dr. To Harit's Current A/c (Being Harit's share in profit transferred to his current account)		10,000	10,000

Four Marks Questions:

Q.25 Garima, Yatim and Zubin were partners sharing profits in the ratio 5: 3: 2. Zubin died on 1st August, 2015. Amount due to Zubin's executor after all adjustments was ₹90,300. The executor was paid ₹10,300 in cash immediately and the balance in two equal annual installments with interest @ 6% p.a. starting from 31st March, 2017. Accounts are closed on 31st March each year.

Prepare Zubin's Executors Account till he is finally paid.

Solution:

Dr. Zubin's Executor's A/c Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2015			2015		
Aug.1	To Bank A/c	10,300	Aug.1	By Zubin's Capital A/c	90,300
2016			2016		
Mar.31	To Balance c/d	83,200	Mar.31	By Interest A/c	3,200
		93,500			93,500
2017			2016		
Mar.31	To Bank A/c (40,000 + 4,800)	44,800	Apr.1	By Balance b/d	83,200
			Jul.31	By Interest A/c	1,600
,,	To Balance c/d	41,600	2017		

			Mar.31	By Interest A/c	1,600
2018 Mar.31	To Bank A/c (40,000 + 2,400)		2017		
		86,400	Apr.1	By Balance b/d	86,400
		42,400	Jul.31	By Interest A/c	
					41,600
					800
		42,400			42,400

Working Notes: Amount payable as loan = 90,300 – 10,300 = ₹80,000

1.80,000 x 6/100 x 8/12 = ₹3,200　　2.80,000 x 6/100 x 4/12 = ₹1,600

3.40,000 x 6/100 x 8/12 = ₹1,600　　4.40,000 x 6/100 x 4/12 = ₹800

Q.26 Gagan, Harish and Reena were partners in a firm sharing profits and losses equally. On 31st March, 2015, Harish died and the amount payable to his executors was ₹90,000. It was agreed between the remaining partners and Harish's executors that the executors will be paid in four equal yearly instalments along with interest @ 18% per annum starting from 31st March, 2016. Prepare Harish's executor's account till it is finally closed.

Solution:

Dr.　　Harish's Executor's A/c　　Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2015 Mar.31	To Balance c/d	90,000	2015 Mar.31	By Harish's Capital A/c	90,000
		90,000			90,000
2016 Mar.31	To Bank A/c (22,500 + 16,200)	38,700	2015 Apr.1	By Balance b/d	90,000
,,	To Balance c/d	67,500	2016 Mar.31	By Interest A/c	16,200
		1,06,200			1,06,200
2017 Mar.31	To Bank A/c (22,500 + 12,150)	34,650	2016 Apr.1	By Balance b/d	67,500
,,	To Balance c/d	45,000	2017 Mar.31	By Interest A/c	12,150
		79,650			79,650
2018 Mar.31	To Bank A/c (22,500 + 8,100)	30,600	2017 Apr.1	By Balance b/d	45,000
,,	To Balance c/d	22,500	2018 Mar.31	By Interest A/c	8,100
		53,100			53,100
2019 Mar.31	To Bank A/c (22,500 + 4,050)	26,550	2018 Apr.1	By Balance b/d	22,500
			2019 Mar.31	By Interest A/c	4,050
		26,550			26,550

Q.27 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 31-12-2015 Vaibhav died. On that date his Capital account showed a credit balance of ₹3,80,000 and Goodwill of the firm was valued at

₹1,20,000. There was a debit balance of ₹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 last five years. The average profit of last five years was ₹75,000. Pass necessary journal entries in the books of the firm on Vaibhav's death.

Solution:

Journal Entries

Date	Particulars	L.F.	Debit Amount	Credit Amount
2015			₹	₹
Dec. 31	Vikas's Capital A/c Dr.		12,000	
	Vishal's Capital A/c Dr.		12,000	
	To Vaibhav's Capital A/c			24,000
	(Adjustment of goodwill done in gaining ratio)			
	Vikas's Capital A/c Dr.		20,000	
	Vishal's Capital A/c Dr.		20,000	
	Vaibhav's Capital A/c Dr.		10,000	
	To Profit and Loss A/c			50,000
	(Debit balance in P&L A/c written-off among all partners in old ratio)			
	Profit and Loss Suspense A/c Dr.		11,250	
	To Vaibhav's Capital A/c			11,250
	(Vaibhav's share of profit up to date of death dispensed through P&L Suspense A/c)			
	Vaibhav's Capital A/c Dr.		4,05,250	
	To Vaibhav's Executor's A/c			4,05,250
	(Amount due to Vaibhav transferred to his Executor's A/c)			

Q.28 Shanky, Mickey and Akki 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 30th September, 2016 Mickey died. The partnership deed provided that on the death of a partner his executors will be entitled to the following:

(1) Balance in his capital account and interest @ 12% p.a. on capital. On 1-4-2016 the balance in Mickey's Capital account was ₹1,00,000.

(2) His share in the profits of the firm in the year of his death which will be calculated on the basis of rate of net profit on sales of the previous year which was 25%. The sales of the firm till 30th September, 2016 were ₹9,00,000.

(3) His share on the goodwill of the firm. The goodwill of the firm on Mickey's death was valued at ₹1,50,000.

The partnership deed also provided that the following deductions will be made from the amount payable to the executor of the deceased partner:

(i) His drawings in the year of his death. Mickey's drawings till 30th September, 2016 were ₹ 4,000.

(ii) Interest on drawing @ 6% per annum which calculated as ₹ 120.

The accountant of the firm prepared Mickey's Capital Account to be presented to the executor of Mickey but in a hurry he left in incomplete.

Mickey 's capital Account prepared by Accountant of the firm is shown below:

Dr. Mickey's Capital Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount

2016		₹	2016		₹
Sep. 30	……………	4,000	April 1	……………	1,00,000
Sep. 30	……………	…….	Sep. 30	……………	6,000
Sep. 30	……………	…….	Sep. 30	……………	90,000
Sep. 30	……………	40,000	Sep. 30	……………	20,000
		2,56,000			2,56,000

You are required to complete Mickey 's Capital Account.

Solution:

Dr. Mickey's Capital Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2016		₹	2016		₹
Sep. 30	Drawings A/c	4,000	April 1	Balance b/d	1,00,000
Sep. 30	Interest on Drawings A/c	120	Sep. 30	Interest on Capital A/c	6,000
Sep. 30	Mickey 's Executor's A/c	2,51,880	Sep. 30	Profit and Loss Suspense A/c	90,000
Sep. 30	Shanky Capital A/c	40,000	Sep. 30	Akki's Capital A/c	20,000
		2,56,000			2,56,000

Six Marks Questions:

Q.29 Brown and Smith are partners the partnership deed provides:

(i) That the accounts to be balanced on 31st December each year.

(ii) That the profit be divided as follows: Brown 1/2: Smith 1/3 and carry to a reserve account 1/6.

(iii) That in an event of death of a partner, his executors be entitled to be paid out:

(a) The capital to his credit at the date of death along with the interest @ 30% p.a. till the date of death.

(b) His proportion of reserve at the date of the last balance sheet

(c) His proportion of profit to date of death based on the average profit of last three completed years.

(d) By way of goodwill his proportion of the total profit for the three preceding years.

On 31st December, 2017 the ledger balances were:

Particulars	Amount	Particulars	Amount
	₹		₹
Brown's capital	9,000	Bills Receivable	2,000
Smith's capital	6,000	Investment	5,000
Reserve	3,000	Cash	14,000
Creditors	3,000		
	21,000		21,000

The profits for three years were: 2015 ₹4,200: 2016 ₹3,900: 2017 ₹4,500. Smith died on 1st May 2018. ₹560 was paid immediately by cheque to his executor and for the balance amount it was agreed that the amount will be paid to his executor in two equal yearly installments with interest @ 6% p.a. The first installment was to be paid on 30.04.2019.

Calculate the amount transferred to Smith's executors as on May 1st, 2018 and also prepare his executor's account till he is finally paid.

Solution:

Calculation of Amount transferred to Smith's Executor on 1st May, 2018

Amount transferred to Smith's Executor = Smith's Capital Balance + Interest on Capital till the date of death + His share in Reserve + His share in Profits till his death + His share of Goodwill compensated by Brown

= 6,000 + 600 + 1,200 + 560 + 4,200

= **₹12,560**

Working notes:

1. Interest on Capital till death date = 6,000 x 30/100 x 4/12 = ₹600
2. Share in Reserve = 3,000 x 2/5 = ₹1,200
3. Share in Profits till death date = $\frac{4,200 + 3,900 + 4,500}{3}$ = ₹4,200 x 4/12 x 2/5 = ₹560
4. Share of Goodwill = (4,200 x 5/6 x 2/5) + (3,900 x 5/6 x 2/5) + (4,500 x 5/6 x 2/5) = ₹4,200

Dr. **Smith's Executor's Account** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2018			2018		
May1	To Bank A/c	560	May1	By Smith's Capital A/c	12,560
Dec.31	To Balance c/d	12,480	Dec.31	By Interest A/c	480
		13,040			13,040
2019			2019		
Apr.30	To Bank A/c	6,720	Jan.1	By Balance b/d	12,480
	(6,000 + 720)		Apr.30	By Interest A/c	240
Dec.31	To Balance c/d	6,240	Dec.31	By Interest A/c	240
		12,960			12,960
2020			2020		
Apr.30	To Bank A/c	6,360	Jan.1	By Balance b/d	6,240
	(6,000 + 360)		Apr.30	By Interest A/c	120
		6,360			6,360

Working notes: Amount payable as loan = 12,560 – 560 = ₹12,000

1. 12,000 x 6/100 x 8/12 = ₹480
2. 12,000 x 6/100 x 4/12 = ₹240
3. 6,000 x 6/100 x 8/12 = ₹240
4. 6,000 x 6/100 x 4/12 = ₹120.

Q.30 Nikita, Mankrit and Pulkit were partners in a firm sharing profits and losses in the ratio 4:3:2. Their balance sheet as on 31st March, 2019 was as follows:

Balance Sheet of Nikita, Mankrit and Pulkit *as on 31st March 2019*

Liabilities		Amount	Assets	Amount
		₹		₹
Capital A/cs:			Plant & Machinery	6,40,000
Nikita	4,00,000		Stock	2,30,000
Mankrit	3,00,000		Sundry Debtors	1,40,000
Pulkit	2,00,000	9,00,000	Cash at Bank	40,000
General Reserve		90,000		
Creditors		60,000		
		10,50,000		10,50,000

Mankrit died on 31st July, 2019. According to the partnership deed, the executors of the deceased partner are entitled to:

(a) Balance of partner's capital account

(b) Salary @ ₹ 6,000 per quarter.

(c) Share of goodwill calculated on the basis of twice the average of past three years' profits and share of profits from the closure of the last accounting year till the date of death calculated on the

basis of average of three completed years' profits before death. Profits for 2016-17, 2017-18 and 2018-19 were ₹80,000, ₹90,000 and ₹1,00,000 respectively.
(d) Mankrit withdrew ₹6,000 on 15th May, 2019.
Prepare Mankrit's capital account to be rendered to her executors.
Solution:

Dr. Mankrit's Capital Account Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2019		₹	2019		₹
July 31	Drawings A/c	6,000	April 1	Balance b/d	3,00,000
,,	Mankrit's Executor's A/c	4,02,000	July 31	Salary A/c	8,000
			,,	Nikita's Capital A/c	40,000
			,,	Pulkit's Capital A/	20,000
			,,	Profit and Loss Suspense A/c	10,000
			,,	General Reserve	30,000
		4,08,000			4,08,000

Working Notes:

(1) Calculation of Mankrit's share of goodwill:
Average Profit for the last three years = (80,000 + 90,000 + 1,00,000) / 3 = ₹90,000
Goodwill of the firm = Average Profits of the last three years × Number of Years' Purchase
= ₹ (90,000 × 2) = ₹1,80,000
Mankrit's share in goodwill = 1,80,000 x 3/9 = ₹60,000

(2) Mankrit's share of profit till the date of his death = 90,000 x 4/12 x 3/9 = ₹10,000

Q.31 Rihana, Michael and Azar 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 30th June, 2020 Michael died. The partnership deed provided that on the death of a partner his executors will be entitled to the following:
a) Balance in his capital account which amounted to ₹2,30,000 and interest on capital till date of death which amounted to ₹10,000.
b) His share in the profits of the firm till the date of his death amounted to ₹40,000.
c) His share in the goodwill of the firm. The goodwill of the firm on Michael's death was valued at ₹3,00,000.
d) Loan to Michael amounted ₹40,000.
It was agreed that the amount will be paid to his executor in three equal yearly installments with interest @10% p.a. The first installment was to be paid on 30.06.2021.
Calculate the amount to be transferred to Michael's executors Account and prepare the executor's account till it is finally settled.
Solution:
Calculation of Amount transferred to Michael's Executor on 30th June, 2020
Amount transferred to Michael's Executor = Michael's Capital Balance + Interest on Capital till the date of death + His share in Profits till his death + His share of Goodwill compensated by Rihana and Azar – Loan to Michael
= 2,30,000 + 10,000 + 40,000 + (80,000 + 40,000) – 40,000
= **₹3,60,000**

Working note:
1. Share of Goodwill = 3,00,000 x 2/5 = ₹1,20,000 ; Rihana will compensate = 1,20,000 x 2/3 = ₹80,000 and Azar will compensate = 1,20,000 x 1/3 = ₹40,000

Dr. **Michael's Executor's Account** Cr.

Date	**Particulars**	**Amount**	**Date**	**Particulars**	**Amount**
2021			2020		
Mar.31	To Balance c/d	3,87,000	Jun.30	By Michael's Capital A/c	3,60,000
			2021		
			Mar.31	By Interest A/c	27,000
		3,87,000			3,87,000
2021			2021		
Jun.30	To Bank A/c	1,56,000	Apr.1	By Balance b/d	3,87,000
	(1,20,000 + 36,000)		Jun.30	By Interest A/c	9,000
2022			2022		
Mar.31	To Balance c/d	2,58,000	Mar.31	By Interest A/c	18,000
		4,14,000			4,14,000
2022			2022		
Jun.30	To Bank A/c	1,44,000	Apr.1	By Balance b/d	2,58,000
	(1,20,000 + 24,000)		Jun.30	By Interest A/c	6,000
2023			2023		
Mar.31	To Balance c/d	1,29,000	Mar.31	By Interest A/c	9,000
		2,73,000			2,73,000
		1,32,000			1,29,000
2023			2023		3,000
Jun.30	To Bank A/c	1,32,000	Apr.30	By Balance b/d	1,32,000
	(1,20,000 + 12,000)		Jun.30	By Interest A/c	

Working notes: Amount payable as loan = ₹3,60,000

1. 3,60,000 x 10/100 x 9/12 = ₹27,000
2. 3,60,000 x 10/100 x 3/12 = ₹9,000
3. 2,40,000 x 10/100 x 9/12 = ₹18,000
4. 2,40,000 x 10/100 x 3/12 = ₹6,000
5. 1,20,000 x 10/100 x 9/12 = ₹9,000
6. 1,20,000 x 10/100 x 3/12 = ₹3,000

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CHAPTER 4
DISSOLUTION OF PARTNERSHIP FIRM

MEANING OF DISSOLUTION:

Dissolution of firm is the discontinuance of all the business activities. Books of accounts are closed. Assets are disposed off. Liabilities (outside) are paid. Partner's Capital if showing credit balance is refunded. If everything is O.K., the debit and credit side of Cash Account tallies each other.

DIFFERENCE BETWEEN DISSOLUTION OF PARTNERSHIP AND DISSOLUTION OF FIRM:

	Dissolution of Partnership	**Dissolution of Firm**
Definition	Dissolution of a partnership – to the adjournment of the association between a partner and the rest of the partners of an enterprise	When all the existing partnership of an organisation is dissolved, it is known as dissolution of a firm
Continuation of business	In event of dissolution of partnership, business continues as usual, but the partnership is reconstituted	In event of dissolution of firm, business stops
Intervention of Court	No requirement for court intervention	Firms can be dissolved by court intervention
Closure of book of accounts	Not closed	Closed for firm
After winding up of the entity	Assets and liabilities are revalued after winding up of existing partnership	Assets and liabilities are settled on winding up of a firm
Scope	Does not result in dissolution of firm	Dissolution occurs between partners of the firm

SITUATIONS FOR DISSOLUTION OF PARTNERSHIP FIRM:

According to sections 40 to 44 of the Indian Partnership Act 1937, the firm is dissolved in the following situations:

1. **Dissolution by agreement (Sec. 40).** The partners of the firm may voluntarily agree for the dissolution of the firm at any time.

2. **Compulsory dissolution (Sec. 41).** The firm is compulsorily dissolved in the following cases:
   (i) When all partners or all except one partner is declared insolvent?
   (ii) When the number of partners exceeds ten in banking business and twenty in case of other business?
   (iii) When the citizen of an enemy country is the partner of the firm?
   (iv) If the business of the firm is declared illegal?
3. **Dissolution on the happening of certain contingencies (Sec. 42).** The firm may be dissolved on the happening of the following contingencies, unless there is any contract to the contrary:
   (i) After the expiry of the period for which the partnership has been formed.
   (ii) After completion of the venture undertaken by the partnership.
   (iii) On the death of a partner.
   (iv) By adjudication of any partner as insolvent.
4. **Dissolution by notice (Sec. 43).** In case of **partnership at will,** any partner may ask for the dissolution of the firm by serving notice and the firm will be dissolved.

5. Dissolution by the court (Sec. 44). The court may also dissolve the firm on the move of any partner in the following cases:

(i) When one of the partners has become of unsound mind?

(ii) When one of the partners becomes permanently handicapped and incapable of performing his duties as a partner?

(iii) When one of the partners is guilty of misconduct, which is likely to affect the firm?

(iv) When a partner commits a wilfully breach of agreement?

(v) When one of the partners has transferred his whole interest to a third party or allowed his share to be charged or sold by the court?

(vi) When the business of the firm cannot be carried on except at loss?

(vii) When the court is satisfied on any just and equitable ground?

ACCOUNTING TREATMENT IN CASE OF DISSOLUTION

1. For transfer of sundry assets to realisation A/c.

Realisation A/c Dr.

To Sundry Assets A/c

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2. For transfer of sundry liabilities to realisation A/c

Sundry Liabilities A/c Dr.

To Realisation A / c

3. For sale or disposal or auction of assets.

Cash/Bank A/c Dr.

To Realisation A/c

4. For assets being taken by the partner.

Partners' Capital/Current A/c Dr.

To Realisation A/c

5. For payment of liabilities.

Realisation A/c Dr.

To Cash A/c

6. For the payment of unrecorded liabilities

Realization a/c Dr

To cash

7. For sale of unrecorded assets

Cash a/c Dr

To Realization a/c

8. Whare the partner agreed to pay liabilities

Realization a/c Dr

To partners capital account

9. For the transfer of accumulated profit to all partners' capital a/c .

Undivided profit a/c Dr

To partners' capital a/c

10. For the transfer of accumulated losses to all partners capital a/c .

Partners capital a/c Dr

To Undivided losses a/c

11. For the transfer of losses on realization a/c to all partners capital a/c.

Partners capital a/c Dr

To Realization losses a/c

12. For the transfer of profit on realization a/c to all partners capital a/c.

Realization losses a/c Dr
To Partners capital a/c

13. For the refund of partners capital balance

Partners capital/ current a/c Dr
To cash a/c

For additional amount brought by the partner

Cash a/c Dr
To Partners capital/ current a/c

PREPRATION OF REALISATION ACCOUNT :

After passing the journal entries we have to prepare ledger accounts. The first ledger account to be prepared is Realisation A/c. A realisation account is prepared to determine the profit or loss on therealisation of Assets and Payment of liabilities.

Accounting treatment in case of dissolution of the firm requires special treatment. Realisation A/c isintroduced to meet the specific requirement. **Sundry assets** are transferred to the debit and **sundry outside liabilities** accounts at the credit side of the Realisation Account. The amount received from the sale of assets is shown at the credit side and the payment made against liabilities at the debit sideof this account. Expenses paid are recorded on the debit side.

Excess of the credit side of the Realisation Account over its debit side shows a profit. In the same way, excess of the debit side over the credit side shows a loss. Profit or loss on realisation is transferred to all partners' Capital Accounts.

STEPS FOR PREPARATION OF REALISATION A/C.

Step 1: Transfer assets except cash in hand and at Bank appearing in the books of accounts to thedebit of Realisation A / c

Step 2: Transfer outside liabilities to the credit of Realisation A / c

Step 3: Show the disposal of assets at the credit side of Realisation with the actual amount received.

Step 4: Show the payment of outside liabilities at the agreed value or the book value at the debit sideof Realisation A/c.

Step 5: Make the payment of Realisation expenses at the debit side of Realisation A/c.

Step 6: Show the disposal of unrecorded assets at the credit side of Realisation A/c.

Step 7: Show the payment of unrecorded liabilities at the debit side of Realisation A/c.

Step 8: Transfer Investment Fluctuation Fund, Joint Life Policy Reserve, Depreciation/ReplacementReserve, if assets corresponding to these funds appear at the assets side of the balance sheet.

Step 9: Close the Realisation A / c Excess of credit side over debit side represents profit and will betransferred to the credit side of Partners' Capital Accounts. Excess of debit side over the credit side shows loss which will be transferred to the debit side of Partners' Capital Accounts.

REALISATION ACCOUNT

Particulars	Rs	Particulars	Rs
To Sundry Assets A/c: **Land and building** **Plant and machinery** **Furniture and fitting** **Vehicles** **Investment** **B/R etc.** **To Reserves for discount on creditors.** **To Cash A/c (payment of creditors, B/P and another outside liabilities)** **To Cash A/c (payment of unrecorded liability)** **To Cash A/c (payment of expenses** **To partners' capital A/c (liability assumed by the partner expense's)**		**By Sundry creditors** **By B/P A/c** **By employee's provident fund** **By bank overdraft and other outside liabilities** **By reserves for bad and doubtful debts** **By provision for doubtful bills** **By accumulated depreciation A/c or provision for depreciation/replacement** **By investment fluctuation fund**	

DIFFERENCE BETWEEN REVALUATION AND REALISATION A/C

Revaluation Account	**Realisation Account**
Used to record the changes in the value of assets due toinflation or market fluctuations	Used to record the proceeds from the sale ofassets
Shows the current market value of assets	Shows the actual amount received from the saleof assets
May be used for financial reporting purposes	May be used for tax reporting purposes
The account is prepared periodically (e.g. annually)	The account is prepared when assets are sold
Debit entries show an increase in the value of assets	Debit entries show the cost of assets sold
Credit entries show a decrease in the value of assets	Credit entries show the proceeds from the saleof assets
The balance of the account is the difference between the current market value of assets and their original cost	The balance of the account is the difference between the proceeds from the sale of assets and their original cost

PREPARATION OF PARTNER'S LOAN ACCOUNT:

Date	Particulars	
	Partner's Capital A/c Dr. To Partner's Loan A/c (Partner's loan amount is transferred to partner's capital account)	

PREPRATION OF PARTNER'S CAPITAL ACCOUNT:

Particulars	X(₹)	Y(₹)	Z(₹)	Particulars	X(₹)	Y(₹)	Z(₹)
To Drawing A/c	xxx	xxx	xxx	By Balance b/d	xxx	xxx	xxx
To Realisation A/c	xxx	xxx	xxx	By cash /Bank	xxx	xxx	xxx
To Accumulated A/c	xxx	xxx	xxx	Realisation (if the expenses are agreed to be paid)	xxx	xxx	xxx
To cash/Bank	xxx	xxx	xxx	Realisation (if the liability is assumed)	xxx	xxx	xxx
(Adjustment of Capital)				Realisation Profit	xxx	xxx	xxx
To Balance c/d*	xxx	xxx	xxx	Cash/Bank(if the debit side is exceed)	xxx	xxx	xxx
	xxx	xxx	xxx	Total	xxx	xxx	xxx

PREPRATION OF REALIZATION ACCOUNT:

Particulars	**Amount**	**Particulars**	**Amount**
To Balance b/d **(Opening balance of Cash)**	**xx**	**By Realisation A/c** **(Payment of Partners' Loan)**	**xx**
To Bank A/c **(Amount withdrawn from Bank)**	**xx**	**By Realisation A/c** **(Payment of Realization Expenses**	**xx**
To Realisation A/c **(Amount received from sale of recorded and unrecorded asset)**	**xx**	**By Partners' Loan A/c** **(Payment of Partners' Loan)**	**xx**

To Partners' Capital A/c **(Additional capital brought by partner)**	**xx**	**By Partners Capital A/c** **(Payment to Partners-Refund of Capital)**	**xx**

TREATMENT OF CERTAIN SPECIFIC ITEMS

Deferred Revenue Expenditure A/c.

Sometimes certain items such as Advertising suspense/ expenditure or any other capitalised value of revenue expenditure appears at the assets side of the balance sheet. These items should be transferred to the debit side of Partners' Capital Accounts and closed.

Goodwill.

If goodwill appears at the assets side of the balance sheet, it should be transferred to the debit side of Realisation A/c and thus closed. If anything is received against goodwill, it will be recorded at the credit side of Realisation A/c as By Cash A/c. If goodwill is taken by the partner, his Capital A/c willbe debited and Realisation A/c credited. If goodwill A/c does not appear in the balance sheet but it is sold or taken by the partner, Cash or Partners' Capital A/c will be debited and Realisation A/c credited.

Partners' Current Account.

Partners Current Account appearing in the Balance Sheet will be transferred to the Partners' Capital Account. Partners' Current A/c appearing at the liabilities side shows credit balance, so it will be transferred to the credit side of Capital Account. In the same way, Current Account appearing at the assets side shows debit balance, so it will be transferred to the debit side of Partners' Capital A/c.

Accumulated Profit/Loss.

- Accumulated profit in the name of Reserve, Reserve Fund, General Reserve, Retained Earning, Contingency Reserve, P/L A/c (credit balance or appearing at the liabilities side) will be transferred to the credit side of Partners' Capital Accounts.

- Profit and Loss A/c having debit balance or shown at the assets side represents loss, so it willbe transferred to the debit side of Partners' Capital Account

Investment Fluctuation Reserve/Fund.

- If investment is appearing at the Assets side of the Balance Sheet, it will be appropriate to transfer the Investment Fluctuation Fund to the credit side of Realisation A/c.

- In case, Investment is not appearing at the assets side, Investment Fluctuation Reserve Fund should be treated as undistributed profit and credited to Partners' Capital Accounts.

Plant and Machinery Replacement Reserve.

- If Plant and Machinery is appearing at the assets' side Plant and Machinery Replacement Reserve A/c will be transferred to the credit side of Realisation A/c.

- In case Plant and Machinery A/c does not appear at the assets side, Plant and Machinery Replacement Reserve will be transferred to the credit of Partners' Capital Accounts and treatedas undistributed profit.

Reserve for Discount on Creditors.

- If this item appears at the assets side together with creditors at the liabilities side, it should be transferred to the debit side of Realisation A/c.

- In case, creditors do not appear at the liabilities side of the balance sheet, Reserve for discounton creditors will be transferred to the debit side of Partners' Capital Accounts.

Provident Fund.

- Provident Fund is a liability towards the workers, so it will be transferred to the Realisation Account and its payment will be made.

MULTIPLE CHOICE QUESTIONS

1. In which condition a partnership firm is deemed to be dissolved?
(A) On a partner's admission
(B) On retirement of a partner
(C) On expiry of the period of partnership
(D) On loss in partnership

2. On dissolution of a firm, realisation account is debited with
(A) All assets to be realised
(B) All outside liabilities of the firm
(C) Cash received on sale of assets
(D) Any asset taken over by one of the partners

3. On dissolution of a firm, out of the proceeds received from the sale of assets will be paid first of all
A) Partner's Capital
B) Partner's Loan to Firm
C) Partner's additional capital
D) Outside Creditors

4. Unrecorded liability, when paid on dissolution of a firm is debited to :
(A) Partner's Capital A/'cs
(B) Realisation A/c
(C) Liabilities A/c
(D) Asset A/c

5. A partnership firm is compulsorily dissolved :
(A) When the business of the firm is declared illegal
(B) When a partner of the firm dies
(C) When a partner of the firm becomes insolvent
(D) When a partner transfers his share to some other person without the consent of other partners

6. At time of dissolution of partnership firm, the balance of profit and loss account shown in the assets side of Balance sheet of the firm is transferred to:
(A) Realisation Account
(B) Cash Account

(C) Capital Accounts of partners
(D) Loan Accounts of partner
7. 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
8. Which of the following is not transferred to Realisation Account:
(A) Balance of Cash Account
(B) Balance of Reserves
(C) Balance of Profit & Loss Account
(D) All of the Above
9. On dissolution of a firm, its Balance Sheet revealed total creditors ₹50,000; Total Capital ₹48,000; Cash Balance ₹3,000. Its assets were realised at 12% less. Loss on realisation will be :
(A) ₹6,000 (B) ₹11,760 (C) ₹11,400 (D) ₹3,600
10. There was an Unrecorded asset of 2,000 which was taken over by a partner at ? 1,500. Partner's Capital Account will be debited by
(A) ₹2,000 (B) ₹1,500 (C) ₹500 (D) ₹3,500

ANSWER 1. (C) 2, (A) 3. (D) 4. (B) 5. (A) 6. (C) 7. (B) 8. (D) 9. (C) 10. (B)

QUESTIONS FOR PRACTICE

Shanti and Satya were partners in a firm sharing profits in the ratio of 4: 1. On 31st March, 2013 their Balance Sheet was as follows: On the above date the firm was dissolved:

Balance Sheet of Shanti and Satya as follows

Liabilities	Rs	Assets	Rs
Creditors	45000	Bank	55000
Worman compensation fund	40000	Debtors	60000
Satya current a/c	65000	Stock	85000
Shanti Capitals	200000	Furniture	100000
Satya	100000	Machine	130000
		Shantis a/c	20000
	450000		450000

(1) Shanti took over 4% of the stock at 10% less than its book value and the remaining stock wassold for 40,000 Furniture realized 80,000.
(2) An unrecorded investment was sold for 20,000. Machinery was sold at a loss of 60,000.
(3) Debtors realized 55,000.
(4) There was an outstanding bill for repairs for which 19,000 were paid.

Prepare Realisation Account.

SOLUTION:

Particulars	Rs	Particulars	Rs
To Debtors	60000	Creditors	
To stock	85000	Shantis current a/c(30000-3400)	30600
To furniture	100000	By .bank	
To machinery	130000	Stock	40000
To bank		Furniture	80000
outstanding bill	19000	Investment	20000
Creditors	45000	Machinery	700001
		Debtors	55000
		By loss	
		Shanti	78720
		Satya	19680
	439000		439000

2 (Treatment of realisation expenses):

How will you deal with the realisation expenses of the firm of A and B in the following cases:

(1) Realisation expenses amount to 1,000.

(2) Realisation expenses of 300 are paid by A.

(3) A was asked to look into the dissolution of firm which he was allowed a commission of ₹ 550.

SOLUTION:

1) Realization a/c Dr 1000
   To cash 1000
2) Realization a/c Dr 300
   To A capital 300
3) Realization a/c Dr 550
   To A capital 550

3 The Balance Sheet of a firm on 30th June, 2014, written was decided to dissolve the same, was as follows:

Liabilities	Rs	Assets	Rs
Creditors	14000	Machinery	10580

Reserve	500	stock	4740
Sober capital	4000	Debtors	5540
Soloman	3000	Cash at bank	640.
	21500		21500

19,500 were realised from all assets except Cash at Bank. Creditors were fully paid. The cost ofwinding up came to 440. Sobers and Solomon shared profits in the ratio of 2: 1 respectively
Prepare Realisation Account, Capital Accounts of partners and Bank A/c

Particulrs	**Rs**	**Particulars**	**Rs**
To Machinery	10580	**By creditors**	**14000**
To stock	4740	**By bank**	**19500**
To Debtors	5540	**By loss**	
To Bank (cr)	**14000**	**Sober capital**	**1200**
To bank	**440**	**Solomons capital a/c**	**640**
	35300		**35000**

4. A, B and C are partners with profit sharing ratio of 3:2:1. The balance sheet of the firm on31.12.2014 was as follows:

The balance sheet of the firm on 31.12.2014

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Creditor	65000	Cash	25500
Bills payable	20000	Debtors	52300
Investment fluctuation fund	12000	Stock	36000
Commission received in advance	6000	Investment	15000
A capital	80000	Plant	91200
B capital	50000	P/L a/c	54000
C capital	30000		
	271000		271000

On this date the firm was dissolved. A was appointed to realise the assets. A was to receive 5% commission on sale of assets (except cash) and was to bear all expenses of realization. A realised theassets as follows:

Debtors 30,000, Stock 26,000, Investment 75% of the book value, Plant 42,750, Expenses of realisation amounted to 4,100. Commission received in advance was returned to the customers after 3,000. Firm had to pay 7200 for outstanding salary not provided for earlier. Compensation paid to employees amounted to 9,800. This liability was not provided for in the above balance Sheet: 25,000had to be paid for provident fund.

Prepare Realisation Account

Realisation Account

Particulars	Rs	Particular	Rs
To debitors	52300	By creditors	65000
to stock	36000	By bills payable	20000
To investment	15000	By investment fluctuation fund	6000
To plant	91200	By commission received in advance	80001
To A capital	5500		
To cash Commission received :5000 Compensation 9800 Provident fund 25000 Outstanding salary ;7200	47000	By cash a/c Debtors : 30000 Stock : 26000 Investment : 11250 Plant : 42750	111000
To cash Creditor : 65000 Bills payable :20000	85000	By loss transferd A capital ;55500 B capital : 37000 C capital :18500	111000
	332000		332000

4. Charu, Dhwani, Iknoor and Paavni were partners in a firm. They had entered into partnership firm last year only, through a verbal agreement. They contributed Capitals in the firm and to meet other financial requirements, few partners also provided loan to the firm. Within a year, their conflicts arisen due to certain disagreements and they decided to dissolve the firm. The firm had appointed Ms. Kavya, who is a financial advisor and legal consultant, to carry on the dissolution process. In the first instance, Ms. Kavya had transferred various assets and external liabilities to Realization A/c. Due to her busy schedule; Ms. Kavya has delegated this assignment to you, beingan intern in her firm. On the date of dissolution, you have observed the following transactions:

(i) Dhwani's Loan of ₹ 50,000 to the firm was settled by paying ₹ 42,000.

(ii) Paavni's Loan of ₹ 40,000 was settled by giving an unrecorded asset of ₹ 45,000.

(iii)Loan to Charu of ₹ 60,000 was settled by payment to Charu's brother loan of the same amount.

(iv) Iknoor's Loan of ₹ 80,000 to the firm and she took over Machinery of ₹ 60,000 as part payment.

You are required to pass necessary entries for all the above mentioned

Solution :

Journal Entries in the Books of Charu, Dhwani, Iknoor and Paavni

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
(i)	Dhwani's Loan A/c Dr. To Bank A/c To Realization A/c (Dhwani's Loan of ₹ 50,000 settled at ₹ 42,000)		50,000	 42,000 8,000
(ii)	Paavni's Loan A/c Dr. To Realization A/c		40,000	 40,000
	(Paavni's Loan of ₹ 40,000 settled by giving an unrecorded asset)			
(iii)	Realization A/c Dr. To Loan to Charu A/c (Loan to Charu was settled by payment to Charu's brother Loan)		60,000	 60,000
(iv)	Iknoor's Loan A/c Dr. To Realization A/c To Bank A/c (Iknoor's Loan of ₹ 80,000 &Machinery was given as part payment & through bank)		80,000	 60,000 20,000

4.Pass Journal Entries for the following transactions:

(i) Realisation expenses amounted to ₹ 10,000 were paid by the firm on behalf of a partner.

(ii) Realisation expenses amounted to ₹ 20,000 were paid by the firm. ₹ 8,000 were to beborne by the firm and the balance by Mukti, a partner.

(iii) Dissolution expenses amounted to ₹ 20,000. ₹ 8,000 were to be borne by the firm and the balance by Mukti, a partner. The expenses were paid by Mukti.

Virat, a partner, paid realisation expenses of ₹ 10,000 and these were to be borne by him.Solution

JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Partner's Capital A/c Dr. To Bank A/c		10,000	 10,000
(ii)	Realisation A/c Dr. Mukti's Capital A/c Dr. To Bank A/c		8,000 12,000	 20,000
(iii)	Realisation A/c Dr. To Mukti's Capital A/c		8,000	 8,000
(iv)	No Entry			

ACCOUNTING FOR SHARE CAPITAL

SUMMARY OF THE CHAPTER

Meaning of Company :A company is a person artificial, invisible, intangible, and existing only in the eye of law.
Some of its **features** are Incorporated association, voluntary association, separate legal entity, limited liability, Perpetual succession, Common seal, transferability of share, May sue and be sued, and Management and ownership are different.
Private company: One which has a minimum paid up capital as may be prescribed*, and which by its article of association restricts the right to transfer its share. Prohibits any invitation to the public to subscribe for any securities of the company.
Public Company: Which is not a private company. There is a minimum capital as may be prescribed. Is a private company being a subsidiary of a company which is not a private company. The name of a public company end with the word limited.
One person Company : Company as a company which has only one person as a member.

SHARE

SHARE: The capital of a company is divided into small units. Each share has a nominal value or face value which may be re 1, rs 5, rs. 10 or any amount and are numbered so that they may be identified. If total capital of a company is 10,00,000 divided into 1,00,000 units of 10 each, then each unit of 10 will be called a share.

Types of share

1) Preference Share (sec 34(b))
Preference share are share that carry the following two rights, to receive dividend at a stipulate rate or a fixed amount before any dividend is paid on equity share. Return of capital on the winding up of a company before that of the equity shares.

Classification of Preference Shares.

ON THE BASIS OF PAYMENT OF DIVIDEND		ON THE BASIS IF CONVERTIBILITY		ON THE BASIS OF REDEMPTION		ON THE BASIS OF PARTICIPATION IN PROTFIT	
Cumulative preference share	Non - cumul-ative preference share	convertible preference share	Non-convertible preference share	Redeemable preference share	Irredeemable preference share	Participating preference share	Non - participating preference share

2) EQUITY SHARE : the shares which are not preference share, these shares give their holder the right to vote.

SHARE CAPITAL

SHARE CAPITAL: It is the amount that company can raise or has raised by issue of shares. It is that part of capital of the company which is represented by the total nominal value of the share it has issued.

Classification

I) Authorised share capital : Authorised capital or nominal capital means such capital as it authorised by the Memorandum of Company to be the maximum amount of the capital of the company. The company cannot raise more than the amount of the capital as specified in the memorandum of association.

II) Issued capital: It means such capital as the company issues from the time to time for subscription. It also includes the share allotted for the consideration other than cash share taken by the proprietors.

III) <u>Subscribed capital</u>: Part of Issued capital which has been subscribed by the public/ member of a company.

a) Subscribed and fully paid up: Shared are set to be subscribed and fully paid up when the entire nominal face value is called and also paid up. By the shareholders.

b) Subscribed but not fully paid up: Under the following two conditions.

   (i) Company has called up the entire nominal face value of the share, but it has not been received

   (ii) company has not called up full nominal value of share.

<u>Called up Capital:</u> The amount of nominal Value called up by the company to be paid by the shareholders Towards the Share.

<u>Paid up capital</u>: It means the amount that the shareholders has paid and company has received towards the share.

<u>RESERVE CAPITAL AND CAPITAL RESERVE</u>

<u>Reserve capital</u>:	<u>Capital Reserve</u>:
It is that portion of subscribed share capital remaining uncalled, which shall not be capable of being called up except in the event. and for the purpose of company being wound up.	It is mandatory to create capital reserve in case of capital profit earned by the company.

Disclosure of share capital in companies balance sheet.

BALANCE SHEET
AS AT ……

Particulars	Note No.	Current year	Previous year
I EQUITY AND LIABILITIES 1. Shareholders' Fund (i)Share capital	1	……	……

NOTES TO ACCOUNTS

PARTICULARS		Amount
1 Share Capital		
Authorised capital		
…..shares of rs……. Each		……
Issued capital		
….. shares of rs…. Each		……
Subscribed capital		
Subscribed and fully paid up		
…… shares of rs. ….. each	…….	
Subscribed but not fully paid up		
….. share of rs. ….. each called up	……..	
Less): calls in arrears	(…….)	
Add) : shares forfeited account	<u>………</u>	
Total		……..

<u>ISSUE OF SHARES</u>

a) For cash (at par, at premium)

b) For consideration other than cash (at par, at premium).

NOTE*: As par Section 35 of the Companies Act 2013, companies would no longer be permitted to issue share at a discount. Only Sweat equity share are issued at a discounted rate.

PUBLIC ISSUE OF SHARES

STEPS: 1) To issue prospectus → 2) Receive applications → 3) To make allotment of share → 4) To make calls.

NOTE*: As per the guidelines of SEBI, a company must received minimum of 90% of subscription against the entire issue before making any allotment of the share to the public.

Accounting treatment of issue of share for cash.

Shares payable in Lumpsum

For receiving share application money	Bank A/C To share application and allotment A/C (Being application money received.)
For allotment of shares.	At Par Share application an allotment. A/C To Share Capital A/c
	At Premium - Share Application and Allotment A/C To share capital account (with a face value) To Securities Premium Reserve Account (with the amount of premium)

Shares issued in installment.

Journal entries required to be passed on.

.

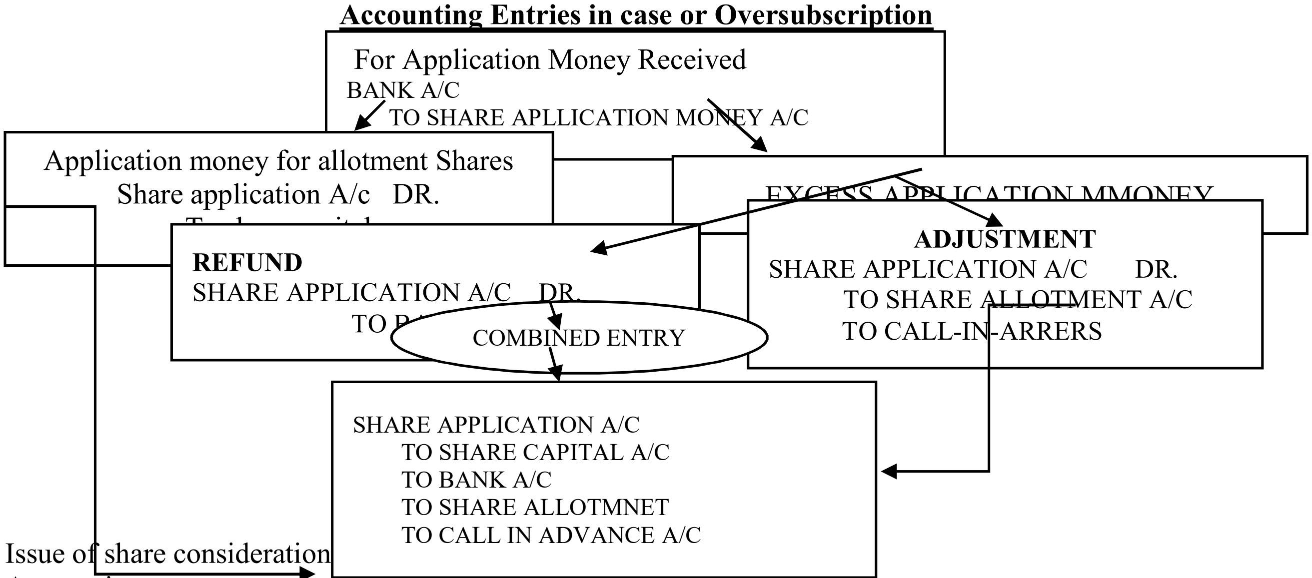
On the receipt of application money.	Bank A/c (with application money received) To share application A/c (number of shares applied x application money)
On allotment of share	Share application A/c (with application money on shares allotted) To share capital A/c (no. of shares x application money per share)
On making allotment due.	At Par. Share allotment A/c (with allotment money due) To share capital A/c (no. of share allotted x allotment money per share) At premium. Share allotment A/c (with the total) To share capital A/c (with allotment due) To securities premium reserve A/c (with premium money due)
On receipt of allotment money	Bank A/c (with the allotment money recieved) To share allotment A/c
On making the first call due	Share First call A/c (with first call money due) To share capital. A/c (no. of share x first call money per share)
On receipt of first call	Bank A/c (with the money recieved) To share First call A/c

Full subscription, Over subscription, Under subscription.

ll subscription.	ver subscription	nder subscription.
mber of shares applied is **equal** to the number of shares offered for subscription	mber of shares applied for is **more than** the number of shared offered for subscription.	mber of shares applied for is **less than**. Number of shares of word for subscription.

In case of oversubscription, there are three cases of treatment
a) Rejection of application
b) Partial or pro rata allotment
c) Combination of Pro-rata allotment and rejection.

Accounting Entries in case or Oversubscription



Issue of share consideration
Accounting treatment.

On purchase of asset	Sundry Assets A/c (With The amount of asset purchased.) To vendor A/C (with the purchase consideration)
On purchase of Business	Sundry Asset A/c (with agreed value) Goodwill* A/c (if Purchase Consideration > net assets) To Sundry liabilities A/c (with agreed value of liabilities) To Vendor's A/c (with purchase consideration) To Capital Reserve **A/c (if purchase consideration < net assets)
Issue of share at par	Vendor's A/C (with purchase consideration) To share capital A/c (with the nominal value of the shares allotted)
Issue of share at premium	Vendor A/c (with purchase consideration) To share capital A/C (with the nominal value of shares allotted) To Securities Premium Reserve A/C (with amount of premium)
. Issue of Share to promoters	Formation expense/ incorporation cost / goodwill A/c To share capital A/c
Issue of share to Underwriters	i)Making underwriting expense due – Underwriting Expenses(Commission) A/c To Underwrites A/c ii) Issuing share to underwriter Underwriters A/C To Share Capital A/c iii) Transferring underwriting Commission to the statement with profit and

	loss.- Statement of profit and loss To Underwriting Expenses(Commission) A/c

****Purchase consideration** is the amount paid by the purchasing company in the consideration of purchase of assets. Business from the vendor.

NO. OF SHARES ISSUED

AT PAR	Number of shares to be issued. = $\frac{\text{Amount payable}}{\text{Issue price (face value)}}$
AT PREMIUM	Number of shares to be issued. = $\frac{\text{Amount payable}}{\text{Issue price (face value +Premium)}}$

CALLS IN ARREAR

1)Without opening calls in arrears Account

2)By opening calls in arrears account

Journal entry – Calls in Arrears A/c (amount calculated below stepwise)
To Relevant call A/c

Step 1 Calculate the number of shares allotted

Shares Allotted = $\frac{\text{(Respective Share Applied × Total Shares Issued/ Allotted)}}{\text{Total Share Applied}}$

Shares Applied = $\frac{\text{(Respective Share Allotted× Total Shares Applied)}}{\text{Total Shares Issued/ Allotted}}$

Steps 2 Calculate the excess amount paid by the shareholder at the time of application

Excess Amount Paid= (Share applied – shares Issued) × Application money per share

Step 3 calculate amount due at allotment to be paid by the shareholder

Amount due at Allotment = Shares issued to the Shareholders × Allotment money per share

Step 4 Calls-in -arrears is the difference in the amount computed in step 3 and step 4

CALLS IN ADVANCE

Bank A/C
To Calls in Advance A/c

Calls in advance
To Relevant Call A/c

Forfeiture of shares.

It means cancellation of shares for non-payment of allotment or calls due and seizure of amount already received from the defaulting shareholders.

Unless the forfeited shares are re- issued the balance of the forfeited shares account is added to the paid-up capital.

Accounting treatment

CASE 1 FOR FORFIETURE OF	Share Capital A/c To Share Allotment A/c To Share call A/c	(with called up amount) (with amt due but nit paid on allotment) (with amt. due but not paid on call)

THE SHARES WHICH ISSUED AT PAR	To Share Forfeiture A/c (with amt. already received) OR Share Capital A/c (called up value) To Calls in Arrear A/c (total amt not received) To Share forfeiture A/c (amount received)
CASE 2 FOR FORFIETURE OF THE SHARES WHICH ISSUED AT PRIMIUM	1) When securities premium amt. has been received Entry - Same as above 2) When securities premium amount has not been received Share Capital A/c (amt. called up less premium) Securities Premium A/c (premium amt. called up but not received) To Share allotment (amount not received on allotment) To share Call A/c (amount not received on calls) To Share Forfeiture A/c (amount received so far)

RE-ISSUE OF FORFEITED SHARES

In case shares are re- issued at **Par** : Bank A/c To Share capital A/c	In case Shares are issued at **Discount:** Bank A/c Share forfeiture A/c To Share Capital A/c	In case shares re-issued at **Premium :** Bank A/c To Share capital A/c To Securities Premium Reserve A/c

Transfer of Balance in the Forfeiture A/c Account After Re-Issue

1 : When all shares are re- issued Share Forfeiture A/c To Capital Reserve A/c
2 : When all shares are not re- issued entry is same as above Part Profit on Re- Issue= [(total amount forfeiture/ no. of shares forfeited) x no. of share re- issued] – [amt. with which forfeited shares a/c as debit at the time of re-issue of such shares(re issue discount)]

QUESTION BANK

MCQ

Ques 1. Assertion (A): Proportionate allotment or pro rata allotment is made in case of oversubscription of share.

Reason(R): In the case of over subscription it is possible for the company to allot shares to every applicant in the number that he desire.

a) Both (A) and (R) are 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 (R) if false
d) (A) is false but (R) is true.

Ques.2 Maximum limit of premium on shares is :
(A.) 32%
(B.) 20%
(C.) No limit
(D.) 100%

Ques.3 Amount of money not received out of called up capital is called………………..?
(A.) Added to share capital
(B.) Subtracted from share capital

(C.) Shown as current liabilities
(D.) Shown as current asset

Ques.4 Following amounts were payable on issue of shares by a company : Rs.3 on application , Rs.3 on allotment , Rs.2 on first call and Rs.2 on final call . X holding 500 shares paid only application and allotment money whereas Y holding 400 shares did not pay final call . Amount of calls in arrear will be:
(A.) 3,800
(B.) 2,800
(C.) 1,800
(D.) 6,200

Ques.5 Rajan Limited issued 50,000 shares at a price lower than the nominal value of the share. The shares issued are called:
A) Sweat equity shares
B) Redeemable Preference shares
C) Equity shares
D) Bonus shares
Ques.6 E Ltd. had allotted 10,000 shares to the applicants of 14,000 shares on pro-rata basis, application money on another 6000 shares was refunded .The amount payable on the application was Rs.2. Sitaraman applied for 420 shares . The number of shares allotted to him will be:
(A.) 60 shares
(B.) 340 shares
(C.) 320 shares
(D.) 300 shares

Ques.7 A company issued 4,000 equity shares of rupees 10 each at par payable as under: On application rupees 3 , on allotment rupees 2; on first call rupees 4 and on final call rupees 1 per share. Applicants were received for 16,000 share . Application for 6,000 shares were rejected and pro-rata allotment was made to the applicants for 10,000 shares . How much amount will be received in cash on first call, when excess application money is adjusted towards amount due on allotments and calls :
(A.) Rupees 6.000
(B.) nil
(C.) Rupees 16,000
(D.) Rupees 10,000

Ques.8 A company issued 4000 equity shares of rupees 50 each at par payable as under:
On application rupees 20%, on allotment 40% ; on first call 10% ; on final call -balance
Applications were received for 10,000 shares . Allotment was made pro-rata . How much amount will be received in cash on allotment?
A) Rupees 6.000
(B.) nil
(C.) Rupees 16,000
(D.) Rupees 20,000

Ques.9. Which one of the following is not a part of subscribed capital:
A) Equity shares issued to vendor
B) Preference shares of convertible type
C) Forfeited shares
D) Bonus shares

Ques.10. When nominal (face) value of a share is called up by the company but as some shareholders did not pay the money, the shares are forfeited . The share capital is shown in the balance sheet (notes) of a company under the following heading:
A) Subscribed and fully paid up

B) Subscribed but not fully paid up
C) Subscribed and called up
D) Subscribed but not called up

THREE MARKS

1) K Limited took over the assets of. 15,00,000 and liabilities of 5,00,000 of P limited. For a purchase consideration of 13,68,500. 25,500 were paid by issuing a promissory note in favour of P Limited. payable after two months and the balance was paid by issue of equity shares of 100 each at a premium of 25%. Pass necessary journal entries for the above transactions in the Book of K Limited. (3)
2) Kulu Limited purchased assets of 6,30,000. From Vanu Oil Limited. Kulu Limited issued equity shares of 100 each fully paid up in consideration. What journal entry will be passed if the share are issued i) at par And ii) at premium of 20%. In the books of Kulu Limited. (3)
3) Aan limited issued 1,00,000 shares of 10 Each at a premium of 10% to the public for subscription. The whole amount was payable on application. Application were received for 3,00,000 shares and the board decided to allot the shares to all the shareholders on pro-rata basis. Pass necessary journal entries for the above transactions in the books of Aan limited. (3)
4) Marker Limited invites application for 4,000 equity shares of 10 each at the issue price of 10, the amount payable along with application is rupees 10. The issue was fully subscribed. Give the journal entries for the above transaction prepare Balance Sheet. (3)
5) Yamini Limited Issue 5000 Equity share of 10 each at par payable : on Application 2 per share, allotment 3 per share, on First call 3 per share 4 per share and on second and final call Param was alloted 40 shares.

Give the necessary journal entries for the Forfeirture of shares in each of the following alternatives.
Case 1) if param did not pay allotment money and he shared were forfeited
case 2) If Param did not pay allotment money and on non payment of First Call to his share were forfeited.
Case 3) If Param did not pay the first call and on non payment of second and final call too his share were forfeited. (3)

6) Vidya Limited forfeited 300 equity shares of 10 each fully called up, held by Rahul for non-payment of allotment money for 3 per equity share and first and final call mone of 4 per equity shares. Out of these 250 shares were reissued to Shambhu for a total payment of 2000.

Pass journal entries for forfeiture and reissue (3)

7) Kavya Limited took over assets of 15,00,000 and liabilities of 5,00,000 of Parul Limited for a purchase consideration of 13,68,500 , 25500 were paid by issuing a promissory note in favour of Parul Limited, payable after two months, and the balance was paid by issue of equity shares, or 100 each at a premium of 25%. The pass journal entries for above transaction in the books of kavya Limited. (3)
8) On 1st April 2023 Manya ltd. was formed with an authorised capital of rs. 25,00,000 divided into 50,000 equity shares of 50 each. The company issued prospectus inviting applications for 45,000 share . The issue price was payable as under:

On application – 15
On allotment – 20
On call – balance amount
The issue was fully subscribed and the company allotted shares to all the applicants. The company did not make the call during the year. Show the following:

A) Share capital in the balance sheet of the company as per the schedule III , part I of the companies Act, 2013.

B) Also prepare ‘ Notes to accounts’ for the same. (3)

9) A company purchase assets of the book value of 7,70,000 from another company. It was agreed that the purchased consideration be paid by issuing equity shares of rs. 100 each. Assume that the shares have been issue (i) at a premium of 10%. Pass necessary journal entries in the books of purchasing company. (3)

10) The directors of a company forfeited 600 shares of 10 each issued at a premium of 3 per shares for the non-payment of the first call money of rs. 3 per share and the final call of rs. 2 per share has not been made. Half of the forfeited shares were reissued at 3,000 fully paid. Record the journal entries for the forfeiture and reissue of the shares. The company maintains calls-in-arrears account. (3)

FOUR MARKS

1) Limited forfeited 600 equity shares of 10 each issued at a premium of 20% to Roman who had applied for 720 equity shares, For non-payment of allotment money of 5 per equity shares (Including premium) and the first and final call of 5 per equity shares. Out of these, 200 equity shares were reissued to Sahan Credited. As fully paid up for 9 per equity shares. As per the terms of issue, company was to retain excess application money to adjust against calls.

Pass journal entries to record forfeiture and reissue of shares. (4)

2) Vishal Limited with the registered capital of 50,00,000 and shares of 10 each issued. 2,00,000 of such shares payable 3 per share on application 2 per share on allotment, 3 per share on First Call. All amount payable on allotment was were duly received. On the first call being made, one shareholder paid entire balance in his holding of 6000 shares.

Give necessary journal entries to record the above transaction.

What will be the balance of Shareholder’s funds, Current liabilities and current assets in the balance sheet of a company. (4)

3) Nick Limited purchased a running business from Sony Limited the assets and liabilities consisted of the following

machinery 7,00,000; debtors 2,50,000; Stock 50,000; building 11,50,000; and bills payable 2,50,000.

Pass necessary journal entries in the books of Nick Limited if (4)

i) purchase consideration of 22,00,000 was that discharged by issuing 20,000 fully paid-up equity shares of 100 each at a premium of 10%.

ii) Purchase consideration of 24,00,000 was discharged by issuing 19,200 fully paid-up equity shares of 100 each at a premium of 25%.

4) Earth Limited was registered with the capital of 10,00,000 in a shares of 20 each. It Invited application for. 50,000 shares. The amount is payable at 5 on application, 10 on allotment and 5 on first and final call. The whole of above issue was applied for and amount was duly received. Give the journal entries for the above transactions. (4)

5) Write down the provision of section 52(2) of Companies Act, 2013 which restricted the usage of amount received as premium on securities. (4)

6) Aayushi Limited issued 1,00,000 equity shares of 10 each on the following terms

3 payable on application, 4 on allotment and balance as decided.

Applications were received for. 1,40,000 Equity shares. Allotment was made as under.

80,000 applications were given 80,000 equity shares

50,000 applications were given 20,000 equity shares and 10,000 applications were not allotted any shares. A shareholder who had applied for 1,000 equity shares and was allotted 1,000 shares did not pay the allotment money. His shares were forfeited pass journal entries to record the above transactions (4)

7) Raju Limited purchased a running business from Krishna Traders for a sum 15,00,000, rs, 3,00,000 were paid by cheque and for the balance Raju ltd. Issued equity shares of rs. 100 each at premium of 20%.

The assets and liabilities consisted of the following:

Plant and machinery 4,00,000; building 6,00,000; stock 5,00,000; debtors 3,00,000 and creditors 2,00,000.

Record necessary journal entries in the books of Raju Ltd. (4)

8) Tractors India Ltd id 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. 2 per share were payable with application, 8 per share including premium on allotment and the balance amount on first and final call money on 500 shares allotted to Balaji.

Present the 'Share capital' in the balance sheet of Tractors India ltd. As per Schedule III part I of the companies Act 2013. Also prepare notes to accounts for the same. (4)

9) Media Limited was incorporated on 1st April, 2017 with registered office in Mumbai. The capital clause of memorandum of association reflects a registered capital of 8,00,000 equity shares of 10 each and 1,00,000 preference shares of 50 each. Since some large investments were required for the building and the machinery the company in consultants with vendors, Ms VPS Enterprise 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 3 on application, 2 on allotment, 3 on first call, 3 on second call. Till date second call has not yet been made and all the shareholders have paid except Mr AJ who did not pay allotment money and the call on his 300 shared 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 12 per share. Based on the above information. You are required to answer the following questions. (4)

Ques1) Shared issue to the vendor of building and machinery. Would be classified as.
a)Preferential allotment b)Employee stock option plan.
c) Consideration other than cash. D) Right, issue of share.

Ques2) How many equity shares of a company have been subscribed ?
a) 300000. B) 299500 c) 299800 d)None of these.

Ques3) What is amount of security premium reflect in balance sheet at the end of the year?
a)200 b) 600 c) 400 d) 1,000

Ques4) What amount of share forfeiture would be reflected in the balance sheet?
a) 600 b) 900 c) 200 d) 300

10) Konika Limited registered with an authorised share Equity Capital of 2,00,000 divided into 2,000 shares of 100 each. Issued for subscription of 1000 shares payable at 25 per share on application, 30 per share on allotment, 20 per share on first call and the balance as and when required. Application money on 1000 share was duly received and the allotment was made to them. The amount was received in full, But when the first call was made, one shareholders failed to pay the amount on 100 share held by him.

Another shareholder with 50 shares paid the entire amount on his shares. The company did not make any other call. Give the necessary journal entries in the books of company to record the share capital transactions. (4)

SIX MARKS

1)Prashant and company limited invites, applications for 30,000 shares of 100 each at a premium of 20 per share. Payable as follows.
On application 40 (including premium.10)
On allotment. 30 (including Premium 10).
On first call 30,
on second and final call 20.
Applications were received for 40,000 Shares and pro-rata allotment was made on the application for 35,000 shares, excess application money was utilised towards allotment. Rahul to whom 600 share were Allotted failed to pay the allotment money and his share were forfeited immediately after allotment. Parul who applied for 1,050 shares, failed to pay first and final call and his shares forfeited immediately after First call
Record necessary journal entries in the books of Prashant and company Ltd. (6)
2)Artist Limited had issued 25000 equity shares of 10 each at a premium of 2 per share payable with application money. The incomplete journal entries related to the issue are given below. You are required to complete these blanks. (6)

Date	Particulars	LF	DR.	CR.
2022 Jan 10	……………….. To ………………. (Amount received on application for 35000 shares at a rate of 5 per shares including premium.)		……	……
Jan 16	Equity Share Application A/c To……………… To………………….. To…………………….. To …………………… (Transfer of application money to share capital Securities Premium Money Tree funded for 4000 shares for rejected applications and balance adjusted towards amount due on allotment as share were allotted on pro rata basis.)		…	…… …… ….. ……
Jan 31	…………………. To………….. (Amount due on allotment at a rate of 4 per share.)		……..	………
Feb 20	……………… To………… (Balance amount received on allotment.)		…….	…………
Apr 01	……………….. To…………. (First and final call money due)		……..	……….
Apr 20	……………….. Calls- in–Arrears A/c To…………………. (Being Money received on first and final call except on 500 shares.)		……… ………..	……….
April 27	……………… To…………….. To……………. (Forfeited 500 shares on which call money was not		………	………. ……….

OCT 3	received.)			
	…………………. ………………… To…………….. (Re-issued 500 shares at a rate of 8 per share fully paid up.)		……. …….	……….
……….	……………….. To……….. (……………………………………………………….)		……….	……….

3) Yuvraj Limited. Company is in a need of finance, to meet its increased demand. Therefore it decided to issue 60,000 equity shares of 100 each at 120 per share. Payable at rs. 50 on application(Including premium) 40 on allotment and balance on first and final call.
Applications for 80,000 shares had been received. Out of Cash received, rs. 2,00,000 was returned and rs. 8,00,000 was applied to the amount due on allotment. All shareholder paid the Call due, with the exception of one shareholder of 15000 shares. These shares were forfeited and reissued as fully paid up at 70 per share.
Answer the following questions on the basis of the above information.

i)Excess application on.................. Shares is adjusted to share allotment account.
a) 16000 b) 12000 c) 14000 d) 10,000

ii)The Amount of calls in arrears will be........
a)150000 b) 300000 c) 450000 d) 100000

iii) At the time of forfeiture of shares, shares capital account will be debited with.......
a) 1800000 b) 15,00,000 c) 10,00,000 d) 12,00,000

iv) What amount will be credited to share forfeiture account at the time of forfeiture of 15,000 shares?
a) 150000 b) 13,50,000 c) 10,50,000 d) 15,00,000

v)On how many shares the application money was refunded?
a) 16000 b) 80,000 c) 6,000 d) 4,000

vi)At the time of reissue of forfeited shares, how much amount will be debited to “share forfeiture account”?
a)12,00,000 b) 10,50,000 c) 4,50,000 d)15,00,000

4) X Limited Invited application for Issuing 50,000 equity shares of 10 each. The amount was payable as follows.
On application 2 per share
on allotment 2 per share
on first call 2 per share
on 2^{nd} call balance amount
application for 70,000 shares received. Applications for 10,000 shares were rejected and the application money was refunded. Share were allotted to the remaining applicants on the pro-rata basis and excess money received with the application was transferred towards the sum due on allotment and the calls, if any.
Gopal Who applied for 600 share paid his entire share money with application.
Gosh who had applied for 6000 shares, failed to pay the allotment money and his shared were immediately forfeited. These shares were re-issued to Sultan for 200,00; 4 per share paid-up. First call money and the second and the final call was called and duly received.
Pass necessary journal entries for the above transaction in the books of XLimited. Open Calls in Advance Account and Calls in Area Count wherever necessary. (6)

5)Paras limited invited application for 30,000 shares of 100 each at 20% premium. The amount per share was payable as under.

On Application 40(including 10 premium)

On allotment 40 (including 10 Premium)

On first call. 30.

On second and final call balance.

Application was received for 40,000 shares and pro rata allotment was made to applicants of 35000 shares. The remaining applications being refused.

Excess application money was adjusted towards sums due on allotment. Alka Who applied for 700 shares failed to pay the allotment money and her shares were forfeited immediately after allotment. First call was made thereafter and all the money due on first call was received. The second and final call was not made. Pass necessary journal entries for the above transactions in the books of Paras Limited. (6)

6) Kamal who was allotted 200 equity shares of 10 each by a company, failed to pay the final call of 4 each. These shares were forfeited and reissued to Mona

i)at 10 each ii)At 9 each, iii)at 12 each. Journalise the transaction in respect of the forfeiture and reissue of the shares in all three cases. (6)

7)Salim and Co Limited. Offered to the public 2,00,000 Equity shares of 2,40,000 Preference shares of 10 each payable as under.

	Equity Shares	Preference shares.
On application.	3	3
On allotment.	3	4
On 1st and final call.	4	3

Public applied for 2,40,000 equity shares and 90,000 preference shares. Applications for the preference were accepted in full. Out of applications of equity shares, Applications for 20,000 shares were rejected, Applications for 1,70,000 shares accepted in full, and 30,000 shares were allotted to the remaining applications.

Pass entries in the cash book and journal. (6)

8)Mansi limited issued 60,000 shares of 10 each at a premium of 2 per shares. Payable as 3 on application, 5 on allotment (including premium) and balance on first and final call. Applicantion were received for 1,02,000 shares. The directors resolved to allot as follows

i)Application of 60000 Share 30,000 Shares

ii)applicants of 40,000 shares 30,000 shares.

iii)Applicants of 2,000 shares nil.

Namish, who had applied for 1000 shares in category (i) and Wishi who was allotted 600 shares in category (ii), failed to pay the allotment money.

Calculate the amount received on allotment and also journalise the above transactions. (6)

9)Abhijit Limited issued. 10000 equity shares of 10 each at a premium of 3 per share payable with the application money. While passing journal entries related to the issues, some blanks are left. You are required to complete these blanks.

date	Particulars	LF	DR.	CR.
2022 Jan05	…………… To…………… (being application money received 140000 shares at 6 per share including premium))		……….	 ……….
Jan 17	Equity Share Application A/C To…………….. To……………….. To………………… To………….. (Being application money transferred to shares capital ,securities premium account, refunded for 20,000 shares for rejected applications and balance adjusted towards the money		………..	 ……. ……….. ………. ……..

	due on allotment as share were allotted on pro-rata basis.)			
Jna 17	………………… To…………….. (Allotment money due at 4 per share.)		……….	………
Feb 20	…………… To………… (Being balance allotment money received.)		………..	………..
Apr 1	……………. To…………. (Being first and final call money due)		……….	………..
Apr 20	……………….. Calls in arrears To……………. (Being first and final call money received)		…….. 3000	….
May 20	………………. To…………. To………….. (Being the shares forfeited on which first and final call was not received)		…….	….. ……
June 15	……………. To………….. (Being forfeited share reissue.)		……….	……….
…….	………………….. To…………. (……………………………………………………)		……….	………

10)Sona Limited invited applications for 100000 equity share of 10 each at a premium of 5 per shares payable as below.
On applications and allotment, 8 per share (including premium 3) Balance including premium on first and final call.
Applications for 1,50,000 Shares were received, the applicants for 10000 shares were rejected and on pro rata basis, Allotment was made to the remaining applicants on the following basis:
Applicants for 80000 shares were allotted 60,000.
Applicants for 60,000 shares were allotted 40,000 shares.
Sohan who belongs to first category and was allotted 300 shares failed to pay the first call money.
Rana, who belongs to the second category and was allotted 200 shares, also failed to pay the first call money. Their shares were forfeited. The forfeited Shares were reissued at 12 per share, fully paid-up.
Pass necessary journal entries and prepare cash book. (6)

ISSUE OF DEBENTURES
MIND MAP

Debentures

- Issued at Par
- Issued at Premium
- Issued at a discount

Issue of debentures for consideration other than cash

- Issued at Par
- Issued at Premium
- Issued at a Discount

Debentures as Collateral Security

- First Method Accounting treatment in Balance Sheet
- Second Method Accounting treatment in Balance Sheet

Issue of Debentures with the condition of redemption

- Issued at Par, Redeemable at Par
- Issued at Par, Redeemable at Premium
- Issued at Premium, Redeemable at Par
- Issued at Premium, Redeemable at Premium
- Issued at Discount, Redeemable at Par
- Issued at Discount, Redeemable at Premium

Interest on Debentures

- Interest is a charge and not an appropriation
- Payable on face value of Debentures
- Rate of interest prefixed on Debentures
- No interest on debentures issued at collateral security

Writing off Discount/ loss on Issue of Debentures

- 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)

SUMMARY OF THE CHAPTER

Meaning of debenture

A debenture is a written acknowledgement of a debt taken by the company under the common seal of the company.

Types of Debentures

TYPES OF DEBENTURES

SECURED OR MORTGAGE DEBENTURES | REGISTERED DEBENTURES | CONVERTIBE DEBENTURES | REDEEMABLE DEBENTURES

UNSECURED DEBENTURES | BEARER DEBENTURES | NON CONVERTIBLE DEBENTURES | IRREDEEMABLE DEBENTURES

SPECIFIC COUPON RATE DEBENTURES

ZERO COUPON RATE OF DEBENTURES

1. Secured or mortg

Secured debentures are those that are secured agai ssets of a company.

2. Unsecured debentures:

Unsecured debentures are those which are not sec t of a company.

3. Registered debentures:

Registered debentures are those debentures in respect of which all details including names, addresses and particulars of holding of the debentures are entered in a register kept by the company.

4. Bearer debentures:

Bearer debentures are the debentures which can be transferred by way of delivery and the company does not keep any record of the debentures.

5. Convertible debentures:

Debentures which are convertible into equity shares or other class of debentures are called convertible debentures.

6. Non convertible debentures:

The debentures which cannot be converted into shares or in any other securities are called non convertible debentures.

7. Redeemable debentures:

Redeemable debentures are those that will be repaid by the company at the end of a specified period or by installments during the life time of the company.

8. Irredeemable debentures:

Irredeemable debentures are those that are not repayable during the lifetime of the company. These debentures are repayable only at the time of winding up of the company or on the expiry of a long period.

9. Specific Coupon Rate debentures:

These debentures are issued with a specified rate of interest which is called the coupon rate.

10. Zero Coupon Rate of debentures:

These debentures do not carry a specific rate of interest such debentures are issued at substantial discount and the difference between the nominal value and the issue price is treated as the amount of interest.

(I) Issue of debentures for cash

(A) Issue of debentures in lump sum

S.No	Particulars	LF	Debit (Rs)	Credit (Rs)
(i)	On receipt of the Application money Bank a/c………Dr To Debenture Application and Allotment a/c			
(ii)	On Allotment of Debentures (a) If debentures issued at par:			
	Debenture Application and Allotment a/c…….Dr To % Debentures a/c			
	(b) If debentures are issued at premium: Debenture Application and Allotment a/c…….Dr To % Debentures a/c To Securities Premium Reserve a/c			
	(c) If debentures are issued at a discount: Debenture Application and Allotment a/c……Dr Discount on issue of Debentures a/c…………Dr To % Debentures a/c			

NOTE: Remember always open "Debenture Application and Allotment A/c" for lump sum issue.

(B) Issue of debentures in instalments

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
(i)	For Debenture Application money received: Bank a/c……….Dr To Debenture Application a/c			
(ii)	For Debenture Allotment money due: (a) If Debentures issued at par: Debenture Allotment a/c………Dr To % Debentures a/c			
	(b) If Debentures are issued at a premium: Debenture Allotment a/c…….Dr To % Debentures a/c To Securities Premium Reserve a/c			
	(c) If Debentures are issued at a discount Debenture Allotment a/c……….Dr Discount on issue of debentures a/c To % Debentures a/c			
(iii)	For Debenture Allotment money received Bank a/c…….Dr To Debenture Allotment a/c			

(iv) (v)	For Call money due: Debenture (First/ Final) Call a/c……Dr To % Debenture a/c For Call money received: Bank a/c…………Dr To Debenture (First/ Final) Call a/c			

(II) Issue of Debenture for Consideration other than Cash

(A) When a company purchases only assets from another enterprise or supplier (Vendor) against issue of debentures

If a company issues fully paid debentures against purchase of some assets from vendor, it is called debentures issued for consideration other than cash. Debentures may be issued at par, at premium or at a discount.

Calculation of number of Debentures issued= $\dfrac{\text{Amount due to Vendor}}{\text{Issue price of Debentures}}$

Journal Entries

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
    (i) (ii) (ii)	For assets purchased on credit Sundry asset a/c……...Dr To Vendor's a/c When debentures are issued at par: Vendor's a/c…………Dr To % Debentures a/c When debentures are issued at a premium Vendor's a/c…………Dr To % Debentures a/c To Securities Premium Reserve a/c When debentures are issued at a discount Vendor's a/c…………Dr Discount on Issue of Debentures a/c……Dr To % Debentures a/c			

(B) When the company purchases entire business (i.e. both assets and liabilities) of another enterprise

Sometimes, a company may purchase the assets as well as takeover the liabilities of another business enterprise. The following journal entry will be passed:

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
	Sundry Assets a/c………..Dr To Sundry Liabilities To Vendor's a/c (Balancing figure)			

Concept of "Goodwill" and "Capital Reserve"

When a company acquires the whole business (i.e. both assets and liabilities) of another company and the purchase consideration agreed is more than the amount of the net assets (i.e. Assets - Liabilities), the difference (excess) amount will be treated as capital loss and debited to " Goodwill Account". On the other hand if purchase considerations is less than the amount of net assets, the difference amount will be treated as capital gain and credited to " Capital Reserve Account".

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
(a)	For Goodwill Sundry Assets a/c……Dr Goodwill a/c…………Dr To Liabilities a/c To Vendor a/c (Purchase Consideration)			
(b)	For Capital Reserve Sundry Assets a/c…….Dr To Liabilities a/c To Capital Reserve a/c To Vendor a/c (Purchase Consideration)			
	(i) When debentures are issued at par as purchase consideration: Vendor a/c…….Dr To % Debentures a/c			
	(ii) When debentures are issued at a premium as purchase consideration: Vendor a/c…….Dr To % Debentures a/c To Securities Premium Reserve a/c			
	(iii) When debentures are issued at a discount as purchase consideration:			
	Vendor a/c………Dr Discount on issue of debentures a/c To % Debentures a/c			

(III) Issue of Debentures from the point of view of Redemption

Debentures are liabilities of the company. The repayment of debentures is called the redemption of debentures. The repayment of debentures is made by the company in accordance with the term of issue of debentures.

CASE I : Issued at Par, Redeemable at Par:

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
(a)	For receipt of Application money Bank a/c………Dr To Debenture Application & Allotment a/c			
(b)	For Allotment of Debenture Debenture Application & Allotment a/c……Dr To % Debentures a/c			

CASE II : Issued at Discount, Redeemable at Par:

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
(a)	For receipt of Application money Bank a/c………Dr To Debenture Application & Allotment a/c			

(b)	For Allotment of Debenture at a Discount Debenture Application & Allotment a/c……Dr Discount on Issue of Debenture a/c To % Debentures a/c			

CASE III : Issued at Premium, Redeemable at Par:

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
(a) (b)	For receipt of Application money Bank a/c………Dr To Debenture Application & Allotment a/c For Allotment of Debenture at a Premium Debenture Application & Allotment a/c……Dr To % Debentures a/c To Securities Premium Reserve a/c			

CASE IV: Issued at Par, Redeemable at Premium:

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
(a) (b)	For receipt of Application money Bank a/c………Dr To Debenture Application & Allotment a/c For Allotment of Debenture at par and redeemable at a premium Debenture Application & Allotment a/c……Dr Loss on Issue of Debentures a/c To % Debentures a/c To Premium on Redemption of Debenture a/c			

CASE V: Issued at a Discount, Redeemable at Premium:

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
(a) (b)	For receipt of Application money Bank a/c………Dr To Debenture Application & Allotment a/c For Allotment of Debenture at a discount and redeemable at premium Debenture Application & Allotment a/c……Dr Loss on Issue of Debentures a/c To % Debentures a/c To Premium on Redemption of Debenture a/c			

CASE VI : Issued at Premium, Redeemable at Premium:

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
(a) (b)	For receipt of Application money Bank a/c………Dr To Debenture Application & Allotment a/c For Allotment of Debenture at a premium and redeemable at premium Debenture Application & Allotment a/c……Dr Loss on Issue of Debentures a/c To % Debentures a/c			

	To Securities Premium Reserve a/c To Premium on Redemption of Debenture a/c			

(IV) Issue of Debentures as Collateral Security

(i) A company issues debentures as collateral security against loan taken from a bank or other person.

(ii) The term collateral security means security provided to the lender over and above the principal security. It is also called as subsidiary or additional security.

(iii) No interest is payable on the debentures issued as collateral security because interest on loan is being paid.

(iv) The liability of the company is for the amount of loan and not for the face value of debentures issued as collateral security.

Accounting Treatment of Debentures Issued as Collateral Security

1. Pledging Debentures as Collateral Security without Recording:

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
	For loan obtained from bank Bank a/c………..Dr To Bank Loan a/c			

Extract of Balance Sheet as at_______

Particulars	Note No.	Current Year (Rs)	Previous Year (Rs)
I. **EQUITY AND LIABILITIES** 1. Non- Current Liabilities (a) Long- Term Borrowings	 1		

Notes to Accounts:

Particulars	Rs
Long term Borrowings Bank Loan (Secured by _______% Debentures of ____each	------

2. Recording Debentures as Collateral Security

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
	For debentures issued as collateral security Debenture Suspense a/c……….Dr To % Debentures a/c			

Extract of Balance Sheet as at_________

Particulars	Note No.	Current Year (Rs)	Previous Year (Rs)
I. **EQUITY AND LIABILITIES** 1. Non- Current Liabilities (a) Long- Term Borrowings	 1		

Notes to Accounts

Particulars	Rs

Long term Borrowings Bank Loan % Debentures issued as collateral security Less: Debenture Suspense a/c	 XXX (XXX)	 XXX NIL
		XXX

(V) Interest on Debentures

(i) Interest on debentures is a charge against the profits of a company.
(ii) It has to be paid regularly even if the company incures a loss or does not earn profit.
(iii) Interest on debentures is computed at the prefixed rate and it is usually paid half- yearly.
(iv) Interest is always calculated on the face value of debentures.

Journal Entries

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
(i)	For interest due to debenture holders and income tax payable deducted at source Interest on Debentures a/c…….Dr To Debenture holders a/c To TDS/ Income Tax payable a/c			
(ii)	For payment of interest Debenture holders a/c To Bank a/c			
(iii)	For tax deducted at source and deposited TDS/ Income tax payable a/c……..Dr To Bank a/c			
(iv)	For interest on debentures transferred to Statement of Profit and Loss Statement of profit and loss a/c……Dr To Interest on Debentures a/c			

(VI) Writing off Discount or Loss on Issue of Debentures (AS 16)

Discount or loss on issue of debentures must be written off in the same year the debentures were issued, first out of Securities premium reserve and balance if any from Statement of Profit and Loss.

Journal Entry for writing off loss on issue of debentures:

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
	For Loss on Issue of Debentures written off Securities Premium Reserve a/c……….Dr Statement of Profit and Loss a/c………Dr To Loss on Issue of Debentures a/c			

MCQs

1	Debentures which are transferable by mere delivery are : (a) Registered debentures (b) First debentures (c) Bearer debentures (d) None of these
2	A liability of Rs.60,000 was discharged by issuing debentures of Rs 10 each at 20% premium. The number of debentures issued will be : (a) 50,000 (b) 5,000 (c) 60,000 (d) 6,000
3	A company issued 1000, 12% debentures of .Rs.100 each at 10% premium. 12% stands for : (a) Rate of dividend (b) Rate of interest (c) Rate of tax (d) None of these

4	When debentures are issued at par and are redeemable at premium, the loss on such an issue is debited to : (a) Profit & Loss a/c (b) Debenture application and allotment a/c (c) Loss on issue of debentures a/c (d) Premium on redemption of debentures
5	X Co Ltd. purchased assets worth Rs.14,40,000. It issued debentures of Rs.100 each at a discount of 4% in full satisfaction of the purchase consideration. The number of debentures issued to vendor is : (a) 15,000 (b) 14,400 (c) 16,000 (d) 30,000
6	In case of issue of debentures as a collateral security for loan from the bank, the account debited will be: (a) Bank a/c (b) Bank loan a/c (c) Debentures a/c (d) Debenture Suspense a/c
7	**Assertion (A)** : Issue of debenture does not result in dilution of interest of equity shareholders. **Reason (R)** : Debenture holders have voting rights (a) (A) is correct but (R) is wrong (b) Both (A) and (R) are correct but (R) is not the correct explanation of (A) (c) Both (A) and (R) are incorrect (d) Both (A) and (R) are correct and (R) is the correct explanation of (A)
8	**Assertion (A)**: Debentures can be issued at a discount of more than 10% of the face value. **Reason (R)** : There are no restriction on the issue of debentures at a discount. (a) (A) is correct but (R) is wrong (b) Both (A) and (R) are correct but (R) is not the correct explanation of (A) (c) Both (A) and (R) are incorrect (d) Both (A) and (R) are correct and (R) is the correct explanation of (A)
9	Jolly Ltd. bought business of Joel Ltd. on 01.04.2021 consisting Sundry assets of Rs.2,80,000 and creditors Rs.50,000. Rs.50,000 was paid in cash on 03.04.2021 and for the balance 6% Debentures were issued at a premium of 20% on 05.04.2021. What is the purchase consideration payable to Joel Ltd.? (a) Rs.2,50,000 (b) Rs.2,30,000 (c) Rs.2,80,000 (d) Rs.2,00,00
10	The journal entry for the issue of debenture is : (a) Joel Ltd. a/c Dr 2,80,000 To Cash a/c 50,000 6% Debentures a/c 2,30,000 (b) Joel Ltd. a/c Dr 2,30,000 To Cash a/c 50,000 6 % Debentures a/c 1,80,000 (c) Joel Ltd. a/c Dr 1,80,000 To 6 % Debentures a/c 1,50,000 To Securities Premium Reserve a/c 30,000 (d) Jolly Ltd. a/c Dr 1,80,000 To 6 % Debentures a/c 1,50,000 To Securities Premium Reserve a/c 30,000
11	Lily Ltd. issued 1,000, 10% debentures of Rs.100 each at a premium of 5%. The total amount of interest for one year will be---- (a) Rs.10,000 (b) Rs.10,500 (c) Rs.5,000 (d) Rs.500
12	When debentures are issued at a discount, the discount should be written off : (a) during the life of the debentures (b) in the year of the issue of debentures (c) Within 5 years of the issue of the debentures (d) None of these

13	X Ltd. issued 500, 6% debentures of Rs.50 each at a discount of 10%. The debenture a/c will be credited by: (a) Rs.15,000 (b) Rs.25,000 (c) Rs.22,500 (d) Rs.45,000
14	Match the statements given under (A) with correct options given under (B) (A) (B) (i) Zero Coupon rate debentures (a) Debentures which are repaid before other debentures (ii) Bearer debentures (b) Such debentures can be transferred by mere delivery (iii) First debentures (c)These debentures do not carry a specific rate of interest (a) (i) c, (ii) a, (iii) b (b) (i) a (ii) b (iii) c (c) (i) c, (ii) b, (iii) a (d) (i) b, (ii) c, (iii) a
15	Vasanth Ltd. issued 50,000, 12% Debentures of Rs.100 each at a certain rate of discount and were to be redeemed at par. Securities premium of Rs.1,50,000 and current year profit of Rs.50,000 were used to write off discount on issue of debentures. At what rate of discount these debentures were issued? (a) 12% (b) 10% (c) 5% (d) 4%
16	Excess value of net assets over purchase consideration at the time of purchase of business is ------------- (a) Credited to General reserve (b) Credited to Capital reserve (c) Credited to Vendor's a/c (d) Debited to Goodwill a/c
17	**Assertion (A)** : Interest on debenture is payable whether the company earns profit or incurs loss. **(R) Reason** : Interest on debenture is a charge against the profit of the company. (a) (A) is correct but (R) is wrong (b) Both (A) and (R) are correct but (R) is not the correct explanation of (A) (c) Only R is correct (d) Both (A) and (R) are correct and (R) is the correct explanation of (A)
18	Ranbaxy Ltd. issued 40,000, 10% debentures of Rs.100 each at 6% discount and were to be redeemed at a certain rate of premium. At the time of writing off loss on issue of debentures, Statement of Profit and Loss was debited with Rs.4,40,000. At what rate of premium these debentures are redeemed? (a) 11% (b) 10% (c) 15% (d) 5%
19	**Assertion (A)**: Premium on issue of debenture is a capital gain for the company. **Reason (R)**: Loss on issue of debenture is a revenue loss. (a) (A) is correct but (R) is wrong (b) Both (A) and (R) are correct but (R) is not the correct explanation of (A) (c) Only R is correct (d) Both (A) and (R) are correct and (R) is the correct explanation of (A)
20	Shalom Ltd. had issued 5,000, 11% Debentures of Rs.100 each at par. The application money was Rs.30 per debenture and the public had applied for 7,500 debentures. Pro-rata allotment was made. Pooja had applied for 600 debentures. The amount carried forward towards the sum due on allotment from Pooja will be: (a) Rs.75,000 (b) Rs.6,000 (c) Rs.4,500 (d) Rs.45,000
21	Andrew Ltd. issued 20,000, 9% Debentures of Rs.100 each at 10% discount to Mithu Ltd. from whom Assets of Rs. 23,50,000 and Liabilities of Rs. 6,00,000 were taken over. Pass entries in the books of Andrew Ltd. if these debentures were to be redeemed at 5% premium. (3)

Books of Andrew Ltd
Journal

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
(a)	Assets a/c…………Dr Goodwill a/c………Dr To Liabilities a/c		23,50,000 50,000	 6,00,000

	To Mithu a/c (Being Business purchased of Mithu Ltd. comprising of Assets and Liabilities)			18,00,000
(b)	Mithu Ltd a/c……..Dr Loss on Issue of Debentures a/c………Dr (Rs. 2,00,000-Rs. 1,00,000) To 9% Debentures a/c To Premium on Redemption of Debentures a/c (5% of Rs. 20,00,000) (Being Debentures issued to Mithu Ltd. at Discount, redeemable at Premium)		18,00,000 3,00,000	 20,00,000 1,00,000

22 Nishant Ltd. acquired assets of Rs.25,00,000 and took over creditors of Rs.5,00,000 from Rai Enterprises for a purchase consideration of Rs.24,00,000. The consideration was paid by the issue of 9% Debentures of Rs.100 each at a premium of 20% to be redeemed at par after 5 years.

Pass the necessary journal entries for the above transactions. (3)

Date	Particulars	L.F	Dr.(Rs)	Cr. (Rs)
	Sundry Assets a/c Dr Good will a/c (balancing fig) Dr To Creditors a/c To Rai Enterprises a/c (Being taking over of assets and liabilities for the purchase consideration)		25,00,000 4,00,00	 5,00,000 24,00,000
	Rai Enterprises a/c Dr To 9% Debentures a/c To Securities premium reserve a/c (Being issue of 20,000, 9% Debentures at a premium of 20%)		24,00,000	 20,00,000 4,00,000

No of debentures to be issued = $\frac{24,00,000}{120} = 20,000$

23 MNO Ltd. issued 900, 8% Debentures of Rs. 50 each on 1st April 2022. Pass the necessary journal entries in the following situations, assuming the whole amount is called in lump sum:

(a) When debentures were issued at a premium of 10% redeemable at a premium of 6%.

(b) When debentures were issued at par redeemable at a premium of 9%. (3)

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
(a)	Bank a/c………..Dr To Debenture Application and Allotment a/c (For application and allotment money received on 900 debentures @Rs 55 each) Debenture Application and Allotment a/c..Dr		49,500 49,500 2,700	 49,500

	Particulars	LF	Debit (Rs)	Credit (Rs)
	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 (For 900, 8% debentures of Rs. 50 each issued at a premium of 10% redeemable at a premium of 6%)			45,000 4,500 2,700
(b)			45,000	
	Bank a/c………Dr To Debenture Application and Allotment a/c (For application and allotment money on 900 debentures received @Rs. 50 each)			45,000
			45,000 4,050	
	Debenture Application and Allotment a/c..Dr Loss on Issue of Debentures a/c To 8% Debentures a/c To Premium payable on Redemption of Debentures a/c (For 900, 8% debentures issued at par for Rs. 50 each redeemable at a premium of 9%)			45,000 4,050

24 On 1st April, 2021, Virat Limited issued 10,000, 9% debentures of Rs. 100 each at discount of 10% redeemable at par after six years:
Interest is paid annually on 31st March every year.
Pass necessary journal entries for issue and interest for the year ended 31st March 2022. (3)

In the books of Virat Limited
Journal

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
1.4.2021	Bank a/c To Debenture Application and Allotment a/c (Being application money received)		9,00,000	 9,00,000
1.4.2021	Debenture Application and Allotment a/c Discount on issue of Debentures a/c…..Dr To 9% Debentures a/c (Being debentures issued at discount)		9,00,000 1,00,000	 10,00,000
31.3.2022	Interest on Debentures a/c……Dr To Debenture holders a/c (Being interest due on Rs. 10,00,000)		90,000	 90,000
31.3.2022	Debenture holders a/c……Dr To Bank a/c (Being interest paid to debenture holders)		90,000	 90,000
31.3.22	Statement of Profit and Loss a/c….Dr To Interest on Debenture a/c (Being interest on debentures)		90,000	 90,000

31.3.2022	Statement of Profit and Loss To Discount on Issue of Debentures a/c (Being discount on Issue of debentures written off)		1,00,000	 1,00,000

25 MGR Ltd. purchased business of LKG Ltd. for a purchase consideration of Rs. 4,80,000. The following assets and liabilities were taken over:

	Rs
Plant and Machinery	4,50,000
Furniture	80,000
Inventories	1,70,000
Sundry Liabilities	1,90,000

The purchase consideration was paid partly by accepting a bill of Rs 30,000 and partly by the issue of 9% debentures of Rs. 100 each at a discount of 10%
Pass necessary journal entries for the above transactions in the books of MGR Ltd.

Journal of MGR Ltd.

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
(i)	Plant and Machinery a/c…….Dr Furniture a/c Inventories a/c To Sundry Liablities To Capital Reserve a/c (Bal fig) To LKG Ltd (Being business of LKG Ltd. purchased)		4,50,000 80,000 1,70,000	 1,90,000 30,000 4,80,000
	LKG Ltd…………Dr Discount on issue of Debentures a/c…Dr To Bills Payable a/c To 9% Debentures a/c (Being purchase consideration paid partly through a bill and partly by issuing 5,000, 9% Debentures of Rs. 100 each at a discount of 10%)		4,80,000 50,000	 30,000 5,00,000

26 Health2Wealth Ltd. had share capital of 80,00,000 divided in shares of 100 each and 20,000, 8% Debentures of 100 each as part of capital employed.

The company need additional funds of 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 01 October, 2021.

You are required to:
(a) Pass entries for issue of Debentures.
(b) Prepare Loss on Issue of Debentures Account assuming there was existing balance of Securities Premium Account of Rs.2,80,000.
(c) Pass entries for Interest on debentures on March 31, 2022 assuming interest is payable on 30 September and 31 March every year.
(6)

(a) **Books of Health2Wealth Ltd.**
Journal

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
(i)	Bank a/c….Dr (50,000 (Deb) X Rs110) To Debenture Application and Allotment a/c (Being application money received) Debenture Application and Allotment a/c Dr (50,000 X Rs110) Loss on issue of Debentures a/c…..Dr (50,000XRs20) To 8% Debentures a/c (50,000XRs 100) To Securities Premium Reserve a/c (50,000 X Rs 10) To Premium on Redemption of Debentures a/c (50,000 X Rs 20) (Debenture issued at premium, to be redeemed at premium)		55,00,000 55,00,000 10,00,000	 55,00,000 50,00,000 5,00,000 10,00,000

(b) Dr Loss on Issue of Debentures a/c Cr

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
2021 1 Oct	To Premium On Redemption of Debentures a/c	10,00,000	2022 31 Mar	By Securities Premium a/c By Statement of Profit and Loss a/c (Bal fig)	7,80,000 2,20,000
		5,00,000			5,00,000

(c) Journal

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
31 Mar 2022	Debenture Interest a/c……Dr To Debenture holders a/c (Rs 50,00,000 X 8/100 X 6/12) (Being interest due on debentures)		2,00,000	2,00,000
31 Mar 2022	Debenture holders a/c…..Dr To Bank a/c (Being Interest paid to debenture holders)		2,00,000	2,00,000
31 Mar 2022	Statement of Profit and Loss…..Dr To Debenture Interest a/c (Being Interest on Debenture charged to Statement of Profit and Loss)		2,00,000	2,00,000

27 Accounts Guru Ltd., an educational company was incorporated on 1st April 2005 with registered office in New Delhi. The company raised the funds by issue of shares specified under capital clause of Memorandum of Association. The company is in need to purchase a building worth Rs. 22,00,000 to open a new branch. Since the company is a zero-debt company, the directors decided to avail the benefits of financial leverage by issuing 12% debentures of 100 each at 10% premium against the purchase of building from the vendor (Vikas). These debentures are to be redeemed at 5% premium after 5 years.

You are required to answer the following questions:

(i) State the amount credited to securities premium account while issuing debentures.

(ii) Pass journal entry for issue of debentures to Vikas.
(iii) Pass journal entry to write off 'Loss on Issue of Debentures Account'.
(6)

(i) Amount credited to Securities Premium= 20,000 debentures X Rs. 10= Rs. 2,00,000

(ii) Journal

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	Vikas a/c…….Dr To 12% Debentures a/c (20,000 X 100) To Securities Premium a/c (20,000 X 10) (Being 20,000 debentures issued of Rs100 each at 10% premium)		22,00,000	 20,00,000 2,00,000

(iii) Journal Entry to write off 'Loss on Issue of Debentures Account'

Date	Particulars	LF	Debit (Rs)	Credit(Rs)
	Securities Premium a/c…….Dr To Loss on Issue of Debentures a/c (Being Loss on Issue of Debentures written off)		1,00,000	 1,00,000

28 On 1st April, 2018, Vishwas Ltd. was formed with an Authorised capital of 10,00,000 divided into 1,00,000 equity shares of 10 each.
On 1st April 2020 it acquired the running business of its competitor with following assets and liabilities:
Land Rs. 4,50,000; Debtors Rs. 1,00,000; Furniture Rs. 90,000; Creditors Rs. 1,80,000
The purchase consideration decided 6,00,000 which was paid by issuing a cheque of Rs. 1,25,000 and balance in form of 8% debentures of 100 each at a discount of 5%.

On the same date, the company issued 1,000, 8% debentures of 100 each as collateral security to Punjab national bank who had advanced a loan of 1,50,000. The company had already a balance in Security Premium Reserve A/c of 20,000.

On the basis of the above information, answer the following questions:
(i) Compute the number of 8% debentures issued to the vendor.
(ii) Pass journal entry to write off the discount on issue of debentures.
(iii) How much interest will be paid on debentures issued as collateral security?
(6)

(i) No. of debentures issued= Rs. 4,75,000/ Rs 95= 5,000 debentures

(ii) **Journal**

Date	**Particulars**	**LF**	**Debit (Rs)**	**Credit (Rs)**
	Securities Premium Reserve a/c….Dr Statement of Profit and Loss……Dr To Discount on Issue of Shares a/c (Being discount on issue of debenture written off)		20,000 5,000	 25,000

(iii) No interest will be allowed on debentures issued as collateral security.

29 On 1st July 2022, Moon Craft Ltd. issued 10,000, 9% Debentures of Rs. 100 each at a premium of 4%, redeemable at a premium of Rs. 15 per debenture in two equal annual installments starting from the end of third year. Company has a balance of Rs. 60,000 in

Securities Premium on the date of issue of debentures.
Pass the necessary Journal entries for the financial year 2022-23. Also prepare Loss on Issue of Debentures Account. (6)

Journal

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
2022 July 1	Bank a/c………..Dr To Debenture Application and Allotment a/c (Being application money received)		10,40,000	10,40,000
	Debenture Application and Allotment a/cDr 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 issue of 9% Debentures of Rs100 each at a premium of 4% redeemable at premium of Rs15 per debenture)		10,40,000 1,50,000	10,00,000 40,000 1,50,000
2023 March 31	Interest on Debenture a/c…Dr (Rs 10,00,000 X 9/100 X 9/12) To Debenture holders a/c (Being Interest due for 9 months)		67,500	67,500
	Debenture holders a/c….Dr To Bank a/c (Being payment of Interest)		67,500	67,500

	Statement of Profit& Loss (Finance Cost)…..Dr To Interest on Debentures a/c (Being Transfer of Debenture Interest)		67,500	67,500
	Securities Premium a/c …….Dr (Rs 60,000+Rs 40,000) Statement of Profit& Loss (Finance Cost) To Loss on Issue of Debenture a/c (Being Loss on issue of debentures written off)		1,00,000 50,000	1,50,000

Dr Loss on Issue of Debentures Account Cr

Date	Particulars	Amount	Date	Particulars	Amount
2022 July 1	To Premium on Redemption of Debentures a/c	1,50,000	2023 March 31	By Securities Premium a/c By Statement of Profit & Loss	1,00,000 50,000

		1,50,000			1,50,000

30 Hi-Tech Ltd. issued 10,000, 9% Debentures of Rs. 100 each at 6% premium, redeemable at 10% premium after 5 years, payable as Rs. 60 on application and the balance on allotment (including premium). The Debentures were oversubscribed by 1000 debentures and allotment was made on pro rata basis. All money was duly received.
Pass the necessary Journal entries for issue of debentures and writing off loss on issue of debentures. Prepare Loss on Issue of Debentures Account.

In the Books of Hi-Tech Ltd.
Journal

Date	**Particulars**	**LF**	**Debit (Rs)**	**Credit (Rs)**
	Bank a/c (11,000 X Rs. 60)…….Dr		6,60,000	
	To Debentures Application a/c			6,60,000
	(Being Debenture Application money received)			
	Debentures Application a/c…….Dr		6,60,000	
	To 9% Debentures a/c(10,000 X Rs 60)			6,00,000
	To Debenture Allotment a/c (1000X Rs60)			60,000
	(Being Application money received)			
	Debenture Allotment a/c……Dr		4,60,000	
	Loss on Issue of Debentures a/c…..Dr		1,00,000	
	To 9% Debentures a/c			4,00,000
	To Securities Premium a/c			60,000
	To Premium on Redemption of Debentures a/c			1,00,000
	(Being Allotment money due)			
	Bank a/c……..Dr		4,00,000	
	To Debenture Allotment a/c			4,00,000
	(Being Allotment money received)			
	Securities Premium a/c……..Dr		60,000	
	Statement of Profit & Loss…..Dr (Rs 1,00,000- Rs 60,000)		40,000	
	To Loss on Issue of Debentures a/c			1,00,000
	(Being Loss on Issue of Debentures written off)			

Dr Loss on Issue of Debentures Account Cr

Date	Particulars	Amount	Date	Particulars	Amount
	To Premium on Redemption of Debentures a/c	1,00,000		By Securities Premium a/c	60,000
				By Statement of Profit & Loss	40,000
		1,00,000			1,00,000

	Answers for MCQs
	1. (c) 2. (b) 3. (b) 4. (c) 5. (a) 6. (a) 7. (a) 8. (d) 9. (b) 10. (c) 11. (a) 12. (b) 13. (b) 14. (c) 15. (d) 16. (b) 17. (d) 18. (d) 19. (a) 20. (b)

FINANCIAL STATEMENTS OF A COMPANY

❖ MEANING OF FINANCIAL STATEMENTS:

Financial statements are the end products of accounting process. They provide information about the profitability and the financial position of a business.

As per Section 2 (40) of the Companies Act, 2013, 'Financial Statements' in relation to a Company, includes the following:

- A balance sheet as at the end of the financial year.
- A statement of profit and loss for the financial year.
- Cash flow statement for the financial year.
- A statement of changes in equity, if applicable; and
- Explanatory notes.

One Person Company, Small Company and Dormant Company are exempted from preparing cash flow statement with their financial statements.

❖ NATURE OF FINANCIAL STATEMENTS:

1. Recorded Facts: The term recorded facts means that the data used for preparing financial statements are drawn from accounting records.
2. Accounting Concepts: In order to make financial statements more reliable and comparable, they are prepared on the basis of certain basic concepts or assumptions (postulates).
3. Accounting Conventions: Financial Statements are prepared following the accounting conventions also.
4. Accounting Standards: Financial Statements are prepared following Accounting Standards prescribed in the Companies Act, 2013.
5. Personal Judgements: Even though certain accounting conventions are followed while preparing the financial statements, still personal judgement of the accountant plays a decisive role in accounting.

❖ USES AND IMPORTANCE OF FINANCIAL STATEMENTS:

1. Information about Financial Performance: Statement of Profit and Loss which is an essential part of financial statements provides information about profit earned or loss incurred during the accounting period.
2. Information about Financial Position: Balance Sheet which is also an essential part of financial statements provides information about financial position i.e., assets, liabilities and capital employed in the business.
3. Assistance to Management: Financial Statements are helpful to the management while making plans, taking decisions and exercising control over the affairs of the business.
4. Enables Comparative Study: Financial Statements enable the management to compare one year's costs, expenses, sales and profit etc. with those of other years.
5. Helpful in Raising Loans: Financial Statements are of great help while raising loans from banks or other financial institutions.
6. Information to Users of Financial Statements: Financial Statements provide sufficient and reliable information to various parties who have interest in the business enterprise.
7. Helpful in Assessment of Tax Liability: Financial Statements are of great help when the firm is assessed to Income Tax, Goods and Services Tax and Excise Duty.
8. Evidence in Legal Matters: Financial Statements, supported by authenticated documents are accepted by the courts as firm evidence.

❖ SCHEDULE III FOR PREPARING BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS

Balance Sheet and Statement of Profit and Loss of a Company must be prepared as per the format given in Schedule III.

Schedule III does not offer any horizontal format. The new vertical format is as follows:

PART I

FORMAT OF BALANCE SHEET

BALANCE SHEET OF …………. Ltd. as at…………..

Particulars	ote No.	gures at the end of current reporting period	gures at the end of previous reporting period
1	2	3	4
I.EQUITY AND LIABILITIES:			
(1) Shareholders' funds			
(a) Share capital			
(b) Reserves and surplus			
(c) Money received against share warrants			
(2) Share application money pending allotment			
(3) Non-current liabilities			
(a) Long-term borrowings			
(b) Deferred tax liabilities (net)			
(c) Other Long-term liabilities			
(d) Long-term provisions			
(4) 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 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) Current assets			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(e) Short-term loans and advances			
(f)Other current assets			
TOTAL			

As per Amendment in Schedule III of Companies Act, 2013:

***The term ‘Fixed Assets’ is replaced with ‘Property, Plant and Equipment and Intangible Assets’.**

**** The term 'Tangible Assets' is replaced with 'Property, Plant and Equipment'.**

PART II

FORMAT OF STATEMENT OF PROFIT AND LOSS

PROFIT AND LOSS STATEMENT OF …………. Ltd. for the year ended…………..

	Particulars	Note No.	Figures for the current reporting period	Figures for the previous reporting period
I.	Revenue from Operations			
II.	Other Income			
III.	**TOTAL INCOME (I+II)**			
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 (V–VI)			

❖ Questions regarding Major Headings and Sub- Headings to be shown in a company's balance sheet as per schedule III of the Companies Act, 2013 (3/4 marks)

1. Under which major headings/sub-headings will the following items be shown in a Company's Balance Sheet as per Schedule-III Part I of the Companies Act, 2013?

(i) Provision for Warranties
(ii) Provision for Tax
(iii) Bank Overdraft
(iv) Goodwill
(v) Unclaimed Dividend
(vi) Loose tools

Ans.

S.No.	Items	Major Head	Sub Head
(i)	Provision for Warranties	Non-Current Liabilities	Long term Provisions
(ii)	Provision For Tax	Current Liabilities	Short-Term Provisions
(iii)	Bank overdraft	Current Liabilities	Short-Term Borrowings
(iv)	Goodwill	Non-Current Assets	Property, Plant and Equipment and Intangible Assets — Intangible Assets
(v)	Unclaimed Dividend	Current Liabilities	Other Current Liabilities Inventories
(vi)	Loose Tools	Current Assets	Inventories

2. Under which major headings and sub-headings will the following items be shown in the Balance Sheet of a company as per Schedule III Part I of the Companies Act, 2013:

(i) Net loss as shown by Statement of Profit and Loss.
(ii) Capital redemption reserve.
(iii) Bonds issued by the Company
(iv) Loans repayable on demand.
(v) Unpaid dividend.
(vi) Buildings.
(vii) Trademarks.
(viii) Raw materials.

Ans.

S.No.	Items	Headings	Sub-Headings
(i)	Net loss as shown by statement of profit and loss	Shareholders' funds	Reserve and Surplus as negative item
(ii)	Capital redemption reserve	Shareholders' funds	Reserve and Surplus
(iii)	Bonds issued by the Company	Non-current liabilities	Long-term borrowings
(iv)	Loans payable on demand	Current liabilities	Short-term borrowings
(v)	Unpaid dividend	Current liabilities	Other current liabilities
(vi)	Buildings	Non-current assets	Property, Plant and Equipment and Intangible Assets — Property, Plant and Equipment
(vii)	Trademarks	Non-current assets	Property, Plant and Equipment and Intangible Assets — intangible Assets
(viii)	Raw materials	Current assets	Inventory

3. State under which major headings and sub-headings the following items will be presented in the balance sheet of a company as per Schedule III of the Companies Act, 2013:

(i) Calls in Advance.
(ii) Accrued Interest on Calls in Advance.
(iii) Provision for Retirement Benefits
(iv) Stores and Spares.
(v) Capital Work in Progress.
(vi) Design
(vii) Securities Premium.

Ans.

S.No.	Items	Headings	Sub-headings
(i)	Calls in Advance	Current Liabilities	Other Current Liabilities
(ii)	Accrued Interest on Calls in Advance	Current Liabilities	Other Current Liabilities
(iii)	Provision for Retirement Benefits	Non-Current Liabilities	Long-term Provisions
(iv)	Stores and Spares	Current Assets	Inventory
(v)	Capital Work in Progress	Non-Current Assets	Property, Plant and Equipment and Intangible Assets — Capital Work in Progress
(vi)	Design	Non-Current Assets	Property, Plant and Equipment and Intangible Assets — Intangible Assets
(vii)	Securities Premium	Shareholder's Funds	Reserve and Surplus

4. How will you show the following items in the Balance Sheet of a Company.

(i) Long-term Borrowings
(ii) Short-term Borrowings
(iii) Long-term Loans
(iv) Short-term Loans
(v) Computer
(vi) Computer Software
(vii) Building

Ans.

S.No.	Item	Major Head	Sub Head
(i)	Long-term Borrowings	Non-Current Liabilities	Long term Borrowings
(ii)	Short-term Borrowings	Current Liabilities	Short term Borrowings
(iii)	Long-term Loans	Non-Current Assets	Long term Loans
(iv)	Short-tern Loans	Current Assets	Short term Loans
(v)	Computer	Non-Current Assets	Property, Plant and Equipment and Intangible Assets - Property, Plant and Equipment
(vi)	Computer Software	Non-Current Assets	Property, Plant and Equipment and Intangible Assets — Intangible Assets
(vii)	Building	Non-Current Assets	Property, Plant and Equipment and Intangible Assets — Property, Plant and Equipment

5. Under which major headings and sub-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) Loans provided repayable on demand
(ii) Goodwill
(iii) Copyrights and Patents
(iv) Cheques
(v) General Reserve
(vi) Goods acquired for trading
(vii) 9% Debentures repayable after three years

Ans.

S.No.	Major Heads	Sub-heads
(i)	Current Liabilities	Short-term Borrowings
(ii)	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Intangible Assets
(iii)	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Intangible Assets
(iv)	Current Assets	Cash and Cash Equivalents
(v)	Shareholder's Funds	Reserves and Surplus
(vi)	Current Assets	Inventories
(vii)	Non-Current Liabilities	Long-term Borrowings

6. Under which major headings and sub-headings the following items will be shown in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013?

(i) Bank Overdraft
(ii) Drafts in Hand

(iii) Trade Marks
(iv) Long-term Provisions
(v) Calls in Advance
(vi) Interest on Calls in Advance

Ans.

S.No.	Major Heads	Sub-heads
(i)	Current Liabilities	Short-term Borrowings
(ii)	Current Assets	Cash and Cash Equivalents
(iii)	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Intangible Assets
(iv)	Non-Current Liabilities	Long-term Provisions
(v)	Current Liabilities	Other Current Liabilities
(vi)	Current Liabilities	Other Current Liabilities

7. Under which major head/sub-head will the following items be presented in the Balance Sheet of a company as per Schedule III, Part I of the Companies Act, 2013?
(i) Computer software
(ii) Calls-in-advance
(iii) Outstanding salary
(iv) Securities Premium
(v) Patents
(vi) Interest accrued on Investment

Ans.

S.No.	Items	Major Head	Sub-Head
(i)	Computer Software	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Intangible Assets
(ii)	Calls in Advance	Current Liabilities	Other Current Liabilities
(iii)	Outstanding Salary	Current Liabilities	Other Current Liabilities
(iv)	Securities Premium	Shareholders funds	Reserves and Surplus
(v)	Patents	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Intangible Assets
(vi)	Interest Accrued on Investment	Current Assets	Other Current Assets

8. Classify the following items under Major Head and Sub-Head (if any) in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013
(i) Work in Progress;
(ii) Provision for Warranties;
(iii) Income received in advance;
(iv) Capital Advances;
(v) Capital Reserve
(vi) Bank Overdraft

Ans.

S.No.	Items	Head	Sub-Head

(i)	Work in Progress	Current Assets	Inventory
(ii)	Provision for Warranties	Non-Current Liability	Long Term Provisions
(iii)	Income received in Advance	Current Liabilities	Other Current Liabilities
(iv)	Capital Advances	Non-Current Assets	Long Term Loans and Advances
(v)	Capital Reserve	Shareholder's Funds	Reserve and Surplus
(vi)	Bank Overdraft	Current Liabilities	Short Term Borrowing

9. Under which major headings and sub-headings will the following items be shown in the Balance Sheet of a company as per Schedule III Part I of the Companies Act, 2013:

(i) Balance of the Statement of Profit and Loss

(ii) Loan of 1,00,000 payable after three years

(iii) Short-term deposits payable on demand

(iv) Loose tools

(v) Trade marks

(vi) Land

(vii) Cash at Bank

(viii) Trade Payables

Ans.

S.No.	Items	Major Heads	Sub-heads
(i)	Balance of the Statement of Profit and Loss	Shareholder's Funds	Reserve and Surplus
(ii)	Loan of 1,00,000 payable after three years	Non-Current Liabilities	Long-term Borrowings
(iii)	Short-term deposits payable on demand	Current Liabilities	Short-term Borrowings
(iv)	Loose tools	Current Assets	Inventory
(v)	Trade marks	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Intangible Assets
(vi)	Land	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Property, Plant and Equipment
(vii)	Cash at Bank	Current Assets	Cash and Cash equivalents
(viii)	Trade Payables	Current Liabilities	Trade Payables

10. Name the major heads and sub-heads under which the following items will be presented in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013:

(i) Unpaid Dividend

(ii) Copyrights and Patents

(iii) Land and Building

(iv) Current Maturities of Long-term Debts

(v) Capital Work in Progress

Ans.

S.No.	Major Heads	Sub- Headings
(i)	Current Liabilities	Other Current Liabilities
(ii)	Non-Current Assets	Property, Plant and Equipment and Intangible Assets --Intangible Assets
(iii)	Non-Current Assets	Property, Plant and Equipment and Intangible Assets - Property, Plant and Equipment
(iv)	Current Liabilities	Short term Borrowings

(v)	Non-Current Assets	Property, Plant and Equipment and Intangible Assets Capital Work in Progress

11. 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:

(i) Loose Tools
(ii) Loan repayable on demand
(iii) Provision for Retirement benefits
(iv) Prepaid Insurance
(v) Capital advances
(vi) Shares in Listed Companies

Ans.

S.No.	Items	Heading	Sub-heading
(i)	Loose Tools	Current Assets	Inventories
(ii)	Loan repayable on demand	Current Liabilities	Short Term Borrowings
(iii)	Provision for Retirement benefits	Non-Curren Liabilities	Long Term Provisions
(iv)	Prepaid Insurance	Current Assets	Other Current Assets
(v)	Capital advances	Non-Current Assets	Long Term Loans and Advances
(vi)	Shares in Listed Companies	Non-Current Assets	Non-Current Investments

12. Classify the following items under Major heads and Sub heads (If any) in the Balance Sheet of X Ltd. as per Schedule III of the Companies Act, 2013:

Particulars	₹
Building under construction	80,000
Unpaid Dividend	63,000
Securities Premium	47,000
Interest Accrued and due on Unsecured Loan	6,000
Design	49,000
Mortgage Loan	1,10,000

Ans.

S.No.	Items	Heading	Sub-heading
(i)	Building under construction	Non-current Assets	Property, Plant and Equipment and Intangible Assets -Capital Work in Progress
(ii)	Unpaid Dividend	Current liabilities	Other current liabilities
(iii)	Securities Premium	Shareholder's funds	Reserves and surplus
(iv)	Interest Accrued and Due on Unsecured Loan.	Current liabilities	Other current liabilities
(v)	Design	Non-current Assets	Property, Plant and Equipment and Intangible Assets -Intangible Assets
(vi)	Mortgage Loan	Non-Current liabilities	Long term Borrowings

13. Classify the following items under Major heads and Sub-head (if any) in the Balance Sheet of a Company as per schedule III of the Companies Act 2013.

(i) Current maturities of long-term debts
(ii) Furniture and Fixtures
(iii) Provision for Warranties

(iv) Income received in advance
(v) Capital Advances
(vi) Advances recoverable in cash within the operating cycle

Ans.

S.No.	Items	Heading	Sub-heading
(i)	Current maturities of long-term debts	Current Liabilities	Short term borrowings
(ii)	Furniture and Fixtures	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Property, Plant and Equipment
(iii)	Provision for Warranties	Non-Current Liabilities	Long Term Provisions
(iv)	Income received in advance	Current Liabilities	Other Current Liabilities
(v)	Capital Advances	Non-Current Assets	Long Term Loans and Advances
(vi)	Advances recoverable in cash within the operation cycle	Current Assets	Short Term Loans and Advances

14. How would you disclose the following items in the Balance Sheet of a Company
(i) Discount/Loss on Issue of Debentures
(ii) Premium on Redemption of Debentures
(iii) Debit balance of Statement of Profit & Loss
(iv) Term Loan from Bank
(v) Shares in S.B.I.
(vi) Investments
(vii) Interest Accrued on Investments
(viii) Guarantees given by the Company

Ans.

S.No.	Major Head	Sub-head
(i)	Not shown in Balance Sheet since these expenses are to be written off in the year in which they are incurred.	----------
(ii)	Non-Current Liabilities	Other long-term Liabilities
(iii)	Shareholder's Funds	Reserve and Surplus (shown as a negative figure) under 'Surplus'
(iv)	Non-Current Liabilities	Long term Borrowings
(v)	Non-Current Assets	Non-Current Investments
(vi)	Non-Current Assets	Non-Current Investments
(vii)	Current Assets	Other Current Assets
(viii)	Contingent Liability (to be shown in 'Notes to Accounts'	------------

15. Under what headings will you show the following items?
(i) Interest Accrued and due on Unsecured Loan.
(ii) Interest Accrued and due on Secured Loan.
(iii) Interest Accrued but not due on Loan.
(iv) Mining Rights

(v) Government and Trust Securities
(vi) Uncalled liability on partly paid shares
(vii) General Reserve
(viii) Subsidy Reserve

Ans.

S.No.	Heading	Sub-heading (if any)
(i)	Current Liabilities	Other Current Liabilities
(ii)	Current Liabilities	Other Current Liabilities
(iii)	Current Liabilities	Other Current Liabilities
(iv)	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Intangible Assets
(v)	Non-Current Assets	Non-Current Investments
(vi)	Commitments in notes to accounts	------
(vii)	Shareholder's Funds	Reserves and Surplus
(viii)	Shareholder's Funds	Reserves and Surplus

16. Identify the major heads and sub-heads under which the following items will be shown in the Balance Sheet of a company as per Schedule III of Companies Act, 2013:
(i) Patents
(ii) Patents being developed by the Company
(iii) Current Maturities of Long-Term Debts.
(iv) Computer and related equipment.
(v) Goods acquired for trading.
(vi) 10% Debentures
(vii) Debentures with maturity period in current financial period.

Ans.

S.No.	Items	Heading	Sub-heading (if any)
(i)	Patents	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Intangible Assets
(ii)	Patents being developed by the Company	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Intangible Assets under development.
(iii)	Current Maturities of Long-term Debts.	Current Liabilities	Short Term Borrowings
(iv)	Computer and related equipment	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Property, Plant and Equipment
(v)	Goods Acquired for trading	Current Assets	Inventories
(vi)	10% Debentures	Non-Current Liabilities	Long-term Borrowings
(vii)	Debentures with Maturity period in current financial period	Current Liabilities	Short term Borrowings

17. Under what headings will you show the following items in the Balance Sheet of a Company:
(i) Balances with Banks
(ii) Investments in Debentures
(iii) Outstanding Salary.

(iv) Authorised Capital
(v) Acceptances (B/P)
(vi) Trade Payables
(vii) Preliminary Expenses

Ans.

S.No.	Items	Heading	Sub-heading (if any)
(i)	Balances with Banks	Current Assets	Cash and Cash Equivalents
(ii)	Investments in Debentures	Non-Current Assets	Non-Current Investments
(iii)	Outstanding Salary	Current Liabilities	Other Current Liabilities
(iv)	Authorised Capital	Shareholder's Funds	Share Capital
(v)	Acceptances (B/P)	Current Liabilities	Trade Payables
(vi)	Trade Payables	Current Liabilities	Trade Payables
(vii)	Preliminary Expenses	Not shown in Balance Sheet since as per AS 26 these expenses are to be written off in the year in which they are incurred.	----------

18. Under what heads the following items on the Assets side of the Balance Sheet of a Company will be presented:
(i) Sundry Debtors
(ii) Patents and Trade Marks
(iii) Shares in D.C.M. Limited
(iv) Bills Receivable
(v) Advances recoverable in cash within the operating cycle
(vi) Prepaid Insurance
(vii) Work-in-Progress

Ans.

S.No.	Items	Heading	Sub-heading (if any)
(i)	Sundry Debtors	Current Assets	Trade Receivables
(ii)	Patents and Trade Marks	Non-Current Assets	Property, Plant and Equipment and Intangible Assets-Intangible Assets
(iii)	Shares in Pharma Limited	Non-Current Assets	Non-Current Investments
(iv)	Bills Receivable	Current Assets	Trade receivables
(v)	Advances recoverable in cash within the operating cycle	Current Assets	Short Term Loans and Advances
(vi)	Prepaid Insurance	Current Assets	Other Current Assets
(vii)	Work-in-Progress	Current Assets	Inventories

❖ MULTIPLE CHOICE QUESTIONS (MCQ'S) 1 MARK

1. Balance Sheet of a company is required to be prepared in the format given in……………
(a)Schedule III Part II (b) Schedule III Part I
(c) Schedule IV Part II (d) Schedule IV Part I

2. Current maturities of Long-Term debts appear in Company's Balance Sheet under:
(a)Short-term Provision (b) Other Current Liability
(c)Short-term Borrowings (d) Long-term Borrowings

3. Change in Inventories means:
(a) Opening Inventories less Closing Inventories

(b) Closing Inventories less Opening Inventories
(c) Both a and b
(d) None of the above

4. Match the items given in Column I with the correct Heading/ Sub-heading given in Column II.

	lumn I		lumn II
	Debentures redeemable during the current year		angible assets
	ose tools		rrent Liabilities
	pyright		sh & Cash equivalents
	sh at Bank		entories

	A	B	C	D
(a)	i	ii	iii	iv
(b)	iii	ii	iv	i
(c)	iv	iii	ii	i
(d)	ii	iv	i	iii

5. Ajanta Ltd. issued 10% Debentures of ₹ 8,00,000 on 1st April, 2019 which are redeemable in five equal yearly instalments starting from 1st April, 2022. How would this information be presented in the Balance Sheet as at 31st March, 2021.
(a) ₹ 8,00,000 as Lon- term borrowings
(b) ₹ 8,00,000 as Other Non-current liability
(c)₹ 8,00,000 as Current liability
(d) ₹ 1,60,000 as other Current liability and ₹ 6,40,000 as Long-term borrowing

6. Assertion (A): Negative Balance of Statement of Profit and Loss is shown in Notes to Accounts under the sub-head 'Reserve and Surplus'.
Reason (R): As per Companies Act, whether the balance in Statement of Profit and Loss is positive or negative, it is to be shown under 'Reserve and Surplus'.
In the context of the above two statements, which of the following is correct?
(a) (A) and (R) both are correct and (R) correctly explains (A)
(b) Both (A) and (R) are correct but (R) does not correctly explain (A)
(c) Both (A) and (R) are incorrect
(d) (A) is correct but (R) is incorrect

7. Assertion (A): Bank Overdraft is shown under 'Short term borrowings' in a Company's Balance Sheet
Reason (R): Current Year's Provision for tax is shown under 'Other Current Liabilities' in a Company's Balance Sheet.
In the context of the above two statements, which of the following is correct?
(a) Both (A) and (R) are correct and (R) is the correct reason of (A)
(b) Both (A) and (R) are correct but (R) is not the correct reason of (A)
(c) Only (A) is correct
(d) Both (A) and (R) are wrong

From the following information extracted from the books of PQR Ltd. answer the questions 8 to 10 (keeping in mind the provisions of Companies Act, 2013).

Particulars	Amount (₹)
Public deposits	4,00,000
Outstanding expenses	10,000
Calls-in-advance	25,000
Provision for tax	1,00,000

Provision for employee benefits (maturing within 12 months)	70,000

8. Provision for Employee benefits will be shown under the .... of the Current Liabilities head of the Balance Sheet.

(a)Short-term borrowings (b) Trade payables
(c) Other current liabilities (d) Short-term provision

9. Public deposits will be shown under the......... of the Equity and Liability side of the Balance Sheet.

(a)Shareholders' Funds (b) Non-current Liabilities
(c) Current Liabilities (d) None of the above

10. Outstanding expenses will be shown under the .... sub-head of head Current Liabilities on the Equity and Liability side of the Balance Sheet.

(a)Short-term borrowings (b) Trade Payables
(c) Other current liabilities (d) Short-term provision

11. Main objective of analysis of financial statements is:

(a) To know the financial strength (b) To make a comparative study with other firms
(c) To know the efficiency of management (d) All of the Above

12. The analysis that is made to review and analyse the financial statements for one particular year only is known as:

(a)Horizontal Analysis (b) Vertical Analysis
(c) Cash Flow Analysis (d) None of these

13. Financial statement analysis may be misleading without the knowledge of the accounting procedures followed by the firm.

(a)True (b) False (c) Can't say (d) Partially true

14. The nature of financial analysis will differ depending on the purpose of the analyst.

(a)True (b) False (c) Can't say (d) Partially true

15. Assertion (A) Analysis of financial statements is done to assess the managerial efficiency.

Reason (R) Financial statement analysis helps to identify the areas where the managers have been efficient and the areas where they have been inefficient

(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

16. Assertion (A) Internal analysis carried out by management is more detailed, extensive and correct.

Reason (R) Management has access to all the information relating to the organisation.

(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

17. Assertion (A) Inter-firm analysis is a comparison of financial statements of an enterprise for two or more accounting periods.

Reason (R) Time series analysis is conducted to determine the trend of different financial variables over a period of time.

(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

Read the following case study and answer questions 18 to 20 on the basis of the same.

AKL Ltd is a company that deals in manufacturing of pharmaceutical products. Rakul has recently been hired as an assistant to the accountant of AKL Ltd. The accountant of the firm Mr. Rahul asks Rakul to go for financial statement analysis of the firm to assess the financial position of the firm. To judge the knowledge and capabilities of Rakul, Mr. Rahul asked him to analyse the financial statements from the viewpoint of various parties interested in the firm e.g., the management, the lenders, the investors, labor unions, government etc.

18. Which of the following statements will primarily be utilised by Rakul 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

19. If Rakul 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)

20. While analyzing the financial statements, Rakul 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

Answers:

1. (b) Schedule III Part I
2. (c)Short-term Borrowings
3. (a) Opening Inventories less Closing Inventories
4. (d)

5. (d) ₹ 1,60,000 as other Current liability and ₹ 6,40,000 as Long-term borrowing
6. (a) (A) and (R) both are correct and (R) correctly explains (A)
7. (c) Only (A) is correct
8. (d) Short-term provision
9. (b) Non-current Liabilities
10. (c) Other current liabilities
11. (d) All of the Above
12. (b) Vertical Analysis
13. (a)True
14. (a)True
15. (a) Both Assertion(A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
16. (a) Both Assertion(A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
17. (c) Assertion (A) is false, but Reason (R) is true
18. (c) Balance Sheet and Statement of profit and loss
19. (d) Both(a)and(c)
20. (d) All of the above

FINANCIAL STATEMENTS ANALYSIS

MEANING

Financial Statement analysis is a systematic 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.

OBJECTIVES AND SIGNIFICANCE OF FINANCIAL STATEMENT ANALYSIS

(I) ASSESSING THE EARNING CAPACITY OF THE FIRM: Financial analysis aims to determine whether adequate profits are being earned or not.

(II) MEASURE THE EFFICIENCY OF THE MANAGEMENT: Financial analysis aims in judging that the financial policies adopted by management are proper or not.

(III) ASSESSING THE SOLVENCY OF THE FIRM: Financial analysis aims to assess the short term as well as long term solvency of the business.

(IV) INTER FIRM AND INTRA FIRM COMPARISON: Financial analysis aims to make inter-firm and intra-firm comparisions.

(V) FORECASTING AND PREPARING BUDGETS: Financial analysis enables the firm to forecast and prepare budgets on the basis of evaluation of past results.

(VI) PROVIDING USEFUL INFORMATION: Financial analysis aims to provide useful information to various interested parties like owners, investors, creditors, employees , banks, financial institutions, government departments etc.

(VII) TO MEASURE THE FINANCIAL STRENGTH: Financial analysis aims to assess the financial potential of the business.

TYPES OF FINANCIAL ANALYSIS

(I) INTERNAL ANALYSIS: It refers to analysis made on the basis of accounting records and other related information of the company.

(II) EXTERNAL ANALYSIS: It refers to analysis made on the basis of published statements, reports and information.

(III) HORIZONTAL OR DYNAMIC ANALYSIS: It refers to analysis and review of financial statements for a number of years.

(IV) VERTICAL OR STATIC ANALYSIS: It refers to analysis and review of financial statements for a single year.

(V) INTRA-FIRM ANALYSIS: It refers to comparison of financial variables of an enterprise for two or more accounting periods.

(VI) INTER- FIRM ANALYSIS: It refers to comparison of financial variables of two or more enterprise for the same accounting period.

TOOLS OR TECHNIQUES OF FINANCIAL STATEMENT ANALYSIS

(I) COMPARATIVE STATEMENTS : These statements mean a comparative study of components of financial statements of two or more years of the enterprise itself.

(II) COMMON SIZE STATEMENTS : These are the statements which indicates the relationship of different items of a financial statement with some common item by expressing each item as a percentage of the common item.

(III) RATIO ANAYSIS : Ratio Analysis is the process of determining and interpreting numerical relationship between figures of the financial statements.

(IV) Cash Flow Statement : A Cash flow statement is a statement that shows the flow of Cash and Cash Equivalents during a period.

PARTIES INTERESTED IN FINANCIAL ANALYSIS

(I) MANAGEMENT : for assessing the solvency, profitability and capital structure of the company.

(II) CREDITORS OR SUPPLIERS : are interested in knowing the firm's ability to meet its short term liabilities (Liquidity).

(III) SHAREHOLDERS OR OWNERS OR INVESTORS : are interested in determining profitability of the company and safety of their investment.

(IV) EMPLOYEES AND TRADE UNIONS: are interested in financial statements to negotiate for better wages, bonus , better working conditions and job security.

(V) BANKERS AND LENDERS : are interested in knowing the ability of the firm to repay interest and principal amount on due dates i.e to determine the long term solvency position of the firm.

(VI) GOVERNMENT : for determining taxation policy and which industry needs protection.

(VII) TAX AUTHORITIES : to know whether financial statements have been prepared in accordance with the legal provisions and to ensure proper tax assessment.

LIMITATIONS OF FINANCIAL ANALYSIS

(I) IGNORES PRICE LEVEL CHANGES : A change in price level affects the validity of financial statements and hampers the utility of financial analysis.

(II) HISTORICAL INFORMATION : Financial statements are historical in nature as they record past events and facts. However, the users of the financial statements analysis are more interested in future projections.

(III) IGNORE QUALITATIVE OF NON MONETARY ASPECTS : Non monetary aspects like quality of management, staff, public relations etc, are ignored and only monetary information is considered.

(IV) SUFFERS FROM LIMITATIONS OF FINANCIAL STATEMENTS : Financial analysis is based on the financial statements. If the financial statements are not true and fair, the analysis will give a false picture of the affairs.

(V) WINDOW DRESSING : means showing a better position than it really exists. Sometimes , the companies conceals material information and exhibits false position . In such a situation , financial analysis may give false information to the users.

(VI) VARIATION IN ACCOUNTING POLICIES : If two firms follows different accounting policies , then a meaningful comparison of their financial statements is not possible.

(VII) PERSONAL BIAS: Personal judgements play an important role in preparing financial statements. Analysis of such financial statements is not free from bias.

TOOLS OF FINANCIAL STATEMENT ANALYSIS (4 marks)

ONE MARK QUESTIONS (CHAPTER IN BRIEF)…. (4 marks allotted as per cbse sample papers)

1. The process of critical evaluation of financial facts and figures contained in financial statements for better understanding of company's profitability and its efficiency is called as …………… Financial statement analysis

2. Financial statement analysis includes both analysis and interpretation.

3. Analysis includes simplification of financial data by methodical classification of data

4. Interpretation means explaining the meaning and significance of the data

5. Comparative statement common size statement, accounting ratios, cash flow statement and time series analysis are important tools of financial statement analysis.

6. Comparative Statement analysis is also known horizontal analysis

7. Common size statement analysis also known as vertical analysis

8. Formula for comparative statement percentage = absolute increase or decrease/first year absolute figure x 100

9. Formula for common size statement = component amount/total base amount x 100

10. Common size statement is also known as component percentage statement

11. In common size statement for statement of profit of profit and loss statement, all expenses are referred as a percentage of Revenue from operations.

12. In common size statement, all components of balance sheet are referred as percentage of total assets or total liabilities

Comparative Statements are statements showing increase or decrease in the current year by comparing with the previous year amounts various components of financial statements namely income statement or position statement. These statements of profit and loss and the balance sheet prepared by providing columns for the figures for both the current year as well as for the previous year and for the changes during the year both in absolute and relative terms. As a result, it is possible to find out not only the balances of accounts as on different dates and summaries of different operational activities of different periods, but also the extent of their increase or decrease between theses dates

The following steps may be followed to prepare the comparative statement:

Step 1: List out absolute figures in rupee relating to two points of time (as shown as in columns 2 and 3 of Exhibit 4.1)

Step 2 : Find out change in absolute figures by subtracting the first year (Col.2) from the second year (col.3) and indicate the change as increase (+) or decrease (-) and put it in column 4.

Step 3 : Preferably also calculate the percentage change as follow and put it column 5

$$\frac{\text{Absolute increase or Decrease (Col.4)}}{\text{First year absolute figure (col.2)}} \quad 100$$

Particulars	First year	Second year	Absolute Increase (+) or Decrease(-)	% of Increase (+) or Decrease(-)
1	2	3	4	5
	Rs.	Rs.	Rs.	%

Common Size Statement

Common Size Statement, also known as component percentage statement is a financial tool for studying the key change and trends in the financial position and operational result of a company. Here each item in the statement is stated as a percentage of the aggregate, or revenue from operations of which that item is a part. For example, a common size balance sheet shows the percentage of each asset to the total assets, and that of each liability to the total liabilities. Similarly in the common size statement of profit and loss, the items of expenditure are shown as a percentage of the revenue from operations.

Inter – firm comparison or comparison of the company's position with the related industry as a whole is possible with the help of common size statement analysis.

Particulars	First year	Second year	First year % component based on total amount or base figures	Second year % component based on total amount or base amount
1	2	3	4	5
	Rs.	Rs.	%	%

1. Convert the following statement of profit and loss of BCR Co. Ltd into the comparative statement of profit and loss of BCR Co. Ltd:

Particulars	Note No	2015-2016 (Rs.)	2016-2017 (Rs.)
(i) Revenue from operations (ii) Other incomes (iii) Expenses (iv) Income tax		60,00,000 1,50,000 44,00,000 35%	75,00,000 1,20,000 50,60,000 40%

Comparative statement of profit and loss of BCR Co. Ltd for the year ended March 31, 2016 and and 2017

Particulars	2015-2016	2016-2017	Absolute Increase (+) or Decrease (-)	Percentage Increase (+) or Decrease (-)
	(Rs.)	(Rs.)	(Rs.)	%
I. Revenue from operations	60,00,000	75,00,000	15,00,000	25.00
II. Add : Other incomes	1,50,000	1,20,000	30,000	20.00
III. Total Revenue I+II	**61,50,000**	**76,20,000**	**14,70,000**	**23.90**
IV. Less : Expenses	44,00,000	50,60,000	6,60,000	15.00
Profit before tax	**17,50,000**	**25,60,000**	**8,10,000**	**46.29**
V. Less :Tax	6,12,500	10,24,000	4,11,500	67.18
Profit after tax	**11,37,500**	**15,36,000**	**3,98,500**	**35.03**

2. From the following statement of profit and loss of Madhu Co. Ltd., prepare comparative statement of profit and loss for the year ended March 31,2016 and 2017

Particulars	Note No	2015-2016 (Rs.)	2016-2017 (Rs.)
Revenue from operations Employee benefit expenses Other Expenses Tax rate 40%		16,00,000 8,00,000 2,00,000	20,00,000 10,00,000 1,00,000

Comparative statement of profit and loss of Madhu Co. Limited for the year ended March 31, 2016 and 2017

Particulars	2015-2016	2016-2017	Absolute Increase (+) or Decrease (-)	Percentage Increase (+) or Decrease (-)
	(Rs.)	(Rs.)	(Rs.)	%

I.Revenue from operations	**16,00,000**	**20,00,000**	**4,00,000**	**25**
II. Less :Expenses				
a) Employee benefit expenses	8,00,000	10,00,000	2,00,000	25
b) Other expenses	2,00,000	1,00,000	(1,00,000)	(50)
Profit before tax	**6,00,000**	**9,00,000**	**3,00,000**	**50**
III. Less tax @40%	2,40,000	3,60,000	1,20,000	50
Profit after tax	**3,60,000**	**5,40,000**	**1,80,000**	**50**

3) From the following Balance sheets of Amrit Limited as at March 31, 2016 and 2017 prepare a comparative balance sheet:

Particulars	Note No	March 31, 2017 (Rs.)	March 31, 2016 (Rs.)
I.**Equity and Liabilities**			
1. Shareholder's Funds			
a) Share Capital		20,00,000	15,00,000
b) Reserve and surplus		13,00,000	14,00,000
2. Non- current Liabilities			
Long-term borrowing		19,00,000	16,00,000
3. Current Liabilities			
Trade payables		3,00,000	2,00,000
		55,00,000	**47,00,000**
I.**Assets**			
1. Non – current assets			
a) Fixed assets			
- Tangible assets		20,00,000	15,00,000
- Intangible assets		19,00,000	16,00,000
2.Current assets			
- Inventors		13,00,000	14,00,000
- Cash and Cash equivalents		3,00,000	2,00,000
Total		**55,00,000**	**47,00,000**

Particulars	March 31, 2016 (Rs.) in lakhs	March 31, 2017 (Rs.) Rs. In lakhs	Absolute Increase (+) or Decrease (-) Rs. In lakhs	Percentage Increase (+) or Decrease (-)
	(Rs.)	(Rs.)	(Rs.)	%
I.Equity and Liabilities				
1)Shareholder's Funds				
a) Share Capital	15	20	5	33.33
b) Reserve and surplus	14	13	(1)	(7.14)
2) Non-current Liabilities				
Long term borrowings	16	19	3	18.75
3) Current liabilities				
Trade payables	2	3	1	50
Total	**47**	**55**	**8**	**17.02**

II. Assets	15	20	5	33.33
1)Non current assets	16	19	3	18.75
Fixed assets				
- Tangible assets	14	13	(1)	(7.14)
	2	3	1	50
- Intangible assets				
2) Current assets				
Inventories				
Cash and Cash Equivalents				
Total	**47**	**55**	**8**	**17.02**

4) From the following information, prepare a Common size Income Statement for the year ended March 31, 2016 ad March March 31, 2017

Particulars	2016-17 (Rs.)	2015-2016 (Rs.)
Revenue from operations	18,00,000	25,00,000
Cost of good sold	10,00,000	12,00,000
Operating expenses	80,000	1,20,000
Non-operating expenses	12,000	15,000
Depreciation	20,000	40,000
Wages	10,000	20,000

Particulars	Absolute Amounts		Percentage of Net Sales	
	2015-16 Rs.	2016-2017 Rs.	2015-2016 %	2016-2017 %
Revenue from operations	25,00,000	18,00,000	100	100
(Less) Cost of goods	12,00,000	10,00,000	48	55.56
Gross Profit	**13,00,000**	**8,00,000**	**52**	**44.44**
(Less) Operating	1,20,000	80,000	4.80	4.44
Operating Income	**11,80,000**	**7,20,000**	**47.20**	**40**
Less Non –operating expenses	15,000	12,000	0.60	0.67
Profit	**11,65,000**	**7,08,000**	**46.60**	**39.33**

- Wages is the part of cost of goods sold:
- Depreciation is the part of operating expenses

5) From the following information, prepare Common size statement of profit and loss for the year ended March 31, 2016 and March 31,2017

Particulars	2015-16 (Rs.)	2016-2017 (Rs.)
Revenue from operations	25,00,000	20,00,000
Other income	3,25,000	2,50,000
Employee benefit expenses	8,25,000	4,50,000
Other expenses	2,00,000	1,00,000
Income tax (% of the profit before tax)	30%	20%

Particulars	Absolute Amounts		Percentage of Net Revenue from operations	
	2015-16 Rs.	2016-2017 Rs.	2015-2016 %	2016-2017 %
Revenue from operations	25,00,000	20,00,000	100	100
(Add) Other income	3,25,000	2,50,000	13	12.5
Total Revenue	**28,25,000**	22,50,000	**113**	**112.5**
(Less) expenses:				
a) Employee benefit Expenses	8,25,000	4,50,000	33	22.5
b) Other expenses	2,00,000	1,00,000	8	5
Profit before tax	**18,00,000**	**17,00,000**	**72**	**85**
(Less) tax	5,40,000	3,40,000	21.6	17
Profit	**12,60,000**	**13,60,000**	**50.4**	**68**

6) From the information extracted from the statement of Profit & Loss of Zee Ltd for the year ended 31st March 2022 and 2023 prepare a Common-size Statement of Profit & Loss

Particulars	Note No	2022-23 (Rs.)	2021-2022 (Rs.)
Revenue from operations Gross profit Other expenses Tax Rate		8,00,000 60% 2,20,000 50%	10,00,000 70% 2,60,000 50%

Common Size Statement of Profit and Loss

Particulars	2022-23 (Rs.)	2021-22 (Rs.)	% of revenue From operations 2021-22	Percentage Increase (+) or Decrease (-)
Revenue from operations	8,00,000	10,00,000	100	100
Less: Expenses				
Cost of revenue from operations	3,20,000	3,00,000	40	30
Other expenses	2,20,000	2,60,000	27.5	26
Total Expenses	**5,40,000**	**5,60,000**	**67.5**	**56**
Profit Before Tax	2,60,000	5,40,000	32.5	44
Less : Tax	1,30,000	2,20,000	16.25	22
Profit after Tax	**1,30,000**	**2,20,000**	**16.25**	**22**

Working Note: Cost of Revenue from Operations (2021-22)= Rs.10,00,000 (Revenue from operations) - Rs. 7,00,000 (Gross Profit) = Rs. 3,00,000

Cost of Revenue from Operations (2022-23)= Rs.8,00,000 - Rs. 4,80,000 = Rs. 3,20,000

7) From the information, prepare a Comparative Statement of Profit & Loss

Particulars	Note No	2022-23 (Rs.)	2021-2022 (Rs.)
Revenue from operations		10,00,000	8,00,000
Other income		2 ,20,000	1,50,000
Cost of materials consumed		4,00,000	3,00,000
Change in inventories of finished goods and work in progress		2,00,000	1,00,000
Other expenses (%of cost of Revenue from Operations)		15%	10%
Tax rate		30%	30%

Comparative Statement of Profit and Loss

Particulars	2021-2022 Rs.	2022-2023 Rs.	Absolute Change (in Rs.)	Proportionate Change (in%)
A. Revenue from operations	8,00,000	10,00,000	2,00,000	25
B. (Add) Other income	1,50,000	2,20,000	70,000	46.67
C**. Total Revenue(A+B)**	**9,50,000**	**12,20,000**	**2,70,000**	**28.42**
D. (Less) Cost of material consumed	3,00,000	4,00,000	1,00,000	**33.33**
Change in inventories of finished goods and work in progress	1,00,000	2,00,000	1,00,000	100
Other expenses	80,000	1,50,000	70,000	87.5
Total Expenses	**4,80,000**	**7,50,000**	**2,70,000**	**56.25**
E. Profit before tax (C-D)	4,70,000	4,70,000	**-**	-
Tax @ 30%	1,41,000	1,41,000	**-**	**-**
G. Profit after Tax (E-F)	**3,29,000**	**3,29,000**	**-**	**-**

Test I TEST YOUR UNDERSTANDING

1. Analysis simply means simplifying data
2. Interpretation means explaining the impact of data
3. Comparative analysis is also known as horizontal analysis
4. Common size analysis is also known as vertical analysis
5. The analysis of actual movement of money inflow and outflow in an organization is called Cash flow analysis

Test II TEST YOUR UNDERSTANDING (MCQ correct answers are given in bold letters)

1. The Financial statements of a business enterprise include
   (A) Balance sheet
   (B) Statement of Profit and loss account
   (C) Cash Flow statement
   (D) All the above
2. The most commonly used tools for financial analysis are
   (a) Horizontal analysis
   (b) Vertical analysis
   (c) Ratio analysis
   (d) All the above

3. An Annual Report is issued by a company to its:
   (a) Directors
   (b) Auditors
   (c) Shareholders
   (d) Management

4. Balance sheet provides information about financial position of the enterprise:
   (a) At a point in time
   (b) Over a period of time
   (c) For a period of time
   (d) None of the above
5. Comparative statements are also known as:
   (a) Dynamic analysis
   (b) Horizontal analysis
   (c) Vertical analysis
   (d) External analysis

Test III TEST YOUR UNDERSTANDING

True or False

a) The financial statements of a business enterprise include cash flow statement (True)
b) Comparative statements are the form of horizontal analysis (True)
c) Common size statements and financial ratios are the two tools employed in vertical analysis (True)
d) Ratio analysis establishes relationship between two financial statements(True)
e) Ratio analysis is a tool for analyzing the financial statements of any enterprise (True)
f) Financial analysis is used only by the creditors (False)
g) Statements of profit and loss account shows the operating performance of an enterprise for a period of time (True)
h) Financial analysis helps an analyst to arrive at a decision (True)
i) Cash Flow Statement is a tool of financial statement analysis (True)
j) In a common size statement each item is expressed as a percentage of some common base (True)

Current year question 2024 March
Prepare a Common Size Balance Sheet of A Ltd from the following information
Balance Sheet of A Ltd. As on 31st March 2023

Particulars	Note No.	31.3.2023 (Rs.)	31.03.2022 (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		40,00,000	20,00,000
(a) Investment			
Total		80,00,000	50,00,000

Common Size Balance Sheet of A Ltd as at 31.3.2022 and 31.3.2023

Particulars	Note No.	Absolute Amount 31.3.2022 (Rs.)	Absolute Amount 31.03.2023 (Rs.)	% 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) Reserve 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
Total		**50,00,000**	**80,00,000**	**100**	**100**
II Assets					
1. Non- current Assets		30,00,000	40,00,000	60	50
		20,00,000	40,00,000	40	50
2. Current Assets					
(a) Investment					
Total		**50,00,000**	**80,00,000**	**100**	**100**

(c) From the following information prepare a Comparative Statement of Profit and Loss of Y Ltd.

Particulars	31.3.2023 (Rs.)	31.03.2022 (Rs.)
Revenue from Operation (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%

Particulars	Note No.	31.3.2022 (Rs.)	31.03.2023 (Rs.)	Absolute Increase/ Decrease (Rs.)	% of Increase/ Decrease
I Revenue from Operation		20,00,000	40,00,000	20,00,000	100
II Expenses					
Purchase of stock in trade		12,00,000	24,00,000	12,00,000	100
Change in inventories		2,40,000	6,00,000	3,60,000	150
Other Expenses		1,60,000	2,00,000	40,000	25
Total		**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

CBSE SAMPLE QP 23..24

From the following extracted from the statement of Profit & Loss of Zee Ltd for the year ended 31st March 2022 and 31st March 2023 , Prepare a common size statement of Profit and Loss

Particulars	Note No.	2022-2023 (Rs.)	2021-2022 (Rs.)
Revenue from Operation Gross Profit Other expenses Tax rate Tax Rate		8,00,000 60% 2,20,000 50%	10,00,000 70% 2,60,000 50%

OR

From the following information, prepare comparative statement of Profit & Loss

Particulars	Note No.	2022-2023 (Rs.)	2021-2022 (Rs.)
Revenue from Operation		10,00,000	8,00,000
Other Income		2,20,000	1,50,000
Cost of materials consumed		4,00,000	3,00,000
Change of inventories of finished goods and work in progress		,2,00,000	1,00,000
Other Expenses (% of cost of Revenue from Operation)		15%	10%
Tax Rate		30%	30%

ANSWERS COMMON SIZE STATEMENT OF PROFIT &LOSS

PARTICULARS	22..23	21..22	% 22..23	% 21..22
Revenue from operations	8,00,000	10,00,000	100	100
Less : Cost of Revenue	3,20,000	3,00,000	40	30
Other Expenses	2,20,000	2,60,000	27.5	26
Total Expenses	5,40,000	5,60,000	67.5	56
Profit before tax	2,60,000	4,40,000	32.5	44
Less : Tax	1,30,000	2,20,000	16.25	22
Profit after tax	1,30,000	2,20,000	16.25	22

OR

Comparative Statement of Profit & Loss

PARTICULARS	21..22	22..23	Absolute Change in (Rs.)	Proportionate Change In (%)
A.Revenue from operations	8,00,000	10,00,000	2,00,000	25
B. Add: Other income	1,50,000	2,20,000	70,000	46.67
C. Total Revenue (A+B)	9,50,000	12,20,000	2,70,000	28.42
D: Less : Cost of materials	3,00,000	4,00,000	1,00,000	33.33

consume				
Change in inventories of Finished goods and work in progress	1,00,000	2,00,000	1,00,000	100
Other Expense	80,000	1,50,000	70,000	87.5
Total Expense	4,80,000	7,50,000	2,70,000	56.25
E. Profit before Tax (C-D)	4,70,000	4,70,000	---	---
F. Tax Rate	1,41,000	1,41,000	---	---
E. Profit after Tax (E-F)	3,29,000	3,29,000	---	---

CHAPTER : RATIO ANALYSIS

(Marks 1+3/4)

Meaning:

The mathematical expression of the relationship between two accounting figures is called an accounting ratio. It is expressed in proportion (2:1), Percentage (25%) and number of times

(3 times)

Ratio Analysis involves three steps

1. Calculation of ratios from financial statement
2. Comparison of ratios with standard or past ratios or with other firms
3. Interpretation of ratios.

MIND MAP

1. LIQUITY RATIOS	1.CURRENT RATIOS 2.QUICK RATIOS
2. SOLVENCY RATIOS	1.DEBT EQUITY RATIOS 2.TOTAL ASSETS TO DEBT RATIO 3.PROPRIETORY RATIO 4.INTEREST COVERAGE RATIO 5.DEBT TO CAPITAL EMPLOYED RATIO
3. ACTIVITY RATIOS	1.INVENTORY TURNOVER RATIO 2.TRADE RECEIVABLE TURNOVER RATIO 3.TRADE PAYABLE TURNOVER RATIO 4.WORKING CAPITAL TURNOVER RATIO 5.FIXED ASSETS TURNOVER RATIO 6.NET ASSETS or CAPITAL EMPLOYED TURNOVER RATIO
4. PROFITABILITY RATIOS	1.GROSS PROFIT RATIO 2.NET PROFIT RATIO 3.OPERATING RATIO 4.OPERATING PROFIT RATIO 5.RETURN ON INVESTMENT

PART I

LIQUIDITY RATIOS

It is calculated to test the short term debt paying capacity of the business. There are two liquidity ratios 1. Current Ratio and 2. Quick Ratio

CURRENT RATIO: It establishes the relationship between current assets and current liabilities. It is expressed as pure ratio . The standard current ratio is 2:1.

CURRENT ASSETS: Cash and cash equivalent, short term loans and advances, trade receivable, inventories (except Loose tools and stores and spares), short term investments, prepaid expenses, income o/s and advance tax .

CURRENT LIABILITIES: Short term borrowings, trade payable, current maturity of long term debt, interest o/s, out standing expenses, unclaimed dividend , call in advance and short term provisions.

FORMULA: CURRENT ASSETS / CURRENT LIABILITIES

QUICK RATIO/LIQUID RATIO/ACID TEST RATIO

It establishes the relationship between Quest assets and Current Liabilities. The Standard ratio is 1:1.

QUICK RATION = QUICK ASSETS / CURRENT LIABILITIES

Quick assets = Current assets – Inventory – prepaid expenses- advance tax.

Rule to identify CR increase, decrease or no change

Case	Ratio 2:1	Ratio 0.8	Ratio 1:1
CA INCREASE	INCREASE	INCREASE	INCREASE
CA DECREASE	DECREASE	DECREASE	DECREASE
CL INCREASE	DECREASE	DECREASE	DECREASE
CL DECREASE	INCREASE	INCREASE	INCREASE
-CA -CL	INCREASE	DECREASE	NO CHANGE
+CA +CL	DECREASE	INCREASE	NO CHANGE

NOTE:

1. QUICK RATIO INCREASE / DECREASE / NO CHANGE SAME ABOVE RULE
2. DEBT EQUITY RATIO INCREASE / DECREASE / NO CHANGE SAME RULE.

PART II SOLVENCY RATIOS

Solvency ratios test the Long term debt paying capacity of business

1. DEBT EQUITY RATIOS

   It establishes the relationship between long term debt and shareholders fund . The standard ratio is 2:1. It is expressed as pure ratio.

   DER = LONG TERM DEBT / SHARE HOLDERS FUND

   LTD = TOTAL DEBT – CL

   LTD = CAPITAL EMPLOYED –SHF

   CE = DEBT + EQUITY

   SHF = SC +R&S

   SHF = TOTAL ASSETS –TOTAL DEBT

   WC = CA-CL
2. TOTAL ASSETS TO DEBT RATIO:

   It establishes the relationship between Total assets and long term debt, expressed as pure ratio.

   TA TO DEBT RATO = TOTAL ASSETS / LONG TERM DEBT

   TA = NON CA + CA

   NON CA = FA+ NON CURRENT INVESTMENT

   LTD = LT BORROWING + LT PROVISION

   TA = TL

   TA = SC+R&S +LTB+ST PROVISION + CL

3. PROPRIETORY RATIO:
   It establishes the relationship between SHF and Total Assets. It is expressed as pure ratio or percentage.
   PR = SHF / PF / TOTAL ASSETS
   SHF = SC + R&S
   TA = NON CA + CA
4. INTEREST COVERAGE RATIO
   It establishes the relationship between NP before interest and tax and interest on LT debt.
   ICR = NP BEFORE INTEREST AND TAX / INTEREST ON LTD
5. DEBT TO CAPITAL EMPLOYED RATIO
   It establishes the relationship between LT debt and capital employed. It shows proportion of long term debt in the capital employed.
   DCER = LT DEBT /CAPITAL EMPLOYED
   LT DEBT = TOTAL DEBT – CL
   CE = TA – CL OR SHF + LTB
   PART III
   ACTIVITY RATIOS.

   Activity ratios measures how effectively the various resources of the business utilised. It is expressed in number of times.
1. INVENTORY TURNOVER RATIO
   It establishes the relationship between cost of revenue from operation and average inventory. Expressed in times
   ITR = COST OF RFO / AVERAGE INVENTORY
   CRFO = RFO – GP
   CRFO = RFO +GL
   CRFO = OP INVENTORY +NET PURCHASES +DIRECT EXPENSES – CLOSING STOCK
   AVERAGE INVENTORY = OP INVENTORY +CLO. INVENTORY / 2
   CLO INVENTORY = OP INVENTORY = PURCHASES +DIRECT EXPENSES – CRFO
2. TRADE RECEIVABLE TURNOVER RATIO:
   It establishes the relationship between credit RFO and average trade receivable . Expressed in times.
   TRTR = CREDIT RFO / AVERAGE TRADE RECEIVABLE
   CREDIT RFO = RFO –CASH RFO
   CRDIT RFO = RFO – SR
   AVERAGE TRADE RECEIVABLE = OP TR + CLO TR /2
   AVERAGE COLLECTION PERIOD IN MONTHS = 12 MONTHS / TRTR
   AVERAGE COLLECTION PERIO IN DAYS = 365 DAYS / TRTR
3. TRADE PAYABLE TURNOVER RATIO:
   It establishes the relationship between net credit purchases and average trade payable. Expressed in times.
   TPTR = NET CREDIT PURCHASES / AVERAGE TRADE PAYABLE
   NET CREDIT PURCHASE = TOTAL PURCHASE – CASH PURCHASE

NET CREDIT PURCHASE = CREDIT PURCHASE – PURCHSE RETURN
AVERAGE TRADE PAYABLE = OP TP + CLO TP / 2
AVERAGE TRADE PAYABLE IN MONTHS: 12MONTHS / TPTR
AVERAGE TRADE PAYABLE IN DAYS = 365 DAYS / TPTR

4. WORKING CAPITAL TURNOVER RATIO
   It establishes the relationship between working capital and RFO. It indicates the number of times working capital produces sales. Expressed in times.
   WCTR = RFO / WC
   WC = CA – CL
   RFO = CREDIT SALES + CASH SALES –SR
5. FIXED ASSETS TURNOVER RATIO
   It establishes the relationship between Revenue from Operation and net Fixed assets.
   FA TR = RFO / NET FIXED ASSETS.
6. NET ASSETS (OR CAPITAL EMPLOYED) TURNOVER RATIO
   It establishes the relationship between RFO AND CAPITAL EMPLOYED
   NA TR = RFO / CAPITAL EMPLOYED.

PART IV
PROFITABILISTY RATIOS

1. GROSS PROFIT RATIO
   It establishes the relationship between Gross Profit and RFO.
   GP RATIO = GP / RFO x 100
   GP = RFO – CRFO
   CRFO = OP INVENTORY+NET PURCHASES +DIRECT EXPENSES – CLOSING INVENTORY.
   CRFO = RFO – GP
2. NET PROFIT RATIO:
   It establishes the relationship between net profit and RFO
   NP RATIO = NP BEFORE TAX / RFO x 100
   NP RATIO = NP AFTER TAX / RFO x 100
   NP = RFO – CRO-OP EXPENSES- NON OP EXPENSES + NON OP INCOME – TAX
   RFO MEANS NET SALES.
3. OPERATING RATIO:
   It establishes the relation ship between operating cost and RFO
   OR = CRFO + OPERATING EXPENSES / RFO x 100
   OR = OPERATING COST / RFO x 100
   OC = CRFO +OPERATING EXPENSES
   OPERATING EXPENSES ARE : OFFICE EXPENSES, ADMINSTRATIVE EXPENSES, SELLING AND DISTRIBUTION EXPENSES, EMPLOYEE BENEFIT EXPENSES, DEPRECIATION AND AMORTISATION EXPENSES
   Note: 1. operating ratio and operating profit ratio is equal to 100
   2. 100 – operating ratio = operating profit ratio.
4. OPERATING PROFIT RATIO:
   It establishes the relationship between operating profit and RFO

OPR = OPERATING PROFIT / RFO x 100
OP = GP + OTHER OPERATING INCOME – OTHER OPERATING EXPENSES
OP = NP + NON OPERATING EXPENSES – NON OPERATING INCOME
OP = RFO – OPERATING COST
NON OPERATING EXPENSES ARE INTEREST ON LONG TERM DEBT , LOSS ON SALE OF FIXED ASSETS
NON OPERATING INCOME ARE INTEREST ON INVESTMENT, GAIN ON SALE OF FIXED ASSETS.

5. RETURN ON INVESTMENT :
It establishes the relationship between net profit before interest , tax and dividend and capital employed.
ROI = NP BEFORE INTEREST, TAX AND DIVIDEND / CE x 100
CE = SHF + LTB + LT PROVISION
CE = FA + NON CURRENT INVESTMENT + WC

QUESTIONS MCQ

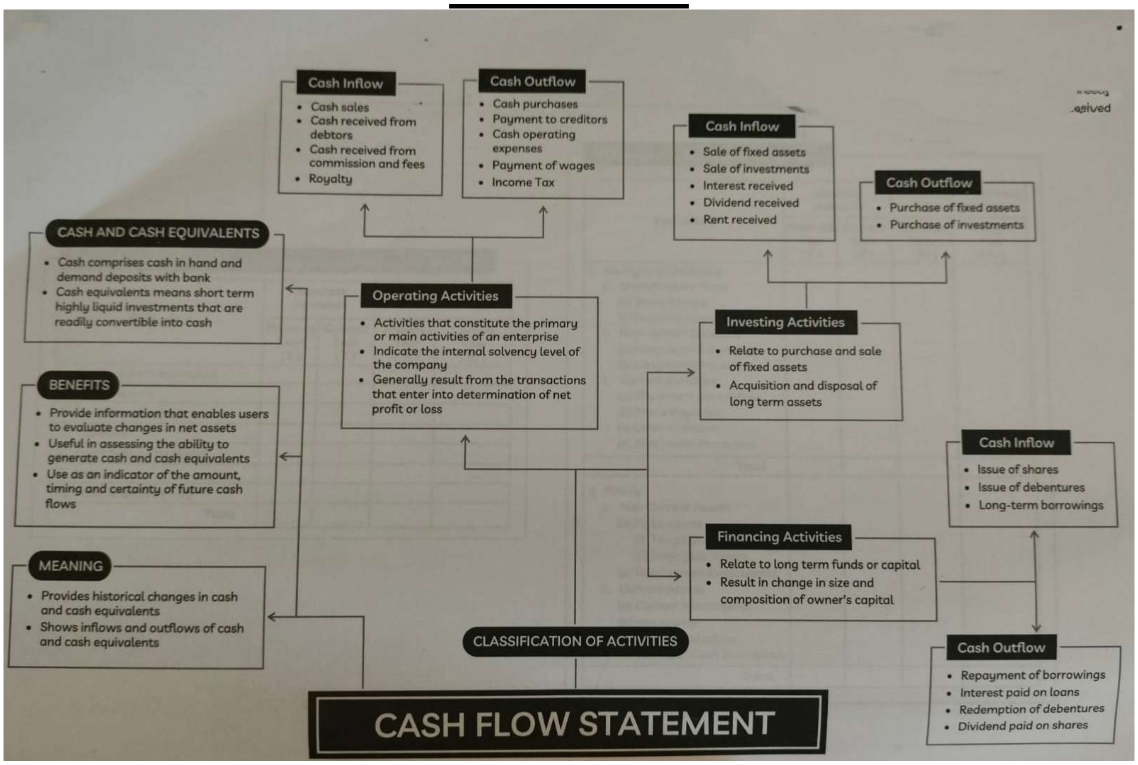
1	If current ratio is 2.5:1 and its current liabilities are Rs.4 00 000. Its working capital will be a) Rs.6 00 000 b)Rs.7 50 000 c)Rs.8 00 000 d) Rs.5 00 000	1
2	If revenue from operation is Rs.16 00 000 and Gross profit is Rs.40 000 Gross profit Ratio will be A)30% b)25% c)40% d)50%	1
3	Match the ratio with formula 1.Current Ratio — a.CRFO/AI 2. working capital TR — b.CA/CL 3. Gross profit ratio — c. CRFO/WC 4. Inventory TR — d.G P/RFO a) 1a,2c,3b,4d b)1b,2c,3a,4d c)1b,2c,3d,4a d) none of these	1
4	Which of the following is not correct a)Equity = Capital employed + Debt b)Equity =Share capital + R&S c)Debt = LT borrowing +LT provision d)working capital = CA-CL	1
5	Statement I Liquidity ratios measure long term solvency of the business Statement II : Solvency Ratios Measure short term solvency of the business. a)Both the statements are true b) Both the statements are false c)Statement I is true and II is false d)Statement II is true and I is false	1
6	Which of the following is not an activity ratio	1

	a)Inventory turnover ratio b)Interest coverage ratio c)working capital turnover ratio d)Trade Payable turnover ratio	
7	From the following which ratio is not a profitability ratio a)Gross profit ratio b)Operating ratio c)proprietary ratio d)Net profit ratio	1
8	Total Assets Rs.1 25 000 Total debt Rs.1 00 000, Current liabilities Rs.50 000 Debt equity ratio will be a)1:1 b)1:2 c)2:1 d)None of these	1
9	X Ltd has Proprietary Ratio 25% to maintain this ratio at 30% management may a)increase equity b)Reduce debt c)Either a) or b) d) increase CA	1
10	Quick ratio is also known as a)Liquid ratio b)current ratio c)working capital ratio d)None of these	1
ANS	1A, 2B, 3C, 4A, 5B, 6B, 7C, 8C, 9C, 10A.	
	QUESTIONS 3- MARKS.	
11	RFO Rs.4 50 000 Gross profit ratio is 25% on cost, operating expenses Rs.22 500 calculate operating profit ratio	3
12	A trader carries an average stock of Rs.2 40 000. His inventory turnover ratio is 8 times. He sells goods at a profit of 25% on cost. Calculate gross profit ratio.	3
13	RFO Rs.30 00 000, Current assets Rs.9 00 000, Current liabilities Rs.3 00 000, Sales return Rs.50 000 calculate working capital turnover ratio.	3
14	Average inventory Rs.60 000, RFO Rs.6 00 000 the rate of gross loss on sales is 10%. Calculate Inventory turnover ratio.	3
15	Net profit before interest and tax is Rs.5 00 000, 12.5% Long term loan is Rs.10 00 000. Calculate interest coverage ratio	3
ANS	11. 15% , 12.20% , 13. 5 times , 14. 11 times, 15. 4 times.	
	QUESTIONS 4 MARKS	
16	If Debt Equity ratio is 2:1. State giving reasons, whether this ratio will increase or decrease or will not change in each one of the following cases. a) Purchase of a fixed assets by taking a long term loan. b) Issue of new shares for cash c) Issue of bonus shares d) Redemption of debenture for cash (Answer : a) Increase b)Decrease c)No change d)Decrease.)	4
17	If Current ratio is 2:1. State giving reasons, whether this ratio will increase or decrease or will not change in each one of the following cases. a) Redemption of debentures b) Purchase of Loose Tools against cash	4

	c) Sale of fixed assets against cheque d) Receipt of cheques from debtors. (Answer: a)improve b)Decrease c)Increase d) No change)	
18	If Quick ratio is 1:1. State giving reasons, whether this ratio will increase or decrease or will not change in each one of the following cases. a) Paid insurance premium in advance Rs.10 000 b) Purchase of goods on credit Rs.8000 c) Issued fully paid equity shares of Rs.1 00 000 d) Issue of 9% debentures of Rs.5 00 000 to the vendors for machinery purchased. (Answers: a)Decrease b)Decrease c)Increase d)No change)	4
19	Calculate Return on Investment and Debt Equity Ratio from the following information : Net profit after interest and tax Rs.3 00 000 10% Debentures Rs.5 00 000 Tax rate 40% Capital Employed Rs.40 00 000 (Answer: ROI 13.75%, DER 1:7)	4
20	Current Liabilities of a company are Rs.75 000. If current ratio is 4:1 and Liquid Ratio is 1:1. Calculate value of Current Assets, Liquid Assets and Inventory. (Anwer: CA Rs.3 00 000 LA Rs.75 000 Inventory Rs.2 25 000.)	4

CASH FLOW STATEMENT

MIND MAP



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 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 outflows 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

Cash Inflow from Operating activities

- ➢ Cash receipts from sale of goods and the rendering of services.
- ➢ Cash receipts from royalties, fees, commissions and other revenues.

Cash Outflow from Operating activities

- ➢ 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.

Cash Inflow 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 Outflow 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.

FORMAT OF CASH FLOW STATEMENT

Particulars	Amount
(A) Cash Flows From Operating Activities	
Net Profit/Loss before Tax and Extraordinary Items	
+ Deductions already made in Profit and Loss on account of Non-cash items such as Depreciation, Goodwill to be Written-off.	
+ Deductions already made in Profit and Loss on Account of Non-operating items such as Interest.	
– Additions (incomes) made in Profit and Loss on Account of Non-operating Items such as Dividend Received, Profit on sale of Fixed Assets.	
Operating Profit before Working Capital changes	
+ Increase in Current Liabilities	
+ Decrease in Current Assets	
– Increase in Current Assets	
– Decrease in Current Liabilities	

Cash Flows from Operating Activities before Tax and Extraordinary Items.
– Income Tax Paid
+/– Effects of Extraordinary Items
Net Cash from /used in Operating Activities-A

(B) Cash Flows From Investing Activities
Cash receipt from disposal of fixed assets including intangibles.
(-) Cash payments to acquire fixed assets including intangibles and capitalized research and development.
Cash receipt from the repayment of advances or loans made to third parties (except in case of financial enterprise).
(-) Cash payments to acquire shares, warrants or debt instruments of other enterprises other than the instruments other than those held for trading purposes.
Cash receipt from disposal of shares, warrants or debt instruments of other enterprises except those held for trading purposes.
(-) Cash advances and loans made to third party
Interest received in cash from loans and advances.
Dividend received from investments in other enterprises.
Net cash from/used in Investing Activities-B
(C) Cash Flows 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 repayments of amounts borrowed.
(-) Interest paid on debentures and long-term loans and advances.
(-) Dividends paid on equity and preference capital.
Net cash from/used in Financing Activities-C
Net increase/decrease in Cash and Cash Equivalents (A+B+C)
(+) Cash and cash equivalents at beginning of period
Cash and cash equivalents at the end of period

Objectives of Cash Flow Statement

1. To ascertain how much cash or cash equivalents have been generated or used in different activities i.e., operating / investing / financing activity.
2. To ascertain the net changes in cash and cash equivalents.
3. To assess the causes of difference between actual cash& cash equivalents and related net earnings/income.
4. To help in formulation of financial policies such as dividend policy, fixed assets policy, capital structure related policy.
5. To help in short-term financial planning.
6. To ascertain the liquidity of enterprises.

Important Points to Remember:

1. First decide the nature of enterprise, it is financial or Non-Financial.
2. For Calculating depreciation, check the Balance Sheet to find out that values of assets are given at net value (i.e., written down value) or at Gross Block (Shown Accumulated dep. A/c also). There after attempt question according to the instructions.

3. Current Investment or marketable securities is a part of Cash and Cash equivalents as per AS-3 (revised).

4. Bank overdraft and cash credit will be considered in financial activity not under working capital changes in operating activities.

I. Computation of Cash flows from operating activities.

Operating activities are the **main revenue generating activities** of the enterprises. It also includes all those transactions which are not included in investing and financing activities.

(A) Calculation of Net Profit before Tax and Extra-ordinary Items:	****
Difference between Closing balance and Opening balance of Balance in Statement of Profit & Loss	
(Add) 1. Proposed Dividend of the previous year	***
2. Interim Dividend paid during the current year	***
3. Profit Transferred to Reserve	***
(If reserve of current year increased from previous year)	***
4. Provision for Taxation made during the year	
Net Profit before Tax and Extra-ordinary items	****

B) For the calculation of provision for Taxation made during the current year, the Provision for Taxation A/c is to be prepared as follows :

Dr. PROVISION FOR TAX A/c Cr.

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
	To Bank A/c(Tax paid during the year)	**		By Balance b/d	**
	To Balance c/d	**		By Statement of P&L(Provision for tax made during the year)	**

Format: Cash Flow from Operating Activities

Particulars **Rs.**

I. <u>Cash Flow from Operating Activities</u>

(A) Net Profit before Tax and Extra ordinary Items (as per Working Note)

Adjustments for Non-cash and Non-operating Items

(B) ***Add*** :

— Depreciation

— Goodwill, Patents and Trade marks Amortised

— Interest on Bank Overdraft/Cash Credit

— Interest on Borrowings (Short-term and Long-term) and Debentures

— Writing off Underwriting Commission /Share Issue Expenses

— Loss on Sale of Fixed Assets

— Increase in Provision for Doubtful Debts

(C) ***Less :***

— Interest Income

— Dividend Income

— Rental Income

— Gain (Profit) on Sale of Fixed Assets

— Decrease in Provision for Doubtful Debts

(D) Operating Profit before Working Capital Changes (A+ B- C)

(E) : ***Add*** : **— Decrease in Current Assets and Increase in Current Liabilities**

— Decrease in Inventories (Stock)

— Decrease in Trade receivables (Debtors / Bills Receivable)

— Decrease in Accrued Incomes
— Decrease in Prepaid Expenses
— Increase in Trade Payables (Creditors/Bills Payable)
— Increase in Outstanding Expenses
— Increase in Advance Incomes

(F) ***Less*** : **Increase in Current Assets and Decrease in Current Liabilities**
— Increase in Inventories (Stock)
— Increase in Trade Receivables (Debtors/Bills Receivable)
— Increase in Accrued Incomes
— Increase in Prepaid Expenses
— Decrease in Trade Payables (Creditors/Bills Payable)
— Decrease in Outstanding Expenses
— Decrease in Advance Incomes

Cash Generated from Operations (D+E-F)
Less : Income Tax Paid
Cash Flow from (or Used in) Operating Activities

II . Calculation of Cash Flow from Investing Activities.

Investing activities are those activities which are related to **the acquisition (buying) and disposal (selling) of fixed assets and investment** (other than cash equivalents). It also includes income from fixed assets and investment like rent received, interest received on investment, dividend received on investment in shares and mutual funds.

Inflow of Cash (Plus items)
1. Cash Received from sale of Fixed Assets.
2. Cash Received from sale of Investment. (Excluding Marketable Securities)
3.Cash Received from sale of intangible assets like Patent, goodwill and copy rights
4.Interest Received,
5.Dividend Received,
6.Rent Received

Outflow of Cash (Minus items)
1. Cash paid for purchase of fixed assets.
2. Cash paid for purchase of investment. (Excluding Marketable Securities)
3.Cash paid for purchase of intangible Fixed assets like good will, patents and copy rights

For the calculation of sale or purchase of fixed assets , Fixed assets account may be prepared

Dr. FIXED ASSET A/c Cr.

DATE	PARTICULARS	AMOUNT	DATE	PARTICULARS	AMOUNT
	To Balance b/d To	**		By Bank A/c (Sale of Asset)	**
	To Bank A/c(Additional purchase during the year)	**		By Depreciation A/c (Depreciation on fixed assets sold)	**
	To profit on sale of Fixed Asset A/c	**		By Loss on sale of fixed assets A/c	**
				By Depreciation A/c (Current year depreciation on remaining fixed assets)	**
				By Balance c/d	**

When **provision for depreciation account or accumulated depreciation** account has been separately maintained, the following account is prepared to calculate the depreciation charged to Asset account.

Dr. PROVISION FOR DEPRECIATION A/c Cr.

DATE	PARTICULARS		AMOUNT	DATE	PARTICULARS	AMOUNT
	To Fixed Asset A/c (Depreciation provided till the date of Sale) To Balance c/d		** ** ______		By Balance b/d By Statement of P&L(Depreciation charged on Fixed Asset during the year including the part sold)	** ** ______

III. Calculation of Cash Flow from FinancingActivities

Financing activities are those activities that result in the change in size andcomposition of the share capital (equity and preference) and borrowed fund of thebusiness enterprises. Generally cost related to these funds are also included in financing activities like interest paid on loans and debentures and dividend paid on equity and preference share capital.

Inflow of Cash (Plus items)

1. Proceeds from Issue of equity shares capital.
2. Proceeds from Issue of preference share capital.
3. Proceeds from taking long-term loan and issue of debentures.
4. Proceeds from Bank Overdraft and Cash credit.

Outflow of Cash (minus items)

1. Amount paid for repayment of long-term loan.
2. Redemption of Preference share capital in cash.
3. Redemption of Debenture in cash.
4. Buyback of Equity shares(Extra-Ordinary Item)
5. Payment of Bank Overdraft and Cash Credits.
6. Interest paid on long term loan and debentures
7. Final Dividend paid.
8. Interim dividend paid.
9. Dividend paid on Preference Shares.

Financing Business Enterprise Transaction Treatment in Cash Flow Statement

Financing business enterprises are the business enterprises which deal in finance like investment companies, mutual fund house and banks. These enterprises purchases and sale securities as their stock, so it is treated as operating activities and interest received, dividend received and interest paid are considered as routine business activities and included in their operating activities.

VARIOUS ACTIVITIES IN CASE OF BANKING and NON-BANKING COMPANIES

PARTICULARS	Interest Received (INFLOW)	Interest Paid (OUTFLOW)	Dividend Received (INFLOW)	Dividend paid (OUTFLOW)
For Banking and Financing Companies	OPERATING ACTIVITY	OPERATING ACTIVITY	OPERATING ACTIVITY	FINANCING ACTIVITY
For Non-banking and Non-Financing Companies	INVESTING ACTIVITY	FINANCING ACTIVITY	INVESTING ACTIVITY	FINANCING ACTIVITY

SUMMARY

1. Meaning of Cash Flow Statement : It is a statement showing changes in the financial position of a business concern during different intervals of time in terms of cash and cash equivalents.

2. Cash Flows It implies movement of cash in and out of non-cash items. Receipt of cash from a non-cash

item is termed as cash in flow while cash payment in respect of such items is termed as cash outflow.
3. Cash and Cash Equivalents As per AS-3, 'cash' comprises cash in hand and demand deposits with banks, and 'cash equivalents' means short-term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.
For example, Short-term marketable securities, which can be readily converted into cash, are treated as cash equivalents.

4. Objectives of Cash Flow Statement

The main objectives of Cash flow statement are :
(i) To ascertain the specific sources from activities (i.e. operating/investing/financing activities) from which cash and cash equivalent were generated by an enterprise.
(ii) To ascertain the specific uses by activities (i.e. operating/investing/financing activities) for which cash & cashequivalent were used by an enterprise.
(iii) To ascertain the net change in cash and cash equivalents indicating the difference between sources and uses from or by the three activities between the dates of two balance sheets.

5. Classification of Business Activities

Accounting Standard-3 (Revised) requires that the changes resulting in
inflows and outflows of cash and cash equivalents be classified into following three activities:
(i) **Cash Flow from Operating Activities** Operating activities are the principle revenue-producing activities of the enterprise and other activities that are not investing or financing activities.
(ii) **Cash Flow from Investing Activities** As per AS-3, investing activities are the acquisition and disposal of the long-term assets and other investments, not included in cash equivalents.
(iii) **Cash Flow from Financing Activities** These are the activities which result in change in the size and composition of the owner's capital (including preference share capital) and borrowings (including debentures) of the enterprise from other sources.

MULTIPLE CHOICE QUESTIONS

1. Which of the following transactions will result into flow of cash?
(a) Cash withdrawn from bank Rs.20,000.
(b) Issued 3 20,000, % debentures for the vendors of machinery.
(c) Received Rs.19,000 from debtor.
(d) Deposited cheques of Rs.10,000 into bank.

2. Operating profit of the year is Rs. 2,00,000. During the year, there was increase in inventory by Rs. 90,000 and decrease in trade receivables of Rs. 50,000. What is the amount of cash from operations?
(a) Rs. 60,000 **(b) Rs.1,60,000**
(c) Rs. 2,40,000 (d) Rs. 3,40,000

3. Income tax paid is concerned with:
(a) Operating activities (b) Investing activities
(c) Financing activities (d) None of these

4. In the case of financial enterprises, the cash flow resulting from interest and dividend received and interest paid should be classified as cash flow from:
(a) Operating activities (b) Investing activities
(c) Financing activities (d) None of the above

5. If fixed tangible assets whose original cost is Rs.40,000 having accumulated depreciation Rs.12,000 were sold for Rs. 34,000 then, while preparing cash flow statement, its effect on cash flow will be:
(a) Cash flow from financing activities Rs.34,000
(b) Cash flow from financing activities Rs.6,000
(c) Cash flow from investing activities Rs.34,000
(d) Cash flow from investing activities Rs.6,000

ASSERTION REASONING QUESTIONS (ARQs)

1. **Assertion (A):** Depreciation and amortisation of Goodwill is added to the net profit before tax to compute cash operating profit.
Reason (R): Depreciation and amortisation of goodwill are non-cash expenses and therefore added back to net profit as cash flow statement is prepared on cash basis of Accounting.

(a) Both (A) and (R) are 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 but (R) is false.
(d) (A) is false but (R) is true.
2. **Assertion (A):** Sale of fixed assets is written under the Investing Activities.
Reason (R): Sale of fixed assets leads to inflow of cash under investing activity as investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
(a) Both (A) and (R) are 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 but (R) is false.
(d) (A) is false but (R) is true.
3. **Assertion (A):** Proceeds from issue of shares and debentures are recorded in Financing Activity.
Reason (R): Issue of shares and debentures brings changes in composition and size of owner's capital and borrowings of an enterprise. It provides inflow to finance the company.
(a) Both (A) and (R) are 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 but (R) is false.
(d) (A) is false but (R) is true.
4. **Assertion (A) :** Sale of Building is an Operating Activity for a Real Estate Company.
Reason (R) : Sale/Purchase of property is not the principal revenue producing activity for a Real Estate Company.
(a) Both (A) and (R) are 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 but (R) is false.
(d) (A) is false but (R) is true.
5. **Assertion (A):** Cash deposited into bank will result in Flow of Cash or Cash Equivalents.
Reason (R): Cash deposited into bank is a movement between items of Cash and Cash Equivalents.
(a) Both (A) and (R) are 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 but (R) is false.
(d) (A) is false but (R) is true.

CASE BASED MCQs

1. TPT Ltd., an educational company, want to expand their business. For this purpose, they want to analyse their net cash flow from operating activities, so that the directors may plan accordingly. For this purpose, you have been appointed as a financial consultant and the required information is provided to you:

RTICULARS	IOUNT (Rs.)
Profit for the year after Provision for Tax of Rs 1,53,000	8,000
Proposed Dividend for the previous year	,000
Depreciation provided on fixed tangible assets during the year	0,000
Loss on Sale of Machinery	,000
Profit on Sale of Non-current Investment	,000
Dividend Received on non-current Investments	00
Decrease in Current Assets other than Cash and Cash Equivalents	,000
Increase in Current Liabilities	1,000
Increase in Current Assets other than Cash and Cash Equivalents	0,000
Decrease in Current Liabilities	,000
Income tax paid	8,000
Refund of Income Tax received	00

From the information given above, answer the following questions:
I. Compute the amount of Net Profit before Tax from the above information.
(a) Rs. 9,90,000
(b) Rs. 3,75,000
(c) Rs. 8,50,000
(d) Rs. 6,20,000
II. What is the amount of Operating Profit before Working Capital changes.
(a) Rs.7,94,000
(b) Rs.9,94,000
(c) Rs.8,94,000
(d) Rs. 10,94,000
III. State the amount of Cash generated from Operating Activities.
(a) Rs. 3,09,000
(b) Rs. 4,91,000
(c) Rs. 2,91,000
(d) Rs. 3,76,000
IV. Compute the amount of Net Cash from Operating Activities.
(a) Rs. 2,76,000
(b) Rs.1,76,000
(c) Rs. 4,76,000
(d) Rs. 3,76,000

NUMERICALS

3 MARKS

1. Prepare 'Provision for Income Tax Account' from the following information for preparing Cash Flow Statement :

	1^{st} April 2021	1^{st} April 2022
Provision for Income Tax	Rs. 1,50,000	Rs. 2,10,000

Additional Information :
Provision for Income tax made during the year 2022 was Rs.2,35,000.
Solution :

PROVISION FOR INCOME TAX ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Bank A/c (Balancing figure, being payment made)	1,75,000	By Balance b/d	1,50,000
		By Statement of Profit & Loss(given)	2,35,000
To balance c/d (given)	2,10,000		
	3,85,000		3,85,000

2. Calculate Cash flow from Investing Activities from the following particulars :

	1^{st} April 2021	1^{st} April 2022
Plant & Machinery (Written down value)	7,20,000	8,60,000

Information :
(i) Depreciation charged during the year Rs.85,000.
(ii) Plant & Machinery having a written down value Rs.1,10,000 was sold for Rs. 1,25,000.

Solution: CASH FLOW FROM INVESTING ACTIVITIES

rticulars	.
oceeds from Sale of Plant & Machinery	25,000
yment for purchase of Plant & Machinery	35,000)
t cash used in Investing activities	10,000)

Working Note :

PLANT & MACHINERY ACCOUNT

Particulars	Rs.	Particulars	Rs.
To balance b/d To Gain on Sale of Plant & Machinery To Bank A/c(Balancing figure, being purchase)	7,20,000 15,000 3,35,000	By Bank A/c (Sale proceeds) By Depreciation A/c By Balance c/d	1,25,000 85,000 8,60,000
	10,70,000		10,70,000

3. Identify the following transactions as belonging to (i) Operating Activities, (ii) Investing Activities, (iii) Financing Activities and (iv) Cash and Cash Equivalents:

i. Cash Purchases of Goods.
ii. Purchase of Shares.
iii. Patents purchased.
iv. Cash received against services rendered.
v. Cash paid against Services taken.
vi. Sale of building.
vii. Income Tax paid on gain on sale of building.
viii. Dividend paid.
ix. Balance of Current Investments.
x. Balance of Marketable Securities.
xi. Decrease in balance of Bank Overdraft or Cash Credit.
xii. Interest paid on Bank Overdraft or Cash Credit.

(Ans. Operating Activities : i,iv,v
Investing Activities: ii,iii,vi,vii
Financing Activities: viii, xi,xii
Cash and Cash Equivalents : ix, x)

4.Read the following hypothetical text & answer the given questions on the basis of the same:
Rian an alumni of IIM Ahmedabad initiated her startup Rian Ltd. in 2020. The prof its of Rian Ltd. in the year 2020-2021 after all appropriations was ₹31,25,000. This profit was arrived after taking into consideration the following items:- Gain on sale of fixed tangible assets- ₹12,50,000; Goodwill written off - ₹7,80,000; Transfer to General Reserve-₹8,75,000; Provision for taxation - ₹4,37,500 .

Additional Information:-

Particulars	31.03.2020 (₹)	31.03.2019 (₹)
Prepaid Expenses	7,50,000	5,00,000
Inventory	10,50,000	8,20,000
Trade Payables	4,50,000	3,50,000
Trade Receivables	6,20,000	5,90,000

A) Net Profit before tax will be ₹____________
(a) ₹22,50,000 (b) ₹35,62,500 (c) ₹39,67,500 (d) ₹44,37,500

B) Operating profit before working capital changes will be ₹____________
(a) ₹52,17,500 (b) ₹64,67,500 (c) ₹39,67,500 (d) ₹39,69,500

C) Cash from operating activities before tax will be₹____________

₹35,57,500 (b) ₹40,67,500 (c) ₹37,87,500 (d) ₹35,67,300

Solution:
A) d) 44,37,500
B) c) 39,67,500
C) a) 35,57,500

5. From the following information, calculate Cash Flow from Investing Activities:

Particulars	31st March, 2019 (₹)	31st March, 2018 (₹)
Machinery (At cost)	5,50,000	5,00,000
Accumulated Depreciation	1,70,000	1,00,000

During the year, a machinery costing ₹ 50,000 (accumulated depreciation provided thereon ₹ 20,000) was sold for ₹ 26,000.

Machinery Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	5,00,000	Accumulated Depreciation A/c	20,000
To Bank A/c (*Purchase- Bal. Fig.*)	1,00,000	Bank A/c (*Sale*)	26,000
		Profit and Loss A/c (*Loss on Sale*)	4,000
		Balance c/d	5,50,000
	6,00,000		6,00,000

Solution :

Accumulated Depreciation Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Machinery A/c	20,000	Balance b/d	1,00,000
Balance c/d	1,70,000	Profit and Loss A/c *(Dep. charged during the year- Bal. Fig.)*	90,000
	1,90,000		1,90,000

Cash Flow from Investing Activities

	Particulars	Amount (₹)	Amount (₹)
	Purchase of Machinery	(1,00,000)	
	Sale of Machinery	26,000	
	Net Cash Used in Investing Activities		**(74,000)**

6. From the following information, calculate Cash Flow from Financing Activities:

Long-term Loan 2,00,000 (2018) 2,50,000 (2019)

During the year, the company repaid a loan of ₹1,00,000.

Solution :

Long Term Loan Account

Dr. **Cr.**

Particulars	Amount (₹)	Particulars	Amount (₹)
Bank A/c (*Repayment of Loan*)	1,00,000	Balance b/d	2,00,000
Balance c/d	2,50,000	Bank A/c (*Loan Raised*)	1,50,000
	3,50,000		**3,50,000**

Cash Flow Statement

Particulars	Amount (₹)	Amount (₹)
Cash Flow from Financing Activities		
Loan Repaid	(1,00,000)	
New Loan Raised	1,50,000	50,000
Cash Flows from Financing Activity		50,000

7. State whether the following will increase, decrease or have no effect on cash flow from operating activities while preparing 'cash flow statement'.
(i) Decrease in outstanding employees benefits expenses by ₹ 3,000.
(ii) Increase in prepaid insurance by ₹ 2,000.

Solution :
(i) Outstanding employee benefits expenses is a current liability. So, decrease in current liability will decrease cash flow from operating activities.
(ii) Prepaid insurance is a current asset. Increase in current asset will decrease cash flow from operating activities.

8. A company had following balances
investment in the beginning = 34000
investment at the end = 28000
during the year, company sold 40% of its investments held in the beginning of the period at a profit of 8400. calculate cash flow form investing activity.

Solution :

Investment A/c

Particulars	Rs.	Particulars	Rs.
To Balance b/d	34000	By Bank	22000
To Statement of P&L (gain on sale)	8400	By Balance c/d	28000
To Bank	7600		
	50000		**50000**

	Rs.
Sale of investment	22,000
Purchase of investment	(7,600)
Cash flow from Investing Activity	14,400

9. Mevo Ltd a financial enterprise had advanced a loan of ₹ 3,00,000, invested ₹ 6,00,000 in shares of the other companies and purchased machinery for ₹ 9,00,000. It received divided of ₹ 70,000 on investment in shares. The company sold an old machine of the book value of ₹ 79,000 at a loss of ₹ 10,000. Compute

cash flows investing activities.

Solution :

Particulars	Amount (₹)
Purchase of Machinery	(9,00,000)
Sale of Machinery	69,000
Purchase of Investments	(6,00,000)
Cash used in Investing Activities	14,31,000

10. K Ltd a manufacturing company obtained a loan of ₹ 6,00,000, advanced a loan of ₹ 1,00,000 and purchased machinery for ₹ 5,00,000. Calculate the amount of cash flow from financing and investing activities.

Solution :

Cash Flow from Investing Activities

Particulars	Amount (₹)
Purchase of Machinery	(5,00,000)
Loan given	(1,00,000)
Cash used in Investing Activities	(6,00,000)

Cash Flow from Financing Activities

Particulars	Amount (₹)
Loan given	6,00,000
Cash used in Financing Activities	6,00,000

4 MARKS

1. You are, Reyansh, a Finance Manager in a company. Assist your friend in identifying which of the following transactions would result in inflow/outflow of Cash or Cash Equivalents :

i. Purchase of Inventory for cash
ii. Purchase of goods on credit
iii. Sale of goods costing Rs. 10,000 for Rs.12,000 for cash
iv. Sale of goods on credit
v. Cash deposited into bank
vi. Cash withdrawn from bank
vii. Purchase of Marketable securities
viii. Sale of current investments for cash at par

Solution :

i. Outflow
ii. No effect
iii. Inflow
iv. No effect
v. No effect

vi. No effect
vii. No effect
viii. No effect

2.From the following particulars, calculate cash flows from financing activities:

	31st March 2023	**31st March 2022**
Equity Share capital	8,00,000	6,00,000
12% Preference share capital	-	2,00,000
14% Debentures	1,00,000	-

Additional Information :

i) Equity Shares were issued at a premium of 15%.
ii) 12% Preference Shares were redeemed at a premium of 5%.
iii) 14% debentures were issued at a discount of 1%.
iv) Dividend paid on Old Preference Shares Rs.24,000.
v) Interest paid on debentures Rs.14,000.
vi) Underwriting commission of Equity Shares Rs.10,000.
vii) Proposed Dividend on Equity Shares for the year ended 31.3.2023 Rs.1,20,000.
Proposed Dividend on Equity Shares for the year ended 31.3.2022 Rs. 90,000.
(Ans. Outflow Rs.19,000)

Solution:

CASH FLOWS FROM FINANCING ACTIVITIES

	.
oceeds from Issue of Share Capital(2,00,000+30,000-10,000)	20,000
demption of Preference shares 00,000+10,000	10,000)
oceeds from Issue of Debentures(1,00,000-1,000)	,000
oposed Dividend on Equity shares for the year ended 31st March 2022	),000)
vidend paid on Preference shares	4,000)
erest paid on Debentures	4,000)
t cash used in Financing Activities	),000)

3. From the following information, calculate Cash flow from Investing Activities:

	31st March 2020	**31st March 2019**
Plant & Machinery	3,00,000	2,00,000
Goodwill	1,20,000	40,000

Additional Information :

A machine costing Rs. 50,000 (depreciation provided thereon Rs. 15,000) was sold for Rs.40,000. Depreciation charged during the year was Rs.50,000. Show your working notes clearly.

Solution :

CASH FLOW FROM INVESTING ACTIVITIES

rticulars	.
oceeds from Sale of Plant & Machinery	,000
yment for purchase of Plant & Machinery	85,000)
odwill purchased	),000)
t cash used in Investing activities	25,000)

Working Note :

PLANT & MACHINERY ACCOUNT

Particulars	Rs.	Particulars	Rs.
To balance b/d	2,00,000	By Bank A/c (Sale proceeds)	40,000
To Gain on Sale of Plant & Machinery (50,000-15,000-40,000)	5,000 5,000	By Depreciation A/c	50,000
		By Balance c/d	3,00,000
To Bank A/c (Balancing figure, being purchase)	1,85,000		
	3,90,000		3,90,000

4. Charles Ltd. made a profit of Rs.1,00,000 after charging Depreciation of Rs.20,000 on assets and a transfer to Debenture Redemption Reserve of Rs.30,000. The goodwill written off was Rs.7,000 and the gain on sale of Machinery was Rs.3,000. The other information available to you (changes in the value of Current Assets and Current Liabilities) is as follows:

At the end of the year Trade Receivables showed an increase of Rs.6,000; Trade Payables an increase of Rs.10,000; Prepaid Expenses an increase of Rs.200 and Outstanding Expenses a Decrease of Rs.2,000. Ascertain the cash flow from operating activities.

Solution:

CASH FLOWS FROM OPERATING ACTIVITIES
For the year ended __________

	Rs.	Rs.
Net profit before tax (Note 1)		1,30,000
Adjustments for non-cash and non-operating items:		
Add: Depreciation	20,000	
Goodwill written off	7,000	27,000
		1,57,000
Less: Gain on sale of Machinery		3,000
Operating profit before working capital changes		1,54,000
Add: Increase in Current Liabilites:		
Trade payables		10,000
		1,64,000
Less: Increase in Current Assets:		
Trade Receivables	6,000	
Prepaid expenses	200	
Decrease in Current Liabilities:		
Outstanding expenses	2,000	8,200
Net cash flow from Operating Activities		1,55,800

Note 1: Calculation of Net Profit before tax:

	Rs.
Profit made during the year	1,00,000
Add: Transfer to Debenture Redemption Reserve	30,000
Net profit before tax	1,30,000

4. Classify the following into Cash Flows from-
   Operating Activities; Investing Activities; Financing Activities.
   i. Cash sale of goods in cash
   ii. Cash payment to acquire fixed assets
   iii. Cash payments from issuing shares at a premium
   iv. Payment of dividend
   v. Interest received on Investment
   vi. Interest Paid on debentures

vii. payment of income tax
viii. Cash repayment of long term loans

Solution :

S.NO.	Transactions	Classification/Activities
1	Cash sale of goods	Operating
2	Cash payment for acquire fixed assets	Investing
3	Issuing shares at a premium	Financing
4	Payment of dividend	Financing
5	Interest received on Investment	Investing
6	Interest Paid on debentures	Financing
7	payment of income tax	Operating
8	Cash repayment of long term loans	Financing

6. Calculate Cash from Operating activities from the following balances:

Current Assets and Current Liabilities :	**31st March 2022**	**31st March 2023**
Debtors	80,000	60,000
Bill s Receivable	7,000	10,000
Creditors	50,000	55,000
Bills Payable	8,000	6,000
Outstanding Expenses	1,000	1,500
Prepaid Expenses	1,800	1,600
Accrued Income	800	900
Income Received in Advance	700	-

Operating profit before working capital changes was Rs.1,00,000.

Solution :

CASH FLOWS FROM OPERATING ACTIVITIES
For the year ended 31st March 2023

	Rs.	**Rs.**
Operating profit before working capital changes		1,00,000
Add: Decrease in Current Assets		
Debtors	20,000	
Prepaid expenses	200	
Add: Increase in Current Liabilities		
Creditors	5,000	
Outstanding expenses	500	25,700
		1,25,700
Less: Increase in Current Assets		
Bills Receivable	3,000	
Accrued Income	100	
Less: Decrease in Current Liabilities		
Bills payable	2,000	
Income received in Advance	700	5,800

Net cash from Operating Activities		1,19,200

7. Classify the Following Activities into cash Flows under (A) Operating (B) Investing (C) Financing:
   (i) Cash Sales of Goods.
   (ii) Income Tax paid.
   (iii) Dividend Paid.
   (iv) Purchase of Fixed Assets.
   (v) Redemption of Debentures.
   (vi) Royalty Received.
   (vii) Cash paid to the Suppliers
   (viii) Rental Income.

Solution :

Operating Activities :
(i) Cash Sales of Goods.
(ii) Income Tax paid
(vi) Royalty Received.
(vii) Cash paid to the Suppliers.
Investing Activities :
(iv) Purchase of Fixed Assets.
(viii) Rental Income.
Financing Activities :
(v) Redemption of Debentures.

8. From the following information, calculate Cash Flow from Investing Activities:

rticulars	osing Balances (Rs.)	ening Balances (Rs.)
achinery (at cost) cumulated Depreciation tents	20,000 0,000 50,000	00,000 00,000 30,000

Additional information :

i. During the year, a machine costing Rs. 40,000 with its accumulated depreciation of Rs.24,000 was sold for Rs.20,000.
ii. Patents written off were Rs.40,000 and some patents were sold at a profit of Rs.20,000.

Solution :
CASH FLOW FROM INVESTING ACTIVITIES

rticulars	.
oceeds from Sale of Machinery yment for purchase of Machinery oceeds from Sale of Patents	,000 0,000) 00,000
t cash used in Investing activities	,000

Working Note :

MACHINERY ACCOUNT

Particulars	**Rs.**	**Particulars**	**Rs.**
To balance b/d To Gain on Sale of Machinery To Bank A/c(Balancing figure, being purchase)	4,00,000 4,000 60,000	By Bank A/c (Sale proceeds) By Accumulated Depreciation A/c By Balance c/d	20,000 24,000 4,20,000
	4,64,000		4,64,000

.

PROVISION FOR DEPRECIATION A/c

Cr.

DATE	PARTICULARS		AMOUNT	DATE	PARTICULARS	AMOUNT
	To Machinery A/c (Depreciation provided till the date of Sale) To Balance c/d		24,000 1,10,000		By Balance b/d By Statement of P&L(Depreciation charged on Machinery during the year including the part sold)(B/F)	1,00,000 34,000
			1,34,000			1,34,000

PATENTS ACCOUNT

Particulars	Rs.	Particulars	Rs.
To balance b/d To Gain on Sale of Machinery	2,80,000 20,000	By Bank A/c (Sale proceeds) (B/F) By Amortization A/c By Balance c/d	1,00,000 40,000 1,60,000
	3,00,000		3,00,000

9. Likhith Ltd. provides the following information. Determine the Cash flow from Financing Activities:

rticulars	st March 2021 (Rs.)	st March 2020 (Rs.)
uity Share Capital	,00,000	,00,000
% Debentures		)0,000
Debentures	)0,000	

Additional Information :

i. Interest paid on Debentures Rs.10,000.

ii. Dividend paid Rs.50,000.

iii. During the year 2020-21, Likhith Ltd. issued bonus shares in the ratio of 2:1 by capitalising reserve.

Solution :

CASH FLOW FROM FINANCING ACTIVITIES

rticulars	.
oceeds from issue of 8% Debentures	)0,000
demption of 10% Debentures	(00,000)
erest paid on Debentures	),000)
vidend paid	),000)
t cash used in Financing activities	,000

10. X Ltd. made a profit of Rs.5,00,000 after considering the following items :

I. Goodwill Written off Rs.5,000.

II. Depreciation on Plant & Machinery Rs.50,000.

III. Loss on sale of Plant & Machinery Rs.20,000

IV. Provision for Doubtful Debts Rs.10,000.

V. Gain on sale of Land Rs.7,500.

Additional Information :

	31-03-23	31-3-22

Trade receivables	78,000	52,000
Prepaid expenses	3,000	2,000
Trade payables	51,000	40,000
Expenses payable	20,000	34,000

You are required to calculate Cash flow from Operating Activities.

Solution : **X Ltd.**

CASH FLOWS FROM OPERATING ACTIVITIES

For the year ended 31st March 2023

	Rs.	**Rs.**
Net profit before tax		5,00,000
Adjustments for non-cash and non-operating items:		
Add: Goodwill written off	5,000	
Depreciation	50,000	
Loss on sale of plant & machinery	20,000	
Provision for doubtful debts	10,000	85,000
		5,85,000
Less: Gain on sale of Land		7,500
Operating profit before working capital changes		5,77,500
Add: Increase in Current Liabilites:		
Trade payables		11,000
		5,88,500
Less: Increase in Current Assets:		
Trade Receivables	(26,000)	
Prepaid expenses	(1,000)	
Decrease in Current Liabilities:		
Expenses payable	(14,000)	(41,000)
Net cash flow from Operating Activities		5,47,500

6 MARKS

1. From the following extracts taken from the Balance Sheets of M/s Khanduja Ltd. on 31st March and the additional information provided, you are required to calculate :

(i) Cash Flows from Operating Activities.

(ii) Cash Flows from Financing Activities.

EQUITY & LIABILITIES	**31-03-2021**	**31-03-2022**
Equity Share Capital	20,00,000	30,00,000
10% Preference Share Capital	2,00,000	1,00,000
Securities Premium A/c	-	95,000
Profit and Loss Balance	4,00,000	8,00,000
10% Debentures	10,00,000	10,00,000

Additional Information:

1. Fresh equity shares were issued on 31st March 2022 at a premium of 10%.
2. Interim Dividend was paid on equity shares @8%.
3. Preference shares were redeemed on 31st March, 2022 at premium of 5%.

Premium on redemption was charged against premium received on issue of fresh equity shares.

Solution:

CASH FLOW FROM OPERATING ACTIVITIES

rticulars	.
t profit before Tax (Note 1)	30,000
Adjustments for non-cash and non-operating items:	
ld: Interest on Debentures	)0,000
t cash used in Operating activities	30,000

Note: (1) Calculation of Net profit before Tax:

	Rs.
Profit & Loss Balance as on 31st March, 2022	8,00,000
Less: Profit & Loss Balance as on 31st March, 2021	4,00,000
Add: Dividend on Preference shares (10% on 2,00,000)	20,000
Dividend on Equity shares (8% on 20,00,000)	1,60,000
	5,80,000

CASH FLOWS FROM FINANCING ACTIVITIES

	.
oceeds from Issue of Equity shares(10,00,000+1,00,000)	,00,000
demption of Preference shares (00,000+5,000)	(05,000)
vidend paid on Preference shares	
vidend paid on Equity shares	),000)
erest on Debentures	(60,000)
t cash used in Financing Activities	(00,000)
	5,000

2. Prepare Cash Flow Statement on the basis of information given in the Balance Sheet of Relga Ltd. as at 31st March 2019 and 31st March 2020 :

PARTICULARS	NOTE No.	31-03-19	31-3-20
I. EQUITY & LIABILITIES :			
1. Shareholder's Funds:			
a. Share capital		2,00,000	2,50,000
b. Reserve and Surplus	1	50,000	70,000
2. Non-current liabilities :			
Long term borrowings	2	1,00,000	80,000
3. Current Liabilities :			
a. Trade payables	3	60,000	1,60,000
b. Other Current Liabilities	4	25,000	20,000
TOTAL		4,35,000	5,80,000
II. ASSETS :			
1. Non- current Assets :			
a. Property, plant and Equipment and Intangible Assets :			
i. Property , plant and equipment	5	1,50,000	2,00,000
ii. Intangible assets	6	10,000	2,000
b. Long term Loans and Advances		1,00,000	1,30,000
2. Current Assets :			
a. Inventories		70,000	90,000
b. Trade Receivables		40,000	60,000
		65,000	98,000

c. Cash and cash equivalents **TOTAL**		4,35,000	5,80,000

Notes to Accounts :

	31-3-2019	31-3-20
1. Reserves and Surplus	50,000	70,000
General Reserve		
2. Long term borrowings		
12% Debentures	1,00,000	80,000
3. Trade Payables		
Creditors	40,000	60,000
Bills payable	20,000	1,00,000
	60,000	1,60,000
4. Other Current liabilities		
Outstanding expenses	25,000	20,000
5. Property, plant and equipment		
Machinery	2,00,000	2,60,000
Less: Provision for Depreciation	(50,000)	(60,000)
	1,50,000	2,00,000
6. Intangible Fixed Assets		
Goodwill	10,000	2,000

Additional Information:

1. During the year a piece of machinery with a book value of Rs.30,000; provision for depreciation on it Rs.10,000 was sold at a loss of 50% on book value.
2. Debentures were redeemed on 31st March 2020.

Solution:

CASH FLOW STATEMENT of Relga Ltd.
for the year ended 31st March 2020

Particulars	Details	Amount(Rs.)
A. Cash Flow from Operating Activities:		
Net profit before tax (70,000-50,000)	20,000	
Adjustments for non-cash and non-operating items:		
Add: Loss on sale of machinery	15,000	
Depreciation charged on machinery	20,000	
Goodwill amortized	8,000	
Interest on Debentures	12,000	
Operating profit before working capital changes	75,000	
Increase in Creditors	20,000	
Increase in Bills payable	80,000	
Decrease in outstanding expenses	(5,000)	
Increase in Inventories	(20,000)	
Increase in Trade receivables	(20,000)	
Cash Flow from Operating Activities		1,30,000
B. Cash Flow from Investing Activities:		
Sale of Machinery	15,000	
Purchase of Machinery	(1,00,000)	
Loans advanced	(30,000)	
Net cash used in Investing Activities		(1,15,000)
C. Cash Flow from Financing Activities:		
Issue of Share capital	50,000	
Debentures redeemed	(20,000)	

Interest paid on Debentures	(12,000)	
Cash Flow from Financing Activities		18,000
Net Increase in Cash & Cash Equivalents during the year		33,000
Add: Opening Cash & Its Equivalents		65,000
Closing Cash & Its Equivalents		98,000

Working Note:

MACHINERY ACCOUNT

Particulars	Rs.	Particulars	Rs.
To balance b/d	2,00,000	By Bank A/c (Sale proceeds)	15,000
To Bank A/c (Balancing figure, being purchase)	1,00,000	By Loss on sale of machinery A/c	15,000
		By Provision for Depreciation A/c	10,000
		By Balance c/d	2,60,000
	3,00,000		3,00,000

PROVISION FOR DEPRECIATION ACCOUNT

Particulars	Rs.	Particulars	Rs.
To Machinery A/c	10,000	By Balance b/d	50,000
To balance c/d	60,000		
		By Depreciation A/c (Balancing figure, being current year's depreciation)	20,000
	70,000		70,000

3. Following is the balance sheet of RS Ltd. as at 31st March, 2016.

	Particulars	Note No.	31st March, 2016 Amt (Rs)	31st March,2015 Amt (Rs)
1.	EQUITY AND LIABILITIES			
	1.Shareholders' Funds			
	(a) Share Capital		9,00,000	7,00,000
	(b) Reserves and Surplus	1	2,50,000	1,00,000
	2.Non-current Liabilities			
	Long-term Borrowings	2	4,50,000	3,50,000
	3.Current Liabilities			
	(a)Short-term Borrowings	3	1,50,000	75,000
	(b)Short-term Provisions	4	2,00,000	1,25,000
	Total		19,50,000	13,50,000

	Particulars	Note No.	31st March, 2016 Amt (Rs)	31st March,2015 Amt (Rs)
2	ASSETS			
	1.Non-current Assets			
	(a)Fixed Assets			
	(i)Tangible	5	14,65,000	9,15,000
	(ii)Intangible	6	1,00,000	1,50,000
	(b) Non-current Investments		1,50,000	1,00,000
	2.Current Assets			
	(a)Current Investments		40,000	70,000
	(b)Inventories	7	1,22,000	72,000
	(c)Cash and Cash Equivalents		73,000	43,000
	Total		19,50,000	13,50,000

Note to Accounts

Note No.	Particulars	31st March,2016 Amt (Rs)	31st March,2015 Amt (Rs)
1.	Reserves and Surplus (Surplus i.e., Balance in the Statement of Profit and Loss)	2,50,000	1,00,000
		2,50,000	1,00,000
2.	Long-term Borrowings 12% Debentures	4,50,000	3,50,000
		4,50,000	3,50,000
3.	Short-term borrowings Bank Overdraft	1,50,000	75,000
		1,50,000	75,000
4.	Short-term Provisions Proposed Dividend	2,00,000	1,25,000
		2,00,000	1,25,000

Note No.	Particulars	31st March,2016 Amt (Rs)	31st March,2015 Amt (Rs)
5.	Tangible Assets		
	Machinery	16,75,000	10,55,000
	Accumulated Depreciation	(2,10,000)	(1,40,000)
		14,65,000	9,15,000
6.	Intangible Assets		
	Goodwill	1,00,000	1,50,000
		1,00,000	1,50,000
7.	Inventories		
	Stock in Trade	1,22,000	72,000
		1,22,000	72,000

Additional Information

i. Rs.1,00,000, 12% debentures were issued on 31st March,2016.
ii. During the year a piece of machinery costing Rs.80,000 on which accumulated depreciation was Rs. 40,000 was sold at a loss of Rs.10,000.
Prepare a cash flow statement.

Solution :

R.S. Ltd.
Cash Flow Statement
(for the year ended 31st March,2016)

	Particulars		**Amt (Rs)**
A.	**Cash Flow from Operating Activities**		
	Net profit before Tax and Extraordinary Items (W.N)		3,50,000
	Adjustments for Non-cash and Non-Operating Items		
	(+) Goodwill Written off	50,000	
	(+) Interest on Debentures	42,000	
	(+)Depreciation	1,10,000	
	(+) Loss on sale of Machinery	10,000	2,12,000
	Operating Profit before Working Capital Changes		5,62,000
	(-)Increase in Current Assets and Decrease in Current Liabilities		

	Particulars		Amt (Rs)
	Inventories	(50,000)	(50,000)
	Net Cash from Operating Activities		5,12,000
B.	**Cash Flow from Investing Activities**		
	Proceeds from Sale of Machinery	30,000	
	Purchase of Machinery	(7,00,000)	
	Purchase of Non-Current Investments	(50,000)	
	Net Cash used in Investing Activities		(7,20,000)
C.	**Cash Flow From Financing Activities**		
	Proceeds from Issue of Share Capital	2,00,000	
	Increase in Bank Overdraft	75,000	
	Interest on Debentures Paid	(42,000)	
	Proceeds from Issue of Debentures	1,00,000	
	Proposed Dividend Paid	(1,25,000)	
	Net Cash Flow From Financing Activities		2,08,000
	Net Decrease in Cash and Cash Equivalents		0
	(+) Cash and Cash Equivalents in the Beginning of the year (Cash and cash equivalents 43,000+Current investment 70,000)		1,13,000
	Cash and Cash Equivalents at the End of the year (Cash and cash equivalents 73,000 + current investment 40,000)		1,13,000

Working Notes

1. Calculation of Net Profit before Tax and Extraordinary Items

Profits as per statement of profit and Loss (2,50,000-1,00,000)	1,50,000
(+) Proposed dividend	2,00,000
	Rs.3,50,000

2. **Machinery Account**

Dr.			**Cr**
Particulars	Amt (Rs)	Particulars	Amt (Rs.)

Dr.			Cr
To Balance b/d	10,55,000	By Bank A/c (Sale)	30,000
To Bank A/c (Purchases)	7,00,000	By Accumulated Depreciation A/c	40,000
		By Statement of Profit and Loss (Loss on Sale)	10,000
		By Balance c/d	16,75,000
	17,55,000		17,55,000

3. **Accumulated Depreciation Account**

Dr			Cr
Particulars	Amt (Rs)	Particulars	Amt (Rs)
To Machinery A/c (Depreciation on Machinery Sold)	40,000	By Balance b/d	1,40,000
To Balance c/d	2,10,000	By Depreciation A/c (Statement of Profit and Loss)	1,10,000
	2,50,000		2,50,000

Net Cash Flow from Operating Activities=Rs.5,12,000
Net Cash used in Investing Activities=Rs.(7,20,000)
Net Cash Flow from Financing Activities=Rs.2,08,000

4. Following is the balance sheet of Volvo Ltd as on 31st March 2022 :

Particulars	Note No.	2022	2021
EQUITIES & LIABILITIES			
(1) Shareholder's funds			
Share capital		7,00,000	6,00,000
Reserves & Surplus (Balance in statement of Profit & Loss)		2,00,000	1,10,000
(2) Non-current liabilities			
Long term borrowings		3,00,000	2,00,000
(3) Current liabilities			
Trade payables		30,000	25,000
TOTAL		**12,30,000**	**9,35,000**
ASSETS			
(1) Non-current assets			
Fixed assets Tangible assets		11,00,000	8,00,000
(2) Current assets			
Inventories		70,000	60,000
Trade receivables		32,000	40,000
		28,000	35,000

Cash & cash equivalents **TOTAL**		**12,30,000**	**9,35,000**

Additional Information:
a) During the year a piece of furniture of the book value of ₹80,000 was sold for ₹65,000. b) Depreciation provided on tangible assets during the year amounted to ₹2,00,000.
c) Cash flow from operating activities ₹3,08,000.
Prepare a cash flow statement.

Solution:

Cash flow statement

Particulars		
A. Cash flow from operating Activities:		
Net profit before taxation (2,00,000-1,10,000)	90,000	
Adjustments: Depreciation	2,00,000	
Loss on sale of furniture	15,000	
Operating profit before working capital changes	3,05,000	
Add: Decrease in Trade receivable	8,000	
Increase in Trade payables	5,000	
Less: Increase in inventories	(10,000)	
Cash flow from operating activities		3,08,000
B. Cash flow from investing activities:		
Purchase of furniture	(5,80,000)	
	65,000	
Net Cash used in investing activities		(5,15,000)
C. Cash flow from financing activities:		
Proceeds from issue of shares	1,00,000	
Proceeds from long term borrowings	1,00,000	
		2,00,000
Net decrease in cash and cash equivalents (A-B+C)		(7,000)
Add: Cash and Cash equivalents in the beginning		35,000
Cash and Cash equivalents at the end		28,000

Fixed Assets A/c

Particulars	Rs	Particulars	Rs
To Balance b/d To Bank (Purchase of furniture)	8,00,000 5,80,000	By depreciation By Bank By st profit &loss By Balance c/d	2,00,000 65,000 15,000 11,00,000
	13,80,000		13,80,000

5. Cash flow from operating activities of P Ltd. for the year ended 31st March, 2019 was 28,000; The Balance Sheet along with notes to accounts of P Ltd. as at 31st March, 2019 is given below:

In the books of P Ltd.

Balance Sheet
as on 31st March, 2019

Particulars	Note No.	31.03.2017 (₹)	31.03.2017 (₹)
I EQUITY & LIABILITIES:			
1. Shareholder's Funds			
a) Share Capital		9,00,000	5,00,000
b) Reserves & Surplus	1	90,000	1,10,000
2. Non-Current Liabilities			
a) Long-term borrowings	2	3,00,000	3,00,000
3. Current Liabilities			
a) Short-term Provisions		60,000	80,000
Total		13,50,000	8,90,000
II ASSETS:			
1. Non-Current Assets			
a) Fixed Assets			
i) Tangible Assets	3	7,46,000	5,24,000
ii) Intangible Assets	4	1,80,000	76,000
2. Current Assets			
a) Current Investment		1,30,000	1,90,000
b) Investments		2,00,000	3,10,000
c) Cash & Cash Equivalents		2,38,000	1,40,000
Total		13,50,000	8,90,000

Notes to Accounts:	31.03.2017 (₹)	31.03.2017 (₹)
1. Reserves & Surplus		
Balance in Statement of Profit & Loss	90,000	1,10,000
2. Long-term Borrowings		
9% Debentures	3,00,000	3,00,000
3. Tangible Assets		
Plant & Machinery	8,86,000	6,04,000
less: Accumulated Depreciation	(1,40,000)	(80,000)
	7,46,000	5,24,000
4. Intangible Assets		
Goodwill	36,000	76,000

Additional Information:
i) A machinery of the book value of ₹90,000 (depreciation provided thereon was ₹23,000) was sold at a profit of ₹12,000;
ii) 9% debentures were issued on 1st April 2018;
Prepare the Cash Flow Statement;
Solution :

CASH FLOW STATEMENT of P Ltd.
For the year ended 31st March 2019

Particulars	(₹)	(₹)
A.Cash Flow from Operating Activities (A)		28,000
B.Cash Flow from Investing Activities:		
Sale of Fixed Assets	1,02,000	
Purchase of Machinery (WN1)	(3,95,000)	
Net Cash used in Investing Activities (B)		(2,93,000)
C.Cash Flow from Financing Activities:		
Issue of Equity Share Capital	4,00,000	
Issue of Long-term Borrowings (9% Debentures)	1,00,000	
Interest on Long-term Borrowings (9% Debentures)	(27,000)	
Net Cash From Financing Activities (C)		4,73,000

D.Net Increase in Cash & Cash Equivalents(A+B+C)		2,08,000
E. Add: Cash & Cash Equivalents in the beginning Investment + Cash & Cash Equivalents		1,60,000
F. Cash & Cash Equivalents at the end		3,68,000

Dr. **Plant & Machinery A/c** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Balance b/d	6,04,000	By Bank A/c	1,02,000
To St of Profit & Loss	12,000	By Accu Depreciation A/c	23,000
To Bank A/c (Bal. Fig)	3,95,000	By Balance c/d	8,86,000
	10,11,000		10,11,000

Dr. **Accumulated Depreciation A/c** **Cr.**

Particulars	(₹)	Particulars	(₹)
To Machinery	23,000	By Balance b/d	80,000
To Balance c/d	1,40,000	By Depreciation A/c(Bal. Fig)	83,000
	1,63,000		1,63,000

6.

From the following Balance Sheet of Aditya Ltd. as on 31-03-2018 and 31-03-2019, prepare a Cash Flow Statement :

Balance Sheet
As at 31-03-2018 and 31-03-2019

Particulars	**Note No.**	**31-03-2019**	**31-03-2018**
		(Rs.)	**(Rs.)**
I. EQUITY and LIABILITIES			
1. Shareholder's Fund			
a. Share Capital		65,000	45,000
b. Reserve and Surplus	1	42,500	24,000
2. Current Liabilities			
a. Trade payables		11,000	8,700
Total		1,18,500	77,700
II. ASSETS			
1. Non current -assets			
a. Fixed Assets		83,000	46,700
2. Current Assets			
a. Inventories		13,000	11,000
b. Trade Receivables		19,500	18,000
c. Cash and its equivalents		3,000	2,000
Total		1,18,500	77,700

NOTES TO ACCOUNTS :

Note No.	**Particulars**	**31-03-2019**	**31-03-2018**
1	**Reserves and Surplus**		

	i. General Reserve	27,500	15,000	
	ii. Balance in Statement of Profit & Loss	15,000	10,000	
	iii. Preliminary Expenses	-	(1,000)	
	Total	42,500	24,000	

Additional Information :
i. Depreciation on Fixed Assets for the year 2018-19 was Rs.14,700.
ii. An Interim dividend of Rs.7,000 has been paid to the shareholders during the year.

Solution :

Net Profit before Tax = (15,000-10,000)+12,500+7,000 = Rs.24,500
Cash flow from Operating Activities :
Net profit before tax + Depreciation + Preliminary expenses written off – Stock – Debtors + Trade Creditors

= 24,500 + 14,700 + 1,000 – 2,000 – 1,500 + 2,300
= Rs.39,000
Cash flow from Investing Activities = (51,000)

Cash flow from Financing Activities = 20,000 – 7,000
= Rs. 13,000

Net increase in cash and its equivalents = 39,000 – 51,000 + 13,000 = Rs. 1,000

FIXED ASSET ACCOUNT

Particulars	Amount	Particulars	Amount
To balance b/d	46,700	By Depreciation A/c	14,700
To Bank A/c	51,000	By Balance c/d	83,000
	97,700		97,700

7. Following is the balance sheet of MM Ltd :

Balance sheet as at 31 march 2015

Particulars	Note No	31st March 2015	31st March 2014
1.Equity and Liabilities			
1. Shareholder`s Funds			
a) Share Capital		5,00,000	4,00,000
b) Reserves and Surplus	1	2,00,000	(50,000)
2. Non-current Liabilities			
Long-term borrowings	2	4,50,000	5,00,000
3. Current Liabilities			
a) Short-term borrowings	3	1,50,000	50,000
b) Short -term Provisions	4	70,000	90,000
Total		13,70,000	9,90,000
Assets			
1. Non- current Assets			
a) Fixed Assets			
1. Tangible	5	10,03,000	7,20,000
2. Intangible	6	20,000	30,000
b) Non- current Investments		1,00,000	75,000
2. Current Assets			
1. Current Investments		50,000	60,000
2. Inventories	7	1,07,000	45,000
3. Cash and cash equivalents		90,000	60,000
Total		13,70,000	9,90,000

Notes to accounts

Particulars	31st March 2015	31st March 2014
1.Reserves and Surplus		

Surplus i.e Balance in Statement of Profit and Loss	20,00,000	(50,000)
2. Long – term borrowings		
12% Debentures	4,50,000	5,00,000
3. Short – term borrowings		
Bank overdraft	1,50,000	50,000
4. Short- term provisions		
Provision for tax	70,000	90,000
5. Tangible Assets		
Machinery	12,03,000	8,21,000
(-) Accumulated Depreciation	(20,00,000)	1,01,000
	10,03,000	7,20,000
6. Intangibe Assets		
Goodwill	20,000	30,000
7.Inventories		
Stock -in- trade	1,07,000	45,000

Additional Information

1.12% debentures were redeemed on 31st March, 2015

2.Tax Rs 70,000 was paid during the year

Prepare cash flow statement.

Solution :

A. Cash flow from operating activities	
Net Profit before tax and extraordinary items (2,50,000+50,000)	3,00,000
(+) Depreciation 99,000	
(+)Intangible assets written off 10,000	
(+)Interest on debentures (5,00,000*12%) 60,000	1,69,000
Operating profit before working capital changes	4,69,000
(-) Increase in CA and Decrease in CL	
Inventories	(62,000)
Cash Generated from Operations	4,07,000
(-) Tax Paid	(70,000)
Net cash flow from operating activities	3,37,000
B. Cash flow from investing activities	
Purchase of fixed Assets (3,82,000)	
Purchase of non current investments (25,000)	
Net cash used in investing activities	(4,07,000)
C. Cash flow from financing activities	
Proceeds from issue of share capital 1,00,000	
Redemption of Debentures (50,000)	
Interest paid on Debentures (60,000)	
Increase in bank overdraft 1,00,000	
Net cash flow from financing activities	90,000
D. Net increase in cash and cash equivalents(A+B+C)	20,000
(+) Opening Cash and cash equivalents	1,20,000
E Closing cash and cash equivalents	1,40,000

Provision for Tax Account

Particulars	Amount	Particulars	Amount
To Bank A/c To Balance c/d	70,000 70,000	By balance b/d By Statement of Profit and loss A/c	90,000 50,000
	1,40,000		1,40,000

8. Prepare a Cash flow statement on the basis of the information given in the balance sheet of Amusement Ltd as at 31/3/2022 and 31/3/2021

Particulars	Note	31-03-2022	31-03-2021
I **Equity and Liabilites**			
1) **Shareholders fund**:			
a) Share capital		12,00,000	11,00,000
b) Reserves and surplus	1	3,00,000	2,00,000
2) Non Current Liabilities:			
Long term Borrowings		2,40,000	1,70,000

3) Current Liabilities			
a) Trade payable		1,79,000	2,04,000
b) Short term provisions(tax)		50,000	77,000
		19,69,000	**17,51,000**
II Assets			
1) Non Current Assets			
a) Fixed Assets			
1) Tangible	2	10,70,000	8,50,000
2) Intangible	3	40,000	1,12,000
3) Current Assets			
a) Current Investment		2,40,000	1,50,000
b) Inventories		1,29,000	1,21,000
c) Trade Receivables		1,70,000	1,43,000
d) Cash and cash equivalent		3,20,000	3,75,000
		19,69,000	**17,51,000**

Notes to Accounts:

S.No.	Particulars	As at 31/3/2022	As at 31/3/2021
1	Reserves and Surplus		
	Surplus(Balance in Statement in Profit and Loss	3,00,000	2,00,000
2	Tangible assets		
	Machinery	12,70,000	10,00,000
	Less Accumulated depreciation	(2,00,000)	(1,50,000)
3	Intangible assets		
	Goodwill	40,000	1,12,000

Additional Information:

During the year a piece of machinery costing Rs 24,000 on which accumulated depreciation was Rs 16,000 was sold for Rs 6000.

Solution :

t profit	)0,000	

ld provision for depreciation	,000	
ovision for tax	),000	
	,16,000	
ld non operating expenses and non cash items-		
odwill written off	,000	
ss on sale of machinery	00	
ss non operating income		
t profit before changes in the working capital		
ld Increase in CL		
crease in CA		
ss Decrease in CL(Trade payable)	5000)	
rease in CA - Inventories	)00)	
Trade receivable	7000)	
t profit before tax	0,000	
ss tax paid	7000)	
sh generated from operating activities(A)		3,000
le of Machinery	00	
rchase of Machinery	)4000)	
sh used from Investing activities(B)		88,000)
ue of shares	)0,000	
ng term borrowings raised	0,000	
		70,000
ET CASH FLOW(A+B+C)	000	
ld opening balance of cash equivalent(1,50,000+3,75,000)	5000	
osing balance of cash equivalent(2,40,000+3,20,000)	60,000	

9. Prepare a cash flow statement from the following balance sheet:

Particulars	Note No.	31st March 2020 (₹)	31st March 2019 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		6,00,000	5,00,000
(b) Reserve and Surplus	1	4,00,000	2,00,000
2. Current Liabilities			
Trade payables		2,80,000	1,80,000
Total		12,80,000	8,80,000
II. Assets			
1. Non Current Assets:			
(a) Fixed Assets			
(i) Plant and machinery		5,00,000	3,00,000
2. Current assets:			
a) Inventories		1,00,000	1,50,000
b)Trade receivables		6,00,000	4,00,000
c)Cash and cash equivalents		80,000	30,000
Total		12,80,000	8,80,000

Notes to Accounts:

Particulars	**31-03-2020**	**31-03-2019 (₹)**
1. Reserve and Surplus:		
Surplus (Balance in statement of Profit and Loss)	4,00,000	2,00,000

Additional information:

i) An old machinery having book value of ₹ 50,000 was sold for ₹ 60,000.
Depreciation provided on machinery during the year was ₹30,000.

Solution :

Working Note:

Plant and Machinery Account

Particulars	**Amount**	**Particulars**	**Amount**
To Balance b/d	3,00,000	By Bank A/c(Sale)	60,000
To Statement of P/L(Profit)	10,000	By Depreciation A/c	30,000
To Bank A/c(Purchase)	2,80,000	By Balance c/d	5,00,000
	5,90,000		**5,90,000**

Cash Flow Statement

Particulars	Amount (₹)	Amount (₹)
I. Cash flow from operating activities:		
Net profit before tax (4,00,000-2,00,000)		2,00,000
Adjustment for non cash and non operating items:		
Depreciation	30,000	
Profit on sale of machinery	(10,000)	20,000
Operating profit before working capital changes		2,20,000
Change in current assets and current liabilities:		
Decrease in inventories	50,000	
Increase in trade receivable	(2,00,000)	
Increase in trade payables	1,00,000	(50,000)
Net cash inflow from operating activities		**1,70,000**
II. Cash flow from investing activities:		
Sale of plant		60,000
Purchase of plant		(2,80,000)
Net cash used in investing activities		**(2,20,000)**
III. Cash flow from financing activities:		
Issue of share capital		1,00,000
Net cash inflow from financing activities		**1,00,000**
IV.Net increase in cash and cash equivalents		50,000
V. Opening cash and cash equivalents		30,000
VI. Closing cash and cash equivalents		80,000

TRY YOURSELF

10. The following is the Balance Sheet of Pawan Ltd. as at 31st March, 2019, prepare a Cash Flow Statement:

Particulars	Note No.	2018-19 (Rs.)	2017-18 (Rs.)
I. EQUITY AND LIABILITIES			
(1) Shareholders Funds			
(a) Share Capital		12,00,000	11,00,000
(b) Reserves and Surplus		3,00,000	2,00,000
(2) Non-Current Liabilities			
Long-term Borrowings	1	2,40,000	1,70,000
(3) Current Liabilities			
(a) Trade Payables		1,79,000	2,04,000
Short Term-Provisions		50,000	77,000

Total		19,69,000	17,51,000
II. ASSETS (1) Non-Current Assets (a) Fixed Assets (i) Tangible Assets (ii) Intangible Assets (2) Current Assets (a)Current Investments (b) Inventories (c) Trade Receivables (d)Cash and Cash Equivalents	2 3	10,70,000 40,000 2,40,000 1,29,000 1,70,000 3,20,000	8,50,000 1,12,000 1,50,000 1,21,000 1,43,000 3,75,000
Total		19,69,000	17,51,000

Note to Accounts	2018-19 (Rs.)	2017-18 (Rs.)
(1) Reserves and Surplus:		
Surplus, i.e., Balance in Statement of Profit and loss	3,00,000	2,00,000
(2) **Tangible Assets:**	1270000	10,00,000
Machinery	(2,00000)	(1,50,000)
Less: Accumulated Depreciation	1070000	8,50,000
(3) Intangible Assets:		
Goodwill	40,000	1,12,000

Additional information:

During the year a piece of machinery, costing Rs. 24,000 on which accumulated depreciation was Rs. 16,000, was sold for Rs. 6,000.

Prepare Cash Flow Statement.

Solution :

A) Cash Flow from Operating Activites = ₹ 1,53,000

B) Cash used in investing activities = (₹2,88,000)

Cash flow from financing activities = ₹1,70,000.

KENDRIYA VIDYALAYA SANGATHAN BENGALURU REGION

SAMPLE QUESTION PAPER SET -1

CLASS: XII **MAX.MARKS: 80**

ACCOUNTANCY (055)

BLUE PRINT

		1M	3M	4M	6M	TOTAL
PART A	**Accounting for Partnership Firms and Companies**					
	Partnership Fundamentals	7	1			8(10)
	Partnership-Admission	2	1		1(or)	4(11)
	Retirement & Death	1			1+1 (or)	2(7)
	Partnership-Dissolution	1	1	1		3(8)
	Accounting for Companies Share Capital	3		1	1	5(13)
	Accounting for Companies Debentures	2	1		1	4(11)
	TOTAL	**16(1)**	**4(3)**	**2(4)**	**4(6)**	**26(60)**
PART B	**Analysis of Financial Statements**					
	Analysis of Financial Statement	1	1	1		3(8)
	Accounting Ratios	1	1			2(4)
	Cash Flow Statement	2			1	3(8)
	TOTAL	**4(1)**	**2(3)**	**1(4)**	**1(6)**	**8(20)**

KENDRIYA VIDYALAYA SANGATHAN BENGALURU REGION
SAMPLE QUESTION PAPER SET - 1

CLASS: XII **MAX.MARKS: 80**

SUBJECT: ACCOUNTANCY (055) **TIME: 3 HRS**

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 (Accounting for Partnership Firms and Companies). **Part-B** is Analysis of Financial Statements.
4. Both parts are compulsory for all the candidates.
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** marks each.
7. Question Nos. 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 **one** mark, **2** questions of **three** marks, **1** question of **four** marks and **2** questions of **six** marks.

<table>
<tr><th>Q. NO .</th><th>PART A
<u>(Accounting for Partnership Firms and Companies)</u></th><th>MA RKS</th></tr>
<tr><td>1.</td><td>A and B share profits and losses equally. They have ₹ 20,000each as capital. They admit C as equal partner and goodwill was valued at ₹ 30,000. Cis to bring in 30,000as his capital and necessary cash towards his share of goodwill. Goodwill Account will not remain open in books. If profit on revaluation is ₹ 13,000,find the closing balance of the capital accounts.
(A) ₹ 31,500;₹ 31,500; ₹ 30,000 (B) ₹ 31,500; ₹ 31,500; ₹ 20,000
(C) ₹ 26,500; ₹ 26,500; ₹ 30,000 (D) ₹ 20,000;₹ 20,000; ₹ 30,000</td><td>1</td></tr>
<tr><td>2.</td><td>Anita and Babita were partners sharing profits and losses in the ratio of 3:1. Savita was admitted for 1/5th share in the profits. Savita was unable to bring her share of goodwill premium in cash. The journal entry recorded for Goodwill Premium is given below:
<table>
<tr><th>Particulars</th><th>L.F</th><th>Amount Dr.(₹)</th><th>Amount Cr.(₹)</th></tr>
<tr><td>Savita’s Current A/C Dr.
To Anita’s Capital A/c
To Babita’s Capital A/c
(being adjustment of goodwill premium on Savita’s Admission)</td><td></td><td>24,000</td><td>
8,000
16,000</td></tr>
</table>
The new profit sharing ratio of Anita, Babita and Savita will be:
a. 41:7:12
b. 13:12:10
c. 3:1:1
d. 5:3:2</td><td>1</td></tr>
<tr><td>3.</td><td>Assertion (A):Loss on issue of debentures is written off in the year Debentures are allotted.
Reason (R): Loss on issue of debentures is written off from Capital Reserve first if available and then from statement of profit and loss .</td><td>1</td></tr>
</table>

	a. (A) is correct but (R) is wrong b. Both (A) and (R) are correct, but (R) is not the correct explanation of (A) c. Both (A) and (R) are incorrect. d. Both (A) and (R) are correct, and (R) is the correct explanation of (A). **OR** X Ltd. purchased assets worth ₹12,30,000. It paid ₹3,00,000 of consideration by bank draft and the balance by issuing debentures of ₹ 500 each at a discount of 7% in full satisfaction of the purchase consideration. The amount debited to Discount on Issue of Debentures A/c will be: a. ₹86,100 b. ₹65,100 c. ₹80,000 d. ₹70,000	
4.	P, Q and R are Partners sharing profit and losses in ratio of 4:3:2. On 1-4-2023 they decided to share future profit and losses in the ratio of 2:2:1. Workmen compensation reserve appearing in the balance sheet is ₹25,000 and a claim on account of workmen compensation is estimated at ₹35,000. Correct statement is: a. ₹10,000 Will be credited to Revaluation A/c. b. ₹25,000 Will be credited to Partner's Capital A/c in their old ratio. c. ₹10,000 Will be debited to Revaluation A/c. d. ₹35,000 Will be debited to Partners Capital A/C in their new ratio. **OR** A, B and C were partners in a firm Sharing profit and losses in the ratio of 4:3:2. The Partners decide to share future profit and losses in the ratio of 2:2:1. At the time of reconstitution, a stock undervalued by ₹12,000 will be: a. Credited to Revaluation A/c b. Debited to Revaluation A/c c. Debited to Partner's Capital A/c in old rat d. None of the above	1
5.	**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
6.	A holds 100 shares of ₹10 each on which he has paid ₹1 on application. B holds 200 shares of ₹10 each on which he has paid ₹1 on application ₹2 on allotment. C holds 300 shares of ₹10 each who has paid ₹1 on applications, ₹2 on allotment and ₹3 on final call. They all failed to pay their arrears and second call of ₹4 per share as well. All the shares of A, B and C were forfeited. How much amount will be transferred to Share Forfeiture A/c on forfeiture of shares? a. ₹2,500 b. ₹2,400 c. ₹2,000 d. ₹6,000 **OR**	1

	Balance in Forfeited Shares Account is shown in the balance sheet under thehead of : **a) Reserves and Surplus** **b) Long-term Borrowings** **c) Share Capital** d) **Other Current Liabilities**	
7.	Given below are two statements – Assertion(A) and Reasons(R). Choose the correct alternative. **Assertion(A):** The fixed capital account balance of a partner may change due to addition to capital or withdrawal of capital or both during the year. **Reasons(R):** Under fixed capital method, the partner's capital account balance always remains fixed. 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	1
8.	Deepa, Niru and Shilpa were partners in a firm sharing profits in the ratio of 5:3:2. The following journal entry was recorded for treatment of goodwill on Niru's retirement:	1

Particulars	L.F	Amount Dr.(₹)	Amount Cr.(₹)
Shilpa's Capital A/C Dr. To Niru's Capital A/c To Deepa's Capital A/c (being adjustment of goodwill on Niru's retirement)		48,000	 36,000 12,000

What will be the new profit sharing between Deepa and Shilpa?

a. 5:2
b. Equal
c. 3:1
d. 2:3

OR

A, B and C were partners in a firm sharing profit and losses in the ratio of 2:2:1. The capital balance are Rs. 50,000 for A, Rs. 70,000 for B, Rs. 35,000 for C. B decided to retire from the firm and balance in reserve on the date was Rs. 25000. If goodwill of the firm was valued at Rs. 30,000 and profit on revaluation was Rs. 7,500, then, what amount will be payable to B?

a) Rs. 70,820
b) Rs. 76,000
c) Rs. 75,000
d) Rs. 95,000

9.	Rohan, Mohan and Sohan where partners sharing profit equally. At the time of dissolution of the partnership firm, Rohan's loan to the firm will be: a. Credited to Rohan's capital account b. Debuted to realization account c. Credited to realization account d. Credited to bank account	1
10.	Given below are two statements – Assertion (A) and Reasons(R). Choose the correct alternative. **Assertion(A):** The part of capital which is called up only on winding up is called reserve	1

	capital **Reasons(R):** Reserve capital is a portion of uncalled capital, which is available only for creditors on winding up of the company. a. Both (A) and (R) are correct and (R) is the correct reason of (A) b. Both (A) and (R) are correct and (R) is not the correct reason of (A) c. Only (R) is correct. d. Both (A) and (R) are wrong	
11.	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	1
12.	Devi withdrew ₹12,000 at the middle of every month. Interest on drawing was to be charged @12% per annum. Amount of interest on Devi's drawings will be: a. ₹14,400 b. ₹8,640 c. ₹7,200 d. ₹1,200	1
13.	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	1
14.	A and B are partners. The net divisible profit as per the profit and loss appropriation account is ₹2, 50,000. The total interest on partner's drawings is ₹4,000 per quarter and B's salary is ₹40,000 per annum. The net profit or loss earned during this year was: a. ₹3,02,000 b. ₹1,98,000 c. ₹3,06,000 d. ₹2,50,000	1
15.	The average period in months for charging interest on drawings for the same amount withdrawn at the beginning of each quarter is: a. 7.5 months b. 6.5 months c. 5.5 months d. 4.5 months **OR** Manu and Kanu were partners in a firm, sharing profit and losses in the ratio of 2:3. Their fixed capitals were ₹10,00,000 and ₹5,00,000 respectively. They were entitled to an interest on capital @ 10% p.a. The firm earned a profit of ₹60,000 during the year. The amount of interest on capital credited to Kanu will be: a. ₹20,000 b. ₹40,000 c. ₹36,000 d. ₹24,000	1

16.	Newfound Ltd took over the business of old land Ltd. and paid for it by issue of 30,000 Equity shares, of ₹100 each at par along with 6% preferences of ₹1,00,00,000 at a premium of 5 % and a cheque of ₹8,00,000. What was the total agreed purchase consideration payable to old land Ltd. a. ₹1,05,00,000 b. ₹1,43,00,000 c. ₹1,40,00,000 d. ₹1,35,00,000	1
17.	Kabir and Farid are partners in a firm sharing profits in the ratio of 3:1 on 1-4-2022 they admitted Manik into the partnership for 1/4th share in the profits of the firm. Manik bought his share of goodwill premium in cash. Goodwill of the firm was valued on the basis of 2 years purchase of last three years average profits. The profits of the last three years were:**2019-20** ₹90,000 **2020-21** ₹1,30,000 **2021-22** ₹86,000 During the year 2021-22 there was a loss of ₹20,000 due to fire which was not accounted for while calculating the profit. Calculate the value of goodwill and pass the necessary journal entries for the treatment of goodwill.	3
18.	Youth Ltd. took a loan ₹15,00,000 from State Bank of India against the security of tangible assets. In addition to principal security, it issued 10,000 11% debentures of ₹100 each as collateral security. Pass the necessary journal entries for the above transaction if the company decided to record the issue of 11% debentures as collateral security and show the presentation in the Balance Sheet of Youth Ltd. **OR** A company took a loan of ₹10,00,000 from Punjab National Bank and issued 10% debentures of ₹12,00,000 of ₹100 each as a collateral security along with primary security of plant and machinery worth ₹20,00,000. Explain how you will deal with the issue of debentures in the books of the company.	3
19.	Ram, Mohan and Sohan were partners sharing profit in the ratio of 2:1:1.Ram withdrew ₹3,000 every month and Mohan withdrew ₹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 necessary adjustment entry to rectify the error. **OR** 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 ₹1,65,500 and ₹1,27,600 respectively. Profits amounting to ₹50,000 for the year 2021-22 were distributed after allowing interest on drawings @ 12% p.a. During the year A withdrew ₹15,000 at the beginning of every quarter and B withdrew ₹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.	3
20.	Ahuja and Barua add partners in a form sharing profit and losses in the ratio of 3:2. They decide to admit Chaudhary into partnership for 1/5th share of profits, which he acquires equally from Ahuja and Barua. Goodwill is valued at ₹30,000. Chaudhary brings in ₹16,000 as his capital but is not in a position to bring any amount for goodwill. Goodwill account exists in the books of the firm at ₹15,000. Record the necessary journal entries.	3
21.	Altaur Ltd. was registered with an authorized Capital of ₹ 4,00,00,000 divided in 25,00,000 Equity Shares of ₹ 10 each and 1,50,000, 9% Preference Shares of ₹ 100 each.	4

	The company issued 8,00,000 Equity Shares for public subscription at 20% premium, payable ₹ 3 on application; ₹ 7 on allotment (including premium) and balance on call. Public had applied for 10,00,000 shares. Excess Applications were sent letters of regret. All the dues on allotment received except on 15,000 shares held by Sanju. Another shareholder Rocky paid his call dues along with allotment on his holding of 25,000 shares. You are required to prepare the Balance Sheet of the company as per Schedule III of Companies Act, 2013, showing Share Capital balance and also prepare Notes to Accou.	
22.	Disha, Preethi and Rithvik were partners in a firm sharing profits and losses in the ratio of 3:2:1. The firm was dissolved on 31st March 2022. After transfer of assets (Other than cash) and external liabilities to the realization account, The following transactions took place: i. A debtor whose debt of ₹70,000 was written off as bad, paid ₹68000 in full settlement. ii. A creditor to whom ₹1,00,000 were due to be paid, accepted furniture at ₹56,000 and the balance was paid to him by cheque. iii. Rithvik had given a loan of ₹21,000 to the firm. He accepted ₹19,000 in full settlement of his loan. iv. Stock was worth ₹88,000 out of which stock worth ₹78,000 was taken over by Disha at ₹60,000 and the balance of the stock was sold for ₹12,000 Pass the necessary journal entry for the above transactions in the books of the firm Assuming that the partners' capitals were fixed	4
23.	a. The directors of Poly plastic Ltd resolved that 200 shares of ₹100 each be forfeited for non-payment of second and final call of ₹30 per share. Out of these 150 shares were re-issued at ₹60 per share to Mohit. Show the necessary journal entries for forfeiture and reissue of shares. b. A holds 100 shares of ₹10 each on which he has paid ₹1 per share on application. B holds 200 shares of ₹10 each on which he has paid ₹1 on application ₹2 on allotment. C holds 300 shares of ₹10 each who has paid ₹1 on applications, ₹2 on allotment and ₹3 on first call. They all failed to pay their arrears and second call of ₹4 per share as well. All the shares of A, B and C were forfeited and subsequently reissued at ₹11 per share as fully Paid-up. Pass the necessary journal entries forfeiture and reissue of shares without opening call-in-arrears account. **OR** Arora limited issued a prospectus inviting applications for 20,000 shares of ₹10 each at a premium of ₹2 per share payable as follows: On application ₹2, on allotment ₹5 (including premium), on first call ₹3, on second and final call ₹2. Applications were received for 30,000 shares and pro-rata allotment was made on the applications for 24,000 shares. Money overpaid on application was employed on account of some due on allotment. Sanchit to whom 4,00 shares were allotted failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Parth, the holder of 600 shares, failed to pay the two calls and his shares were forfeited after the second call. Of the shares forfeited, 800 shares were sold to Siddharth credited as fully paid for ₹9 per share, the whole of Sanchit's shares being included. show the journal entries	6
24.	Anuj, Vishal and Shekhar were equal partners. Their balance sheet as a 31st March, 2022 was: **Balance sheet** As at 31st March, 2022	6

Liabilities	Amt (₹)	Assets	Amt (₹)

Bills payable	10,000	Bank	10,000
Sundry creditors	20,000	Stock	10,000
General Reserve	15,000	Furniture and fixtures	14,000
Profit and Loss A/c	3,000	Sundry debtors 22,500	
Capital A/c		(-) Provision for (2,500)	20,000
Anuj 30,000		doubtful debts	
Vishal 20,000		Buildings	60,000
Shekhar 16,000	66,000		
	1,14,000		1,14,000

Vishal retired on 1st April 2022. Anuj and Shekhar decided to continue the business as equal partners on the following terms

i. Goodwill of the firm was valued at ₹28,800.
ii. The provision for bad and doubtful debts to be maintained @ 10% on debtors.
iii. Buildings to be increased to ₹66,000.
iv. Furniture and fixtures to be reduced by ₹4,000.
v. Rent outstanding (not provided for as yet) was ₹750.

The partners decided to bring in sufficient cash in the business to pay-off Vishal. For this purpose Anuj brought ₹12,250 and Shekhar ₹26,250.
Pause the necessary ledger accounts and the balance sheet.

OR

B and C were partners sharing profits in the ratio of 3:2. Their balance sheet as on 31.3.2011 was as follows:

Balance sheet of B and C as on 31.3.2011

Liabilities	Amount	Asset	Amount
Capitals		Land and Building	80,000
B 60,000		Machinery	20,000
C 40,000	1,00,000	Furniture	10,000
Provisions	1,000	Debtors	25,000
Creditor	60,000	Cash	16,000
		Profit and Loss Account	10,000
	1,61,000		1,61,000

'D' was admitted to the partnership for 1/5th share in the profits on the following terms:

a) The new profit-sharing ratio was decided as 2:2:1.
b) D will bring Rs 30,000 as his capital and Rs 15,000 for his share of goodwill.
c) Half of goodwill amount was withdrawn by the partner who sacrificed his share of profit in a favor of 'D'.
d) A provision of 5%for bad and doubtful debts was to be maintained.
e) An item of Rs 500 included in sundry creditors was not likely to be paid.
f) A provision of Rs 800 was to be made for claims for damages against the firm.

After making the above adjustment the capital account s of B and C were to be adjusted on the basis of D's capital. Actual cash was to be bought in or to be paid off as the cash may be.
Prepare Revaluation Account, Partner's Capital Accounts and Balance Sheet of the new firm.

25. Harsh, Kavya and Nitin were partners sharing profit and losses in the ratio of 2:2:1. On 6

	31st July, 2021, Nitin retired. The balance sheet of the firm as at 31st March, 2022 was as follows:	

Liabilities		Amt (₹)	Assets	Amt (₹)
Capital A/c			Plant and machinery	9,00,000
Harsh	5,00,000		Stock	2,80,000
Kavya	4,00,000		Debtors	2,70,000
Nitin	3,00,000	12,00,000	Cash	80,000
Profits for the year 2019-20		2,00,000	Advertisement Expenditure	30,000
Sundry creditors		1,60,000		
		15,60,000		15,60,000

According to the partnership deed, in addition to the retiring partner's capital, he is entitled to:

i. Share in profits on the basis of average profits of last two years. Profits for the year 2020-21 was ₹1,60,000.
ii. His share in the goodwill of the firm. Goodwill will be valued on the basis of three years purchase of average profits of the last two years.
iii. Nitin withdrew ₹20,000 on 1st May 2022
iv. Nitin was paid ₹34,000 immediately and balance transferred to his loan A/c.

Prepare Nitin's capital account to calculate amount payable to him on his retirement.

26.	On May 1st 2021 Amrit Ltd. issued 10,000 , 8% debentures of ₹100 each of a discount of 10% redeemable of a premium of 10%. The issue was subscribed and amount was duly received. The company had a balance of ₹70,000 in Securities Premium Reserve Account and ₹10,000 in Capital Reserve Account on that date. On 1st January 2022, it issued 1,00,000 equity shares of ₹10 each at a premium of ₹1 per share. Issue was also fully subscribed. Pass the necessary journal entries.	6
	PART – B **(Analysis of Financial Statements)**	
27.	Financial statements are prepared on certain basic assumptions (pre-requisites) known as___________. a) Provision of Companies Act,2013 b) Accounting Standards c) Postulates d) Basis of Accounting **OR** The following groups of ratios primarily measure risk: a. Solvency, activity, and profitability b. Liquidity, efficiency, and solvency c. Liquidity, activity, and profitability d. Liquidity, solvency, and profitability	1
28.	From the following calculate Interest coverage ratio Net profit after tax Rs 12,00,000; 10% debentures Rs 1,00,00,000; Tax Rate 40% a) 1.2 times b) 3 times c) 2 times d) 5 times	1
29.	Which of the following will not result into cash inflow? a. Decrease in debtors b. Issue of shares c. Decrease in creditors d. Sale of fixed assets	1

	OR Insurance Claim received by Albert Co. Ltd. of ₹ 5,00,000 for Loss of Machinery due to theft will be recorded in Cash Flow Statement in which of the following manner? a). Added under Operating Activities as Extraordinary Item and Subtracted from Operating Activities also. B) Subtracted under Operating Activities as Extraordinary Item and Added to Operating Activities also. c) Added under Operating Activities as Extraordinary Item and Outflow under Investing Activity also. d) Subtracted under Operating Activities as Extraordinary Item and Inflow under Investing Activities also.	
30.	Which of the following is an example of cash inflow from operating activities? a. Cash receipts from disposal of shares, warrants, or debt instruments held for trading purposes b. Cash receipts from royalties, fees, commissions, and other revenues. c. Cash receipts from the rendering of services. d. All of the above	1
31.	Classify the following items under Major heads and Sub-head (if any) in the Balance Sheet of a Company as per schedule III of the companies Act 2013. i. Current maturities of long-term debts ii. Furniture's and fixtures iii. Provision for warranties iv. Income received in advance v. Capital Advances vi. Advances recoverable in cash within the operation cycle	3
32.	Determine Return on investment and Net Asset Turnover ratio from the following information:Profit after tax were ₹6,00,000; Tax rate was 40%; 15% Debentures were of ₹20,00,000; 10% bank loan was ₹20,00,000; 12% Preference Share Capital ₹30,00,000; Equity Share Capital ₹40,00,000; Reserves and Surplus were ₹10,00,000; Sales ₹3,75,00,000 and Sales Return ₹15,00,000	3
33.	From the information extracted from the statement of Profit and Loss of Zee Limited for the year ended 31st March 2022 and 31st March 2023, prepare a Common-size Statement of Profit and Loss:	4

	Note No.	**2022-23(₹)**	**2021-22(₹)**
Revenue from operations		8,00,000	10,00,000
Gross profit		60%	70%
Other expenses		2,20,000	2,60,000
Tax rate		50%	50%

OR

From the balance sheet of Shahnaz Shadab Limited as on March 31,2011 and 2012,

Prepare a comparative Balance Sheet:

Particulars	Note No.	2010-11	2011-12

EQUITY AND LIABILITIES			
1.Share holder funds			
a) Share capital		21,00,000	29,00,000
b) Reserves and surplus		10,00,000	12,00,000
2. Non-current Liabilities			
Long-term borrowings		12,00,000	18,00,000
3. Current Liabilities			
Trade Payables		8,00,000	12,00,000
Total		51,00,000	71,00,000
ASSETS			
1.Non-current Assets			
Fixed Assets		21,00,000	29,00,000
i) Tangible Assets		10,00,000	12,00,000
ii) Intangible Assets			
2. Current Assets		12,00,000	18,00,000
a) Inventories			
b) Cash and cash equivalents		8,00,000	12,00,000
Total		51,00,000	71,00,000

From the following information, prepare Comparative Statement of Profit and Loss:

	Note No.	2022-23(₹)	2021-22(₹)
Revenue from operations		10,00,000	8,00,000
Other income		2,20,000	1,50,000
Cost of materials consumed		4,00,000	3,00,000
Change in inventories of finished goods and work in progress		2,00,000	1,00,000
Other expenses (% of cost of revenue from operation)		15%	10%
Tax rate		30%	30%

34. From the following balance sheet of Agri Tech Ltd. as on 31st March, 2022 and 2021, prepare a cash flow statement 6

Balance Sheet

As at 31st March, 2022 and 2021

Particulars	Note No.	31st March, 2022(₹)	31st March, 2021(₹)
I. EQUITY AND LIABILITIES			
1. Shareholders Fund			
i. Share Capital		1,30,000	90,000
ii. Reserves and Surplus		84,000	48,000
2. Current Liabilities			
Trade payables		22,000	17,400
TOTAL		**2,36,000**	**1,55,400**

II. ASSETS			
1. Non-Current Assets			
Fixed Assets		1,66,000	93,400
2. Current Assets			
i. Inventories		26,000	22,000
ii. Trade Receivables		39,000	36,000
iii. Cash and Cash Equivalents		5,000	4,000
TOTAL		**2,36,000**	**1,55,400**

Notes to Accounts

Particulars	**2022 (₹)**	**2021 (₹)**
1. Reserves and Surplus		
General reserve	55,000	30,000
Balance of statement of profit and loss	30,000	20,000
Preliminary Expenses	(1,000)	(2,000)
	84,000	**48,000**

Additional information :

i. Depreciation charged on fixed assets for the year 2021 – 22 was 20,000.

ii. Income tax 5,000 has been paid during the year.

****

KENDRIYA VIDYALAYA SANGATHAN BENGALURU REGION

SAMPLE QUESTION PAPER SET – 1

CLASS: XII **MAX.MARKS: 80**

SUBJECT: ACCOUNTANCY (055) **TIME: 3 HRS**

MARKING SCHEME

Q. NO	ANSWERS	MARKS
	PART A **(Accounting for Partnership Firms and Companies)**	
1.	a) ₹ 31,500;₹ 31,500; ₹ 30,000	1
2.	a. 41:7:12	1
3.	a. (A) is correct but (R) is wrong OR d. ₹70,000	1
4.	c. ₹10,000 Will be debited to Revaluation A/c. OR a. Credited to Revaluation A/c	1
5.	b. ₹2,000	1
6.	a. ₹2,500 **OR** c. Called up	1
7.	a. (A) is correct but (R) is wrong	1
8.	d. 2:3 **OR** d) Rs. 95,000	1
9.	d. Credited to bank account	1
10.	a. Both (A) and (R) are correct and (R) is the correct reason of (A)	1
11.	a. Interest on Partner's Loan	1
12.	b. ₹8,640	1
13.	d. No interest on capital will be allowed	1
14.	a. ₹3,02,000	1
15.	a. 7.5 months	1

OR

a. ₹20,000

16. b. ₹1,43,00,000 — 1

17. Average Profits = (₹90,000 + ₹1,30,000 + ₹86,000)/3 = ₹1,02,000 — 3

Goodwill = ₹1,02,000 x 2 = ₹2,04,000

Journal

Particulars	L.F	Dr. Amt. (₹)	Cr. Amt. (₹)
Cash A/c Dr. To Premium for goodwill A/c (Goodwill brought in cash by Manik)		51,000	 51,000
Premium for goodwill A/c Dr. To Kabir's Capital A/c To Farid's Capital A/c (Goodwill credited to the capital accounts of old partners in the sacrificing ratio)		51,000	 38,250 12,750

18. In the books of Youth Ltd. — 3

JOURNAL

Particulars	L.F	Dr. Amt. (₹)	Cr. Amt. (₹)
Bank A/c Dr. To Bank Loan A/c (Being Loan taken from State Bank of India)		15,00,000	 15,00,000
Debenture Suspense A/c Dr. To 11% Debentures A/c (Being 11% debentures deposited as collateral security)		10,00,000	 10,00,000

Balance sheet as at _______ (an Extract)

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES **1. Non-current Liabilities** Long-term borrowings	 1	 15,00,000

Notes to Accounts

Particulars	Details	Amount (₹)
1. Long term borrowings Secured Loan from State Bank of India 10,000, 11% debentures of ₹100 each Less: Debenture Suspense A/c (deposited as collateral security)	 10,00,000 (10,00,000)	 15,00,000 Nil **15,00,000**

OR

JOURNAL

Particulars	L.F	Dr. Amt. (₹)	Cr. Amt. (₹)
Debenture Suspense A/c Dr. To 10% Debentures A/c (Being 12,000 debentures of ₹100 each issued as collateral security to PNB)		12,00,000	 12,00,000

Balance sheet as at ______ (an Extract)

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
1. Non-current Liabilities		
Long-term borrowings	1	10,00,000

Notes to Accounts

Particulars	Details	Amount (₹)
1. Long term borrowings		
Secured Loan from PNB		10,00,000
12,000, 10% debentures of ₹100 each	12,00,000	
Less: Debenture Suspense A/c	(12,00,000)	Nil
(deposited as collateral security)		**10,00,000**

19. **JOURNAL** 3

Particulars	L. F	Dr. Amt. (₹)	Cr. Amt. (₹)
Ram's Capital A/c Dr.		180	
Sohan's Capital A/c Dr.		630	
To Mohan's Capital A/c			810
(Adjustment entry for interest on drawings wrongly charged)			

Workings Notes:

Adjustment Table

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

Interest on Ram's drawings = (₹3,000 x 12) x 6/100 x 6/12 = ₹1,080
Interest on Mohan's drawings = (₹4,000 x 12) x 6/100 x 6/12 = ₹1,440

OR

JOURNAL

Particulars	**L. F**	**Dr. Amt. (₹)**	**Cr. Amt. (₹)**
A's Capital A/c		140	
To B's Capital A/c			140
(Omission of interest on capital, now rectified)			

Adjustment Table

Particulars		**A (₹)**	**B(₹)**	**Total (₹)**
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.**	**140 Cr.**	**-**

20. **Journal** 3

Particulars	L.F	Dr. Amt. (₹)	Cr. Amt. (₹)
Bank A/c Dr. To Chaudhary's Capital A/c (Amount brought for capital)		16,000	 16,000
Chaudhary's Current A/c Dr. To Ahuja's Capital A/c To Barua's Capital A/c (Goodwill credited to sacrificing partners' accounts)		6,000	 3,000 3,000
Ahuja's Capital A/c Dr. Barua's Capital A/c Dr. To Goodwill A/c		9,000 6,000	 15,000

21. **Balance sheet as at ______ (an Extract)** 4

Particulars	Note No.	Current year (₹)	Previous year (₹)
I. EQUITY AND LIABILITIES **1. Shareholder's Funds** a. Share Capital	 1	 63,25,000	

Notes to Accounts: (1) Share Capital:

Particulars	Details(₹)	Amount (₹)
Authorized Capital 25,00,000 Equity Shares of ₹10 each 1,50,000 preferential shares @100 each		 2,50,00,000 1,50,00,000
Issued Capital 8,00,000 Equity Shares of ₹10 each **Subscribed Capital** **1.Subscribed and full paid-up :** **---------** 2.Subscribed but not fully paid-up 8.00.0000 Equity Shares of ₹ 8each : Less: Calls in Arrears	 64,00000 (75,000)	 80,00,000 63,25.000 **63,25,000**

22. JOURNAL 4

	Particulars	L.F	Dr. Amt. (₹)	Cr. Amt. (₹)
(i)	Bank/Cash A/c Dr. To Realisation A/c (Bad debts earlier written off, now recovered)		68,000	 68,000
(ii)	Realisation A/c Dr. To Bank A/c (Payment made to creditors)		44,000	 44,000

(iii) Ritvik's loan A/c Dr.		21,000	
To Bank/Cash A/c			19,000
To Realisation A/c			2,000
(Ritvik's loan settled)			
(iv) Disha's Current A/c Dr.		60,000	
Cash/ Bank A/c Dr.		12,000	
To Realisation A/c			72,000
(Stock taken over by Disha and remaining sold)			

23. a. JOURNAL 6

Particulars	L. F	Dr. Amt. (₹)	Cr. Amt. (₹)
Share Capital A/c Dr. To Share Forfeiture A/c To Share Second and Final Call/Calls-in-Arrears A/c (Being 200 shares forfeited for non-payment of final call at ₹30 per share)		20,000	14,000 6,000
Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (For reissue of 150 shares of ₹100 each, issued as fully paid for ₹60 each)		9,000 6,000	15,000
Share Forfeiture A/c Dr. To Capital Reserve A/c (Being profit on reissue of 150 forfeited shares transferred to capital reserve)		4,500	4,500

b. JOURNAL

Particulars	L. F	Dr. Amt. (₹)	Cr. Amt. (₹)
Share Capital A/c (600 @ ₹10) Dr. To Share Forfeiture A/c To Share Allotment A/c To Share First Call A/c To Share Second and Final Call A/c (For forfeiture of 100 shares of A, 200 shares of B and 300 shares of C)		6,000	2,500 200 900 2,400
Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (For reissue of 600 shares at premium)		6,600	6,000 600
Share Forfeiture A/c Dr. To Capital Reserve A/c (Being profit on reissue of forfeited shares transferred to capital reserve)		2,500	2,500

OR

JOURNAL

Particulars	L. F	Dr. Amt. (₹)	Cr. Amt. (₹)
Bank A/c Dr. To Share Application A/c		60,000	 60,000
Share application A/c Dr. To share capital A/c To Share allotment account A/c To Bank A/c		60,000	 40,000 8,000 12,000
Share allotment A/c Dr. To Share capital A/c To Security premium reserve		1,00,000	 60,000 40,000
Bank A/c Dr. To Share allotment A/c		90,160	 90,160
Share first call A/c Dr. To Share capital A/c		60,000	 60,000
Bank A/c Dr. To Share First Call A/c		57,000	 57,000
Share capital A/c Dr. Security's premium reserve A/c Dr. To Share allotment A/c To Share first call A/c To Forfeited shares A/c		3,200 800	 1,840 1,200 960
Share final call A/c Dr. To Share capital A/c		39,200	 39,200
Bank A/c Dr. To Share final call A/c		38,000	 38,000
Share capital A/c Dr. To Share first call A/c To Share final call A/c To Forfeited shares A/c		6,000	 1,800 1,200 3,000
Bank A/c Dr. Forfeited shares A/c Dr. To Share capital A/c		7,200 800	 8,000
Forfeited shares A/c Dr. To Capital Reserve A/c		2,160	 2,160

24. Dr. Revaluation Account Cr. 6

Particulars	Amt (₹)	Particulars	Amt (₹)
To Furniture A/c	4,000	By Provision for Doubtful	250

To Outstanding Rent A/c To Profit on Revaluation Transferred to Anuj's Capital A/c 500 Vishal's Capital A/c 500 Shekar's Capital A/c 500	750	Debts A/c By Land and Building A/c	 6,000
	6250		6,250

Dr. Partners' Capital Account Cr.

Particulars	Anuj (₹)	Vishal (₹)	Shekar (₹)	Particulars	Anuj (₹)	Vishal (₹)	Shekar (₹)
To Vishal's (goodwill) To Bank A/c To Balance c/d	4,800 - 43,950	- 36,100 -	4,800 - 43,950	By balance b/d By General Reserve A/c By Profit & Loss By Anuj's Capital A/c By Shekar's Capital A/c By Revaluation A/c (Profit) By Bank A/c	30,000 5,000 1,000 - - 500 12,250	20,000 5,000 1,000 4,800 4,800 500 -	16,000 5,000 1,000 - - 500 26,250
	48,750	36,100	48,750		48,750	36,100	48,750

Balance sheet
As at 1st April, 2022

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital A/cs Anuj 43,950 Shekhar 43,950 Creditors Bills payable Outstanding Rent	 87,900 20,000 10,000 750	Land and Building Furniture Stock Debtors 22,500 (-) Provision for Doubtful Debts (2,250) Bank	66,000 10,000 10,000 20,250 12,400
	1,18,650		1,18,650

Dr. Bank Account Cr.

Particulars	Amt (₹)	Particulars	Amt (₹)
To balance b/d To Anuj's Capital A/c To Shekar's Capital A/c	10,000 12,250 26,250	By Vishal's Capital A/c By balance c/d	36,100 12,400
	48,500		48,500

OR

Revaluation Account

Particulars		Amount Rs	Particulars		Amount Rs
Provision for Bad and doubtful debts	1,250		Sundry Creditors		500
Less: Old Provision	1,000	250	Revaluation loss transferred to:		
Provision of claims		800	B's Capital	330	
			C's Capital	220	550
		1,050			1,050

PARTNERS CAPITAL ACCOUNT

Particulars	B	C	D	Particulars	B	C	D
Cash A/C	7500	-	-	B/b	60,000	40,000	-
Realization A/C(Loss)	330	220	-	Cash A/C	-	-	30,000
Profit and Loss A/C	6,000	4,000		Premium for Goodwill A/C	15,000	-	-
Cash A/C (Balancing Figure)	1,170	-	-	Cash A/C (WN_2)	-	-	-
Balance C/D (Adjusted)	60,000	60,000	30,000	Cash A/C (Balancing Figure)	-	24,220	-
	75,000	64,000	30,000		75,000	64,000	30,000

Balance Sheet

Liabilities		Amount Rs	Assets		Amount Rs
Capital:			Land and Building		80,000
B	60,000		Machinery		20,000
C	60,000		Furniture		10,000
D	30,000	1,50,000	debtors	25,000	
Creditors (60,000 – 500)		59,500	*Less:* Provision for Doubtful Debts	(1,250)	23,750
Claim for Damages		800	Cash		76,550
		2,10,300			2,10,300

Cash A/C

Dr.			**Cr.**
Particulars	**Amount Rs**	**Particulars**	**Amount Rs**
Balance b/d	16,000	B's capital	8,670
D's capital	30,000		
Premium for good will	15,000		
C's capital	24,220	Balance c/d	76,550
	85,220		85,220

25. Dr. Nitin's Capital Accounts Cr. — 6

Particulars	Amt (₹)	Particulars	Amt (₹)
To Drawings A/c	20,000	By Balance b/d	3,00,000
To Advertisement	6,000	By Profit and Loss A/c	40,000
Expenditure	34,000	By Profit and Loss	12,000
To Cash A/c	4,00,000	Suspense A/C (₹1,80,000	
To Nitin's Loan A/c		x 4/12 x 1/5)	54,000
		By Harsh's Capital A/c	54,000
		By Kavya's Capital A/c	
	4,60,000		4,60,000

Nitin's share of Goodwill = Average Profit (₹1,60,000 + ₹2,00,000/2) x 3 x 1/5
= ₹ 1,08,000

26. Journal — 6

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
May 1 2021	Bank A/c Dr.		9,00,000	
	To Debenture Application and allotment A/c			9,00,000
	Debenture Application and allotment A/c Dr.		9,00,000	
	Loss on Issue of Debenture A/c Dr.		2,00,000	
	To 8% Debenture A/c			10,00,000
	To Premium on Redemption of Debenture			1,00,000
Jan 1 2022	Bank A/c Dr.		11,00,000	
	To Share Application and Allotment A/c			11,00,000
	Share Application and Allotment A/c Dr.		11,00,000	
	To Share Capital A/c			10,00,000
	To Securities Premium Reserve A/c			1,00,000
31 Mar 2022	Securities Premium Reserve A/c Dr.		1,70,000	
	Capital Reserve A/c Dr.		10,000	
	Statement of Profit and Loss Dr.		20,000	
	To Loss on Issue of Debentures A/c			2,00,000

PART – B
(Analysis of Financial Statements)

Q.	Answer	Marks
27.	c) Postulates Or d. Liquidity, solvency, and profitability	1
28.	b) 3 times	1
29.	c. Decrease in creditors **OR** d) Subtracted under Operating Activities as Extraordinary Item and Inflow under Investing Activities also	1
30.	d. All of the above	1

31.

ITEMS	HEADING	SUB-HEADING
Current maturities of long-term debts	Current Liabilities	Short term borrowings
Furniture's and fixtures	Non-Current Assets	Property, Plant and Equipment and Intangible Asset
Provision for warranties	Non-Current Liabilities	Long Term Provisions
Income received in advance	Current Liabilities	Other Current Liabilities
Capital Advances	Non-Current Assets	Long Term Loans and Advances
Advances recoverable in cash within the operation cycle	Current Assets	Short Term Loans and Advances

3

32. Return on Investment = EBIT / Capital Employed X 100
= ₹15,00,000/ ₹1,20,00,000 X 100 = 12.5%

3

Capital Employed = 12% Preference Share Capital + Equity Share Capital + Reserves and Surplus + 15% Debentures + 10% Bank Loan
= ₹30,00,000 + ₹40,00,000 + ₹10,00,000 + ₹20,00,000 + ₹20,00,000
= ₹1,20,00,000

EBIT = Profits after Tax + Tax + Interest
= ₹6,00,000 + ₹4,00,000 + ₹5,00,000
= ₹15,00,000

Net Asset Turnover ratio = Revenue from Operations / Capital Employed
= ₹3,60,00,000 / ₹1,20,00,000
= 3 Times

33.

Common-size Statement of Profit and Loss

Particulars	**2022-23(₹)**	**2021-22(₹)**	**% of revenue from operations (2021-22)**	**% of revenue from operations (2022-23)**
Revenue from operation	8,00,000	10,00,000	100	100
Less : Expenses Cost of revenue from op. Other Expenses	 3,20,000 2,20,000	 3,00,000 2,60,000	 40 27.5	 30 26
Total Expenses	5,40,000	5,60,000	67.5	56
Profit Before Tax	2,60,000	4,40,000	32.5	44
Less: Tax	1,30,000	2,20,000	16.25	22
Profit after Tax	1,30,000	2,20,000	16.25	22

4

OR

Comparative balance sheet of Shahnaz Shadab Limited as on March 31,2011 and 2012,

Particulars	Note No.	2010-11	2011-12	% 2010-11	% 2011-12
EQUITY AND LIABILITIES					
1.Share holder funds		21,00,000	29,00,000	41.17	40.84
a) Share capital		10,00,000	12,00,000	19.60	16.90
b) Reserves and surplus					
2. Non-current Liabilities		12,00,000	18,00,000	23.52	25.35
Long-term borrowings					
3. Current Liabilities		8,00,000	12,00,000	15.68	16.90
Trade Payables					
Total		51,00,000	71,00,000	100	100
ASSETS					
1.Non-current Assets					
Fixed Assets					
i) Tangible Assets		21,00,000	29,00,000	41.17	40.84
ii) Intangible Assets		12,00,000	18,00,000	23.52	25.35
2. Current Assets					
a) Inventories		10,00,000	12,00,000	19.60	16.90
b) Cash and cash equivalents		8,00,000	12,00,000	15.68	16.90
Total		51,00,000	71,00,000	100	100

34. **CASH FLOW STATEMENT** 6

Particulars	**Amount (₹)**	**Amount (₹)**
I. **Cash Flow from Operating Activities**		
Net Profit before Tax and Extraordinary Items		40,000
Adjustments for		
(+) Depreciation	20,000	
Preliminary Expenses Written-off	1,000	21,000
Operating Profit before Working Capital Changes		61,000
(+) Increase in current liabilities and decrease in current assets		
Trade Creditors	4,600	
(-) Increase in Current Assets and Decrease in Current Liabilities		
Stock	(4,000)	
Debtors	(3,000)	(2400)
Cash Flow from Operating Activities before Tax		58,600
(-) Income Tax Paid		(5,000)
Cash Flow from Operating Activities after Tax		53,600
II. **Cash flow from Investing Activities**		
Purchase of fixed assets	(92,600)	
Net Cash Used in Investing Activities		(92,600)
III. **Cash flow from Financing Activities**		

Issue of Share Capital	40,000	
Cash flow from Financing Activities		(40,000)
Net increase in cash and cash equivalent		1,000
(I +II+III)		4,000
(+) Cash and Cash Equivalent at the beginning of the period		**5,000**
Cash and Cash Equivalent at the end of the period		

Working notes:

1. Dr. **FIXED ASSETS ACCOUNT** Cr.

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d To Bank A/c (Purchase)(b.f)	93,400 92,600	By Depreciation A/c By Balance c/d	20,000 166,000
	1,86,000		1,86,000

2. Calculation of Net Profit before Tax and Extraordinary Items **Amt.(₹)**

Profit as per Balance Sheet (30,000-20,000)	10,000
(+) Income Tax Paid	5,000
(+) Transfer to General Reserve	25,000
	40,000

****

Class: XII Accountancy
SAMPLE PAPER II
2024-25

Maximum Marks: 80 Time: 03 hrs.

<u>Blue Print</u>

PART A (Accounting for Partnership Firms and Companies) Marks: 60

<table>
<tr><th rowspan="2">Units</th><th rowspan="2">Topics</th><th>LAQs</th><th colspan="2">SAQs</th><th>MCQs</th><th rowspan="2">Total</th></tr>
<tr><th>(6)</th><th>(4)</th><th>(3)</th><th>(1)</th></tr>
<tr><td rowspan="7">I. Accounting for Partnership Firms</td><td>1. Fundamentals of Partnership</td><td>-</td><td>-</td><td>3 (1)*</td><td>7 (7)*</td><td rowspan="7">36 (17)</td></tr>
<tr><td>2. Nature and Valuation of Goodwill</td><td>-</td><td>-</td><td>3 (1)</td><td>-</td></tr>
<tr><td>3. Change in Profit Sharing Ratio</td><td>-</td><td>-</td><td>-</td><td>1 (1)*</td></tr>
<tr><td>4. Admission of a Partner</td><td rowspan="2">6 (1)*</td><td>-</td><td>-</td><td>1 (1)</td></tr>
<tr><td>5. Retirement of a Partner</td><td>-</td><td>3 (1)</td><td>1 (1)*</td></tr>
<tr><td>6. Death of a Partner</td><td>6 (1)</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>7. Dissolution of Partnership Firm</td><td>-</td><td>4 (1)</td><td>-</td><td>1 (1)</td></tr>
<tr><td rowspan="2">II. Accounting for Companies</td><td>1. Accounting for Share Capital</td><td>6 (1)*</td><td>4 (1)</td><td>3 (1)*</td><td>4 (4)*</td><td rowspan="2">24 (9)</td></tr>
<tr><td>2. Accounting for Debentures</td><td>6 (1)</td><td>-</td><td>-</td><td>1 (1)*</td></tr>
<tr><td colspan="2">Total (Part-A)</td><td>24 (4)</td><td>8 (2)</td><td>12 (4)</td><td>16 (16)</td><td>60 (26)</td></tr>
</table>

PART B (Analysis of Financial Statements) Marks: 20

<table>
<tr><th rowspan="2">Units</th><th rowspan="2">Topics</th><th>LAQs</th><th colspan="2">SAQs</th><th>MCQs</th><th rowspan="2">Total</th></tr>
<tr><th>(6)</th><th>(4)</th><th>(3)</th><th>(1)</th></tr>
<tr><td rowspan="3">III. Analysis of Financial Statements</td><td>1. Financial Statements</td><td>-</td><td>-</td><td>3 (1)</td><td>1 (1)*</td><td rowspan="3">12 (5)</td></tr>
<tr><td>2. Common Size and Comparative Tools</td><td>-</td><td>4 (1)*</td><td>-</td><td>-</td></tr>
<tr><td>3. Ratio Analysis</td><td>-</td><td>-</td><td>3 (1)</td><td>1 (1)</td></tr>
<tr><td>IV. Cash Flow Statement</td><td>1. Cash Flow Statement</td><td>6 (1)</td><td>-</td><td>-</td><td>2 (2)*</td><td>8 (3)</td></tr>
<tr><td colspan="2">Total (Part-B)</td><td>6 (1)</td><td>4 (1)</td><td>6 (2)</td><td>4 (4)</td><td>20 (8)</td></tr>
<tr><td colspan="2">Grand Total (Part A + Part B)</td><td>30 (5)</td><td>12 (3)</td><td>18 (6)</td><td>20 (20)</td><td>80 (34)</td></tr>
</table>

Note: Number of questions are given within brackets and marks outside the brackets. Each (*) star showsthe internal choice in a question.

केंद्रीय विद्यालय संगठन, बेंगलूरु संभाग

KENDRIYA VIDYALAYA SANGATHAN, BENGALURU REGION

SAMPLE PAPER II

CLASS: XII **MAX MARKS:80**

SUBJECT: ACCOUNTANCY **TIME: 3 HOURS.**

General Instructions:

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

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

(iii) Questions **1 to 16** and **27 to 30** carry **1** mark each.

(iv) Questions **17 to 20, 31 and 32** carry **3** marks each

(v) Questions **21, 22 and 33 carry 4** marks each

(vi) Questions from **23 to 26 and 34** carry **6** marks each

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

PART – A

(Accounting for Partnership Firms and Companies)

Q.NO	**QUESTIONS**	**MARKS**
1	Stella and Bella are partners in a firm sharing profits and losses in the ratio of 2 : 1. They admitted Kala as a partner for 2/7 share for which Rs.8,000 and Rs.4,000 are credited as a premium for goodwill to Stella and Bella respectively. The new profit sharing ratio of Stella, Bella and Kala will be (a) 3 : 2 : 2 (b) 8 : 4 : 2 (c) 10 : 5 : 6 (d) 4 : 1 : 2	1
2	**Assertion (A) :** A firm should have a Partnership Deed. **Reason (R) :** In case, any dispute or any misunderstanding arises among partners, Partnership Deed acts as an evidence in the court. (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
3	A share of Rs.20 each issued at par for which Rs. 8 is not yet called. The called up capital is: (a) Rs.20 (b) Rs.12 (c) Rs.8 (d) Nil **Or**	1

-2-

	Kumar Ltd. issued prospectus inviting applications for 10,000, 8% Debentures. The issue was oversubscribed to the extent of 15,000 debentures. Applications for 3,000 debentures were sent letter of regret and remaining applicants were allotted debentures. Simon was allotted 700 debentures under pro-rata category. How many debentures he must have applied for? (a) 1,000 (b) 940 (c) 740 (d) 840	
4	X, Y and Z who are presently sharing profits and losses in the ratio of 5 : 3 : 2 decide to share profits and losses in the ratio of 2 : 3 : 5 with effect from 1st April 2023. An extract of their Balance Sheet as at 31st March, 2023 is as follows : <table><tr><td>Liabilities</td><td>Rs.</td><td>Assets</td><td>Rs.</td></tr><tr><td>Investment Fluctuation Reserve</td><td>7,500</td><td>Investments</td><td>1,00,000</td></tr></table>At the time of reconstitution, certain amount of loss due to fall in market value of investments was determined for which Y's share of loss was Rs.750. Market value of investment was	1

	(a) Rs.80,000 (b) Rs.85,000 (c) Rs.90,000 (d) Rs. 95,000 **Or** Interest on Partner's loan is credited to (a) Partner's fixed capital a/c (b) Partner's current a/c (c) Partner's loan a/c (d) Partner's drawings a/c	
5	When a partner draws a fixed sum for 12 months at the beginning of each month, interest on drawings will be calculated for --------months. (a) 5.5 (b) 4.5 (c) 6 (d) 6.5	1
6	A building was purchased by Anand Ltd. for Rs.11,00,000 from Mohan. Anand Ltd. issued 9% Debentures of Rs.100 each at a premium of 10% as purchase consideration. 9% Debenture account is credited by (a) Rs.11,00,000 (b) Rs.12,10,000 (c) Rs.10,00,000 (d) Rs.11,90,000 **Or** Which of the following statement is correct about debentures? (a) New debentures can be issued at par/premium but not at discount (b) Debenture interest is calculated on issue price (c) Interest on debenture is an appropriation of profits (d) Interest is not paid on debentures issued as Collateral security	1
7	**Assertion (A) :** Securities premium account is not debited at the time of forfeiture if premium has been received in respect of the forfeited shares. **Reason (R) :** The Companies Act,2013[Section52(2)] restricts the use of Securities premium received and credited to Securities premium account. In the context of above two statements, which of the following is correct? (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

-3-

8	X, Y and Z were partners sharing profits and losses in the ratio of 7 :5 : 3. On 1st April 2023,Y decided to retire from firm. Goodwill was valued Rs.6,00,000 and revaluation profit amounted Rs.75,000. Total amount due to Y was Rs.400,000 after all adjustments. Find his capital balance before these adjustments. (a) Rs. 4,00,000 (b) Rs.10,75,000 (c) Rs.6,75,000 (d) Rs.1,75,000 **Or** Amith, Sumit and Punith are partners sharing profits and losses in the ratio of 2 : 2: 1. Punith is entitled to a 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 Punith will be : (a) Rs.1,20,000 (b) Rs.1,38,000 (c) Rs. 48,000 (d) Rs.55,200	1
	Read the following hypothetical situation, answer Question No.9 and 10. On 1st April, 2022, Ishu, Vishu and Nishu entered into partnership with fixed capitals of Rs.1,50,000, Rs. 1,25,000 and Rs.1,00,000 respectively. On 1st October, 2022, Nishu gave a loan of Rs.6,00,000 to the firm. The partnership deed provides for the following. (a) Interest on drawing to be charged@5% p.a (b) Ishu is to get rent of Rs.2,000 per month for allowing the firm to carry on	

	the business in his premises. Vishu withdrew Rs.10,000 at the end of the month for the last six months. Manager of the firm is entitled to commission of 10% of Net profit after charging commission and salary of Rs.10,000 p.a. Profit of the firm for the year ended 31st March, 2023 before providing for the above adjustments was Rs.1,62,000.	
9	Interest on Nishu;s loan will be: (a) Rs.18,000 (b) Rs.16,000 (c) Rs. 15,000 (d) Rs.14,000	1
10	Interest on drawings charged from Vishu will be : (a) Rs.725 (b) Rs.825 (c) Rs.625 (d) Rs.925	1
11	Choose the correct sequence of the following transactions in the context of distribution of profits: (i) Guarantee by firm to partners (ii) Guarantee by partners to firm (iii) Transfer of profits to Profit and Loss Appropriation a/c (iv) Guarantee by partner to partner (a) (i); (iii); (iv); (ii) (b) (iii); (i); (ii); (iv) (c) (iii); (ii); (i); (iv) (d) (ii); (iii); (iv); (i)	1
12	Shalom Ltd. forfeited 1,10,000 shares of Rs.10 each issued at 20% premium for the non- payment of first call of Rs.2 per share and final call of Rs.3 per share. Share Forfeited account will be credited with:	1

-4-

	(a) Rs.5,50,000 (b) Rs.7,70,000 (c) Rs.2,20,000 (d) Rs.5,00,000	
13	A company forfeited 3,000 shares of Rs.10 each, on which only Rs.5 per share (including Rs1 premium) has been paid. Out of these, few shares were reissued at a discount of Rs.1 per share and Rs.6,000 were transferred to Capital Reserve. How many shares were reissued? (a) 3,000 shares (b) 1,000 shares (c) 2,000 shares (d) 1,500 shares	1
14	X and Y are partners in a firm sharing profits in the ratio of 3 : 2. Capitals of X and Y after adjustments are Rs.80,000 and Rs.60,000 respectively. They admit Z as a partner on his capital contribution of Rs.35,000. New profit sharing ratio of partners is to be 5 : 3 : 2. Capital accounts of the old partners are to be proportionate of their profit sharing ratio adjusted on the basis of Z's Capital. Surplus capital to be paid to Y will be: (a) Rs.5,000 (b) Rs.7,500 (c) Rs.6,000 (d) Rs.8,000	1
15	Acquilla and Pricilla are partners who withdrew a fixed amount at the end of every month @10% p.a. At the end of the year interest on drawings of Acquilla amounts to Rs.1,100. Monthly drawings of Acquilla was (a) Rs. 2,000 (b) Rs.3,000 (c) Rs.4,000 (d) Rs.5,000 **Or** Nitin withdrew Rs.4,00,000 at the end of each quarter during 2022-23. Interest on his drawings @ 6 % p.a will be: (a) Rs.42,000 (b) Rs.75,000 (c) Rs.36,000 (d) Rs.10,000	1
16	Fictitious assets are transferred to ------------ at the time of dissolution of a firm. (a) Realization a/c (b) Bank a/c (c) Revaluation a/c (d) Partners' Capital a/cs	1
17	Adil, Bhavya and Cris are partners sharing profits and losses in the ratio of	3

4 : 3 : 2. Bhavya retired from the firm and Adil and Cris decided to share profits and losses in the ratio of 5 : 3 in reconstituted firm. The accountant passed the following journal entry for adjusting Bhavya's share of goodwill and missed some information. Complete the missing values in the following journal entry and calculate the Gaining ratio.

Date	Particulars	L.F	Dr.(Rs.)	Cr.(Rs.)
	Adil's Capital a/c Dr		……..	
	Cris's Capital a/c Dr		3,300	
	To Bhavya's Capital a/c			…….
	(Bhavya's share of goodwill adjusted in the capital a/c of Adil & Cris in the gaining ratio)			

Q. No.	Question	Marks
18	X , Y and Z are partners sharing profits and losses in the ratio of 5 : 4 : 1. Z is given a guarantee that his share of profit will not be less than Rs. 50,000 in any year. Deficiency if any, is to be borne by X and Y in the ratio of 3 : 2 . Profit for the year ended 31st March,2023 was Rs.3,50,000.	3

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Q. No.	Question	Marks
	Record necessary journal entries to show distribution of profit among all the partners. **Or** Prince, Queen and Elina were partners sharing profits and losses in the ratio of 5 : 3 : 2. The Partnership deed provides for charging interest on drawings @ 10 % p.a. Drawings of Prince, Queen and Elina during the year ended 31st March,2023 were Rs.2,00,000, Rs.3,00,000 and Rs.5,00,000 respectively. After closing final accounts, it was found that interest on drawings were not charged. Pass necessary adjustment entry by showing your working clearly.	
19	'A' Ltd. took over the assets of Rs.6,60,000 and liabilities of Rs.80,000 of 'B' Ltd. Out of the total agreed purchases consideration, Rs.60,000 was paid in cash and for the balance 6,000, 15 % Debentures of Rs.100 each issued at 10 % discount. Pass journal entries. **Or** Felix Ltd. took over the business of Clix 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 books of Felix Ltd.	3
20	Capital invested in a firm is Rs.5,00,000. Normal Rate of Return is 10%. Average profits of the firm are Rs.64,000 (after an abnormal loss of Rs.4,000) Compute the value of goodwill at 4 times the super profits.	3
21	Jhovika Ltd. was registered with an authorized capital of Rs.9,00,000 divided into Equity Shares of Rs.10 each. The company issued a prospectus inviting applications for issuing 80,000 equity shares. The company received applications for 79,000 equity shares. All calls were made and duly received except the second and final call of Rs.3 per share on 4,000 shares held by Anand. These shares were forfeited. (a) Present the 'Share Capital' in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013. (b) Also prepare 'Notes to Accounts' for the same.	4
22	Pass necessary journal entries for the following transactions on the dissolution of a partnership firm of Kavita and Sumita on 31st March, 2023 after the various assets (other than cash) and third party liabilities have been transferred to Realization account.	4

	(a) Kavita took over stock amounting to Rs.1,00,000 at Rs.90,000 (b) Bank loan Rs.21,000 was paid off (c) Realization expenses Rs.2,000 were paid by Sumita (d) Loss on dissolution amounted to Rs.7,000	
23	Sicilia Ltd. invited applications for issuing 20,000 equity shares of Rs.50 each at a premium of 10%. The amount was payable as follows: On application Rs. 15 per share On allotment Rs.30 per share (including premium) On First and final call balance amount Applications were received for 30,000 shares and pro-rata allotment was made on 25,000 shares and the remaining applications were refused and letters of	6

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	regret were sent to them. Neeta who applied for 1,000 shares failed to pay the allotment and call money. Her shares were forfeited after the call. Later, 400 forfeited shares were reissued as fully paid up for Rs.57 per share. Pass journal entries for the above transactions by opening Calls in arrear a/c. **Or** Pass necessary journal entries for forfeiture and reissue of forfeited shares in the following cases: (a) Sonia Ltd. forfeited 10,000 shares of Rs.10 each issued at a premium of Rs.1 per share, for non-payment of second and final call of Rs2 per share. Out of these, 60% of the shares were reissued at Rs.7 per share fully paid up. (b) Aahaz Ltd. forfeited 800 shares of Rs.10 each, Rs.8 per share called up, for non-payment of first call of Rs.3 per share. All the forfeited shares were reissued for Rs.12 per share fully paid.	

24	A and B are parents in a firm sharing profits and losses in the ratio of 3:2. Their balance sheet was as follows on 31st March, 2023:	6

Liabilities	(Rs.)	Assets	(Rs.)
Sundry Creditors	15,000	Plant	30,000
Capital		Patents	10,000
A 30,000		Stock	20,000
B 25,000	55,000	Debtors	18,000
General reserve	10,000	Bank	2,000
	80,000		**80,000**

C is admitted as a partner on the above date on the following terms :

(i) He will pay Rs. 10,000 as goodwill for one-fourth share in the profit of the firm.

(ii) The assets are to be valued as under :

Plant at Rs. 32,000; Stock at Rs. 18,000; Debtors at book figure a provision of 5 percent for bad debts to be created.

(iii) It was found that the creditors included a sum of Rs. 1,400 which was not be paid. But it was also, found that there was a liability for compensation to workers amount in to Rs. 2,000.

(iv) C was to introduce Rs, 20,000 as capital and the capitals of other partners were to be adjusted in the new profit sharing ratio for this purpose, current accounts were to be opened.

Prepare Revaluation Account, Capital Account of partners.

Or

Kamal, Rahul and Vimal 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 under.

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Balance Sheet of Kamal, Rahul and Vimal as on 31st March, 2023

Liabilities	Rs.	Assets	Rs.
Capitals:		Plant and Machinery	2,60,000
Kamal 1,20,000		Land and Building	1,70,000
Rahul 1,20,000		Stock	1,00,000
Vimal 1,20,000		Debtors	80,000
------------	3,60,000	Cash	50,000
General Reserve	1,20,000		
Sundry Creditors	1,80,000		
	6,60,000		**6,60,000**

On the above date, Rahul retired and the following terms were agreed upon.

(i) Goodwill of the firm was valued at Rs.3,50,000

(ii) An item of Rs.10,000 included in sundry creditors is not likely to be claimed and hence written off.

(iii) Stock was valued at Rs.90,000

(iv) Capital of the new firm was fixed at Rs.2,10,000 and the same will be adjusted in the profit sharing ratio of the remaining partners. For this purpose the required cash will be brought in or paid off as the case may be.

(v) Amount payable to Rahul will be transferred to his loan account.

Prepare Revaluation account Partners' Capital accounts on Rahul's retirement.

25	Stella, Bella and Ramola were partners in a firm sharing profits and losses equally. Their balance sheet as on 31-03-2023 was as follows:	6

Balance Sheet of Stella, Bella and Ramola as on 31.03.2023

Liabilities	Amount	Assets	Amount
General Reserve	30,000	Plant and Machinery	2,40,000
Sundry Creditors	30,000	Stock	60,000
Capitals: Stella- 1,50,000 Bella- 1,00,000 Ramola- 75,000 -------------	3,25,000	Sundry Debtors	35,000
		Cash at Bank	50,000
	3,85,000		**3,85,000**

Ramola died on 30th June,2023. According to the partnership deed, the executors of the deceased partner were entitled to:

(a) Balance in capital account.
(b) Salary till the date of death @ Rs.25,000 per annum.
(c) Share of goodwill calculated on the basis of twice the average profit of past three years.
(d) Share of profit from the closure of the last accounting year till the date of death is calculated on the basis of average of last three completed

years profit before death.
(e) Profits for 2020-2021, 2021-2022, 2022-23 were Rs 1,20,000, Rs 90,000 and Rs 1,50,000 respectively.
(f) Ramola withdrew Rs 15,000 on 1st June, 2023 for paying her daughter's school fees.

Prepare Ramola's capital account to be rendered to her executors.

26	On 1st July,2022, Vasanth Ltd issued 10,000, 9% Debentures of Rs100 each at a premium of 4% redeemable at a premium of Rs.15 per debenture in two equal annual instalments starting from the end of the third year. The company has a balance of Rs.60,000 in Securities Premium on the date of issue of debentures. Pass journal entries for the financial year 2022-23. Also prepare Loss on issue of debentures account. .	6
	PART – B **(Analysis of Financial Statements)**	
27	'Freedom to Choose Method of Depreciation' refers to which limitation of Financial Statement Analysis? (a) Historical analysis (b) Qualitative aspect ignored (c) Not free from bias (d) Ignore price level changes **Or** Revenue from Operations Rs.6,00,000; Gross Profit 25% on cost. Gross profit ratio will be (a) 15% (b) 20% (c) 25% (d) 30%	1
28	Debt Equity ratio of Monaco Ltd. is 2 : 1. Which of the following would decrease the ratio?	1

	(a) Purchase of fixed asset on a credit of 2 months (b) Purchase of fixed asset on a long –term deferred payment basis (c) Issue of new equity shares for cash (d) Issue of bonus shares	
29	**Assertion (A) :** Purchase of fixed assets is classified as Investing Activity in case of all enterprises. **Reason (R) :** Payment of dividend on shares is classified as Financing activity in case of all enterprises. In the context of above two statements, which of the following is correct? (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 **Or** Which of the following transaction will result in no flow of cash? (a) Purchase of machinery (b) Sale of investments (c) Acquisition of machinery by issue of equity shares	1

	(d) Redemption of debentures	
30	Venus Ltd. provides you the following information:	1

Particulars	31.03.2023 (Rs)	31.03.2022 (Rs)
10% Debentures	Nil	1,00,000

Additional information:
1. Equity share capital raised during the year Rs.3,00,000
2. 10% Debentures were redeemed on 01.04.2022
3. Dividend received during the year was Rs.20,000
4. Dividend proposed for the year 2021-22 was Rs.50,000 but only Rs.20,000 was approved by the shareholders..

Find out the cash flow from Financing activities.
(a) Rs.1,50,000 (b) Rs.2,00,000
(c) Rs.1,70,000 (d) Rs.1,80,000

31 Under which major heads and sub- heads will be the following items placed in the Balance Sheet of the company as per Schedule III Part I of the Companies Act, 2013? 3

i. Cheque and Bank draft in hand	ii. Loan repayable on demand
iii. Provision for retirement benefits	iv. Securities Premium
v. Capital advances	vi. Shares in listed companies

32 (a) Opening inventory Rs.50,000, Inventory Turnover Ratio 4 times. Gross profit 20% of Revenue from operations. Closing inventory was two times in comparison to Opening inventory. Calculate Revenue from Operations. 3

(b) Long term borrowings Rs.16,00,000
Long term Provisions Rs.4,00,000
Current Liabilities Rs.10,00,000
Non- Current Assets Rs.44,00,000
Current Assets Rs.26,00,000
Calculate Debt to Capital Employed Ratio.

33 From the following information, Prepare a Comparative Statement of Profit and Loss. 4

Particulars	31st March, 2023	31st March, 2022
Revenue from Operations	Rs.24,00,000	Rs.18,00,000

Other incomes (% of Revenue from Operations)	15%	25%
Expenses (% of Revenue from Operations)	60%	50%
Tax Rate	40%	40%

Or

From the following Statement of Profit and Loss of Twinkle Ltd. for the years ended 31st March, 2022 and 2023, Prepare a Common – Size Statement.

Particulars	Note No	2022-23 (Rs)	2021-22 (Rs)
Revenue from Operations		25,00,000	20,00,000
Employee benefit expenses		10,00,000	7,00,000
Other Expenses		2,00,000	3,00,000
Tax rate		40%	40%

34 Following are the Balance sheets of K Ltd. for the year ended 31st March 2022 and 2023 6

Particulars	Note No	31st March, 2023 (Rs)	31st March,2022 (Rs)
I EQUITY AND LIABILITIES			
1. Shareholders Funds			
(a) Share Capital		12,00,000	8,00,000
(b) Reserves and Surplus (Surplus i,e, Balance in Statement of Profit and Loss)		3,50,000	4,00,000
2. Non Current Liabilities			
Long Term Borrowings		4,40,000	3,50,000
3. Current Liabilities			
Trade Payables		60,000	50,000
Total		**20,50,000**	**16,00,000**
II ASSETS			
1.Non Current Assets			
Property, Plant and Equipment and intangible asset:			
Plant and Equipment		12,00,000	9,00,000
2.Current Assets			
(a) Inventories		2,00,000	1,00,000
(b) Trade Receivables		3,10,000	2,30,000
(c) Cash and Cash Equivalents		3,40,000	3,70,000
Total		**20,50,000**	**16,00,000**

Prepare Cash Flow Statement after taking into account the following adjustments:

1. The Company paid interest Rs.36,000 on its long term borrowings
2. Depreciation charged on tangible fixed assets was Rs.1,20,000.

KENDRIYA VIDYALAYA SANGATHAN, BENGALURU REGION
CLASS : XII SAMPLE PAPER II
ACCOUNTANCY (055)

MAX. MARKS :80 MARKING SCHEME TIME :3 HOURS

Q.NO	ANSWERS	MARKS
1	(c) 10 : 5 : 6	1
2	(a) Both (A) and (R) are correct and (R) is the correct explanation of (A)	1
3	(b) Rs.12 **Or** (d) 840	1
4	(c) Rs.90,000 **Or** (c) Partner's Loan a/c	1
5	(d) 6.5	1
6	(c) Rs.10,00,000 **Or** (d) Interest is not paid on debentures issued as Collateral security	1
7	(a) Both (A) and (R) are correct and (R) is the correct explanation of (A)	1
8	d) Rs.1,75,000 **Or** (a) Rs.1,20,000	1
9	(a) Rs.18,000	1
10	(c) Rs.625	1
11	(c) (iii); (ii); (i); (iv)	1
12	(a) Rs.5,50,000	1
13	(c) 2,000 shares	1
14	(b) Rs.7,500	1
15	(a) Rs. 2,000 **Or** (c) Rs.36,000	1
16	(d) Partners' Capital a/cs	1
17	(journal entry and working below)	3

17

Date	Particulars	L.F	Dr (Rs.)	Cr (Rs.)
	Adil's Capital A/c ….Dr		**3,900**	
	Cris's Capital A/c ….Dr		3,300	
	To Bhavya's Capital A/c			**7,200**
	(Bhavya's share of goodwill adjusted in the capital accounts of gaining partners in gaining ratio)			

Gaining ratio = NR-OR
Adil's gain= 5/8 - 4/9 = 13/72
Cris's gain = 3/8 – 2/9 = 11/72
G R= 13 : 11
Cris's gain for 11/24 = 3,300
Adil's gain for 13/24 = 3,300 x24/11x13/24 = Rs.3,900
Bhavya's share of goodwill = 3,300+ 3,900 = Rs.7,200

1

218 (Marks: 3)

Date	Particulars	L.F	Dr (Rs.)	Cr (Rs.)
	Profit and Loss A/c …. Dr		3,50,000	
	To Profit and Loss Appropriation A/c			3,50,000
	(Being Net profit transferred to Profit and Loss appropriation a/c)			
	Profit and Loss Appropriation A/c Dr		3,50,000	
	To X's Capital A/c			1,75,000
	To Y's Capital A/c			1,40,000
	To Z's Capital A/c			35,000
	(Being distribution of profit as if there is no guarantee)			

		X;s Capital A/c ... Dr Y's Capital A/c … Dr To Z's Capital A/c (Being deficiency of Z, met by X and Y in 3 : 2 ratio)		9,000 6,000	 15,000	

Or

Statement of Adjustment

Partners	IOD	Adjust. Of profit	Final adjustment
Prince	- 10,000	+ 25,000	+ 15,000
Queen	- 15,000	+ 15,000	0
Elina	- 25,000	+ 10,000	-15,000

50,000 (5 : 3 : 2)

Date	Particulars	LF	Dr (Rs.)	Cr (Rs.)
	Elina A/c …Dr To Prince A/c (Being IOD omitted adjusted)		15,000	 15,000

19 **Journal** 3

Date	**Particulars**	**L.F**	**Dr (Rs.)**	**Cr (Rs.)**
(i)	Sundry Assets A/c … Dr Goodwill A/c ….Dr To Sundry Liabilities A/c To B Ltd. A/c (Being assets and liabilities taken over)		6,60,000 20,000	 80,000 6,00,000
(ii)	B Ltd. A/c … Dr To Bank A/c (Being part payment made in cash)		60,000	 60,000
(iii)	B Ltd. A/c … Dr Discount on issue of debentures A/c Dr To 15% Debentures A/c (Being debentures issued)		5,40,000 60,000	 6,00,000

Purchase consideration = Amount paid(Rs.60,000) + Issue price of debentures

2

Rs.5,40,000) = Rs.6,00,000

Or

Journal

Date	**Particulars**	**L.F**	**Dr (Rs.)**	**Cr (Rs.)**
(i)	Sundry Assets A/c … Dr To Sundry Liabilities A/c To Clix Ltd A/c To Capital Reserve A/c (Being assets and liabilities taken over)		40,00,000	 6,00,000 30,00,000 4,00,000
(ii)	Clix Ltd. A/c … Dr To Bank A/c To Equity Share Capital A/c To Securities Premium Reserve A/c (Being Equity shares issued)		30,00,000	 5,00,000 20,00,000 5,00,000

Number of Shares = 25,00,000/ 125 = 20,000 Shares

20 Goodwill = Super profit x No. of years' purchase 3

	Adjusted average profit = Rs.64,000 + Rs.4,000 = Rs.68,000 Normal Profit = Capital Employed = NRR/100 = 5,00,000 X 10/100 = Rs.50,000 Super profit = Average profit – Normal profit = 68,000 – 50,000 = Rs.18,000 Goodwill = 18,000 x 4 = Rs.72,000	
21	**Balance Sheet of Jhovika Ltd.(Extract)**	4

Balance Sheet of Jhovika Ltd.(Extract)

Particulars	Note No	Amount(Rs)
EQUITY AND LIABILITIES Shareholders' Funds Share Capital	1	7,78,000

Notes to Accounts

Particulars		Amount (Rs)
1. Share Capital		
Authorized Capital		
90,000 Equity Shares @Rs.10 each		9,00,000 ------------
Issued Share Capital		
80,000 Equity Shares @ Rs.10 each		8,00,000 -------------

3

Particulars		Amount (Rs)
Subscribed Capital		
Subscribed and fully paid up Capital		
75,000 Equity shares @Rs.10 each	7,50,000	
Add: Forfeited Shares A/c (4,000 x 7)	28,000 -------------	7,78,000
		7,78,000

22 **Journal** 4

Date	Particulars	LF	Dr (Rs)	Cr (Rs)
(a)	Kavita's Capital A/c … Dr To Realization A/c (Being stock taken over by Kavita)		90,000	90,000
(b)	Realization A/c … Dr To Bank A/c (Being Bank loan paid)		21,000	21,000
(c)	Realization A/c … Dr Sumita's Capital A/c (Being Realization expenses paid by Sumita)		2,000	2,000
(d)	Kavita's Capital A/c … Dr Sumita's CapitalA/c … Dr To Realization A/c (Being loss on realization transferred to Partners' capital)		3,500 3,500	7,000

23 **Journal of Sicilia Ltd.** 6

Date	Particulars	LF	Dr (Rs)	Cr (Rs)
(i)	Bank A/c …. Dr		4,50,000	
	To Equity Share Application A /c			4,50,000
	(For application money received)			
(ii)	Equity Share Application A/c … Dr		4,50,000	
	To Equity Share Capital A/c (20,000 x 15)			3,00,000
	To S hare Allotment A/c (5,000 x15)			75,000
	To Bank A/c (5,000 x 15)			75,000
	(For application money transferred to share capital, allotment and refunded)			
(iii)	Equity Share Allotment A/c … Dr		6,00,000	
	To Equity Share capital (20,000 x 25)			5,00,000
	To Securities Premium A/c (20,000 x 5)			1,00,000
	(For share allotment money due)			
(iv)	Bank A/c … Dr		5,04,000	
	Calls – in - arrears A/c … Dr		21,000	
	To Equity share allotment A/c			5,25,000

4

Date	Particulars	LF	Dr (Rs)	Cr (Rs)
(v)	Equity Share First & Final Call A/c .. Dr		2,00,000	
	To Equity Share Capital A/c			2,00,000
	(For first call due)			
(vi)	Bank A/c … Dr		1,92,000	
	Calls – in – arrears A/c … Dr		8,000	
	To Equity Share First and Final Call A/c			2,00,000
	(For first and final call money received)			
(vii)	Equity Share Capital A/c (800 x 50) Dr		40,000	
	Securities Premium A/c (800x 5) Dr		4,000	
	To Calls in arrears A/c			29,000
	To Share forfeited A/c			15,000
	(For 800 shares forfeited)			
(viii)	Bank A/c (400 x 57) Dr		22,800	
	To Equity Share Capital A/c(400 x 50)			20,000
	To Securities premium(400 x 7)			2,800
	(For reissue of 400 forfeited shares)			
(ix)	Share forfeited A/c Dr		7,500	
	To Capital Reserve A/c			7,500
	(For gain on reissue of forfeited share transferred to Capital Reserve)			

Or

Journal

Date	Particulars	LF	Dr (Rs)	Cr(Rs)
(i)	Share capital A/c Dr		1,00,000	
	To Calls- in- arrears A/c			20,000
	To Share forfeiture A/c			80,000
	Bank A/c Dr		42,000	
	Share forfeited A/c Dr		18,000	
	To Share capital A/c			60,000
	Share forfeited A/c Dr		30,000	
	To Capital Reserve A/c			30,000
(ii)	Share capital A/c Dr		6,400	
	To Calls – in arrears A/c			2,400
	Share forfeited A/c			4,000

Bank A/c Dr		9,600	
To Share Capital A/c			8,000
To Securities Premium A/c			1,600
Share forfeited A/c		4,000	
To Capital Reserve A/c			4,000

5

24

6

Revaluation Account

Particulars	**Rs**	**Particulars**	**Rs**
To Stock	2,000	By Plant	2,000
To Provision for DD	900	By Creditors	1,400
To Outstanding liability	2,000	By Capital A/cs	
		A (3/5) 900	
		B (2/5) 600	
		--------	1,500
	4,900		**4,900**

Dr **Partners' Capital A/cs** **Cr**

Particulars	**A**	**B**	**C**	**Particulars**	**A**	**B**	**C**
To Revaluati	900	600	-	By balance b/d	30000	25000	-
To Curr a/c	5100	8400	-	By Gen. Res	6000	4000	
To balc/d	36000	24000	20000	By Bank	-	-	20000
				By Premium	6000	4000	-
	42000	**33000**	**20000**		**42000**	**33000**	**20000**

Or

Revaluation A/c

Particulars	Rs	Particulars	Rs
To Stock	10,000	By Creditors	10,000
	10,000		10,000

Dr **Partners' Capital Accounts** **Cr**

Particulars	**Kamal**	**Rahul**	**Vimal**	**Particulars**	**Kamal**	**Rahul**	**Vimal**
To Rahul's	75000	-	30000	By bal b/d	120000	120000	120000
To Rahul's Loan a/c	-	261000	-	By Kamal's capital	-	75000	-
To Cash b.f	-	-	54000	By Vimal's capital	-	30000	-
To bal c/d	150000	-	60000	By Gen Res	60000	36000	24000
				By Cash a/c	45000	-	-
	225000	261000	144000		225000	261000	144000

6

25	**Dr** **Ramola's capital a/c** **Cr**	6

Particulars	Rs	Particulars	Rs
Drawings Ramola's executor's a/c	15,000 1,66,250	Balabce b/d General Reserve Salary Stella's capital a/c Bella's capital a/c P/L Suspense a/c	75,000 10,000 6,250 40,000 40,000 10,000
	1,81,250		**1,81,250**

Share of profit= 1,20,000 X 3/12 X 1/3= 10,000

26	**Journal**	6

Date	**Particulars**	**LF**	**Dr (Rs)**	**Cr (Rs)**
2022 July 1	Bank A/c … Dr To Debenture Application and Allot A/c		10,40,000	10,40,000
	Debenture Application and Allotment A/c Dr Loss on issue of Debentures A/c Dr To 9% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Deben A/c		10,40,000 1,50,000	10,00,000 40,000 1,50,000
2023 March 31	Interest on Debentures A/c Dr To Debenture holders' A/c (10,00,000 x 9/100 x 9/12		67,500	67,500
	Debenture holders' A/c Dr To Bank A/c		67,500	67,500
	Statement of Profit and Loss Dr To Interest on Debentures A/c		67,500	67,500
	Securities Premium Reserve A/c Statement of Profit and Loss To Loss on issue of Debentures A/c		1,00,000 50,000	1,50,000

Dr **Loss on Issue of Debentures A/c** **Cr**

Date	Particulars	Rs	Date	Particulars	Rs
2022 July 1	To Premium on redemption of Debentures A/c	1,50,000	2023 March 31	By Securities Premium A/c By Statement of Profit and Loss	1,00,000 50,000
		1,50,000			1,50,000

7

	PART – B	
27	(c) Not free from bias **Or** (b) 20%	1
28	(c) Issue of new equity shares for cash	1
29	(b) Both (A) and (R) are correct but (R) is not the correct explanation of (A) **Or** c) Acquisition of machinery by issue of equity shares	1
30	(d) Rs.1,80,000	1

31	(table below)	3

S.No	Item	Main Head	Sub - head
(i)	Cheque and Bank draft in hand	Current Assets	Cash & Cash equivalents
(ii)	Loan repayable on demand	Current Liabilities	Short – term borrowings
(iii)	Provision for retirement benefits	Non - current liabilities	Long – term provisions
(iv)	Securities Premium	Shareholders' Funds	Reserves and Surplus
(v)	Capital Advances	Non – Current assets	Long – term loans and advances
(vi)	Shares in listed companies	Non – Current Assets	Non – current Investments

32 (a) Closing inventory = 50,000 x 2 = Rs.1,00,000 **3**

Average inventory = Opening inventory +Closing inventory / 2

= 50,000 + 1,00,000/ 2 = Rs75,000

Inventory Turnover Ratio = Cost of Revenue from Operations / Average inventory

4 = CRFO/75,000

CRFO = 4x 75,000 = Rs. 3,00,000

Gross profit 20 % on Sales = 25 % on CRFO

Gross profit = 25/100 x 3,00,000 = Rs.75,000

Revenue from Operations = CFRO + GP = 3,00,000 + 75,000 = Rs.3,75,000

(b) Debt to Capital Employed Ratio = Long – term Debt / Capital Employed

Long –term debt = Long –term borrowings + Long – term provisions

= 16,00,00 + 4,00,00 =Rs.20,00,000

Capital employed = (Non- current assets + Current assets) – Current Liabilities

= (44,00,000 + 26,00,00) – 10,00,000

= Rs.60,00,000

Debt to Capital employed Ratio = 20,00,000 / 60,00,000 = 0.33 :1

33 **Comparative Statement of Profit and Loss for the years ended 31st March,2022 and 2023** **4**

8

Particulars	Note No	31.03.2022 (Rs)	31.03.2023 (Rs)	Absolute Change (Rs.)	% Change
I. Revenue from operations		18,00,000	24,00,000	6,00,000	33.33
II. Other income		4,50,000	3,60,000	(90,000)	(20.00)
III. Total Revenue		22,50,000	27,60,000	5,10,000	22.67
IV Expenses		9,00,000	14,40,000	5,40,000	60.00
V Profit before tax		13,50,000	13,20,000	-30,000	(2.22)
VI Tax		5,40,000	5,28,000	-12,000	(2.22)
VII Profit after tax		8,10,000	7,92,000	-18,000	(2.22)

Or

Common Size Statement of Profit and Loss for the years ended 31st March,2022 and 2023

Particulars	Note No	Absolute amounts (Rs)		% of Revenue from operations	
		31.03.2022	31.03.2023	2022(%)	2023(%)
I Revenue from operations		20,00,000	25,00,000	100.00	100.00
Add: Other income		-	-	-	-
Total Revenue		20,00,000	25,00,000	100.00	100.00
II Expenses					
Employee benefit Expenses		7,00,000	10,00,000	35.00	40.00
Other expenses		3,00,000	2,00,000	15.00	8.00
Total expenses		10,00,000	12,00,000	50.00	48.0
III Profit before tax		10,00,000	13,00,000	50.00	52.00
Less : Tax@40%		4,00,000	5,20,000	20.00	20.80
Profit after tax		6,00,000	7,80,000	30.00	31.20

34 Dr **Machinery a/c** Cr 6

Particulars	Rs	Particulars	Rs
To balance b/d	9,00,000	By depreciation	1,20,000
To Bank	4,20,000	By balance c/d	12,00,000
	13,20,000		**13,20,000**

9

Cash Flow Statement as on 31st March 2023

Particulars	Rs	Rs
I. Cash flows from operating activities		
Surplus i,e Balance as per Statement of Profit/ Loss	(50,000)	
Add : Depreciation	1,20,000	
Interest on long term borrowing	36,000	
Operating profit before working capital changes	1,06,000	
Add : Decrease in CA and increase in CL		
Trade payables	10,000	
Less : Increase in CA and decrease in CL		
Inventories	(1,00,000)	
Trade receivables	(80,000)	
Cash flows used in operating activities		**(64,000)**
II. Cash flows from Investing activities		
Purchase of tangible fixed assets	(4,20,000)	
Cash used in Investing activities		**(4,20,000)**
III. Cash flows from Financing activities		
Issue of Shares	4,00,000	
Interest on long term borrowings	(36,000)	
Long term borrowing taken	90,000	
Cash flows from Financing activities		**4,54,000**
I+II+III		**(30,000)**
Add : Cash and cash equivalents in the beginning		3,70,000
Cash and cash equivalents at the end		**3,40,000**

KENDRIYA VIDYALAYA SANGATHAN BENGALURU REGION

SAMPLE QUESTION PAPER SET -3

CLASS: XII **MAX.MARKS: 80**

ACCOUNTANCY (055)

BLUE PRINT

		1M	3M	4M	6M	TOTAL
PART A	**Accounting for Partnership Firms and Companies**					
	Partnership Fundamentals	7	1			8(10)
	Partnership-Admission	2	1		1(or)	4(11)
	Retirement & Death	1			1+1 (or)	2(7)
	Partnership-Dissolution	1	1	1		3(8)
	Accounting for Companies Share Capital	3		1	1	5(13)
	Accounting for Companies Debentures	2	1		1	4(11)
	TOTAL	**16(1)**	**4(3)**	**2(4)**	**4(6)**	**26(60)**
PART B	**Analysis of Financial Statements**					
	Analysis of Financial Statement	1	1	1		3(8)
	Accounting Ratios	1	1			2(4)
	Cash Flow Statement	2			1	3(8)
	TOTAL	**4(1)**	**2(3)**	**1(4)**	**1(6)**	**8(20)**

KENDRIYA VIDYALAYA SANGATHAN, BENGALURU REGION

SAMPLE PAPER-03 2024-25
Class: XII
Accountancy (055)

Maximum Marks: 80 **Time: 03 hrs.**

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. Both the parts are compulsory for all.
3. Question Nos.1 to 16 and 27 to 30 carries one mark each.
4. Questions Nos. 17 to 20, 31and 32 carries three marks each.
5. Questions Nos. from 21 ,22 and 33 carries four marks each
6. Questions Nos. from 23 to 26 and 34 carries six marks each
7. 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.N.	PART A (Accounting for Partnership Firms and Companies)	MARKS
1	On 1st December 2023 one of the partners of the firm introduced additional capital of ₹30,000 and also advanced a loan of ₹40,000 to the firm. Calculate the amount of interest that Partner will receive on additional capitalon 31st March, 2024 if rate of interest is 8% p.a.: a) ₹4,200 b) ₹1,400 c) ₹ 1575 d) ₹ 800	1
2	Amir and Bhuvesh are partners in a firm having a capital of ₹ 54,000 and ₹ 36,000 respectively. They admitted Charan for 1/3rd share in the profits. Charan brought proportionate amount of capital. The Capital brought in by Charan would be: a) ₹ 90,000 b) ₹ 45,000 c) ₹ 5,400 d) ₹ 36,000 **OR** A and B are partners in the ratio of 3:2. C is admitted as a partner and he takes ¼th of his share from A. B gives 3/16 from his share to C. What is the share of C? a) 1/4 b) 1/16 c) 1/6 d) 1/16	1
3	**'Complete the following statement'** When a liability is discharged by a partner, at the time of dissolution, Capital Account is credited because _______________ . a) the claim of the firm against the partner is decreased by the amount of liability assumed b) the claim of the firm against the partner is increased by the amount of liability assumed c) the claim of the partner against the firm is decreased by the amount of liability assumed d) the claim of the partner against the firm is increased by the amount of liability assumed	1
4	**Given below are two statements, one labelled as Assertion (A) and the other labelled as Reason (R):** **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 provid at fixed rate. **Codes:** a) (A) is correct but (R) is wrong b) Both (A) and (R) are correct, but (R) is not the correct explanation of (A) c) Both (A) and (R) are incorrect. d) Both (A) and (R) are correct, and (R) is the correct explanation of (A)	1

5	**Pick the odd one out:** a) Rent to partner. b) Manager's Commission. c) Interest on Partner's Loan. d) Interest on Partner's capital	1
	Read the following hypothetical situation, Answer Question No 6 & 7. Bright Star Limited is engaged in manufacture of high-end medical equipment. Considering the prospects of high growth in this segment the company has decided to expand and for this purpose additional investment of ₹50,00,00,000 is required. Directors have decided that 20% of this requirement would be financed by raising long term debts and balance by issue of Equity shares. As per memorandum of association of the company the face value of Equity shares is ₹100 each. Also, considering the market standing of the company these shares would be issued at a premium of 25%. Directors decided to issue sufficient shares to collect the desired amount (including premium). The prospectus was issued to public, and the issue was oversubscribed by ₹ 2,00,000 shares which were issued letters of regret. Answer the below mentioned questions considering that the entire amount was payable on application.	
6	What is the total amount collected on application? a) ₹42,50,00,000 b) ₹40,00,00,000 c) ₹32,00,00,000 d) None of the above	1
7	How many Equity shares were offered for issue by Bright Star Ltd.? a) 40,00,000 shares b) 50,00,000 shares c) 35,00,000 shares d) 32,00,000 shares.	1
8	At what rate is interest payable on the amount remaining unpaid to the executor of deceased partner, in absence of any agreement among partners, when (s)he opts for interest and not share of profit. (a) 12% p.a. (b) 8% p.a. (c) 6% p.a. (d) 7.5%p.a. **OR** Anmol, Bhavya and Chanakya were partners in a firm sharing profit and losses in the ratio of 5:3:2. Chanakya retired and his capital balance after adjustments regarding reserves, accumulated profit & losses and his share of gain on revaluation was ₹ 2,50,000. Chanakya was paid ₹ 3,22,000 including his share of goodwill. The amount credited to Chanakya's capital account on his retirement, for goodwill will be: a) ₹ 72,000 b) ₹ 7,200 c) ₹ 24,000 d) ₹ 36,000	1
9	P, Q and R were partners sharing profits and losses in the ratio 5:3:2. With effect from 1st April 2023 they decided to share future profits and losses in different ratio. On that date profit and loss account appearing on the asset side of the balance sheet was ₹ 4,00,000 and following entry was passed: P's Capital A/c Dr. ₹ 25,000 To Q's Capital A/c ₹ 5,000 To R's Capital A/c ₹ 20,000 **Find new Ratio:** a) 45 : 23 : 12 b) 7 : 5 : 4 c) 2 : 1 : 1 d) 1 : 1 : 1 **OR** Gain / loss on revaluation at the time of change in profit sharing ratio of existing partners is shared by (i)______ whereas in case of admission of a partner it is shared by (ii)_____. a) (i) Remaining Partners, (ii) All Partners. b) (i) All Partners, (ii) Old partners. c) (i) New Partner, (ii) All partner. d) (i) Sacrificing Partner, (ii) Incoming partner.	1
10	A company forfeited 4,000 shares of ₹ 10 each on which application money of ₹ 3 has been paid. Out of these 2,000 shares were reissued as fully paid up and ₹ 4,000 has been transferred to capital reserve. Calculate the rate at which these shares were reissued. a) ₹10 Per share b) ₹9 Per share c) ₹11 Per share d) ₹8 Per share **OR** A share of ₹ 10 each, issued at ₹ 4 premium out of which ₹ 7 (including ₹ 1 premium)	1

	was called up and paid up. The uncalled Capital will be ___________. a) ₹ 7 per share b) ₹ 4 per share c) ₹ 8 per share d) ₹ 3 per share	
11	Which of the following is true regarding Salary to a partner when the firm maintains fluctuating capital accounts? a) Debit Partner's Loan A/c and Credit P & L Appropriation A/c. b) Debit P & L A/c and Credit Partner's Capital A/c. c) Debit P & L Appropriation A/c and Credit Partner's Current A/c. d) Debit P & L Appropriation A/c and Credit Partner's Capital A/c.	1
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	1
13	E, F and G are partners sharing profits in the ratio of 3:3:2. As per the partnership agreement, G is to get a minimum amount of ₹80,000 as his share of profits every year and any deficiency on this account is to be personally borne by E. The net profit for the year ended 31st March, 2020 amounted to ₹3,12 ,000. Calculate the amount of deficiency to be borne by E? a) ₹1,000 b) ₹4,000 c) ₹8,000 d) ₹2,000 **OR** Vihaan and Maan are partners sharing profits and losses in the ratio of 3:2. The firm maintains fluctuating capital accounts and the balance of the same as on 31st March 2022 is ₹ 4,00,000 and ₹ 4,65,000 for Vihaan and Maan respectively. Drawings during the year were ₹ 65,000 each. As per the partnership Deed, Interest on capital @ 10% p.a. on Opening Capital has been allowed to them. Calculate the opening capital of Vihaan given that the divisible profits during the year 2021-22 was ₹ 2,25,000. a) ₹ 3,30,000 b) ₹ 4,40,000 c) ₹ 4,00,000 d) ₹ 3,00,000	1
14	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
15	Ajay and Vinod are partners in the ratio of 3:2. Their fixed Capital were ₹3,00,000 and ₹4,00,000 respectively. After the close of accounts for the year it was observed that the Interest on Capital which was agreed to be provided at 5% pa was erroneously provided at 10%p.a. By what amount will Ajay's account be affected if partners decide to pass an adjustment entry for the same? a) Ajay's Current A/c will be Debited by ₹15,000. b) Ajay's Current A/c will be Credited by ₹6,000. c) Ajay's Current A/c will be Credited by ₹35,000. d) Ajay's Current A/c will be Debited by ₹20,000.	1
16	Which of the following statements is incorrect about debentures? a) Interest on debentures is an appropriation of profits. b) Debenture holders are the creditors of a company. c) Debentures can be issued to vendors at discount. d) Interest is not paid on Debentures issued as Collateral Security. **OR** On 1st April 2023, Max Ltd. had a balance of ₹ 8,00,000 in Securities Premium account. During the year company issued 20,000 Equity shares of ₹ 10 each as bonus shares and used the balance amount towrite off Loss on issue of Debenture on account of issue of	`1

	2,00,000, 9% Debentures of ₹ 100 each at a discount of 10% redeemable @ 5% Premium. The amount to be charged to Statement of P&L for the year for Loss on issue of Debentures would be: a) ₹30,00,000 b) ₹22,00,000 c) ₹24,00,000 d) ₹20,00,000.	
17	Doremon, Shinchan and Nobita are partners sharing profits and losses in the ratio of 3:2:1. With effect from 1st April, 2022 they agree to share profits equally. For this purpose, goodwill is to be valued at two year's purchase of the average profit of last four years which were as follows: Year ending on 31st March,2019 ₹ 50,000 (Profit) Year ending on 31st March,2020 ₹ 1,20,000 (Profit) Year ending on 31st March,2021 ₹ 1,80,000 (Profit) Year ending on 31st March,2022 ₹ 70,000 (Loss) On 1st April, 2021 a Motor Bike costing ₹ 50,000 was purchased and debited to travelling expenses account, on which depreciation is to be charged @ 20% p.a by Straight Line Method. The firm also paid an annual insurance premium of ₹ 20,000 which had already been charged to Profit and Loss Account for all the years. Calculate the value of Goodwill for the firm.	3
18	P, Q and R were partners with fixed capital of ₹ 40,000, ₹32,000and ₹24,000.After distributing the profit of ₹48,000 for the year ended 31st March 2022 in their agreed ratio of 3 : 1 : 1. It was observed that: (i) Interest on capital was provided at 10% p.a. instead of 8% p.a. (ii) Salary of ₹ 12,000 was credited to P instead of Q. You are required to pass a single journal entry in the beginning of the next year to rectify the above omissions. **OR** Cheese and Slice are equal partners. Their capitals as on April 01, 2022 were ₹ 50,000 and ₹ 1,00,000 respectively. After the accounts for the financialyear ending March 31, 2023 have been prepared, it is observed that interest on capital @ 6% per annum and salary to Cheese @ ₹ 5,000 per annum, as provided in the partnership deed has notbeen credited to the partners' capital accounts before distribution of profits. You are required to give necessary rectifying entries using P&L adjustment account.	3
19	P, Q and R were partners in a firm sharing profits in the ratio of 3:2:1. P retired and the new profit-sharing ratio of Q and R was agreed to be equal. On P's retirement, goodwill of the firm was valued at ₹60,000. **Pass necessary journal entries for the treatment of goodwill under the following cases:** (i)When goodwill is adjusted without opening Goodwill Account. (ii)When Goodwill is raised and written off.	3
20	Pioneer Fitness Ltd. took over the running business of Healthy World Ltd. having assets of ₹10,00,000 and liabilities of ₹ 1,70,000 by: a) Issuing 8,000 8% Debentures of ₹ 100 each at 5% premium redeemable after 6 years @ ₹ 110; and b) Cheque for ₹ 50,000. Pass the Journal entries in the books of Pioneer Fitness Ltd. **OR** Lilly Ltd. forfeited 100 shares of ₹10 each issued at10% premium (₹8 called up) on which a shareholder did not pay ₹3 of allotment (including premium) and first call of ₹2. Out of these 60 shares were reissued to Ram as fully paid for ₹8 per share and 20 shares to Suraj as fully paid up @ ₹12 per share at different intervals of time. Prepare Share Forfeiture Account..	3
21	Kayal Ltd. was registered with an authorised Capital of ₹ 4,00,00,000 divided in 25,00,000 Equity Shares of ₹ 10 each and 1,50,000, 9% Preference Shares of ₹ 100 each.	4

	The company issued 8,00,000 Equity Shares for public subscription at 20% premium, payable ₹ 3 on application; ₹ 7 on allotment (including premium) and balance on call. Public had applied for 10,00,000 shares. Excess Applications were sent letters of regret. All the dues on allotment received except on 15,000 shares held by Sanju. Another shareholder Rocky paid his call dues along with allotment on his holding of 25,000 shares. You are required to prepare the Balance Sheet of the company as per Schedule III of Companies Act, 2013, showing Share Capital balance and also prepare Notes to Accounts.	
22	Charu, Dhwani, Iknoor and Paavni were partners in a firm. They had entered into partnership firm last year only, through a verbal agreement. They contributed Capitals in the firm and to meet other financial requirements, few partners also provided loan to the firm. Within a year, their conflicts arisen dueto certain disagreements and they decided to dissolve the firm. The firm had appointed Ms. Kavya, who is a financial advisor and legal consultant, to carry on the dissolution process. In the first instance, Ms. Kavya had transferred various assets and external liabilities to Realisation A/c. Due to her busy schedule; Ms. Kavya has delegated this assignment to you, being an intern in her firm. On the date of dissolution, you have observed the following transactions: (i) Dhwani's Loan of ₹ 50,000 to the firm was settled by paying ₹ 42,000. (ii)Paavni's Loan of ₹ 40,000 was settled by giving an unrecorded asset of ₹ 45,000. (iii)Loan to Charu of ₹ 60,000 was settled by payment to Charu's brother loan of the same amount. (iv)Iknoor's Loan of ₹ 80,000 to the firm and she took over Machinery of ₹ 60,000 as part payment. You are required to pass necessary entries for all the above mentioned transactions.	4
23	Gautam and Yashica are partners in a firm, sharing profits and losses in 3:1 respectively. The balance sheet of the firm as on 31st March 2023 was as follows:	6

Balance Sheet As at 31.3.2023

Liabilities		Amount	Assets	Amount
Sundry creditors		50,000	Furniture	60,000
Bills payable		30,000	Stock	1,40,000
Capitals:			Debtors	80,000
Gautam	4,00,000		Cash in hand	90,000
Yashica	1,00,000	5,00,000	Machinery	2,10,000
Total		**5,80,000**	**Total**	**5,80,000**

Asma is admitted as a partner for 3/8th share in the profits with a capital of ₹2,10,000 and ₹50,000 for her share of goodwill. It was decided that:
i. New profit sharing ratio will be 3:2:3.
ii. Machinery will depreciated by 10% and Furniture by ₹5,000.
iii. Stock was re-valued at ₹ 2,10,000.
iv. Provision for doubtful debts is to be created at 10% of debtors.
v. The capitals of all the partners were to be in the new profit sharing ratio on basis of capital of new partner any adjustment to be done through current accounts.
Prepare Revaluation Account and Partners Capital Account.

OR

Krish, Vrish and Peter are partners sharing profits in the ratio of 3:2:1. Vrish retired from the firm. On that date the Balance Sheet of the firm was as follows:

Balance Sheet as on March 31, 2023

Liabilities	Amount	Assets	Amount
Sundry Creditors	15,000	Cash at bank	7,600
General Reserve	12,000	Furniture	41,000
Bills Payable	12,000	Sundry Debtors	
Outstanding Salaries	2,200	6,000	5,600
Provision for Legal		*Less:* Prov. for Doubtful Debts	9,000

	Damages	6,000	400	80,000	
	Capital Accounts:		Stock		
	Krish 46,000		Premises		
	Vrish 30,000				
	Peter 20,000	96,000			
	Total	**1,43,200**	**Total**	**1,43,200**	

Additional Information:

(i) Premises to be appreciated by 20%,
(ii) Stock to be depreciated by 10% and
(iii) Provision for doubtful debts was to be maintained @5% on Debtors.
(iv) Further, provision for legal damages is to be increased by ₹ 1,200 and
(v) Furniture to be brought up to ₹ 45,000.
(vi) Goodwill of the firm is valued at ₹ 42,000.
(vii) ₹ 26,000 from Vrish's Capital account be transferred to his loan account and balance to be paid through bank; if required, necessary loan may be obtained from bank.
(viii) New profit sharing ratio of Krish and Peter is decided to be 5:1.
Pass necessary journal entries in the books of the firm on the retirement of Vrish.

24 On 31st March 2020 the Balance Sheet of Punit, Rahul and Seema was as follows: 6

Balance Sheet of Punit, Rahul and Seema
as at March 31, 2020

Liabilities		Rs.	Assets	Rs.
Capitals:			Buildings	40,000
Punit	60,000		Machinery	60,000
Rahul	50,000		Patents	12,000
Seema	30,000	1,40,000	Stock	20,000
Reserves		20,000	Cash	42,000
Creditors		14,000		
Total		**1,74,000**	**Total**	**1,74,000**

They were sharing profit and loss in the ratio 5:3:2. Seema died on October 1, 2020. It was agreed between her executors and the remaining partners that:
(i) Goodwill be valued at 2 years' purchase of the average profits of the previous five years, which were: 2015-16: ₹30,000; 2016-17: ₹26,000; 2017-18: ₹24,000; 2018-19: ₹30,000and 2019-20: ₹40,000.
(ii) Patents be valued at ₹16,000; Machinery at ₹56,000; Buildings at ₹60,000.
(iii) Profits for the year 2020-21 be taken as having been accrued at the same rate as that in the previous year.
(iv) Interest on capital be provided at 10% p.a.
(v) A sum of ₹15,500 was paid to her executors immediately and the remaining amount will be paid to her executor in three equal yearly instalments with interest @10% p.a. The first instalment was to be paid on 30.09.2021.
Calculate the amount to be transferred to Seema's Executor's A/c and prepare Seema's Executor's Account till it is finally settled.

25 On October 1, 2022, Tiger Ltd. issued 40,000, 8% Debentures of ₹100 each at 9% premium and redeemable at a premium of 12% after 5 years. On the same date, the company issued 600, 14% debentures of ₹1,000 each as a collateral security to Punjab National Bank which had advanced a loan of ₹15,00,000 to it for a period of 6 years. The balance in Securities Premium Account on the date of issue of debentures was ₹1,60,000. Interest on debentures was paid half yearly and loss on issue of debentures was written off at the end of year.
Pass Journal entries for the financial year 2022-23. 6

26 Python Ltd. invited applications for issuing 1,00,000 Shares of ₹ 10 each at a premium of ₹2 per 6

	share. The amount was payable as₹ 4 on application (including premium); ₹ 5 on Allotment and balance on call. Applications were received shares for 1,80,000 of which Applications for 30,000 shares were rejected and remaining applicants were allotted on pro-rata basis. Manthan, holding 5,000 shares failed to pay call money and his shares were forfeited. Out of these 2,000 shares were re-issued at premium of ₹ 3 per share. Prepare Cash Book and pass necessary entries. **OR** Zocon Ltd. issued a prospectus inviting applications for 5,00,000 equity shares of ₹10 each issued at a premium of 10% payable as: ₹3 on Application ₹5 on Allotment (including premium) and ₹3 on call. Applications were received for 6,60,000 shares. Allotment was made as follows: (a) Applicants of 4, 00,000 shares were allotted in full. (b) Applicants of 2, 00,000 shares were allotted 50% on pro rata basis. (c) Applicants of 60,000 shares were issued letters of regret. A shareholder to whom 500 shares were allotted under category (a) paid full amount on shares allotted to him along with allotment money. Another shareholder to whom 1,000 shares were allotted under category (b) failed to pay the amount due on allotment. His shares were immediately forfeited. These shares were then reissued at ₹14 per share as ₹7 paid up. Call has not yet been made. Journalise the above transactions in the books of Zocon Ltd..	
	PART B (Analysis of Financial Statements)	
27	Which of the following is not an objective of Analysis of financial statements? a) To judge the financial health of the firm b) To judge the short term and long-term liquidity position of the firm c) To judge the reason for change in the profitability of the firm d) To judge the variations in the accounting practices of the business followed by different enterprises **OR** Operating Cycle is the time between the acquisition of assets for processing and their realisation into: a) Current Assets b) Non- current Assets c) Other Current Assets d) Cash and Cash Equivalents	1
28	Which of the following is correct? (i) A ratio is an arithmetical relationship of one number to another number. (ii) Liquid ratio is also known as Acid test ratio. (iii) Ideally accepted Current ratio is 1:1. (iv) Debt Equity ratio is the relationship between Outsider's funds and shareholders' funds. **Choose the correct choice from the following:** a)All are correct b)Only (i), (ii) and (iv) are correct c)Only (ii), (iii) and (iv) are correct d)Only (ii) and (iv) are correct	1
29	**Statement I:-** Sale of Marketable Securities will result in no flow of Cash. **Statement II:-** Debentures issued as collateral security will result in inflow of cash. 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.	1
30	From the following information find out the inflow of Cash by sale of Office equipment's 31st March, 2022 31st March, 2021 Office Equipment ₹ 2,00,000 ₹ 3,00,000 **Additional Information:**	1

	Depreciation for the year 2021-22 was ₹ 40,000. Purchase of Office Equipment during the year ₹ 30,000. Part of Office Equipment sold at a profit of ₹ 12,000. a) ₹ 1,00,000 b) ₹ 1,02,000 c) ₹ 90,000 d) ₹ 1,12,000 **OR** A company issued 20,000; 9% Debentures of ₹ 100 each at 10% Discount. These debentures were to be redeemed at 15% Premium at the end of 5 years. The balance in Securities Premium Account as on the date of Issue was ₹ 3,70,000. How this transaction will be reflected in Cash Flow Statement? a) Added ₹ 1,30,000 under Operating Activities as Loss on Issue of Debentures written off and Inflow of ₹ 20,00,000 under Financing Activities. b) Added ₹ 5,00,000 under Operating Activities as Loss on Issue of Debentures written off and Inflow of ₹ 18,00,000 under Financing Activities. c) Added ₹ 1,30,000 under Operating Activities as Loss on Issue of Debentures written off and Inflow of ₹ 18,00,000 under Financing Activities. d) Added ₹ 5,00,000 under Operating Activities as Loss on Issue of Debentures written off and Inflow of ₹ 20,00,000 under Financing Activities.	
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) Debentures with maturity period in current financial year (ii) Securities Premium Reserve (iii) Provident Fund (iv) Furniture and Fixtures (v) Provision for Warranties (vi) Income received in advance	3
32	Read the following hypothetical extract of Rehan Limited and answer the given questions on the basis of the same:	3

Year	2020	2019	2018
Outstanding Expenses	50,000	40,000	25,000
Prepaid Expenses	3,00,000	2,50,000	3,50,000
Trade Payables	18,00,000	16,00,000	14,00,000
Inventory	12,00,000	10,00,000	11,00,000
Trade Receivables	11,00,000	8,00,000	10,00,000
Cash in hand	17,00,000	12,00,000	15,00,000
Revenue from operations	24,00,000	18,00,000	20,00,000
Gross Profit Ratio	12%	15%	18%

(i) Quick Ratio for the year 2018 will be_______________

(ii) Inventory turnover ratio for the year 2020 will be______

(iii) Cost of Revenue from Operations for the year 2019 would be _______________________

33	Prepare a comparative statement of profit and loss with the help of the following information:	4

	2021-22 (₹)	2022-23 (₹)
Revenue from Operations	20,00,000	30,00,000
Expenses	12,00,000	21,00,000
Other Incomes	4,00,000	3,60,000
Income Tax	30%	30%

OR

From the following Balance Sheets of Deepshikha Ltd. as at 31st March, 2022 and 2023, prepare Comparative Balance Sheet:

Balance Sheet as at 31.03.2022 and 31.03.2023

Particulars	**Note No.**	**31-03-2022**	**31-03-2023**
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds:			
Share Capital (Equity)		18,00,000	12,00,000
2. Non-Current Liabilities:			
Long-term borrowings: 8% Debentures		6,00,000	6,00,000
3. Current Liabilities:			
Trade Payables		6,00,000	3,00,000
Total		**30,00,000**	**21,00,000**
II. ASSETS			
1. Non-current Assets:			
Property, Plant & Equipment		18,00,000	15,00,000
2. Current Assets:			
(a) Trade Receivables		10,00,000	5,00,000
(b) Cash and Cash Equivalents		2,00,000	1,00,000
Total		**30,00,000**	**21,00,000**

34 On the basis of information given by Mradul Ltd., prepare Cash Flow Statement for the year ending 31st March, 2023: 6

Mradul Ltd.
Balance Sheet as on 31st March, 2023

Particulars	**Note No.**	**31-03-2022 (₹)**	**31-03-2023 (₹)**
I. EQUITY AND LIABILITIES			
1. Shareholder's funds:			
a) Share Capital		5,00,000	7,30,000
b) Reserve and Surplus	1	3,50,000	3,70,000
2. Non-current Liabilities:			
Long term borrowings	2	4,00,000	2,00,000
3. Current Liabilities:			
a) Trade Payables	3	3,60,000	4,60,000
b) Short term provisions	4	3,25,000	3,20,000
Total		**19,35,000**	**20,80,000**
II. ASSETS			
1. Non-current Assets:			
a) Property, Plant & Equipment and Intangible			
Assets	5	4,50,000	5,00,000
i. Property, Plant & Equipment	6	3,10,000	3,02,000
ii. Intangible Assets		4,00,000	4,30,000
b) Long-term Loans & Advances			
2. Current Assets:	7	2,70,000	2,90,000
a) Inventories		2,40,000	2,60,000
b) Trade Receivables		2,65,000	2,98,000
c) Cash and Cash Equivalents		**19,35,000**	**20,80,000**
Total			

Notes to Accounts:

S.N.	**Particulars**	**31-03-2022 (₹)**	**31-03-2023 (₹)**
1	**Reserves and Surplus**		
	Surplus i.e. balance in statement of profit and loss	3,50,000	3,70,000
2	**Long term borrowings**		
	10% debentures	4,00,000	2,00,000

3	**Trade Payables**		
	Creditors	2,40,000	2,60,000
	Bills Payable	1,20,000	2,00,000
4	**Short term provisions**		
	Provision for Taxation	3,25,000	3,20,000
5	**Property, Plant & Equipment**		
	Machinery	5,50,000	6,60,000
	Accumulated Depreciation	1,00,000	1,60,000
		4,50,000	5,00,000
6	**Intangible Assets**		
	Patents	3,10,000	3,02,000
7	**Inventories**		
	Stock in trade	2,70,000	2,90,000

Additional Information:

(i) Debentures were redeemed on 1st April,2022.

(ii) Tax paid during the year ₹2,80,000.

KENDRIYA VIDYALAYA SANGATHAN, BENGALURU REGION
SAMPLE PAPER-03 2024-25
Class: XII
Accountancy
Marking Scheme

Q.N.	ANSWERS	MARKS
	PART A (Accounting for Partnership Firms and Companies)	
1	d) ₹ 800	1
2	b) ₹ 45,000 **OR** a) 1/4	1
3	d) the claim of the partner against the firm is increased by the amount of liability assumed	1
4	c) Both (A) and (R) are incorrect	1
5	d) Interest on Partner's capital.	1
6	a) ₹42,50,00,000	1
7	d) 32,00,000 shares.	1
8	(c) 6% p.a. **OR** a) Rs 72,000	1
9	b) 7:5:4 **OR** (B) (i) All Partners, (ii) Old partners.	1
10	b)₹ 9 Per share **OR** b) ₹ 4 per share	1
11	c) Debit P & L Appropriation A/c and Credit Partner's Current A/c.	1
12	a) Interest on Partner's Loan	1
13	d)₹2,000 **OR** a) 3,00,000	1
14	c) (ii), (i), (iii), (iv)	1
15	b) Ajay's Current A/c will be Credited by ₹6,000.	1
16	a) Interest on debentures is an appropriation of profits. **OR** c) ₹24,00,000	`1
17	(i) Calculation of (Adjusted) Average Profit: Year Ended Profit/ Loss Adjustments Normal Profit 31st March,2019 50,000 ---- 50,000 31st March,2020 1,20,000 ----- 1,20,000 31st March,2021 1,80,000 ----- 1,80,000 31st March,2022 (70,000) 50,000-10,000 (30,000) **Total 3,20,000** Average Profits = Total Normal Profits/Number of years = 3,20,000/4 = 80,000 (ii) Calculation of goodwill: Goodwill =Average Profits X No. of years Purchase Goodwill= 80,000 X 2= ₹1,60,000	3
18	**Partners** **Intt. on Capital Paid (2%) (i)** **Salary Paid (wrong credit) (ii)** **Payable (iii)** **Salary Payable (iv)** **Excess / Deficiency** P 800 12,000 1152 ---- 11,648 (Excess)	3

Q	640	----	384	12,000	11,744 (Deficiency)
R	480	----	384	----	96 (excess)

Journal Entries

Date	Particulars	L.F.	Debit Amount	Credit Amount
2018			₹	₹
Mar.31	P's Capital A/c Dr		11,648	
	R's Capital A/c Dr		96	
	To Q's Capital A/c			11,744
	(Being entry passed for adjustment of interest on capital and salary)			

OR

Journal Entry

Date	Particulars	L.F.	Debit Amount	Credit Amount
			₹	₹
	P&L Adjustment A/c Dr.		9,000	
	To Cheese Capital A/c			3,000
	To Slice Capital A/c			6,000
	(Being Interest on capital omitted earlier now provided)			
			5,000	
	P&L Adjustment A/c Dr.			5,000
	To Cheese Capital A/c			
	(Being salary omitted earlier now provided)			
	Cheese Capital A/c Dr.		7,000	
	Slice Capital A/c Dr.		7,000	
	To P&L Adjustment A/c			14,000
	(Being Loss on Adjustment transferred to partners)			

19 **Journal Entry** 3

Date	Particulars	L.F.	Debit Amount	Credit Amount
			₹	₹
	(i)When goodwill is adjusted without opening Goodwill Account:			
	Q's Capital A/c Dr.		10,000	
	R's Capital A/c Dr.		20,000	
	To P's Capital A/c			30,000
	(Being adjustment for goodwill made)			
	(ii)When Goodwill is raised and written off:			
	Goodwill A/c Dr.		60,000	
	To P's Capital A/c			30,000
	To Q's Capital A/c			20,000
	To R's Capital A/c			10,000
	(Being goodwill raised)			
	Q's Capital A/c Dr.		10,000	
	R's Capital A/c Dr.		20,000	

	To Goodwill A/c (Being goodwill written off)			30,000

Working Notes:

1. Amount of P's share of Goodwill = 60,000x3/6 = ₹30,000

2. Gaining Ratio:

Q = 1/2 – 2/6 = 1/6; R = 1/2 – 1/6 = 2/6 therefore gaining ratio = 1:2

3. Share of goodwill compensated:

Q = 30,000 x 1/3 = ₹10,000 and R = 30,000 x 2/3 = ₹20,000

20 — 3

Journal Entries in the books of Pioneer Fitness Ltd.

Date	Particulars	L.F.	Debit Amount	Credit Amount
			₹	₹
	Assets A/c Dr.		10,00,000	
	Goodwill A/c Dr.		60,000	
	To Liabilities A/c			1,70,000
	To Healthy World ltd.			8,90,000
	(Being assets and liability taken over)		8,90,000	
	Healthy World Ltd. Dr.		80,000	
	Loss on issue of Debentures A/c Dr.			8,00,000
	To 8% Debentures A/c			40,000
	To Securities Premium A/c			80,000
	To Premium on Redemption A/c			50,000
	To Bank A/c			
	(Being Purchase consideration discharged by issue of Debentures and in Cash)			

OR

Share Forfeiture A/c

Date	Particulars	Amount	Date	Particulars	Amount
		₹			₹
	To Share Capital A/c	120		By Share Capital A/c	400
	To Capital Reserve A/c	120			
	To Capital Reserve A/c	80			
	To Balance c/d	80			
		400			400

21 — 4

Books of Kayal Ltd.

Balance Sheet (Extract) as at …..

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds:		
(a) Share Capital	1	63,25,000

Notes to Accounts:

S.N.	Particulars	Amount (₹)
1	**Share Capital**	
	Authorised Share Capital	
	25,00,000 Equity Shares @ ₹ 10 each	
	2,50,00,000	4,00,00,000
	1,50,000 9% Preference Shares @ ₹ 100 each 1,50,00,000	
	Issued Share Capital	
	8,00,000 Equity Shares @ ₹ 10 each	80,00,000

	Subscribed but not fully paid up: 8,00,000 Equity Shares @ ₹ 8 each 64,00,000 (-) Calls in Arrears (75,000)	63,25,000	
22	**Journal Entries**		4

Date	Particulars	L.F.	Debit Amount	Credit Amount
			₹	₹
(i)	Dhwani's Loan A/c Dr. To Bank A/c To Realisation A/c (Dhwani's Loan of ₹ 50,000 settled at ₹ 42,000)		50,000	 42,000 8,000
(ii)	Paavni's Loan A/c Dr. To Realisation A/c (Paavni's Loan of ₹ 40,000 settled by giving an unrecorded asset)		40,000	 40,000
(iii)	Realisation A/c Dr. To Loan to Charu A/c (Loan to Charu was settled by payment to Charu's brother Loan)		60,000	 60,000
(iv)	Iknoor's Loan A/c Dr. To Realisation A/c To Bank A/c (Iknoor's Loan of ₹ 80,000 and Machinery was given as part payment and rest through bank)		80,000	 60,000 20,000

23 **Revaluation Account** 6

Particulars	Amount	Particulars	Amount
To Machinery A/c To Furniture A/c To Provision for doubtful debts To partner's Capital A/c: Gautam 27,000 Yashica 9,000	21,000 5,000 8,000 36,000	By Stock A/c	70,000
	70,000		**70,000**

Partners' Capital Accounts

Particulars	Gautam	Yashica	Asma	Particulars	Gautam	Yashica	Asma
To Gautam's Current A/c	2,67,000	----	----	By bal. b/d	4,00,000	1,00,000	----
To bal. c/d	2,10,000	1,40,000	2,10,000	By Rev. A/c	27,000	9,000	----
				By Bank A/c	----	----	2,10,000
				By Prem. for G/w	50,000	----	----
				By Yashica's current A/c		31,000	
	4,77,000	**1,40,000**	**2,00,000**		**4,77,000**	**1,40,000**	**2,00,000**

Working Note:-

Total Capital of the firm =2,10,000 x 8/3 = 5,60,000

Gautam's capital in the firm =5,60,000 x3/8 = 2,10,000

Yashica'S capital in the firm = 5,60,000x2/8 = 1,40,000

OR

Journal Entries on Vrish's Retirement

Date	Particulars	L.F.	Debit Amount	Credit Amount
			₹	₹
	General Reserve A/c Dr. To Krish's Capital A/ To Vrish's Capital A/c To Peter's Capital A/		12,000	 6,000 4,000 2,000
	RevaluationA/c Dr. To Stock A/c To Provision for Legal Damages A/c (Being assets increased& liabilities decreased)		2,100	 900 1,200
	Premises A/c Dr. Provision for Doubtful Debts A/c Dr. Furniture A/c Dr. To Revaluation A/c (Being assets decreased& liabilities increased)		16,000 100 4,000	 21,100
	Revaluation A/c Dr. To Krish's Capital A/c To Vrish's Capital A/c To Peter's Capital A/c (Being profit on revaluation transferred to capital a/cs)		18,000	 9,000 6,000 3,000
	Krish's Capital A/c Dr. To Vrish'sCapital A/c (Being adjustment for goodwill made)		14,000	 14,000
	Vrish'sCapital A/c Dr. To Vrish'sLoan A/c (Being balance of Vrish's capital trans. to his loan a/c)		26,000	 26,000
	Vrish's Capital A/c Dr. To Bank A/c (Being cash paid)		28,000	 28,000

24 **Calculation of the amount transferred to Seema's Executor's A/c on 1st October, 2020:** 6

= Balance of Capital + Share in Reserves + Amount of Goodwill by Punit& Rahul + Share in profit on Revaluation + Interest on capital the death date + Share in profit till the death date

= 30,000 + 6,000 + (7,500 + 4,500) + 4,000 + 1,500 + 4,000

= **₹57,500**

Dr. **Seema's Executor's Account** Cr.

Date	Particulars	Amount	Date	Particulars	Amount
2020 Oct.1	To Bank A/c	15,500	2020 Oct.1	By Seema's Capital A/c	57,500
2021 Mar.31	To Balance c/d	44,100	2021 Mar.31	By Interest A/c	2,100
		59,600			59,600
2021 Sep.30	To Bank A/c (14,000 + 4,200)	18,200	2021 Apr.1 Sep.30	By Balance b/d By Interest A/c	44,100 2,100
2022 Mar.31	To Balance c/d	29,400	2022 Mar.31	By Interest A/c	1,400
		47,600			47,600

2022			2022		
Sep.30	To Bank A/c	16,800	Apr.1		29,400
	(14,000 + 2,800)		Sep.30	By Balance b/d	1,400
2023			2023	By Interest A/c	
Mar.31	To Balance c/d	14,700	Mar.31		700
		31,500		By Interest A/c	31,500
2023			2023		
Sep.30	To Bank A/c	15,400	Apr.30		14,700
	(14,000 + 1,400)		Sep.30	By Balance b/d	700
		15,400		By Interest A/c	15,400

Working notes: Amount payable as loan = 57,500 – 15,500 = ₹42,000

1. 42,000 x 10/100 x 6/12 = ₹2,100 2. 42,000 x 10/100 x 6/12 = ₹2,100
3. 28,000 x 10/100 x 6/12 = ₹1,400 4. 28,000 x 10/100 x 6/12 = ₹1,400
5. 14,000 x 10/100 x 6/12 = ₹700 6. 14,000 x 10/100 x 6/12 = ₹700

25 **Journal Entries in the books of Tiger Ltd.** 6

Date	Particulars	L.F.	Debit Amount	Credit Amount
2022			₹	₹
Oct.1	Bank A/c Dr.		43,60,000	
	To Debenture Application & Allotment A/c			43,60,000
	(Being amount received on 40,000, 8% debentures @₹100 each along with premium			
,,	@9%)		43,60,000	
	Debenture Application & Allotment A/c		4,80,000	
	Dr.			40,00,000
	Loss on Issue of Debentures A/c Dr.			3,60,000
	To 8% Debentures A/c			4,80,000
	To Securities Premium A/c			
	To Premium on Redemption of Debentures A/c			
	(Being amount received on 40,000, 8%			
,,	debentures @₹100 each along with premium		15,00,000	
	@9% transferred to debentures a/c and			15,00,000
	premium on redemption of debentures adjusted			
,,	@12%)		6,00,000	
	Bank A/c Dr.			6,00,000
	To Bank Loan A/c			
2023	(Being loan received from PNB)			
Mar.31	Debenture Suspense A/c Dr.		1,60,000	
	To 14% Debentures A/c			1,60,000
	(Being 600, 14% debentures @₹100 each issued to PNB as collateral security against the			
,,	loan)		1,60,000	
	Debenture Interest A/c Dr.			1,60,000
	To Debenture holders' A/c			
	(Being half yearly interest on debentures due			
,,	@8% p.a.)		1,60,000	
	Debenture holders' A/c Dr.			1,60,000
	To Bank A/c			
	(Being half yearly interest on debentures due			
,,	@8% p.a. paid)		4,80,000	
	Statement of Profit and Loss Dr.			4,80,000

Date	Particulars	L.F.	Debit Amount	Credit Amount
	To Debenture Interest A/c (Being interest on debentures transferred to statement of profit and loss)			
	Securities Premium A/c Dr. To Loss on Issue of Debentures A/c (Being loss on issue of debentures written off)			

26 **Journal Entries in the books of Python Ltd.** 6

Date	Particulars	L.F.	Debit Amount	Credit Amount
			₹	₹
	Share Application A/c Dr. To Share Capital A/c To Securities Premium A/c To Share Allotment A/c (Being Application money utilised)		6,00,000	 2,00,000 2,00,000 2,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment due with premium)		5,00,000	 5,00,000
	Share First and Final Call A/c Dr. To Share Capital A/c (Being call money due)		3,00,000	 3,00,000
	Calls in Arrears A/c Dr. To Share First and Final Call A/c (Being call money received except of Simba)		15,000	 15,000
	Share Capital A/c Dr. To Share Forfeited A/c To Calls in Arrears A/c (Being Simba's shares forfeited)		50,000	 35,000 15,000
	Share Forfeited A/c Dr. To Capital Reserve A/c (Being gain on re-issue transferred to Capital Reserve)		14,000	 14,000

OR

Journal Entries in the books of X Ltd.

Date	Particulars	L.F.	Debit Amount	Credit Amount
			₹	₹
	Bank A/c Dr. To Equity Share Application A/c (Being application money received)		19,80,000	 19,80,000
	Equity Share Application A/c Dr. To Equity Share capital A/c To Equity Share Allotment A/c To Bank A/c (Being Shares allotted and balance refunded)		19,80,000	 15,00,000 3,00,000 1,80,000
	Equity Share Allotment A/c Dr. To Equity Share capital A/c To Securities Premium Reserve A/c (Being Share allotment money including premium due)		25,00,000	 20,00,000 5,00,000
	Bank A/c Dr. Calls in Arrears A/c Dr.		21,99,500 2,000	

Particulars	L.F.	Dr. (₹)	Cr. (₹)
To Equity Share Allotment A/c To Calls in Advance A/c (Being allotment money received)			22,00,000 1,500
Equity Share Capital A/c Dr. Securities premium Reserve A/c Dr. To Shares Forfeited A/c To Calls In Arrears A/c (Being 1000 shares forfeited for non-payment of allotment including premium.)		7,000 1,000	 6,000 2,000
Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being forfeited shares reissued at ` 14 per share)		14,000	 7,000 7,000
Shares Forfeited A/c Dr. To Capital Reserve A/c (Being share forfeited money transferred to Capital Reserve account)		6,000	6,000

PART B (Analysis of Financial Statements)

Q. No.	Answer	Marks
27	d) To judge the variations in the accounting practices of the business followed by different enterprises. **OR** d) Cash and Cash Equivalents	1
28	b)Only (i), (ii) and (iv) are correct	1
29	c) Statement I is correct, and Statement II is incorrect	1
30	b) ₹ 1,02,000 **OR** c) Added ₹ 1,30,000 under Operating Activities as Loss on Issue of Debentures written off and Inflow of ₹ 18,00,000 under Financing Activities.	1
31	a) Inventory Turnover Ratio and Working Capital Turnover Ratio	3

Items	Heads	Sub Heads
(i) Debentures with maturity period in current financial year	Current Liabilities	Other Current Liabilities
(ii) Securities Premium Reserve	Shareholders' Funds	Reserves & Surplus
(iii) Provident Fund	Non Current Liabilities	Long-term Provisions
(iv) Furniture and Fixtures	Non Current Assets	PPE & Intangible Assets
(v) Provision for Warranties	Non Current Liabilities	Long-term Provisions
(vi) Income received in advance	Current Liabilities	Other Current Liabilities

Q. No.	Answer	Marks
32	(i) 1.75: 13 (ii) 1.92 times (iii) ₹15,30,000	3
33	**Comparative Statement of Profit and Loss** for the year ended 2022 & 2023	4

Particulars	Note No.	2021-22 (₹)	2022-23 (₹)	Absolute Change	% Change
I. Revenue from Operations		20,00,000	30,00,000	10,00,000	50
II. Other Incomes		4,00,000	3,60,000	(40,000)	(10)
III. Total Revenue (I + II)		**24,00,000**	**33,60,000**	**9,60,000**	**40**
IV. Expenses		12,00,000	21,00,000	9,00,000	75
V. Profit before Tax (III - IV)		**12,00,000**	**12,60,000**	**60,000**	**05**

Less: Tax @ 30%		3,60,000	3,78,000	18,000	05
VI. Profit after Tax		**8,40,000**	**8,82,000**	**42,000**	**05**

OR

Deepshikha Ltd.

Comparative Balance Sheet as at 31.03.2022 and 31.03.2023

Particulars	**Note No.**	**31.03.2022 (₹)**	**31.03.2023 (₹)**	**Absolute Change**	**% Change**
I. EQUITY AND LIABILITIES					
1. Shareholders' Funds: Share Capital (Equity)		18,00,000	12,00,000	(6,00,000)	(33.33)
2. Non-Current Liabilities: Long-term borrowings: 8% Debentures		6,00,000	6,00,000	0	0
3. Current Liabilities: Trade Payables		6,00,000	3,00,000	(3,00,000)	(50.00)
Total		**30,00,000**	**21,00,000**	**(9,00,000)**	**(30.00)**
II. ASSETS					
1. Non-current Assets: Property, Plant & Equipment		18,00,000	15,00,000	(3,00,000)	(16.67)
2. Current Assets:					
(a) Trade Receivables		10,00,000	5,00,000	(5,00,000)	(50.00)
(b) Cash and Cash Equivalents		2,00,000	1,00,000	(1,00,000)	(50.00)
Total		**30,00,000**	**21,00,000**	**(9,00,000)**	**(30.00)**

34 **Mradul Ltd.** 6

Cash Flow Statement

for the year ended 31st March, 2023

Particulars	**Amount (₹)**	**Amount (₹)**
(A) Cash Flow from Operating Activities		
Net Profit before Tax and Extraordinary Items	2,95,000	
Add: Depreciation on Machinery	60,000	
Add: Patents written off	8,000	
Add: Interest on Debentures	20,000	
Operating Profit before Working Capital Changes	3,83,000	
Add: Increase in Current Liabilities		
Increase in Creditors	20,000	
Increase in Bills Payable	80,000	
Less: Increase in Current Assets:		
Increase in Inventories	(20,000)	
Increase in Trade Receivables	(20,000)	
Cash Generated from Operating Activities	4,43,000	
Less: Tax paid	(2,80,000)	
Cash Flow from Operating Activities		1,63,000
(B) Cash Flow from Investing Activities		
Purchase of Machinery	(1,10,000)	
Investments in Long-term Loans & Advances	(30,000)	
Cash Used in Investing Activities		(1,40,000)
(C) Cash Flow from Financing Activities		
Cash Proceeds from Issue of Share Capital	2,30,000	
Redemption of 10% Debentures	(2,00,000)	

Interest on Debentures	(20,000)	
Cash Flow from Financing Activities		10,000
Net Increase/Decrease in Cash and Cash Equivalents (A+B+C)		**33,000**
Add: Opening Cash and Cash Equivalents:		2,65,000
Closing Cash and Cash Equivalents:		**2,98,000**

Working Notes:

1. Calculation of Net Profit before Tax and Extraordinary Items:

Particulars	**Amount (₹)**
Closing Surplus i.e. Balance of Statement of Profit and Loss	3,70,000
Less: Opening Surplus i.e. Balance of Statement of Profit and Loss	(3,50,000)
Profit for the year	20,000
Add: Provision for Tax	2,75,000
Net Profit before Tax and Extraordinary Items	2,95,000

2. Provision for Tax Account

Particulars	**Amount**	**Particulars**	**Amount**
Bank A/c	2,80,000	Balance b/d	3,25,000
Balance C/d	3,20,000	Statement of Profit and Loss	2,75,000
	6,00,000		6,00,000

KENDRIYA VIDYALAYA SANGATHAN BENGALURU REGION

SAMPLE QUESTION PAPER SET -4

CLASS: XII **MAX.MARKS: 80**

ACCOUNTANCY (055)

BLUE PRINT

		1M	3M	4M	6M	TOTAL
PART A	**Accounting for Partnership Firms and Companies**					
	Partnership Fundamentals	7	1			8(10)
	Partnership-Admission	2	1		1(or)	4(11)
	Retirement & Death	1			1+1 (or)	2(7)
	Partnership-Dissolution	1	1	1		3(8)
	Accounting for Companies Share Capital	3		1	1	5(13)
	Accounting for Companies Debentures	2	1		1	4(11)
	TOTAL	**16(1)**	**4(3)**	**2(4)**	**4(6)**	**26(60)**
PART B	**Analysis of Financial Statements**					
	Analysis of Financial Statement	1	1	1		3(8)
	Accounting Ratios	1	1			2(4)
	Cash Flow Statement	2			1	3(8)
	TOTAL	**4(1)**	**2(3)**	**1(4)**	**1(6)**	**8(20)**

KENDRIYA VIDYALAYA SANGATHAN BENGALURU REGION

SAMPLE QUESTION PAPER SET - 4

CLASS: XII **MAX.MARKS: 80**

SUBJECT: ACCOUNTANCY (055) **TIME: 3 HRS**

GENERAL INSTRUCTIONS:

10. This question paper contains 34 questions. All questions are compulsory.
11. This question paper is divided into two parts, **Part A and B**.
12. **Part-A** is (Accounting for Partnership Firms and Companies). **Part-B** is Analysis of Financial Statements.
13. Both parts are compulsory for all the candidates.
14. Question Nos.**1 to 16** and **27 to 30** carries **1** mark each.
15. Question Nos.**17 to 20, 31 and 32** carries **3** marks each.
16. Question Nos. from **21,22 and 33** carries **4** marks each.
17. Question Nos. from **23 to 26 and 34** carries **6** marks each.
18. 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.	A and B share profits and losses equally. They have ₹ 20,000each as capital. They admit C as equal partner and goodwill was valued at ₹ 30,000. Cis to bring in 30,000as his capital and necessary cash towards his share of goodwill. Goodwill Account will not remain open in books. If profit on revaluation is ₹ 13,000,find the closing balance of the capital accounts. (A) ₹ 31,500;₹ 31,500; ₹ 30,000 (B) ₹ 31,500; ₹ 31,500; ₹ 20,000 (C) ₹ 26,500; ₹ 26,500; ₹ 30,000 (D) ₹ 20,000;₹ 20,000; ₹ 30,000	1
2.	Anita and Babita were partners sharing profits and losses in the ratio of 3:1. Savita was admitted for 1/5th share in the profits. Savita was unable to bring her share of goodwill premium in cash. The journal entry recorded for Goodwill Premium is given below:	1

Particulars	L.F	Amount Dr.(₹)	Amount Cr.(₹)
Savita's Current A/C Dr. To Anita's Capital A/c To Babita's Capital A/c (being adjustment of goodwill premium on Savita's Admission)		24,000	 8,000 16,000

The new profit sharing ratio of Anita, Babita and Savita will be:

e. 41:7:12
f. 13:12:10
g. 3:1:1
h. 5:3:2

3.	**Assertion (A):**Loss on issue of debentures is written off in the year Debentures are allotted. **Reason (R):** Loss on issue of debentures is written off from Capital Reserve first if	1

	available and then from statement of profit and loss . e. (A) is correct but (R) is wrong f. Both (A) and (R) are correct, but (R) is not the correct explanation of (A) g. Both (A) and (R) are incorrect. h. Both (A) and (R) are correct, and (R) is the correct explanation of (A). **OR** X Ltd. purchased assets worth ₹12,30,000. It paid ₹3,00,000 of consideration by bank draft and the balance by issuing debentures of ₹ 500 each at a discount of 7% in full satisfaction of the purchase consideration. The amount debited to Discount on Issue of Debentures A/c will be: e. ₹86,100 f. ₹65,100 g. ₹80,000 h. ₹70,000	
4.	P, Q and R are Partners sharing profit and losses in ratio of 4:3:2. On 1-4-2023 they decided to share future profit and losses in the ratio of 2:2:1. Workmen compensation reserve appearing in the balance sheet is ₹25,000 and a claim on account of workmen compensation is estimated at ₹35,000. Correct statement is: e. ₹10,000 Will be credited to Revaluation A/c. f. ₹25,000 Will be credited to Partner's Capital A/c in their old ratio. g. ₹10,000 Will be debited to Revaluation A/c. h. ₹35,000 Will be debited to Partners Capital A/C in their new ratio. **OR** A, B and C were partners in a firm Sharing profit and losses in the ratio of 4:3:2. The Partners decide to share future profit and losses in the ratio of 2:2:1. At the time of reconstitution, a stock undervalued by ₹12,000 will be: e. Credited to Revaluation A/c f. Debited to Revaluation A/c g. Debited to Partner's Capital A/c in old rat h. None of the above	1
5.	**What will be the correct sequence of events?** **iv) Forfeiture of shares.** **v) Default on Calls.** **vi) 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
6.	A holds 100 shares of ₹10 each on which he has paid ₹1 on application. B holds 200 shares of ₹10 each on which he has paid ₹1 on application ₹2 on allotment. C holds 300 shares of ₹10 each who has paid ₹1 on applications, ₹2 on allotment and ₹3 on final call. They all failed to pay their arrears and second call of ₹4 per share as well. All the shares of A, B and C were forfeited. How much amount will be transferred to Share Forfeiture A/c on forfeiture of shares? e. ₹2,500 f. ₹2,400 g. ₹2,000 h. ₹6,000	1

	OR **Balance in Forfeited Shares Account is shown in the balance sheet under thehead of :** **e) Reserves and Surplus** **f) Long-term Borrowings** **g) Share Capital** h) **Other Current Liabilities**	
7.	Given below are two statements – Assertion(A) and Reasons(R). Choose the correct alternative. **Assertion(A):** The fixed capital account balance of a partner may change due to addition to capital or withdrawal of capital or both during the year. **Reasons(R):** Under fixed capital method, the partner's capital account balance always remains fixed. e. (A) is correct but (R) is wrong f. Both (A) and (R) are correct g. (A) is wrong, but (R) is correct. h. Both (A) and (R) are wrong	1
8.	Deepa, Niru and Shilpa were partners in a firm sharing profits in the ratio of 5:3:2. The following journal entry was recorded for treatment of goodwill on Niru's retirement: <table><tr><th>Particulars</th><th>L.F</th><th>Amount Dr.(₹)</th><th>Amount Cr.(₹)</th></tr><tr><td>Shilpa's Capital A/C Dr. To Niru's Capital A/c To Deepa's Capital A/c (being adjustment of goodwill on Niru's retirement)</td><td></td><td>48,000</td><td> 36,000 12,000</td></tr></table>What will be the new profit sharing between Deepa and Shilpa? e. 5:2 f. Equal g. 3:1 h. 2:3 **OR** A, B and C were partners in a firm sharing profit and losses in the ratio of 2:2:1. The capital balance are Rs. 50,000 for A, Rs. 70,000 for B, Rs. 35,000 for C. B decided to retire from the firm and balance in reserve on the date was Rs. 25000. If goodwill of the firm was valued at Rs. 30,000 and profit on revaluation was Rs. 7,500, then, what amount will be payable to B? a) Rs. 70,820 b) Rs. 76,000 c) Rs. 75,000 d) Rs. 95,000	1
9.	Rohan, Mohan and Sohan where partners sharing profit equally. At the time of dissolution of the partnership firm, Rohan's loan to the firm will be: e. Credited to Rohan's capital account f. Debuted to realization account g. Credited to realization account h. Credited to bank account	1
10.	Given below are two statements – Assertion (A) and Reasons(R). Choose the correct alternative.	1

	Assertion(A): The part of capital which is called up only on winding up is called reserve capital **Reasons(R):** Reserve capital is a portion of uncalled capital, which is available only for creditors on winding up of the company. e. Both (A) and (R) are correct and (R) is the correct reason of (A) f. Both (A) and (R) are correct and (R) is not the correct reason of (A) g. Only (R) is correct. h. Both (A) and (R) are wrong	
11.	Which of the following items is not dealt through profit and loss appropriation account? e. Interest on Partner's Loan f. Partner's Salary g. Interest on Partner's Capital h. Partner's Commission	1
12.	Devi withdrew ₹12,000 at the middle of every month. Interest on drawing was to be charged @12% per annum. Amount of interest on Devi's drawings will be: e. ₹14,400 f. ₹8,640 g. ₹7,200 h. ₹1,200	1
13.	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	1
14.	A and B are partners. The net divisible profit as per the profit and loss appropriation account is ₹2, 50,000. The total interest on partner's drawings is ₹4,000 per quarter and B's salary is ₹40,000 per annum. The net profit or loss earned during this year was: e. ₹3,02,000 f. ₹1,98,000 g. ₹3,06,000 h. ₹2,50,000	1
15.	The average period in months for charging interest on drawings for the same amount withdrawn at the beginning of each quarter is: e. 7.5 months f. 6.5 months g. 5.5 months h. 4.5 months **OR** Manu and Kanu were partners in a firm, sharing profit and losses in the ratio of 2:3. Their fixed capitals were ₹10,00,000 and ₹5,00,000 respectively. They were entitled to an interest on capital @ 10% p.a. The firm earned a profit of ₹60,000 during the year. The amount of interest on capital credited to Kanu will be: e. ₹20,000 f. ₹40,000 g. ₹36,000 h. ₹24,000	1

16.	Newfound Ltd took over the business of old land Ltd. and paid for it by issue of 30,000 Equity shares, of ₹100 each at par along with 6% preferences of ₹1,00,00,000 at a premium of 5 % and a cheque of ₹8,00,000. What was the total agreed purchase consideration payable to old land Ltd. e. ₹1,05,00,000 f. ₹1,43,00,000 g. ₹1,40,00,000 h. ₹1,35,00,000	1
17.	Kabir and Farid are partners in a firm sharing profits in the ratio of 3:1 on 1-4-2022 they admitted Manik into the partnership for 1/4th share in the profits of the firm. Manik bought his share of goodwill premium in cash. Goodwill of the firm was valued on the basis of 2 years purchase of last three years average profits. The profits of the last three years were:**2019-20** ₹90,000 **2020-21** ₹1,30,000 **2021-22** ₹86,000 During the year 2021-22 there was a loss of ₹20,000 due to fire which was not accounted for while calculating the profit. Calculate the value of goodwill and pass the necessary journal entries for the treatment of goodwill.	3
18.	Youth Ltd. took a loan ₹15,00,000 from State Bank of India against the security of tangible assets. In addition to principal security, it issued 10,000 11% debentures of ₹100 each as collateral security. Pass the necessary journal entries for the above transaction if the company decided to record the issue of 11% debentures as collateral security and show the presentation in the Balance Sheet of Youth Ltd. **OR** A company took a loan of ₹10,00,000 from Punjab National Bank and issued 10% debentures of ₹12,00,000 of ₹100 each as a collateral security along with primary security of plant and machinery worth ₹20,00,000. Explain how you will deal with the issue of debentures in the books of the company.	3
19.	Ram, Mohan and Sohan were partners sharing profit in the ratio of 2:1:1.Ram withdrew ₹3,000 every month and Mohan withdrew ₹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 necessary adjustment entry to rectify the error. **OR** 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 ₹1,65,500 and ₹1,27,600 respectively. Profits amounting to ₹50,000 for the year 2021-22 were distributed after allowing interest on drawings @ 12% p.a. During the year A withdrew ₹15,000 at the beginning of every quarter and B withdrew ₹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.	3
20.	Ahuja and Barua add partners in a form sharing profit and losses in the ratio of 3:2. They decide to admit Chaudhary into partnership for 1/5th share of profits, which he acquires equally from Ahuja and Barua. Goodwill is valued at ₹30,000. Chaudhary brings in ₹16,000 as his capital but is not in a position to bring any amount for goodwill. Goodwill account exists in the books of the firm at ₹15,000. Record the necessary journal entries.	3
21.	Altaur Ltd. was registered with an authorized Capital of ₹ 4,00,00,000 divided in	4

	25,00,000 Equity Shares of ₹ 10 each and 1,50,000, 9% Preference Shares of ₹ 100 each. The company issued 8,00,000 Equity Shares for public subscription at 20% premium, payable ₹ 3 on application; ₹ 7 on allotment (including premium) and balance on call. Public had applied for 10,00,000 shares. Excess Applications were sent letters of regret. All the dues on allotment received except on 15,000 shares held by Sanju. Another shareholder Rocky paid his call dues along with allotment on his holding of 25,000 shares. You are required to prepare the Balance Sheet of the company as per Schedule III of Companies Act, 2013, showing Share Capital balance and also prepare Notes to Accou.	
22.	Disha, Preethi and Rithvik were partners in a firm sharing profits and losses in the ratio of 3:2:1. The firm was dissolved on 31st March 2022. After transfer of assets (Other than cash) and external liabilities to the realization account, The following transactions took place: v. A debtor whose debt of ₹70,000 was written off as bad, paid ₹68000 in full settlement. vi. A creditor to whom ₹1,00,000 were due to be paid, accepted furniture at ₹56,000 and the balance was paid to him by cheque. vii. Rithvik had given a loan of ₹21,000 to the firm. He accepted ₹19,000 in full settlement of his loan. viii. Stock was worth ₹88,000 out of which stock worth ₹78,000 was taken over by Disha at ₹60,000 and the balance of the stock was sold for ₹12,000 Pass the necessary journal entry for the above transactions in the books of the firm Assuming that the partners' capitals were fixed	4
23.	c. The directors of Poly plastic Ltd resolved that 200 shares of ₹100 each be forfeited for non-payment of second and final call of ₹30 per share. Out of these 150 shares were re-issued at ₹60 per share to Mohit. Show the necessary journal entries for forfeiture and reissue of shares. d. A holds 100 shares of ₹10 each on which he has paid ₹1 per share on application. B holds 200 shares of ₹10 each on which he has paid ₹1 on application ₹2 on allotment. C holds 300 shares of ₹10 each who has paid ₹1 on applications, ₹2 on allotment and ₹3 on first call. They all failed to pay their arrears and second call of ₹4 per share as well. All the shares of A, B and C were forfeited and subsequently reissued at ₹11 per share as fully Paid-up. Pass the necessary journal entries forfeiture and reissue of shares without opening call-in-arrears account. **OR** Arora limited issued a prospectus inviting applications for 20,000 shares of ₹10 each at a premium of ₹2 per share payable as follows: On application ₹2, on allotment ₹5 (including premium), on first call ₹3, on second and final call ₹2. Applications were received for 30,000 shares and pro-rata allotment was made on the applications for 24,000 shares. Money overpaid on application was employed on account of some due on allotment. Sanchit to whom 4,00 shares were allotted failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Parth, the holder of 600 shares, failed to pay the two calls and his shares were forfeited after the second call. Of the shares forfeited, 800 shares were sold to Siddharth credited as fully paid for ₹9 per share, the whole of Sanchit's shares being included. show the journal entries	6
24.	Anuj, Vishal and Shekhar were equal partners. Their balance sheet as a 31st March, 2022 was: **Balance sheet** As at 31st March, 2022	6

Liabilities	Amt (₹)	Assets	Amt (₹)
Bills payable	10,000	Bank	10,000
Sundry creditors	20,000	Stock	10,000
General Reserve	15,000	Furniture and fixtures	14,000
Profit and Loss A/c	3,000	Sundry debtors 22,500	
Capital A/c		(-) Provision for (2,500)	20,000
Anuj 30,000		doubtful debts	
Vishal 20,000		Buildings	60,000
Shekhar 16,000	66,000		
	1,14,000		1,14,000

Vishal retired on 1st April 2022. Anuj and Shekhar decided to continue the business as equal partners on the following terms

vi. Goodwill of the firm was valued at ₹28,800.
vii. The provision for bad and doubtful debts to be maintained @ 10% on debtors.
viii. Buildings to be increased to ₹66,000.
ix. Furniture and fixtures to be reduced by ₹4,000.
x. Rent outstanding (not provided for as yet) was ₹750.

The partners decided to bring in sufficient cash in the business to pay-off Vishal. For this purpose Anuj brought ₹12,250 and Shekhar ₹26,250.
Pause the necessary ledger accounts and the balance sheet.

OR

B and C were partners sharing profits in the ratio of 3:2. Their balance sheet as on 31.3.2011 was as follows:

Balance sheet of B and C as on 31.3.2011

Liabilities	Amount	Asset	Amount
Capitals		Land and Building	80,000
B 60,000		Machinery	20,000
C 40,000	1,00,000	Furniture	10,000
Provisions	1,000	Debtors	25,000
Creditor	60,000	Cash	16,000
		Profit and Loss Account	10,000
	1,61,000		1,61,000

'D' was admitted to the partnership for 1/5th share in the profits on the following terms:

g) The new profit-sharing ratio was decided as 2:2:1.
h) D will bring Rs 30,000 as his capital and Rs 15,000 for his share of goodwill.
i) Half of goodwill amount was withdrawn by the partner who sacrificed his share of profit in a favor of 'D'.
j) A provision of 5%for bad and doubtful debts was to be maintained.
k) An item of Rs 500 included in sundry creditors was not likely to be paid.
l) A provision of Rs 800 was to be made for claims for damages against the firm.

After making the above adjustment the capital account s of B and C were to be adjusted on the basis of D's capital. Actual cash was to be bought in or to be paid off as the cash may be.
Prepare Revaluation Account, Partner's Capital Accounts and Balance Sheet of the new firm.

25.	Harsh, Kavya and Nitin were partners sharing profit and losses in the ratio of 2:2:1. On 31st July, 2021, Nitin retired. The balance sheet of the firm as at 31st March, 2022 was as follows:	6

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital A/c		Plant and machinery	9,00,000
Harsh 5,00,000		Stock	2,80,000
Kavya 4,00,000		Debtors	2,70,000
Nitin 3,00,000	12,00,000	Cash	80,000
Profits for the year		Advertisement	30,000
2019-20	2,00,000	Expenditure	
Sundry creditors	1,60,000		
	15,60,000		15,60,000

According to the partnership deed, in addition to the retiring partner's capital, he is entitled to:

v. Share in profits on the basis of average profits of last two years. Profits for the year 2020-21 was ₹1,60,000.
vi. His share in the goodwill of the firm. Goodwill will be valued on the basis of three years purchase of average profits of the last two years.
vii. Nitin withdrew ₹20,000 on 1st May 2022
viii. Nitin was paid ₹34,000 immediately and balance transferred to his loan A/c.

Prepare Nitin's capital account to calculate amount payable to him on his retirement.

26.	On May 1st 2021 Amrit Ltd. issued 10,000 , 8% debentures of ₹100 each of a discount of 10% redeemable of a premium of 10%. The issue was subscribed and amount was duly received. The company had a balance of ₹70,000 in Securities Premium Reserve Account and ₹10,000 in Capital Reserve Account on that date. On 1st January 2022, it issued 1,00,000 equity shares of ₹10 each at a premium of ₹1 per share. Issue was also fully subscribed. Pass the necessary journal entries.	6

PART – B
(Analysis of Financial Statements)

27. Financial statements are prepared on certain basic assumptions (pre-requisites) known as___________. — 1

a) Provision of Companies Act,2013 b) Accounting Standards
c) Postulates d) Basis of Accounting

OR

The following groups of ratios primarily measure risk:

e. Solvency, activity, and profitability
f. Liquidity, efficiency, and solvency
g. Liquidity, activity, and profitability
h. Liquidity, solvency, and profitability

28. From the following calculate Interest coverage ratio — 1

Net profit after tax Rs 12,00,000; 10% debentures Rs 1,00,00,000; Tax Rate 40%

a) 1.2 times b) 3 times
c) 2 times d) 5 times

29. Which of the following will not result into cash inflow? — 1

e. Decrease in debtors
f. Issue of shares
g. Decrease in creditors

	h. Sale of fixed assets **OR** Insurance Claim received by Albert Co. Ltd. of ₹ 5,00,000 for Loss of Machinery due to theft will be recorded in Cash Flow Statement in which of the following manner? a). Added under Operating Activities as Extraordinary Item and Subtracted from Operating Activities also. B) Subtracted under Operating Activities as Extraordinary Item and Added to Operating Activities also. c) Added under Operating Activities as Extraordinary Item and Outflow under Investing Activity also. e) Subtracted under Operating Activities as Extraordinary Item and Inflow under Investing Activities also.	
30.	Which of the following is an example of cash inflow from operating activities? e. Cash receipts from disposal of shares, warrants, or debt instruments held for trading purposes f. Cash receipts from royalties, fees, commissions, and other revenues. g. Cash receipts from the rendering of services. h. All of the above	1
31.	Classify the following items under Major heads and Sub-head (if any) in the Balance Sheet of a Company as per schedule III of the companies Act 2013. vii. Current maturities of long-term debts viii. Furniture's and fixtures ix. Provision for warranties x. Income received in advance xi. Capital Advances xii. Advances recoverable in cash within the operation cycle	3
32.	Determine Return on investment and Net Asset Turnover ratio from the following information:Profit after tax were ₹6,00,000; Tax rate was 40%; 15% Debentures were of ₹20,00,000; 10% bank loan was ₹20,00,000; 12% Preference Share Capital ₹30,00,000; Equity Share Capital ₹40,00,000; Reserves and Surplus were ₹10,00,000; Sales ₹3,75,00,000 and Sales Return ₹15,00,000	3
33.	From the information extracted from the statement of Profit and Loss of Zee Limited for the year ended 31st March 2022 and 31st March 2023, prepare a Common-size Statement of Profit and Loss:	4

	Note No.	2022-23(₹)	2021-22(₹)
Revenue from operations		8,00,000	10,00,000
Gross profit		60%	70%
Other expenses		2,20,000	2,60,000
Tax rate		50%	50%

OR

From the balance sheet of Shahnaz Shadab Limited as on March 31,2011 and 2012,

Prepare a comparative Balance Sheet:

Particulars	Note No.	2010-11	2011-12

EQUITY AND LIABILITIES			
1.Share holder funds			
a) Share capital		21,00,000	29,00,000
b) Reserves and surplus		10,00,000	12,00,000
2. Non-current Liabilities			
Long-term borrowings		12,00,000	18,00,000
3. Current Liabilities			
Trade Payables		8,00,000	12,00,000
Total		51,00,000	71,00,000
ASSETS			
1.Non-current Assets			
Fixed Assets		21,00,000	29,00,000
i) Tangible Assets		10,00,000	12,00,000
ii) Intangible Assets			
2. Current Assets		12,00,000	18,00,000
a) Inventories			
b) Cash and cash equivalents		8,00,000	12,00,000
Total		51,00,000	71,00,000

From the following information, prepare Comparative Statement of Profit and Loss:

	Note No.	2022-23(₹)	2021-22(₹)
Revenue from operations		10,00,000	8,00,000
Other income		2,20,000	1,50,000
Cost of materials consumed		4,00,000	3,00,000
Change in inventories of finished goods and work in progress		2,00,000	1,00,000
Other expenses (% of cost of revenue from operation)		15%	10%
Tax rate		30%	30%

34. From the following balance sheet of Agri Tech Ltd. as on 31st March, 2022 and 2021, prepare a cash flow statement — 6

Balance Sheet

As at 31st March, 2022 and 2021

Particulars	**Note No.**	**31st March, 2022(₹)**	**31st March, 2021(₹)**
I. EQUITY AND LIABILITIES			
1. Shareholders Fund			
i. Share Capital		1,30,000	90,000
ii. Reserves and Surplus		84,000	48,000
2. Current Liabilities			
Trade payables		22,000	17,400
TOTAL		**2,36,000**	**1,55,400**

II. ASSETS			
3. Non-Current Assets			
Fixed Assets		1,66,000	93,400
4. Current Assets			
i. Inventories		26,000	22,000
ii. Trade Receivables		39,000	36,000
iii. Cash and Cash Equivalents		5,000	4,000
TOTAL		**2,36,000**	**1,55,400**

Notes to Accounts

Particulars	2022 (₹)	2021 (₹)
1. Reserves and Surplus		
General reserve	55,000	30,000
Balance of statement of profit and loss	30,000	20,000
Preliminary Expenses	(1,000)	(2,000)
	84,000	**48,000**

Additional information :

i. Depreciation charged on fixed assets for the year 2021 – 22 was 20,000.

ii. Income tax 5,000 has been paid during the year.

****

KENDRIYA VIDYALAYA SANGATHAN BENGALURU REGION
SAMPLE QUESTION PAPER SET – 4

CLASS: XII **MAX.MARKS: 80**

SUBJECT: ACCOUNTANCY (055) **TIME: 3 HRS**

MARKING SCHEME

Q.NO	ANSWERS	MARKS
	PART A **(Accounting for Partnership Firms and Companies)**	
1.	a) ₹ 31,500;₹ 31,500; ₹ 30,000	1
2.	a. 41:7:12	1
3.	a. (A) is correct but (R) is wrong OR d. ₹70,000	1
4.	c. ₹10,000 Will be debited to Revaluation A/c. OR a. Credited to Revaluation A/c	1
5.	b. ₹2,000	1
6.	a. ₹2,500 **OR** c. Called up	1
7.	a. (A) is correct but (R) is wrong	1
8.	d. 2:3 **OR** d) Rs. 95,000	1
9.	d. Credited to bank account	1
10.	a. Both (A) and (R) are correct and (R) is the correct reason of (A)	1
11.	a. Interest on Partner's Loan	1
12.	b. ₹8,640	1
13.	d. No interest on capital will be allowed	1
14.	a. ₹3,02,000	1
15.	a. 7.5 months **OR** a. ₹20,000	1

16.	b. ₹1,43,00,000	1
17.	Average Profits = (₹90,000 + ₹1,30,000 + ₹86,000)/3 = ₹1,02,000 Goodwill = ₹1,02,000 x 2 = ₹2,04,000	3

Journal

Particulars	L.F	Dr. Amt. (₹)	Cr. Amt. (₹)
Cash A/c Dr. To Premium for goodwill A/c (Goodwill brought in cash by Manik)		51,000	 51,000
Premium for goodwill A/c Dr. To Kabir's Capital A/c To Farid's Capital A/c (Goodwill credited to the capital accounts of old partners in the sacrificing ratio)		51,000	 38,250 12,750

18. In the books of Youth Ltd. — 3

JOURNAL

Particulars	L.F	Dr. Amt. (₹)	Cr. Amt. (₹)
Bank A/c Dr. To Bank Loan A/c (Being Loan taken from State Bank of India)		15,00,000	 15,00,000
Debenture Suspense A/c Dr. To 11% Debentures A/c (Being 11% debentures deposited as collateral security)		10,00,000	 10,00,000

Balance sheet as at _______ (an Extract)

Particulars	Note No.	Amount (₹)
I. EQUITY AND LIABILITIES		
1. Non-current Liabilities		
Long-term borrowings	1	15,00,000

Notes to Accounts

Particulars	Details	Amount (₹)
1. Long term borrowings		
Secured Loan from State Bank of India		15,00,000
10,000, 11% debentures of ₹100 each	10,00,000	
Less: Debenture Suspense A/c	(10,00,000)	Nil
(deposited as collateral security)		**15,00,000**

OR

JOURNAL

Particulars	L.F	Dr. Amt. (₹)	Cr. Amt. (₹)
Debenture Suspense A/c Dr. To 10% Debentures A/c (Being 12,000 debentures of ₹100 each issued as collateral security to PNB)		12,00,000	 12,00,000

Balance sheet as at _______ (an Extract)

Particulars	Note No.	Amount (₹)

I. EQUITY AND LIABILITIES **1. Non-current Liabilities** Long-term borrowings	1	10,00,000

Notes to Accounts

Particulars	Details	Amount (₹)
1. Long term borrowings Secured Loan from PNB 12,000, 10% debentures of ₹100 each Less: Debenture Suspense A/c (deposited as collateral security)	 12,00,000 (12,00,000)	 10,00,000 Nil **10,00,000**

19. **JOURNAL** 3

Particulars	L.F	Dr. Amt. (₹)	Cr. Amt. (₹)
Ram's Capital A/c Dr. Sohan's Capital A/c Dr. To Mohan's Capital A/c (Adjustment entry for interest on drawings wrongly charged)		180 630	 810

Workings Notes:

Adjustment Table

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

Interest on Ram's drawings = (₹3,000 x 12) x 6/100 x 6/12 = ₹1,080
Interest on Mohan's drawings = (₹4,000 x 12) x 6/100 x 6/12 = ₹1,440

OR

JOURNAL

Particulars	**L.F**	**Dr. Amt. (₹)**	**Cr. Amt. (₹)**
A's Capital A/c To B's Capital A/c (Omission of interest on capital, now rectified)		140	 140

Adjustment Table

Particulars		**A (₹)**	**B(₹)**	**Total (₹)**
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.**	**140 Cr.**	**-**

20. **Journal** 3

Particulars	L.F	Dr. Amt. (₹)	Cr. Amt. (₹)
Bank A/c Dr. To Chaudhary's Capital A/c (Amount brought for capital)		16,000	 16,000
Chaudhary's Current A/c Dr. To Ahuja's Capital A/c To Barua's Capital A/c (Goodwill credited to sacrificing partners' accounts)		6,000	 3,000 3,000
Ahuja's Capital A/c Dr. Barua's Capital A/c Dr. To Goodwill A/c		9,000 6,000	 15,000

21. **Balance sheet as at _______ (an Extract)** 4

Particulars	Note No.	Current year (₹)	Previous year (₹)
I. EQUITY AND LIABILITIES **1. Shareholder's Funds** a. Share Capital	 1	 63,25,000	

Notes to Accounts: (1) Share Capital:

Particulars	Details(₹)	Amount (₹)
Authorized Capital 25,00,000 Equity Shares of ₹10 each 1,50,000 preferential shares @100 each		 2,50,00,000 1,50,00,000
Issued Capital 8,00,000 Equity Shares of ₹10 each **Subscribed Capital** **1.Subscribed and full paid-up :** **---------** 2.Subscribed but not fully paid-up 8.00.0000 Equity Shares of ₹ 8each : Less: Calls in Arrears	 64,00000 (75,000)	 80,00,000 63,25.000 **63,25,000**

22. JOURNAL 4

	Particulars	L.F	Dr. Amt. (₹)	Cr. Amt. (₹)
(i)	Bank/Cash A/c Dr. To Realisation A/c (Bad debts earlier written off, now recovered)		68,000	 68,000
(ii)	Realisation A/c Dr. To Bank A/c (Payment made to creditors)		44,000	 44,000
(iii)	Ritvik's loan A/c Dr. To Bank/Cash A/c		21,000	 19,000

		To Realisation A/c (Ritvik's loan settled)			2,000
	(iv)	Disha's Current A/c Dr. Cash/ Bank A/c Dr. To Realisation A/c (Stock taken over by Disha and remaining sold)		60,000 12,000	 72,000

23. a. JOURNAL 6

Particulars	L. F	Dr. Amt. (₹)	Cr. Amt. (₹)
Share Capital A/c Dr. To Share Forfeiture A/c To Share Second and Final Call/Calls-in-Arrears A/c (Being 200 shares forfeited for non-payment of final call at ₹30 per share)		20,000	 14,000 6,000
Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (For reissue of 150 shares of ₹100 each, issued as fully paid for ₹60 each)		9,000 6,000	 15,000
Share Forfeiture A/c Dr. To Capital Reserve A/c (Being profit on reissue of 150 forfeited shares transferred to capital reserve)		4,500	 4,500

b. JOURNAL

Particulars	L. F	Dr. Amt. (₹)	Cr. Amt. (₹)
Share Capital A/c (600 @ ₹10) Dr. To Share Forfeiture A/c To Share Allotment A/c To Share First Call A/c To Share Second and Final Call A/c (For forfeiture of 100 shares of A, 200 shares of B and 300 shares of C)		6,000	 2,500 200 900 2,400
Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (For reissue of 600 shares at premium)		6,600	 6,000 600
Share Forfeiture A/c Dr. To Capital Reserve A/c (Being profit on reissue of forfeited shares transferred to capital reserve)		2,500	 2,500

OR

JOURNAL

Particulars	L. F	Dr. Amt. (₹)	Cr. Amt. (₹)
Bank A/c Dr. To Share Application A/c		60,000	 60,000
Share application A/c Dr. To share capital A/c To Share allotment account A/c To Bank A/c		60,000	 40,000 8,000 12,000
Share allotment A/c Dr. To Share capital A/c To Security premium reserve		1,00,000	 60,000 40,000
Bank A/c Dr. To Share allotment A/c		90,160	 90,160
Share first call A/c Dr. To Share capital A/c		60,000	 60,000
Bank A/c Dr. To Share First Call A/c		57,000	 57,000
Share capital A/c Dr. Security's premium reserve A/c Dr. To Share allotment A/c To Share first call A/c To Forfeited shares A/c		3,200 800	 1,840 1,200 960
Share final call A/c Dr. To Share capital A/c		39,200	 39,200
Bank A/c Dr. To Share final call A/c		38,000	 38,000
Share capital A/c Dr. To Share first call A/c To Share final call A/c To Forfeited shares A/c		6,000	 1,800 1,200 3,000
Bank A/c Dr. Forfeited shares A/c Dr. To Share capital A/c		7,200 800	 8,000
Forfeited shares A/c Dr. To Capital Reserve A/c		2,160	 2,160

24. Dr. Revaluation Account Cr. 6

Particulars	Amt (₹)	Particulars	Amt (₹)
To Furniture A/c To Outstanding Rent A/c To Profit on Revaluation	4,000 750	By Provision for Doubtful Debts A/c By Land and Building A/c	250 6,000

Transferred to Anuj's Capital A/c 500 Vishal's Capital A/c 500 Shekar's Capital A/c 500			
	6250		6,250

Dr. Partners' Capital Account Cr.

Particulars	Anuj (₹)	Vishal (₹)	Shekar (₹)	Particulars	Anuj (₹)	Vishal (₹)	Shekar (₹)
To Vishal's (goodwill) To Bank A/c To Balance c/d	4,800 - 43,950	- 36,100 -	4,800 - 43,950	By balance b/d By General Reserve A/c By Profit & Loss By Anuj's Capital A/c By Shekar's Capital A/c By Revaluation A/c (Profit) By Bank A/c	30,000 5,000 1,000 - - 500 12,250	20,000 5,000 1,000 4,800 4,800 500 -	16,000 5,000 1,000 - - 500 26,250
	48,750	36,100	48,750		48,750	36,100	48,750

Balance sheet
As at 1st April, 2022

Liabilities	Amt (₹)	Assets	Amt (₹)
Capital A/cs Anuj 43,950 Shekhar 43,950 Creditors Bills payable Outstanding Rent	 87,900 20,000 10,000 750	Land and Building Furniture Stock Debtors 22,500 (-) Provision for Doubtful Debts (2,250) Bank	66,000 10,000 10,000 20,250 12,400
	1,18,650		1,18,650

Dr. Bank Account Cr.

Particulars	Amt (₹)	Particulars	Amt (₹)
To balance b/d To Anuj's Capital A/c To Shekar's Capital A/c	10,000 12,250 26,250	By Vishal's Capital A/c By balance c/d	36,100 12,400
	48,500		48,500

OR

Revaluation Account

Particulars		Amount Rs	Particulars		Amount Rs
Provision for Bad and doubtful debts	1,250		Sundry Creditors		500
Less: Old Provision	1,000	250	Revaluation loss transferred to:		
Provision of claims		800	B's Capital	330	
			C's Capital	220	550
		1,050			1,050

PARTNERS CAPITAL ACCOUNT

Particulars	B	C	D	Particulars	B	C
Cash A/C	7500	-	-	B/b	60,000	40,000
Realization A/C(Loss)	330	220	-	Cash A/C	-	-
Profit and Loss A/C	6,000	4,000		Premium for Goodwill A/C	15,000	-
Cash A/C (Balancing Figure)	1,170	-	-	Cash A/C (WN$_2$)	-	-
Balance C/D (Adjusted)	60,000	60,000	30,000	Cash A/C (Balancing Figure)	-	24,220
	75,000	64,000	30,000		75,000	64,000

Balance Sheet

Liabilities		Amount Rs	Assets		Amount Rs
Capital:			Land and Building		80,0(
B	60,000		Machinery		20,0(
C	60,000		Furniture		10,0(
D	30,000	1,50,000	debtors	25,000	
Creditors (60,000 – 500)		59,500	*Less:* Provision for Doubtful Debts	(1,250)	23,7[illegible]
Claim for Damages		800	Cash		76,5[illegible]
		2,10,300			2,10,3(

Cash A/C

Dr.			Cr.
Particulars	**Amount Rs**	**Particulars**	**Amount Rs**
Balance b/d	16,000	B's capital	8,670
D's capital	30,000		
Premium for good will	15,000		
C's capital	24,220	Balance c/d	76,550
	85,220		85,220

25.	Dr. Nitin's Capital Accounts Cr.		6

Particulars	Amt (₹)	Particulars	Amt (₹)

To Drawings A/c	20,000	By Balance b/d	3,00,000
To Advertisement	6,000	By Profit and Loss A/c	40,000
Expenditure	34,000	By Profit and Loss	12,000
To Cash A/c	4,00,000	Suspense A/C (₹1,80,000	
To Nitin's Loan A/c		x 4/12 x 1/5)	54,000
		By Harsh's Capital A/c	54,000
		By Kavya's Capital A/c	
	4,60,000		4,60,000

Nitin's share of Goodwill = Average Profit (₹1,60,000 + ₹2,00,000/2) x 3 x 1/5
= ₹ 1,08,000

26.	Journal	6

Date	Particulars	L.F	Dr. (₹)	Cr. (₹)
May 1 2021	Bank A/c Dr. To Debenture Application and allotment A/c Debenture Application and allotment A/c Dr. Loss on Issue of Debenture A/c Dr. To 8% Debenture A/c To Premium on Redemption of Debenture		9,00,000 9,00,000 2,00,000	 9,00,000 10,00,000 1,00,000
Jan 1 2022	Bank A/c Dr. To Share Application and Allotment A/c Share Application and Allotment A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c		11,00,000 11,00,000	 11,00,000 10,00,000 1,00,000
31 Mar 2022	Securities Premium Reserve A/c Dr. Capital Reserve A/c Dr. Statement of Profit and Loss Dr. To Loss on Issue of Debentures A/c		1,70,000 10,000 20,000	 2,00,000

PART – B
(Analysis of Financial Statements)

27.	c) Postulates Or d. Liquidity, solvency, and profitability	1
28.	b) 3 times	1
29.	c. Decrease in creditors **OR** d) Subtracted under Operating Activities as Extraordinary Item and Inflow under Investing Activities also	1
30.	d. All of the above	1
31.	**ITEMS** | **HEADING** | **SUB-HEADING**	3

Current maturities of long-term debts	Current Liabilities	Short term borrowings
Furniture's and fixtures	Non-Current Assets	Property, Plant and Equipment and Intangible Asset
Provision for warranties	Non-Current Liabilities	Long Term Provisions
Income received in advance	Current Liabilities	Other Current Liabilities
Capital Advances	Non-Current Assets	Long Term Loans and Advances
Advances recoverable in cash within the operation cycle	Current Assets	Short Term Loans and Advances

32. Return on Investment = EBIT / Capital Employed X 100 (3)
= ₹15,00,000/ ₹1,20,00,000 X 100 = 12.5%

Capital Employed = 12% Preference Share Capital + Equity Share Capital + Reserves and Surplus + 15% Debentures + 10% Bank Loan
= ₹30,00,000 + ₹40,00,000 + ₹10,00,000 + ₹20,00,000 + ₹20,00,000
= ₹1,20,00,000

EBIT = Profits after Tax + Tax + Interest
= ₹6,00,000 + ₹4,00,000 + ₹5,00,000
= ₹15,00,000

Net Asset Turnover ratio = Revenue from Operations / Capital Employed
= ₹3,60,00,000 / ₹1,20,00,000
= 3 Times

33. (4)

Common-size Statement of Profit and Loss

Particulars	**2022-23(₹)**	**2021-22(₹)**	**% of revenue from operations (2021-22)**	**% of revenue from operations (2022-23)**
Revenue from operation	8,00,000	10,00,000	100	100
Less : Expenses Cost of revenue from op. Other Expenses	 3,20,000 2,20,000	 3,00,000 2,60,000	 40 27.5	 30 26
Total Expenses	5,40,000	5,60,000	67.5	56
Profit Before Tax	2,60,000	4,40,000	32.5	44
Less: Tax	1,30,000	2,20,000	16.25	22
Profit after Tax	1,30,000	2,20,000	16.25	22

OR

Comparative balance sheet of Shahnaz Shadab Limited as on March 31,2011 and 2012,

Particulars	Note No.	2010-11	2011-12	% 2010-11	% 2011-12
EQUITY AND LIABILITIES					
1.Share holder funds		21,00,000	29,00,000	41.17	40.84
a) Share capital		10,00,000	12,00,000	19.60	16.90
b) Reserves and surplus					
2. Non-current Liabilities		12,00,000	18,00,000	23.52	25.35
Long-term borrowings					
3. Current Liabilities		8,00,000	12,00,000	15.68	16.90
Trade Payables					
Total		51,00,000	71,00,000	100	100
ASSETS					
1.Non-current Assets					
Fixed Assets					
i) Tangible Assets		21,00,000	29,00,000	41.17	40.84
ii) Intangible Assets		12,00,000	18,00,000	23.52	25.35
2. Current Assets					
a) Inventories		10,00,000	12,00,000	19.60	16.90
b) Cash and cash equivalents		8,00,000	12,00,000	15.68	16.90
Total		51,00,000	71,00,000	100	100

34.

CASH FLOW STATEMENT

Particulars	**Amount (₹)**	**Amount (₹)**
I. **Cash Flow from Operating Activities**		
Net Profit before Tax and Extraordinary Items		40,000
Adjustments for		
(+) Depreciation	20,000	
Preliminary Expenses Written-off	1,000	21,000
Operating Profit before Working Capital Changes		61,000
(+) Increase in current liabilities and decrease in current assets		
Trade Creditors	4,600	
(-) Increase in Current Assets and Decrease in Current Liabilities		
Stock	(4,000)	
Debtors	(3,000)	(2400)
Cash Flow from Operating Activities before Tax		58,600
(-) Income Tax Paid		(5,000)
Cash Flow from Operating Activities after Tax		53,600
II. **Cash flow from Investing Activities**		
Purchase of fixed assets	(92,600)	
Net Cash Used in Investing Activities		(92,600)
III. **Cash flow from Financing Activities**		
Issue of Share Capital	40,000	
Cash flow from Financing Activities		(40,000)

6

Net increase in cash and cash equivalent (I +II+III)	1,000
(+) Cash and Cash Equivalent at the beginning of the period	4,000
Cash and Cash Equivalent at the end of the period	**5,000**

Working notes:

1. Dr. **FIXED ASSETS ACCOUNT** Cr.

Particulars	Amt (₹)	Particulars	Amt (₹)
To Balance b/d To Bank A/c (Purchase)(b.f)	93,400 92,600	By Depreciation A/c By Balance c/d	 20,000 166,000
	1,86,000		1,86,000

2. Calculation of Net Profit before Tax and Extraordinary Items
Amt.(₹)

Profit as per Balance Sheet (30,000-20,000)
10,000
(+) Income Tax Paid
5,000
(+) Transfer to General Reserve
25,000

40,000

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