KENDRIYA VIDYALAYA SANGATHAN

CHENNAI REGION

STUDENT SUPPORT MATERIAL

सत् त्वं पूषन् अपावृणु
केन्द्रीय विद्यालय संगठन

ACCOUNTANCY

CLASS XII

2022-23

KENDRIYA VIDALAYA SANGATHAN
CHENNAI REGION

STUDY MATERIAL
CLASS XII
Accountancy
2022-2023

KENDRIYA VIDYALAYA SANGATHAN, REGONAL OFFICE, CHENNAI REGION
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Accountancy (Code No. 055)

Class-XII (2022-23)

Theory: 80 Marks **3 Hours**

Project: 20 Marks

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

Suggested Question Paper Design
Accountancy (Code No. 055) Class XII (2022-23)

Theory: 80 Marks **3 hrs.**
Project: 20 Marks

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

SUBJECT – ACCOUNTANCY

S.No.	Unit	Rationalised portion (Addition/ Deletion) (2021-22)	Rationalised portion (Addition/ Deletion) (2022-23)	Rationalisation in Practicals/ IA (2022-23)
1.	Unit 1:- Accounting for Non Profit Organisation	No Change	Entire Unit deleted	No change
2.	Unit 2:- Accounting for Partnership Firm	DELETED **Admission of Partner :-** Adjustment of capital accounts and preparation of Balance sheet **Retirement and Death of a Partner** :- Adjustment of Capital accounts ,Preparation of loan account of the retiring partner, Preparation of deceased capital account and his executor's account	All the deleted topics added	
3	Unit 3:- Accounting for Companies	Redemption of Debentures deleted	No change , still deleted	
4.	Unit 4:- Analysis of Financial Statement	No change	• Comparative and Common Size Statement deleted • Ratios :- Debt to Capital Employed Ratio & Net Assets Turnover Ratio Added	
5	Unit 5 :- Cash Flow Statement	No change	No Change	
Percentage of Rationalisation		Approx 12% - 15% deleted	17.5% deleted	

ACCOUNTANCY SQP ANALYSIS

S.no	Chapter	Questions				Marks
		1M	3M	4M	6M	
1.	Partnership basics	7+1*	2			13 or 14*
2.	Partnership admission	2			1*	2 or 8*
3.	Partnership Retirement and Death	1*	1		1+1*	9 or 10* or 15* or 16*
4.	Partnership Dissolution	1		1		5
5.	Share capital	4	1*	1	1	14 or 17*
6.	Debentures	1	1*		1	7 or 10*
7.	Financial Statements		1			3
8.	Analysis of financial statements	1*				1*
9.	Ratio	1+1*	1	1		8 or 9*
10.	Cash Flow	2			1	8
		20x1=20	6x3=18	3x4=12	5x6=30	80

PREPARATION TIPS FOR ACCOUNTANCY CLASS 12TH CBSE

Understand the theory first

Although accountancy deals majorly with calculations and application, theory also holds a big role in forming the base for practical questions and gaining direct marks when asked for features, difference, merits and demerits.

Always start by reading out and understanding the theory of a particular chapter very thoroughly before jumping into practical questions. This will expand your knowledge base for solving difficult questions.

Look out for the following types of theory questions in class 12th accountancy-

Distinguish between 'Dissolution of Partnership' and 'Dissolution of Partnership Firm' based on:

(i) Settlement of assets and liabilities

(ii) Economic relationship

State whether the following transactions will result in inflow, outflow or no flow of cash while preparing cash flow statement: (i) Decrease in outstanding employees benefits by ₹3000 (ii) Increase in Current Investment by ₹ 6,000.

These questions require your command on accountancy theory.

2. Practice Questions:

No doubt, Accountancy requires a LOT of practice if you wish to excel in it. The next step after reading the theory of a particular chapter is indeed, practicing the practical questions as these are finally going to get you majority of your marks. You need to practice questions regularly in order to retain the concepts and formats in mind.

(i) Start solving questions as soon as possible after reading the theory of the chapter.

(ii) This will help you to easily apply the concepts to solve questions.

(iii) You need to excel in quick calculations to solve the questions correctly. Solve questions until they increase your calculation speed.

(iv) Do not forget to check and solve the previous year questions from a particular chapter.

3. Pay attention to formats:

Don't forget to make appropriate formats according to the question. Pay special attention while making formats for journals, ledgers, balance sheets and other accounting items.

Practicing formats is also one of the major factors which helps to complete your question paper faster. It is advised to keep practicing all the formats regularly.

4. Identify Scoring topics

Topics like accounting for partnership firms, share capital and debenture, not for profit organisations etc. are considered as important and scoring in class 12th accountancy. Try to prepare these with perfection.

Students are also advised to have a very good command over the definitions and other things that need to be remembered. Make a separate notebook for such things and revise them multiple times by writing. This will ensure that you don't lose small easy to score chunks of marks.

5. Follow correct book and study material

It is very important to follow the correct study material to ensure that your class 12 accountancy preparation goes very well. CBSE has prescribed the following books for accountancy class 12th –

Accountancy -I Class XII NCERT Publication

Accountancy -II Class XII NCERT Publication

Accountancy – Computerised Accounting System Class XII NCERT Publication

READ QUESTION PAPER

(i) Use the first 15 minutes to read the question paper

It is great that students get 15 minutes to read, analyze and understand the question.

For Accounting question paper, it is the best way to start the exam. Reading the question paper will give you an idea about how to start the answers.

Checking marks assigned for each question is necessary before analyzing the question.

(i) Write those question first in which you are more certain

(ii) Understand the question before you start writing

(iii) Underline the main points of the question and understand what the examiner want's you to write as your answer.

(iv) Most of the students make a mistake of not reading the question properly and thus, answer the question wrongly.

ATTEMPT ANSWERS

- **Attempt serially all the questions of particular sections**

(i) Any question that has some parts should be attempted serially without skipping any question.

(ii) If students do not know the answer they can leave a space and try an attempt at the end

- **Highlight the answer number**

(i) Highlight the answer number properly or write them in the boxes.

(ii) Ideally, you should write 'Answer to Question No.-1'.

(iii) This will let the paper checker see your answer quickly and easily thus he will be able to allow marks properly.

(iv) Leave 2 or 3 lines after finishing the answer

(v) After finishing the answer leave 2 or 3 lines so as to separate one answer with the other.

(vi) This will help the paper checker to identify the next answer and there will be no chances to lose marks.

WORKING NOTES AND ROUGH WORK

Show proper working notes

(i) Wherever working notes are required show them neatly.

(ii) They carry marks in almost all the practical questions.

Rough work on a separate sheet

Rough work should be done in a separate sheet and not with the solution or the margin on the right side of the answer sheet.

FORMATS AND ACCOUNTING REQUIREMENTS

Use a pencil for formatting

While preparing Ledger, or balance sheet or any other statements make sure to use a pencil. Avoid using pen because if it wrong you can correct later.

Make sure to write Dr. and Cr. In accounting writing Cr. and Dr. is compulsory especially for debit and credit amounts. Remember to mention Date, Indian rupee symbol, particulars, and amount, etc.

PART A: ACCOUNTING FOR PARTNERSHIP FIRMS

Chapter-01: Accounting for Partnership Firms- Fundamentals

Units/Topics	Learning Outcomes
➢ Partnership: features, Partnership Deed. ➢ Provisions of the Indian Partnership Act 1932in 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 profitsharing 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 or by raising and writing off goodwill (AS 26)	🕮 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.

Meaning and Definition of Partnership:

According to Section 4 of the 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”

Features of Partnership Firm:

1) Number of members:- Minimum-2 and Maximum-50 members

2) Partnership Agreement or Deed is to be prepared which can be oral or written.

3) Business has to legal.

4) Sharing of Profits or Losses in an agreed ratio.

5) Mutual Agency

6) Unlimited Liability: Partners' liability to the third parties is unlimited.

Partnership Deed: The document, which contains terms of the agreement, is called 'Partnership Deed'. It generally contains the details about all the aspects affecting the relationship between the partners including the objective of business, contribution of capital by each partner, ratio in which the profits and the losses will be shared by the partners and entitlement of partners to interest on capital, interest on loan, etc.

Provisions of Partnership Act, 1932 in the absence of Partnership Deed:

a) Profit Sharing Ratio-: If the partnership deed is silent about the profit sharing ratio, the profits and losses of the firm are to be shared equally by partners

b) Interest on Capital: - No interest on capital is payable if the partnership deed is silent on the issue.

c) Interest on Drawings: - No interest is to be charged on the drawings made by the partners, if there is no mention in the Deed.

d) Interest on Advances: - If any partner has advanced some money to the firm beyond the amount of his capital for the purpose of business, he shall been titled to get an interest on the amount @ 6% p.a.

e) Remuneration for Firm's Work: - No partner is entitled to get salary or other remuneration for taking part in the conduct of the business of the firm.

Maintenance of Partners Capital A/c :

Partners Capital A/c can be maintained by two methods

1. Fixed capital method
2. Fluctuating capital method

In fixed capital method two accounts are prepared partners capital account and partners current account while in fluctuation method only one account is prepared i.e. partners capital account

FIXED CAPITAL METHOD.

(1) In this method Partners Capitals shall remain fixed unless additional Capital is introduced a part of capital is withdrawn permanently.

Partners Capital A/c

Particulars	A (₹)	B (₹)	Particulars	A (₹)	B (₹)
To bal b/d (if Dr bal)	xxx	xxx	By bal. bld (if cr bal)	xxx	xxx
To Bank(permanent withdrawal)	xxx	xxx	By Bank (additional Cap)	xxx	xxx
To Drawings	xxx	xxx	By Int on capital	xxx	xxx
To Int on drawings	xxx	xxx	By Salary	xxx	xxx
To P/LAPP(share of loss)	xxx	xxx	By Commission	xxx	xxx
To bal c/d (incase of cr. bal.	xxx	xxx	By P/L App (Share of Profit)	xxx	xxx
			By bal c/d (incase of dr. bal.	xxx	xxx
	xxxx	**xxxx**		**xxxx**	**xxxx**

Difference between fixed and fluctuating Capital method

BASIS	FIXED CAPITAL	FLUCTUATING CAPITAL
Number of Accounts	2 Separate A/c are prepared.	Only 1 A/c is prepared.
Adjustment	All adjustments a are made in Current A/c	All adjustments are made in Capital A/c
Fixed Balance	The capital remains unchanged unless there is addition or withdrawal of Capital.	The balance of capital fluctuates from year to year

Credit Balance	Capital A/c always shows Cr balance.	Capital A/c may Show Dr or Cr. bal.

Distribution of profits among Partners

- Profit /Loss appropriation A/c
- P/L Appropriation A/c is an extension of P/L A/c of the firm.
- All adjustments regard to in Is salary Partners Commission, Interest on Capital, Interest on a drawings etc are made through this account
- It shows the appropriation of profits among partners.

S.No.	Particulars	Dr. **(Rs.)**	Cr. **(Rs.)**
1	**For transfer of profit from P/L A/C** P/L A/c Dr. To P/L Appropriation A/c **In case of loss** P/L App. A/c Dr. To P/L A/c		
2	**Interest on capital** Interest on Capital A/c Dr. To Partners Capital/Current A/c **For transferring to P/L appropriation A/C** Dr. P/L App. A/c To Interest on capital A/c		
3	**Salary** Salary A/c (individually) Dr. To Partners Capital/Current A/c **For transferring to P/L appropriation A/C** Dr. P/L App. A/c To Salary A/c (individually)		
4	**Commission to partners** Commission A/c (individually) Dr. To Partners Capital/Current A/c		
	For transferring to P/L appropriation A/C Dr. P/L App. A/c To Commission A/c (individually)		

5	Interest on drawings Partners Capital/Current A/c Dr. To Interest on Drawings **For transferring to P/L appropriation A/C** Interest on Drawings A/c Dr. To P/L Appropriation A/c		
6	**Sharing of profit or loss after appropriations** **In case of Profits** P/L App. A/c Dr. To Partners Capital/Current A/c (individually) **In case of losses** Partners Capital/Current A/c Dr. To P/L App. A/c		

rofit and Loss Appropriation A/c for the year ended___

Particulars	(Rs.)	Particulars	(Rs.)
To P/L A/c (in case of loss)	xxx	By P/L A/c (in case of profits)	xxx
To Interest on capital	xxx	By Interest on drawings	xxx
To salary	xxx	To Partners Cap/Current A/c (share of losses)	xxx
To commission	xxx		
To Partners Cap/Current A/c (share of profit)	xxx		
	xxxxx		**xxxxx**

★ Interest on loan is a charge against profits.

Guarantee of Profit

Guarantee of profit means a minimum amount of profit to be paid to a partner. This amount shall be given to him if his share of profit is lower than the guaranteed amount. The deficit shall be borne either by one of the old partners or by all the old partners in a particular agreed ratio. If there is no agreement, then in their old profit sharing ratio, if his actual share of profit is more than the guaranteed amount, then, he will be given his actual share of profit. He gets the guaranteed amount or the actual share of profit, whichever is higher.

(a) Guarantee given by all partners : -

The deficiency shall be shared by other partners in their profit sharing ratio.

(b) Guarantee given by One Partner only:-

First calculate his share of profit. Compare it with the guaranteed amount. The amount of deficiency is to be charged from the partner who gave guarantee.

(c) Guarantee given to a partner by other partners in a ratio different from their profit sharing ratio

(d) Simultaneous guarantee by the firm to the partner and by the partner to the firm. Distribute profit among all the partners in the profit sharing ratio. Work out the amount of deficiency by comparing it with the guaranteed amount and his actual share of profit. The other partners will bear the deficiency in an agreed new ratio.

Steps Involved in the Distribution of Profits under Guarantee Arrangement

Step 1: Calculate the actual share of profit/loss of guaranteed partner.

Step 2: Calculate the guaranteed amount.

Step 3: Calculate the amount of deficiency

Deficiency = Guaranteed Amount – Actual Share of Profit

Step 4: Distribute the deficiency among the guaranteeing partners in their guaranteeing ratio.

Step 5: Distribute the actual profits/losses among all the partners in their profit sharing ratio as if there is no guarantee arrangement.

Step 6: Recover share of deficiency (as per step 3) from the guaranteeing partners and give credit for the same to guaranteed partner.

Past Adjustments

Sometimes, after the final accounts of a firm have been closed, it is found that certain matters have been left out by mistake. In such cases, instead of altering the final accounts which have already been closed, the firm rectifies the error or omission by passing an adjustment entry in the beginning of the financial year. Such adjustments are called past adjustments as they relate to past period.

Steps to pass adjusting journal entry:

Step 1 Calculate the amount already recorded.

Step 2 Calculate the amount which should have been recorded.

Step 3 Calculate the difference between Step 1 and Step 2.

Step 4 Find out the partner who received excess and the partner who received short.

Step 5 Pass the adjusting journal entry by debiting the partner who received excess and by crediting the partner who received short

Multiple Choice Questions:

1. Rajini and Ragini are partners in a firm. They are entitled to interest on their capital but the net profit was not sufficient to pay their interest, then to pay interest the net profit will be distributed among the partners in

   (a) 1 : 2 (b) Profit Sharing Ratio (c) Capital Ratio (d) Equally

2. Which one of the following items is recorded in the Profit and Loss appropriation account ?

   (a) Interest on Loan

   (b) Partner's Salary

   (c) Rent paid to Partners

   (d) Managers Commission

3. A and B are partners in partnership firm without any agreement. A has given a loan of Rs 50,000 to the firm. At the end of year loss was incurred in the business.

   Following interest may be paid to A by the firm :

   (a) @5% Per Annum

   (b) @ 6% Per Annum

   (c) @ 6% Per Month

   (d) As there is a loss in the business, interest can't be paid

4. According to Profit and Loss Account, the net profit for the year is Rs. 1,50,000. The total interest on partner's capital is Rs. 18,000 and interest on partner's drawings is Rs. 2,000. The net profit as per Profit and Loss Appropriation Account will be :

   (a) Rs. 1,66,000 (b) Rs. 1,70,000 (c) Rs. 1,30,000 (d) Rs. 1,34,000

5. In case of guarantee of minimum profit to a partner deficiency of guaranteed partner is from shared by remaining partner in _____________.

   (a.)Profit Sharing Ratio (b.)Agreed Ratio (c.)Sacrificing Ratio (d.)Gaining Ratio

6. A and B are Partners .A drew Rs 32,000 .If the rate of Interest on Drawing is 12% per annum then ______ will amount of interest on drawing .

(a.)Rs. 1820 (b.)Rs.1000 (c.)Rs.1920 (d.)None of the above

7. A partnership firm earned divisible profit of Rs. 5,00,000, interest on capital is to be provided to partner is Rs. 3,00,000, interest on loan taken from partner is Rs. 50,000 and profit sharing ratio of partners is 5:3 sequence the following in correct way

(A) Distribute profits between partners

(B) Charge interest on loan to Profit and Loss A/c

(C) Calculate the net profit Transfer to Profit and Loss appropriation A/c

(D) Provide interest on capital

(a) DABC (b) CBAD (c) BCD (d) BCDA

8.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 partner's capital.

Reason (R): Interest on capital is treated a charge against profit.

a.Both A and R are individually true and R is the correct explanation of A

b.Both A and R are individually 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

PRACTICE QUESTIONS

1.Garry, Harry and Robert were partners in a firm sharing profits in the ratio of 7:4:9. Their capitals on 1st April 2021 were: Garry Rs.2,00,000; HarryRs.75,000 and Robert Rs.3,50,000. Their partnership deed provided for the following:

(i)10% of the net profit to be transferred to General Reserve.

(ii)Interest on capital is to be allowed @ 9% p.a.

(iii)Salary ofRs.6,000 per month to Harry

(iv)Interest on Drawings @ 6% p.a. Drawings made against the anticipated profits, by Garry during the yearRs.25,000, Harry withdrewRs.5,000 at the end of each quarter, Robert withdrew Rs.25,000 on1st June 2021 for personal use. During the year ended 31st March 2022 the firm earned profits of Rs.1,70,000.

Prepare Profit and Loss Appropriation Account.

ANSWER:

Profit and Loss Appropriation Account

Dr. **Cr.**

Particulars		**Amount**	**Particulars**		**Amount**
To General Reserve		17,000	By Profit and Loss A/c (NP)		1,70,000
To Interest on Capital A/c			To Interest on Drawings A/c		
Garry	18,000		Garry	750	
Harry	6,750		Harry	450	
Robert	31,500	56,250	Robert	1,250	
To Partner's Salary A/c					2,450
Harry (6,000×12)		72,000			
Distribution of Profit:					
To Garry's Capital A/c	9,520				
To Harry's Capital A/c	5,440				
To Robert's Capital	12,240	27,200			
		1,72,450			**1,72,450**

1. Piya and Bina are partners in a firm sharing profits and losses in the ratio of 3 : 2. Following was the Balance Sheet of the firm as on 31-3-2022.

Liabilities		**AmountRs.**	**Assets**	**AmountRs.**
Capitals:			Sundry Assets	1,20,000
Piya	80,000			
Bina	40,000	1,20,000		
		1,20,000		1,20,000

The profitsRs.30,000 for the year ended 31-3-2022 were divided between the partners without allowing interest on capital @ 12% p.a. and salary to Piya @Rs.1,000 per month. During the year Piya withdrewRs.8,000 and Bina withdrewRs.4,000. Showing your working notes clearly, pass the necessary rectifying entry.

ANSWER:

Books of the Piya and Bina

Journal

Date	Particulars	Dr. Amount ₹	Cr. Amount ₹
	Bina's Capital A/c Dr. To Piya's Capital A/c (Rectifying entry for omission of IOC, and Piya's salary)	5,856	5,856

<u>Working Notes :</u>

Calculation of Opening Capital:

Particulars	PIYA	BINA
Closing Capital	80,000	40,000
Add: Drawings	8,000	4,000
	88,000	44,000
Less: Profits	18,000	12,000
Opening Capital	**70,000**	**32,000**
Interest on Capital @ 12%	**8,400**	**3,840**

Past Adjustment Table

Particulars	PIYA	BINA	Total
Omission of IOC	8,400 Cr.	3,840 Cr.	12,240 Dr.
Omission of Piya's salary	12,000 Cr.	----------	12,000 Dr.
	20,400 Cr.	3,840 Cr.	24,240 Dr.
Dr. Total divided in PSR	14,544 Dr.	9,696 Dr.	22,240 Cr
Net Effect	**5,856 Cr.**	**5,856 Dr.**	**00,000**

2. Jay, Vijay and Karan were partners of an architect firm sharing profits in the ratio of 2: 2: 1. Their partnership deed provided the following:

I. A monthly salary ofRs.15,000 each to Jay and Vijay.

II. Karan was guaranteed a profit ofRs.5,00,000 and Jay guaranteed that he will earn an annual fee ofRs.2,00,000. Any deficiency arising because of guarantee to Karan will be borne by Jay and Vijay in the ratio of 3: 2.

III. During the year ended 31st March, 2022 Jay earned fee ofRs.1,75,000 and the profits of the firm amounted to ₹15,00,000.

Showing your workings clearly prepare Profit and Loss Appropriation Account for the year ended 31st March 2022.

ANSWER:

Profit & Loss Appropriation A/c

Particulars	Amount	Particulars	Amount
To Salary (Jay)	1,80,000	By Profit	15,00,000
To Salary (Vijay)	1,80,000	Jay's capital	25,000
To DP transferred to			
Jay	3,05,800		
Vijay	3,59,200		
Karan	5,00,000		
	15,25,000		15,25,000

4. P, Q, and R are partners in a firm sharing profit and loss in the ratio 2:2:1. P and Q have guaranteed that R's profit in any year shall not be less than Rs.20000. The Net profit for the year ended 31st March 2018 was Rs.60,000. Prepare Profit and Loss Appropriation Account.

Profit and Loss Appropriation A/c

Date	Particulars	Amount	Date	Particulars	Amount
31.03.18	To P'sCapital A/c	16,000	31.03.2018	By Net Profit	60,000
	To Q's Capital A/c	24,000			

	To R's Capital A/c	20,000			
		60,000			60,000

Working Notes: Here also, R's share is less than the guaranteed amount. Hence, he will get the guaranteed amount but this time there will not be any effect on the profits of Q as the guarantee is given by P only. So, the adjustments (deduction) of deficiency of profit (Rs.8,000) will be from P's share only.

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
	P's Capital A/c Dr.		8,000	
	To R's Capital A/c			8,000
	(Being the rectification of interest of capital done with an increase of 2%p.a.)			

3. The capital accounts of Alka and Archana showed credit balances of Rs.4,00,000 and Rs.3,00,000 respectively, after taking into account drawings and net profit of Rs.2,00,000. The drawings of the partners during the year 2018-19 were:

Alka withdrew Rs.10,000 at the end of each quarter. Archana's drawings were:

DRAWINGS	**Rs.**
31st May, 2018	8,000
1st November, 2018	7,000
1st February, 2019	5,000

Calculate interest on partners' drawings @ 6% p.a. for the year ended 31st March, 2019.

(A).Alka – Rs.900 , Archana - Rs.625
(B).Alka - Rs.900, Archana - Rs.600
(C)Alka - Rs.925, Archana - Rs.600
(D)Alka - Rs.625 , Archana - Rs.900

(Ans. Option a)

4. Raju, Kamal and Monu are partners in 1:2:3. Their capital balances amounting to **Rs.**4,00,000; Rs.6,00,000 and **Rs.**5,00,000 respectively.

   As per the terms of the deed they were entitled for the following:

   i) Interest on capital @ 10% p.a.

   ii) Salary to Kamal **Rs.**30,000 for the year.

   The Net Profit earned by the firm for the year ended 31st March 2022 amounting to **Rs.**72,000. Show the apportionment among partners.

   (Ans: Ratio of outstanding amount: 40,000:60,000:50,0000:30,000. (4:6:5:3)

   IOC to Raju: =16,000 (4/18x72,000), IOC to Kamal: 24,000;

   IOC to Monu: 20,000, Salary to Kamal = Rs.12,000)

5. A and B are partners sharing profits and losses in the ratio of 3:2. Their capital accounts showed balances of Rs.1,50,000 and Rs.2,00,000 respectively on Jan 01, 2003. Show the treatment of interest on capital for the year ending December 31, 2006 in each of the following alternatives:

   (a) If the partnership deed is silent as to the payment of interest on capital and the profit for the year is Rs.50,000;

   (b) If partnership deed provides for interest on capital @ 8% p.a. and the firm incurred a loss of Rs.10,000 during the year;

   (c) If partnership deed provides for interest on capital @ 8% p.a. and the firm earned a profit of Rs.50,000 during the year;

   (d) If the partnership deed provides for interest on capital @ 8% p.a. and the firm earned a profit of Rs.14,000 during the year.

Hint: In the absence of any information interest on capitals will be appropriation of profit.

6. A, B and C were partners in a firm. On 1st April, 2008, their fixed capitals stood at Rs. 50,000, Rs. 25,000 and Rs. 25,000 respectively.

   As per the provisions of the partnership deed

   (i) B was entitled for a salary of Rs. 5,000 per annum.

   (ii) All the partners were entitled to interest on capital at 5% per annum.

   (iii) Profits were to be shared in the ratio of capitals.

The net profit for the year ending 31st March, 2009 of Rs. 33,000 and 31st March, 2010 of Rs. 45,000 was divided equally without providing for the above terms.

Pass an adjustment journal entry to rectify the above error.

(Ans. A's Capital A/c 1,500

B's Capital A/c 8,250

To C's Capital A/c 9,750)

7. Ravi and Mohan were partners in a firm sharing profits in the ratio of 7 : 5. Their respective fixed capitals were Ravi Rs. 10,00,000 and Mohan Rs. 7,00,000.

   The partnership deed provided for the following

   (i) Interest on capital @ 12% per annum.

   (ii) Ravi's salary Rs. 6,000 per month and Mohan's salary Rs. 60,000 per year.

   The profit for the year ended 31st March, 2007 was Rs. 5,04,000 which was distributed equally, without providing for the above. Pass an adjustment entry.

   (Ans: Mohan's current A/c Dr. 38,000

   To Ravi's current A/c 38,000)

8. Kumar and Raja were partners in a firm sharing profits in the ratio of 7 : 3. Their fixed capitals were Kumar Rs. 9,00,000 and Raja Rs. 4,00,000. The partnership deed provided for the following but the profit for the year was distributed without providing for:

   (i) Interest on capital @ 9% per annum.

   (ii) Kumar's salary Rs. 50,000 per year and Raja's salary Rs. 3,000 per month. Profit for the year ended #1.3.21 was Rs.2,78,000.

   Pass the adjustment entry.

   (Ans: Kumar's current A/c Dr. 11,100, To Raja's current A/c 11,100)

9. B, C and D are partners sharing profits in the ratio of 1:1:1. As per the partnership deed Salary is allowed to the partners as follows: B is entitled to a salary of Rs.2,000 per month. C is entitled to salary of Rs.16,000 p.a. D is entitled to a salary of Rs.4,000 quarterly. Calculate the amount of salary payable to the partners in the following cases:

   Case 1. When there is profit of Rs.62,000

   Case 2. When there is profit of Rs.35,000

   Case 3. When there is lossRs.20,000

ANSWER:.

Case 1

Profit is enough to pay the salary to the partners B's Salary will be paidRs.24,000; C Rs.16,000 and DRs.16,000 and remaining profit 6,000 will be shared equally by all the partners

Case 2

Profit is not enough to pay salary to partners Profit will be shared in the ratio of salary 24,000 : 16,000 : 16,000 i.e. 3:2:2. B will get 15,000; CRs.10,000 and DRs.10,000.

Case 3

Salary will not be paid to any partner, because there is loss. Salary is not a charge in this case, it is treated as an appropriation.

10. The net profit of X, Y and Z for the year ended 31st March, 2021 wasRs.60, 000 and the same was distributed among them in their agreed ratio of 3:1:1. It was subsequently discovered that the under mentioned transactions were not recorded in the books: (i) Interest on Capital @ 5% p.a. (ii) Interest on drawings amounting to XRs.700, YRs.500 and ZRs.300. (iii) Partner's Salary: X ₹1, 000, Y ₹1,500 p.a. The capital accounts of partners were fixed as: XRs.1, 00,000, YRs.80, 000and ZRs.60, 000. Record the adjustment entry.

    (Ans: X Dr.Rs.2,700, Y Cr.Rs.2,600 and Z Cr.Rs.100]

11. Ram, Mohan and Sohan are partners with capitals ofRs.5, 00,000,Rs.2, 50,000 andRs.2, 00,000 respectively. After providing interest on capital @10% p.a. the profits are divisible as follows: Ram1/2, Mohan 1/3 and Sohan 1/6. Ram and Mohan have guaranteed that Sohan's share in the profit Adjustment required Dr. -45,000 -5,000 +50,000 17 shall not be less thanRs.25, 000, in any year.The net profit for the year ended March 31, 2016 isRs.2, 00,000, before charging interest on capital. You are required to show distribution of profit.

    (Ans: Profit to RamRs.48,000, MohanRs.32,000 and SohanRs.25,000)

12. Mohan and Shyam are partners in a firm. State whether the claim is valid if the partnership agreement is silent in the following matters:

    a) Mohan is an active partner. He wants a salary of ₹10,000 per year.

    b) Shyam had advanced a loan to the firm. He claims interest @10% p.a.

c) Mohan has contributedRs.20,000 and ShyamRs.50,000 as capital.

And claim interest on capital @12% p.a

d) Mohan wants equal share in profits.

e) Shyam wants interest on capital to be credited @ 6% per annum

(ANSWER: a) not given b) given @6%p.a c) not given d) yes..given e) not given

13. State whether the following statements are true or false:

(i) Valid partnership can be formulated even without a written agreement between the partners. (F)

(ii) Each partner carrying on the business is the principal as well as the agent. (T)

(iii) Methods of settlement of dispute among the partners can't be part of the partnership deed. (F)

(iv) If the deed is silent, interest at the rate of 6% p.a. would be charged on the drawings made by the partner. (Interest on Drawings is not charged) (F)

PART A: ACCOUNTING FOR PARTNERSHIP FIRMS

Chapter – 3 and 4 Goodwill Nature and Valuation and Change in the Profit Sharing Ratio amongthe existing partners

Units/Topics	Learning Outcomes
➢ **Goodwill:** meaning, factors affecting, need for valuation, methods for calculation (average profits, super profits and capitalization) , adjusted through partners capital/ current account or by raising and writing off goodwill (AS 26) ➢ **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.	**After going through this Unit, the students will beable to:** 🕮 State the meaning, nature and factors affecting goodwill 🕮 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 balancesheet.

Meaning:

It is an intangible asset.

It is defined as the value of reputation of a firm in respect of profits expected in future over and above the normal rate of profits.

Factors affecting Goodwill:

1. Favorable location
2. Efficient management
3. Life span of Business
4. Nature of Goods
5. Unique Patent Rights
6. License possession

Types of Goodwill:

1. Purchased Goodwill: It is the goodwill for which the firm has paid consideration in cash or kind.
2. Self-generated Goodwill: Self-generated goodwill is the goodwill which is not purchased for a consideration but is earned by the efforts of the management.

Methods of Valuation of Goodwill:

1. Average Profit Method:

(i).Simple Average profit Method: Value of Goodwill = Average Normal Profit X Number of years' purchase

Average profit= Total of profit/Number of years.

(ii).Weighted Average Profit Method:

Value of Goodwill = Weighted Average Profit x Number of years' Purchase

Weighted Average Profit = Total of Weighted Profits/Total of weights.

2. **Super Profit Method: Super profit = Actual profit/ actual average profit –** Normal Profit

Normal Profit = capital employed x Normal Rate of Return / 100

Goodwill = Super profit x number years' purchase

3. Capitalization method:

(a) Capitalization of Average Profit Method:

Average Profit = Total Profit/Number of years

Capitalized value of Business= Average Profit x 100/Normal Rate of Return

Goodwill = Capitalized value of Business – capital employed

(b) Capitalization of Super profit method:

Average Profit = Total profit/Number of years

Normal profit= Capital employed x Normal Rate of Return/100

Super Profit = Actual average profit – Normal Profit

Goodwill = Super Profit x 100/Normal rate of Return

CHANGE IN PROFIT SHARING RATIO AMONG EXISTING PARTNERS:

Adjustments to be made:

1. Determination of Sacrificing Ratio and Gaining Ratio
2. Accounting of Goodwill

3. Accounting of Reserves, Accumulated Profit and Losses
4. Revaluation of Assets and Reassessment of Liabilities
5. Adjustment of Capital

1. **Calculation of Sacrificing Ratio** = Old Ratio – New Ratio

   Gaining Ratio = New Ratio – Old Ratio

2. **Accounting treatment of Goodwill**

   Gaining partner compensates the sacrificing partners.

   Amount of Compensation = value of Firm's Goodwill x Gained Profit share

Journal entry to adjust goodwill

(a)In case of Fluctuating Capitals:

Gaining Partners' Capital, A/c Dr

To Sacrificing Partners' Capital A/c

In case of Fixed capital:

Gaining Partners' Current A/c

To Sacrificing Partners' Current A/c

Accounting of Existing Goodwill:

All Partners' Capital A/c Dr

To Goodwill A/c

3. **Accounting of Reserves, Accumulated Profit and Losses**

Journal entries passed are:

(A)For transfer of Reserves and Accumulated Profit:

Reserve A/c Dr

Profit & Loss A/c (Cr. Balance) Dr

Workmen Compensation Reserve A/c Dr (Excess of Reserve over Liability)

Investment Fluctuation Reserve A/c Dr (Excess of Reserve over the difference between Book value and market value)

To All Partners' Capital or Current A/c

(B) For transfer of Accumulated Loss:

All Partners' Capital A/c Dr

To Profit & Loss A/c

To Deferred Revenue Expenditure A/c

(C)Accounting Treatment of Workmen compensation Reserve:

i) When Claim against Workmen Compensation Reserve does not Exist:

Workmen Compensation Reserve A/c Dr.

To Partners' Capital or Current A/c

ii) When Claim for Workmen compensation Exists:

a) Workmen compensation claim is equal to the amount of Workmen compensation Reserve:

Workmen compensation Reserve A/c Dr.

To Workmen compensation claim A/c

b) **Workmen compensation Claim is less than the amount of Workmen Compensation Reserve:**

Workmen Compensation Reserve A/c Dr

To Workmen Compensation Claim A/c

To Partners' Capital or current A/c

c) Workmen compensation claim is more than the Amount of Workmen compensation Reserve:

Workmen Compensation Reserve A/c Dr.

Revaluation A/c Dr.

To Workmen Compensation Claim A/c

Partners' Capital or Current A/c Dr.

To Revaluation A/c

(D) Accounting of Investments Fluctuation Reserve:

a) When Market Value of Investments is equal to Book Value

Investments Fluctuation Reserve A/c Dr.

To Partners' Capital or Current A/c

b) When Market Value of Investments is lower than Book Value:

i) Fall in the value of Investments is less than Investments Fluctuation Reserve:

Investments Fluctuation Reserve A/c Dr.

To Investments A/c (Book Value – Market Value)

To Partners' Capital or Current A/c (in Old profit-sharing ratio)

ii) Fall in value of Investments is Equal to Investments Fluctuation Reserve:

Investments Fluctuation Reserve A/c Dr.

To Investments A/c

iii) Fall in Value of Investments is more than Investments Fluctuation Reserve:

Investments Fluctuation Reserve A/c Dr.

Revaluation A/c Dr.

To Investments A/c

Partners' Capital or Current A/c Dr.

To Revaluation A/c

c) When Market Value or Investments is higher than Book Value:

i) Investments Fluctuation Reserve A/c Dr.

To Partners' Capital or Current A/c (in old Profit-sharing Ratio)

ii) Investments A/c Dr.

To Revaluation A/c

(iii)Revaluation A/c Dr.

To Partners' Capital or current A/c

(E) Accounting of Deferred Revenue Expenditure:

Partners' capital or (current) A/c Dr.

To Deferred Revenue Expenditure A/c

(F)Adjustment of Reserves, Accumulated Profits and Losses through Partners' Capital accounts i.e., When the Existing balances are to retained in the books:

In Case of Profit:

Gaining Partners' Capital/Current A/c Dr.

To Sacrificing Partners' Capital/Current A/c

In case of Loss:

Sacrificing Partners' Capital/Current A/c Dr.

To Gaining Partners' Capital/current A/c s

4. <u>Revaluation of Assets and Reassessment of Liabilities:</u>

(a)When revised values of assets and liabilities are to be recorded:

Accounting Entries to Record the Revaluation of Assets and Reassessment of Liabilities

1.For Increase in the value of an asset	Asset A/c (individually)A/c Dr. To Revaluation A/c
2.For Decrease in the value of an asset	Revaluation A/c Dr. To Asset A/c (individually)
3.For decrease in the amount of a liability	Revaluation A/c Dr. To Liability A/c(individually)
4.For decrease in amount of a liability	Liability A/c (individually) To Revaluation A/c
5.For Recording an unrecorded asset	Unrecorded Asset A/c Dr. To Revaluation A/c
6.For Recording an unrecorded liability	Revaluation A/c Dr. To Unrecorded Liability A/c
7.For transfer of Balance in Revaluation account: a) If there is profit on Revaluation	Revaluation A/c Dr. (in old profit - sharing ratio To Partners' Capital /current A/c
b) If there is loss on Revaluation	Partners' Capital/Current A/c Dr. (in Old profit-sharing ratio) To Revaluation A/c

Revaluation A/c

Particulars	**Rs.**	**Particulars**	**Rs.**
To Decrease in Assets A/c (individually)	xxxxx	By Increase in value of Assets A/c (Individually)	xxxxx
To Increase in Liabilities A/c(individually)	xxxxx	By Decrease in amount of Liabilities A/c (individually)	xxxxx
To Unrecorded Liabilities	xxxxx	By Unrecorded Assets A/c	xxxxx
To Partner's Capital A/c (Remuneration)	xxxx	By Loss on Revaluation transferred to Partners' Capital/current A/c	xxxx

To Cash/Bank (Expenses)	xxxx		
To Gain on Revaluation transferred to partners' capital/current A/c	xxxxx		
	xxxxx		xxxxxx

(b)

For Gain on Revaluation	For Loss on Revaluation
Gaining Partners' Capital/current A/c Dr. To Sacrificing Partners' Capital/Current A/c	Sacrificing Partners' Capital/Current A/c Dr. To Gaining partners' Capital/current A/c

5. **Adjustment of Capital:**

i) For Adjusting Shortage of capital:

Bank or Concerned Partner's Current A/c Dr.

To Concerned Partner's Capital A/c

ii) For Adjusting Surplus of Capital:

Concerned Partner's Capital A/c Dr.

To Bank A/c or Concerned Partner's Current A/c

A. Multiple Choice Questions

1. Goodwill is ___ __

(a) tangible asset (b)intangible asset

(c) fictitious asset (d)both (b) & (c)

2. Goodwill of the firm on the basis of 2 years' purchase of average profit of the last 3 years is Rs. 25,000. Find average profit.

(a) Rs. 50,000 (b) Rs. 25,000 (c) Rs. 10,000 (d) Rs. 2500

3. Calculate the value of goodwill at 3 years' purchase when: Capital employed Rs. 2,50,000; Average profit Rs. 30,000 and normal rate of return is I0%.

(a) Rs. 3000 (b) Rs. 25,000 (c) Rs. 30,000 (d) Rs. 5,000

4. What are super profits

(a)Actual profit – Normal Profit (b) Normal Profit - Actual profit

(c) Actual profit + Normal Profit (d)None of the above

5. The net assets of the firm including fictitious assets of 5,000 are 85,000.The net liabilities of the firm are 30,000.The normal rate of return is 10% and the average profits of the firm are 8,000.Calculate the goodwill as per capitalization of super profits.

(a) Rs.20,000 (b) Rs. 30,000 (c) Rs. 25,000 (d) None of the above

6. Which of the following items are added to previous year's profits for finding normal profits for valuation of goodwill.?

(a)Loss on sale of fixed assets (b) Loss due to fire, earthquake etc

(c) Undervaluation of closing stock (d) All of the above

7. Under which method of valuation of goodwill, normal rate of return is not considered?

(a) Loss on sale of fixed assets (b) Loss due to fire, earthquake etc

(c) Undervaluation of closing stock (d) All of the above

8. Following are the methods of calculating goodwill except:

(a)Super profit method (b) Average profit method

(c) Weighted Average profit method (d) Capital profit method

9. The excess amount which the firm can get on selling its assets over and above the saleable value of its assets is called :

(a)Surplus (b) Super profits (c) Reserve (d) Goodwill

10. When Goodwill is not purchased goodwill account can :

(a) Never be raised in the books (b)Be raised in the books

(b)Be partially raised in the books (d)Be raised as per the agreement of the partners

11. Goodwill of the firm is not valued during

(a)Admission of Partner (b) Retirement/death of partner

(c) Amalgamation of two firm (d) Dissolution of partnership firm

11. Weighted average profit method of calculating goodwill is used when:

(a) Profits are not equal (b)Profits show a trend

(c)Profits are fluctuating (d) None of the above

12. Capital invested in a firm is 5,00,000.Normal rate of return is 10% .Average profit of the firm are 64,000(after an abnormal loss of 4,000).Value of goodwill at

four times the super profits will be:

(a) Rs.72,000 (b) Rs. 40,000 (c) Rs. 2,40,000 (d) 1,80,000

13. The capital of the firm of Anu and Benu is Rs. 1,00,000. Annual salary to partners is Rs. 6,000 each. The profits for the last 3 years were RS. 30,000, Rs. 36,000 and Rs. 42,000. Goodwill is valued Rs. 18,000 by 2 years purchase of super profits. The normal rate of return will be

(a)15% (b) 27% (c) 45% (d) 9%

14. Which of the following asset is excluded while calculated capital employed for the purpose of calculation of goodwill.

(a)Cash (b) Bank (c) Goodwill (d) Patents

15. Goodwill according to Capitalization of super profit method is Rs. 1,50,000 and capital employed is Rs. 5,00,000. Normal rate of return is 10%, liabilities are Rs. 1,50,000. On the basis of given information, match the column I and column II

Column I	Column II
a. Normal Profit	1. 6,50,000
b. Assets	2. 65,000
c. Super Profit	3. 50,000
d. Actual profit	4. 15,000

16. Average profits of a firm during the last few years are Rs. 1,20,000 and the normal rate of return in the similar business is 10%. If the goodwill of the firm is Rs. 1,12,500 at 3 years purchase of super profit the capital employed of the firm was …..

(a)8,25,000 (b) 12,00,000 (c) 3,75,000 (d) 5,55,000

17. Any change in the relationship of existing partners which results in an end of the existing agreement and enforces making of a new agreement is called

(a)Revaluation of Partnership (b) Reconstitution of partnership

(c) Realization of partnership (d) None of these

18. The ratio in which a partner surrenders his share of profit in favor of a partner is known as

(a) Capital Ratio (b) Gaining Ratio

(c) New Profit-sharing Ratio (d) Sacrificing Ratio

19. If the existing profit-sharing ratio among A, B and C of 3:2:1 is changed to 1:2:3 then the partner(s) whose share will be unaffected is/are

(a)A (b) B (c) C (d) A and C.

20. Increase and decrease in the value of assets and liabilities are recorded through

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

(c) partners' Capital Accounts (d) Revaluation account

21. Raju and Gaurav were partners in a firm sharing profits and losses in the ratio of 2:1. With effect from 1st January 2022, they decided to share profits and losses equally. Individual partner's gain or sacrifice due to change in the ratio will be

(a)Gain by Rju 1/6 Sacrifice by Gaurav 1/6

(b) Sacrifice by Raju 1/6 gain by Gaurav 1/6

(c) Gain by Raju ½, sacrifice by Gaurav ½

(d) Sacrifice by Raju ½, Gain by Gaurav ½.

22. Average profits of a firm during last few years are Rs. 80,000 and the normal rate of return in a similar business is 10%. If the goodwill of the firm is Rs. 1,00,000 at years' purchase of super profit calculate the capital employed by the firm.

(a) 25,000 (b) 55,000 (c) 3,50,000 (d) 5,50,000

23. At the time of reconstitution of the firm, gaining partner compensates he sacrificing partner by paying proportionate amount of

(a)Goodwill (b) capital (c) Both a) and b) (d) none of the above

24. Pawan, Raman and Shravan are partners, Before changing their profit sharing ratio to 5:3:2, they were sharing profits equally. Workmen Compensation Reserve existed at Rs. 1,00,000 against which a claim existed at Rs. 20,000. Amount that will be credited to their capital accounts in their old profit sharing ratio will be

(a) Rs. 1,00,000

(b) Rs. 80,000

(c) Rs. 1,00,000 credited and Rs. 20,000 debited

(d) Rs. 20,000 credited and Rs. 1,00,000 debited.

26 . Assertion: (A) Goodwill is considered as an intangible asset but not a fictitious asset

Reason (R) Goodwill can neither be seen and touched nor it can be purchased or sold with any other asset

In the context of above two statements, which of the following is correct?

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

(b) Both Assertion (A) and Reason (R) are true but Reason ® 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

27. Assertion (A) Self-generated goodwill is the internally generated or hard-earned goodwill

Reason (R) It arises due to continued hard work of the organization, its better-quality products, etc.

In the context of above two statements, which of the following is correct?

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

(b) 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

28. Assertion (A): At the time of Change in profit-sharing Ratio, gaining partner brings his share of Goodwill to compensate the Sacrificing his profit share.

Reason (R): Goodwill may or may not be brought in cash by the Gaining Partner to compensate the sacrificing Partner for sacrificing his profit share.

In the context of above two statements, which of the following is correct?

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

(b) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A)

(c) Only Assertion (A) is correct but the reason (R) is not correct.

(d) Both Assertion (A) and Reason (R) are incorrect

29. Assertion (A) : At the time of Change is Profit-sharing Ratio, Goodwill of the firm is not valued because no partner is compensated.

Reason (R): Goodwill of the firm is valued at the time of change in profit sharing ratio because the sacrificing partners are compensated by the gaining partners.

In the context of above two statements, which of the following is correct?

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

(b)Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A)

(c) Only Assertion (A) is not correct but the reason (R) is correct.

(d) Both Assertion (A) and Reason (R) are incorrect

30. Assertion (A): When the partners change their profit sharing ratio, it leads to dissolution of old firm and new firm comes into existence

Reason (R): Change in profit sharing ratio does not dissolve the firm but brings an end to old partnership and new partnership comes into existence

In the context of above two statements, which of the following is correct?

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

(b) Assertion (A) and Reason (R) are correct but the Reason (R) is not the correct explanation of Assertion (A)

(c) Only Assertion (A) is not correct but the reason (R) is correct.

(d) Both Assertion (A) and Reason (R) are incorrect

Short Answer type Questions (3 marks and 4 marks questions):

1. Jay and Happy were partners sharing profits and losses in the ratio of 2:1. They admitted Anand as a partner for $1/5^{th}$ share in the profits. For this purpose, the goodwill of the firm was to be valued on the basis of three years' purchase of last five years' average profits. The profit for the last five years was: 2017 – Rs. 50,000 2018 – Rs. 40,000 2019 – Rs. 75,000 2020 – (25000) 2021 – Rs. 50,000

Calculate Goodwill of the firm after adjusting the following:

The profit of the year 2018 was calculated after charging Rs. 10,000 for abnormal loss of goods by fire.

Ans.

Calculation of Normal Profit

Year	Adjustment	Normal Profit (Rs)
2017		50,000
2018	40,000+10,000 (Abnormal Loss)	50,000
2019		75,000
2020		(25,000)
2021		50,000
Total Normal Profit		2,00,000

Average profit = Total Normal profit/Number of years = 2,00,000/5 = 40,000

Goodwill = Average Profit x Number of years' Purchase = 40,000 x 3 = 1,20,000

2. A business has earned average profits of Rs. 1,00,000 during the last few years and the normal rate of return in similar business is 10%, Find out the value of goodwill by i) Capitalization of Super Profit Method and ii) Super Profit Method if the goodwill is valued at 3 years' purchase of super profit. The assets of the business were Rs. 10,00,000 and its external liabilities Rs. 1,80,000.

Ans. (a) Capital Employed = Assets – External Liabilities = 10,00,000 – 1,80,000 = Rs. 8,20,000

(b) Normal Profit = Capital Employed x Normal Rate of Return / 100 = 8,20,000 x 10/100 = 82,000

(c) Super Profit = Actual Average Profit – Normal Profit = 1,00,000 – 82,000 = 18,000

As per Capitalization Method, Goodwill = Super Profit x 100/ Normal Rate of Return= 18,000x 100 /10 = 1,80,000

3. The Capital of the firm of Anuj and Benu is 10,00,000 and the market rate of interest is

15%, Annual salary to the partner is Rs. 60,000 each. The profit for the last three years were Rs. 3,00,000, Rs.3,60,000 and Rs. 4,20,000. Goodwill of the firm is to be valued on the basis of two years purchase of last three years average super profits. Calculate the goodwill of the firm.

Ans. Actual average profits = Rs. 3,60,000 – 1,20,000 = 2,40,000

Normal Profits = 15% x 10,00,000 = 1,50,000

Super profits = Actual average profits – Normal Profits = 2,40,000 – 1,50,000 = 90,000

Goodwill = Super profits x number of years' purchase = 90,000 x 2 = 1,80,000

4. Ashu and Vishu, and Jeshu 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, 2020. Following items appear in the balance sheet as at 31st March 2020.

General Reserve Rs. 1,50,000

Contingency Reserve Rs. 50,000

Advertisement Suspense (Dr) Rs. 1,00,000

Profit and Loss A/c Rs. 75,000

Date	Particulars	L.F	Debit	Credit
1.4.2020	General Reserve A/c Dr		1,50,000	
	Contingency Reserve A/c Dr		50,000	
	To Ashu's Capital A/c			1,00,000
	To Vishu's Capital A/c			60,000
	To Jeshu's Capital A/c			40,000
	(Being reserves transferred to Partners in their old profit sharing ratio)			

	Ashu's Capital A/c Dr. Vishu's Capital A/c Dr. Jeshu's Capital A/c Dr. To Advertisement Suspense A/c To Profit and Loss A/c (Being balance of Advertisement Suspense and Debit balance of Profit and loss transferred to partners capital A/c in old profit sharing ratio)		87,500 52,500 35,000	 1,00,000 75,000

5. Ayush and Manash and Desh share profits as 5:3:2. They decide to share their future profits as 4:3:3 with effect from 1st April, 2019. On this date, the following revaluations have taken place:

Particulars	Book Value	Revised Value
Investments	44,000	50,000
Plant and Machinery	50,000	40,000
Land and Building	80,000	1,00,000
Outstanding expenses	11,200	12,000
Sundry Debtors	1,20,000	1,00,000
Trade Creditors	1,40,000	1,20,000

Pass the necessary adjustment entry to be made because of the above change in the values of assets and liabilities. However old values will continue in the books.

Ans.

Working Note:

Revaluation A/c

To Plant and Machinery	10,000	By Investments	6,000
To Outstanding Expenses	800	By Land and Building	20,000
To Trade Debtors	20,000	By Trade Creditors	20,000
To Profit on Revaluation	15,200		

	46,000		46,000

Old Ratio = 5:3:2 New Ratio = 4:3:3

Gaining Share = New Share – Old Share

Ayush = 4/10 – 5/10 = -1/10 (Sacrifice)

Manash = 3/10-3/10 = Nil

Desh = 3/10 – 2/10 = 1/10 (Gain)

Desh's share of profit to be adjusted = 15,200 x 1/10 = 1,520

Date	Particulars	L.F	Debit	Credit
1.4.2019	Desh's Capital A/c Dr To Ayush's Capital A/c (Being adjustment entry made)		1,520	 1,520

6. Average profit of the firm is Rs. 1,50,000. Total tangible assets in the firm are Rs. 14,00,000 and outside liabilities are Rs.4,00,000. In the same type of business, the normal rate of return is 10% of the capital employed. Calculate value of goodwill by Capitalization of Super profit Method.

   Hints: Capital employed = 10,00,000

   Normal Profit = 1,00,000

   Super profit = 50,000

   Goodwill = 5,00,000

7. Peace and Happy are partners sharing profits and loss in the ratio of 3:2. With effect from 1st April, 2022 they decide to share profits equally. Goodwill of the firm was valued at Rs. 50,000. Pass necessary journal entry for compensating the sacrificing partner by the gaining partner due to change in profit sharing ratio.

   Hints: Peace sacrifice = 1/10

   Happy's gain = 1/10

   Amount to be adjusted Rs. 5,000

8. Swamy and Kiran are partners sharing profits in the ratio of 4:1. They decide to share profits equally w.e.f. 1st April 2022. Their Balance Sheet as at 31st March, 2022 shows a balance of advertisement suspense of Rs. 20,000. Pass journal entry at the time of change in profit sharing ratio.

Hints: Swamy Rs. 16,000 and Kiran Rs. 4,000)

9. X, Y and Z are partners sharing profits and losses in the ratio of 5:3:2. They decide to share future profits and losses in the ratio of 2:3:5 with effect from 1st April, 2022. Following is the extract of their Balance Sheet as at 31st March, 2022.

Liabilities	Amount	Assets	Amount
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

Hints: i) Credit X by Rs. 62,500 Y by Rs. 37,500 Z by Rs. 25,000

ii) Debit X by Rs. 25,000 Y by Rs. 15,000 Z by Rs. 10,000

10. P, Q and R are partners sharing profits and losses in the ratio of 3:2:1, decided to share future profits and losses equally from 1st April, 2018. Following is an extract of their Balance Sheet as at 31st March, 2018.

Liabilities	Amount	Assets	Amount
Investment Fluctuation Reserve	1,20,000	Investment (at Cost)	20,00,000

Show the accounting treatment if the market value of Investments is Rs. 20,24,000

Hints: Amount to be transferred to the partners' capital A/c is Rs. 1,20,000

Answer to the Multiple-Choice Questions

1. (b) Intangible assets
2. (d) 2,500
3. (d) 5,000
4. (a) Actual profit – Normal Profit
5. (b) 30,000
6. (d) all of the above
7. (c) Undervaluation of closing stock

8. (d) Capital profit method

9.(d),Goodwill

10 (.a),Never be raised in the books

11. (d) Dissolution of partnership firm

12. (b) Profits show a trend

13. (a) Rs.72,000

14. (a) 15%

15. (c) Goodwill

16. (a) 3 (b) 1 (c) 4 (d) 2

17. (a) 8,25,000

18. (b) Reconstitution of partnership

19. (b) Gaining Ratio

20. (b) B

21. (b) Revaluation account

22. (b) Sacrifice by Raju 1/6 gain by Gaurav 1/6

23. (d) Rs. 5,50,000

24. (a) Goodwill

25. (b) Rs. 80,000

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

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

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

29. (c) Only Assertion (A) is not correct but the reason (R) is correct.

30. (c) Only Assertion (A) is not correct but the reason (R) is correct.

PART A: ACCOUNTING FOR PARTNERSHIP FIRMS

Chapter – 04: Admission of a partner

Units/Topics	Learning Outcomes
Admission of a partner - effect of admission of a partner on change in the profit sharing ratio, treatment of goodwill (as per AS 26), treatment for revaluation of assets and re- assessment of liabilities, treatment of reserves, accumulated profits and losses, adjustment of capital accounts and preparation of capital, current account andbalance sheet.	**After going through this Unit, the students will beable to:** 🕮 Explain the effect of change in profit sharing ratio on admission of a new partner. 🕮 Develop the understanding and skill of treatment of goodwill as per AS-26, treatment of revaluation of assets and re-assessment of liabilities, treatment of reserves and accumulated profits, adjustment of capital accounts and preparation of capital, current account and balance sheet of the new firm.

Introduction:

A firm can be reconstituted on admission of a partner to a firm . Admission of a partner means a new member is admitted to the firm along with capital . The new partner brings

- Capital
- Premium for Goodwill

The new partner acquires right,

- Right to share the profits / losses
- Right to share the assets .

The old partners sacrifice their share of profits in favour of a new partner. Applicability of AS-26 Intangible asset

- Intangible assets should be recognised by fulfilling criteria as recognised.
- If am intangible asset doesn’t satisfy recognition Criteria , it should be expensed

- Intangible assets should be return of as early as possible but not exceeding its estimated life , which normally should not be beyond two years
- Internally generated goodwill should not be recognised as an asset .

AS26 implies that Purchased goodwill may be accounted for in the books and shown as an "asset, where it is accounted for in the books and shown as assets. It should be written off as early as possible but where it is to be written-off in more than one accounting year Goodwill appearing in the balance sheet is written off at the time of the firm's reconstitution. Self-generated goodwill is not accounted for in the books and not shown as an asset Thus if self –generated goodwill be debited to a goodwill account it should be written off in the same financial year and should not be shown as an asset in the balance Sheet Alternative value of goodwill maybe adjusted by deducting new partners current account and credited in their sacrificing partner's current accounting sacrificing ratio.

Accounting Steps:

Step1:Revaluation of Assets and Reassessment of Liabilities.

Step2: Treatment of Accumulated Profits or Losses. After welcome of New Partner

Step3:NewProfit Sharing Ratio and Sacrificing Ratio.

Step4:TreatmentofGoodwill.

Step5:AdjustmentofCapitalandNewBalanceSheet.

Note: - First two steps are calculated on the basis of old balance sheet, Old Partners' Capital A/c's andOld Profit Sharing Ratio. If, firstly these two steps are completed by students then there will be nochanceof mistakeinaccountingtreatment.

Step1:RevaluationofAssetsandReassessmentofLiabilities.

The Journal Entries recorded for revaluation of assets and reassessment of liabilities are as follows :-

(a) For increase in the value of an asset:-

Asset A/c Dr.

To Revaluation A/c (Gain)

(b) For reduction in the value of an asset:-

Revaluation A/c Dr.

To Asset A/c (Loss)

(c) Appreciation in the amount of a liability:-

Revaluation A/c Dr.

To Liability A/c (Loss)

(d) For reduction in the amount of liability:-

Liability A/c Dr.

To revaluation A/c (Gain)

(e) For an unrecorded asset:-

Asset A/c Dr.

To revaluation A/c

(f) For an unrecorded liability(Gain) :-

Revaluation A/c Dr.

To liability A/c (Loss)

(g) For transfer of gain on revaluation if credit balance:-

Revaluation A/c Dr.

To Old partners Capital A/c (Old ratio) (Individually)

(h) For transferring loss on revaluation:-

Old partners Capital A/c's Dr. (individually) (Old ratio)

To revaluation A/c

Step2: Treatment of Accumulated Profits or Losses.

ThejournalentriesrecordedforAccumulatedProfitsorLossesareasfollows:

1 .For Accumulated Profit:-

Profit & Loss A/c (Profit)

Reserve A/c Dr.

Workmen's compensation fund A/c Dr.

Investment Fluctuation Reserve A/c Dr.

To Old Partner's Capital A/c (individually) (In old profit sharing ratio)

2. For losses:-

Old partner's Capital A/c Dr. (individually)

To profit and loss A/c (Loss)

To deferred Revenue expenses A/c (in old profit sharing ratio)

Step3:New Profit sharing ratio and sacrificing ratio :-

NewProfit sharing ratio

When new partner is admitted he acquires his share in profits from the old partners. In other words, on the admission of a new partner, the Old Partners Sacrifice a share of their profit in favour of the new partner. But, what will be the share of new partner and how he will acquire it from the existing partners is decided mutually among the old partners and the new partner. However, if nothing is specified as to how the new partner acquires is share from the old partners; it may be assumed that he gets it from them in their profit sharing ratio.

*In any case,on admission of a new partner, the profit sharing ratio among the old partners will change keeping in view their respective contribution to the profit sharing ratio of the income partner. Hence , there is a need to ascertain the new profit sharing ratio among all the partners. This depends upon how does the new partner acquires his share from the old partners for which there are many possibilities . Let us understand it with the help of the following illustrations .

Illustration 1:-

Amitand Vimala are partners sharing profits in the ratio of 3:2 they admitted Sumit as a new partner for 1/5th share in the future profits of the firm. Calculate new profit sharing ratio of Amit ,Vimala and Sumit .

Solution: Sumit's share = 1/5;

Remaining share 1-1/5 =4/5.

Amit's new share = 4/5 x 3/5= 12/25

Vimala's new share = 4/5 x 2/5 = 8/25

Sumit's share = 1x 5/5 x 5 = 5/25

New profit sharing ratio of Amit ,Vimala and Sumit will be 12:8:5

Note: It has been assumed that the new partner acquired his share from old

partners in old ratio .

Illustration 2:-

A and B are partners sharing profits in the ratio of 3:2 . They admit c as a new partner for 1/5 th share in the future profits to the firm , which he gets equally from A and B .

Calculate new profit sharing ratio of A , B and C.

Solution :

C's share = 1/5 or 2/10 ;

A's share = 3/5 – 1/10 = 5/10

B's share = 2/5 – 1/10 = 3/10

So , New profit sharing ratio is 5:3:2.

Illustration 3:-

X and Y are partners in a firm sharing profits in the ratio of 3:2 . They admit Z as a new partner. X surrenders 1/4thof his share and Y 1/3rd of his share in favor of Z .

Calculate new profit sharing ratio of X , Y And Z .

Solution: X sacrifice = 3/5 x 1/4 = 3/20 ; Y sacrifice = 2/5 x 1/3 = 2/15 ;

X's new share = 3/5 – 3/20 = 9/20

Y's new share = 2/5 - 2/15 = 4/15

Z's new share = 3/20+ 2/15 = 17/60.

So, New ratio is 27:16:17.

Sacrificing Ratio

The ratio in which the old partners agree to sacrifice their share of profit in favour of the incoming partner is called sacrificing ratio . The sacrifice by a partner is equal to :

Old share of profit – New share of profit

Step 4: Treatment of Goodwill.

There are different situations relating to the accounting treatment of Goodwill at the time of admission of new partner . When a new partner is admitted , Goodwill can be treated by –

1) Premium method and , 2) Revaluation method

All these are given in detail under the following categories

(1).Premium method :

This method is followed when the new partner brings his share of goodwill in cash . Amount of premium (share of goodwill) is shared by old partners in sacrificing ratio

Journal:

(a).Cash A/c Dr.

To premium for goodwill A/c

(premium brought in by new partner)

(b).Premium of goodwill A/c Dr.

To old partner's Capital A/ c

(goodwill shared in sacrificing ratio)

(I) Goodwill paid by the new partner to the old partners privately:

No entry will be passed in the books of the firm for premium paid privately . Entry for cash brought in by him as a capital shall only be passed. However if there is any goodwill A/c existing in the balance sheet of old partners before admission , it should be immediately written off among the old partners in old ratio

(II) Goodwill paid by new partner retained in business:

(a) Cash A/c Dr.

To Premium for goodwill A/c

(premium brought in new partner)

(b) Premium for goodwill A/c Dr

To sacrificing Partner's Capital A/c

(Goodwill shared in Sacrificing Ratio)

(c) **Goodwill withdrawn by old partners:**

Entries (a) and (b) same as above.

For withdrawal:

(d) Sacrificing Partner's Capital A/c

To Cash A/C

Treatment of existing Goodwill appearing in balance sheet:

Existing goodwill to be written off by debiting Old partner's

(Being the existing goodwill written off)

Eg: Arya and Bala are partners sharing profit and losses in the ratio 3:2. They admitted Cindy into partnership for 1/4th share. Goodwill of the firm is valued at Rs.20,000. At the time of Cindy's admission goodwill already appears in the books at Rs.10,000. Cindy brings Rs. 5,000 as premium.

For writing off good will:

Arya's capital 6,000

Bala's capital 4,000

(Being goodwill written off in old ratio)

However, if partners decide to maintain goodwill account as it is , the new partner is required to bring in as his share of goodwill only in respect of the difference between its total value and book value. So, in the above case Cindy, the new partner will bring Rs.2,500 only as premium. [1/4 of Rs.10,000(Rs.,20,000- Rs.10,000)] which will be credited to old partner's A/c in sacrificing ratio.

(2).Revaluation Method:

This method is followed when the new partner does not bring his share of good will in cash. Good will account is raised in the books by crediting old partners in old profit sharing ratio. At that time possibilities are:

(a) No goodwillappears in books at the time of admission.

Goodwill account must be raised at its full value:

Goodwill A/c Dr.

To Old Partner'scapital A/c

When the incoming or New Partner does not bring his share of Goodwill:

(i) Goodwill A/c………………………….Dr. (With value of Goodwill)

To Old Partners' Capital/Current A/c (In old Profit Sharing Ratio)

(Being the Goodwill account raised)

(ii) All Partners Capital/Current A/c Dr. (In New Profit Sharing Ratio)

To Goodwill A/c (With value of Goodwill)

(Being the Goodwill account written off)

When the Incoming or New Partner brings a PART of his share of Goodwill:

(i) Premium for Goodwill A/c ………………Dr. (With Goodwill brought)

New partner's Current A/c ……………...Dr. (With unpaid value of Goodwill)

To Sacrificing Partners Capital/Current A/c (In Sacrificing Ratio)

(Being the Goodwill transferred in sacrificing Ratio)

(b) Goodwill already appears in the books:

When goodwill appearing in books is less that the agreed value:

Goodwill A/c Dr

To Old Partner's Capital A/c

(Being goodwill raised to its agreed value)

When goodwill appearing in books is more than agreed value:

Old Partner's Capital A/c Dr

To Goodwill A/c

(Being goodwill brought down to its agreed value)

When the Incoming or New Partner does not bring his shares of Goodwill:

1. Amar and Sachin are partners sharing profits of 3:2. Chetan is admitted as partner w.e.f. 1st April 2021 and their new profit sharing ratio is 3:2:1. Goodwill appeared in the books at Rs. 20,000. Goodwill as on the date of admission was valued at Rs. 1,80,000. Pass the journal entries giving effect to the arrangement under both the methods.

First Method:

2. Amar and Sachin are partners sharing profits of 3:2. Chetan is admitted as partner w.e.f. 1st April 2021 and their new profit sharing ratio is 3:2:1. Goodwill appeared in the books at Rs. 20,000. Goodwill as on the date of admission was valued at Rs. 1,80,000. Pass the journal entries giving effect to the arrangement under both the methods.

First Method:

Date	Particulars	L.F	Debit (Rs)	Credit (Rs)
(i)	Amar's capital/current A/c Dr. Sachin's Capital/Current A/C Dr. To Goodwill A/c (Being existing goodwill written off in their Old profit sharing ratio)		*12,000* *8,000*	 *20,000*

Date	Particular	L.F	Debit (Rs)	Credit (Rs)
(ii)	Chetan's capital A/c…Dr. (1,80,000×1/6) To Amar's Capital/Current A/c(30,000×3/5) To Sachin's Capital/Current A/c (30,000×2/5) (Being the goodwill credited to sacrificing partners in their sacrificing ratio)		*30,000*	 *18,000* *12,000*

Working Note:

Calculation of sacrificing ratio Old ratio 3:2;

New ratio 3:2:1

Amar 3/5-3/6=3/60

Sachin 2/5-2/6=2/30 (sac);

Sacrificing ratio is 3:2

Second Method:

Date	*Particular*	*L.F*	*Debit (Rs)*	*Debit (Rs)*
(i)	Amar's Capital/Current A/c Dr. Sachin's Capital/Current A/c Dr. To Goodwill A/c (Being existing goodwill written off in their Old profit sharing ratio)		*12,000* *8,000*	 *20,000*
(ii)	Goodwill A/c ..Dr. To Amar's Capital/Current A/c (1,80,000×3/5) To Sachin's Capital/Current A/c (1,80,000×2/5) (Being the goodwill raised in old profit sharing Ratio)		*1,80,000*	 *1,08,00* *72,000*
(iii)	Amar's Capital/Current A/c Dr. Sachin's Capital/Current A/c Dr. Chetan's Capital/Current A/c Dr. To Goodwill A/c (Being goodwill written off in New profit sharing Ratio)		*90,000* *60,000* *30,000*	 *1,80,000*

When the Incoming or New Partner brings a PART of his share of Goodwill:

3. Bharat and Sunil were partners in a firm sharing profits and losses in the ratio 1:2. On1st April, 2021 Rajiv was admitted as a new partner for 1/4th share in the profits. Rajiv's share of goodwill is Rs.2,50,000 out of which he bought Rs. 1,00,000.

Pass the necessary Journal Entries when the Goodwill Account is raised for the amount not brought by the incoming partner and is also written off.

Journal Entries

(i) Goodwill A/c Dr. (2,50,000-1,00,000) 1,50,000

To Bharat's Capital/Current A/c 50,000

To Sunil's Capital/Current A/c 1,00,000

(Being the goodwill raised for the amount not brought by New Partner and distributed among sacrificing Partners in Sacrificing Ratio 1:2)

(ii)	Rajiv's Capital/Current A/c	Dr.	1,50,000	
	To Goodwill A/c			1,50,000

(Being goodwill written off by same amount)

When New Partner brings his share of goodwill in kind:

Ex: Supposed there are two partners Arya and Bala. Cindy is admitted as new partner.

When new partner brings his shares of goodwill in kind

Date	*Particular*	*L.F*	*Debit (Rs)*	*Credit (Rs)*
	If there is any goodwill A/c in the balance sheet of old partners Arya's Capital A/c Dr. Bala's Capital A/c Dr. To Goodwill A/c (Being Old Goodwill written off in Old Ratio)		 xxx xxx	 xxx
	Assets A/c Dr. To Premium for Goodwill A/c To Cindy's Capital A/c (Being Assets brought in by New Partner for premium and Capital)		xxxx	 xxx xxx
	Premium for Goodwill A/c Dr To Arya's Capital A/c To Bala's Capital A/c (Being Premium amount transferred to Old Partner's Capital A/c's in Sacrificing Ratio)		xxxx	 xxx xxx
	If premium amount withdrawn by old partners Arya's Capital A/c Dr. Bala's Capital A/c Dr. To Cash/Bank A/c		xxx xxx	 xxxx

Hidden Goodwill:

Sometimes the value of Goodwill is not given. It is inferred or estimated from other relat information given in question

Example:-Arya and bala are two partners in 3:2 ratio. Their capitals are Rs.1,20,000 and

Rs.1,00,000 respectively. Cindy is admitted for 1/5th share and he is bringing Rs.80,000 as his capital. Calculate the value of goodwill.

Solution:

Value of Goodwill = (Cindy's Capital×5/1)- (Arya's Capital+ bala's Capital + Cindy's Capital)

=(Rs.80,000×5/1)- (Rs.1,20,000+ Rs 1,00,000 + Rs.80,000)

=Rs. 4,00,000- Rs. 3,00,000

= Rs. 1,00,000

So, Cindy's share of Goodwill = Rs. 1,00,000 ×1/5 = Rs. 20,000

- NOTE: It means new partner C doesn't bring his share of goodwill in cash. So, in this case journalentries will be same as given in the table of (II) situation.

  Step 5 : Adjustment of capital and new balance sheet.

  After the admission of a partner, the capital of all partners may be adjusted as per agreement. The adjustment may take any of the following forms:

I-Adjustment of the capitals of the old partners on the basis of new partner's capital

Steps:

(i) Calculate the total capital of the firm on the basis of new partner's capital and his share in profits. Total capital/New capital= New partner's capital × Reciprocal of the proportion of his share in profit.

(ii) Calculate the new capitals of all partners by dividing total capital in new ratio.

(iii) Prepare old partners' capital A/c's (after all adjustments regarding Revaluation, General Reserve, Goodwill etc) and find out the actual balances of their capitals.

(iv) Compare the new capitals as in (ii) with old capital balances as in (iii) and work outsurplus ordeficiency .

(v) Surplus will be paid back to the back to the old partners and if there is deficiency the same will be contributed in cash by the old partners.
(If it is specifically required under agreement, the surplus can be Cr. to their current A/c's and deficiency can be Dr. to their current A/c's)

(vi) If good will is not brought in cash, it can be adjusted either(i) through new partner's capital A/c- this will reduce his original capital contributed by him or (ii) if it is adjusted through new partner's current A/c- this will not affect the original capital contributed by him.

II. Finding the new partner's sufficient capital on the basis of the old partners capital or the total capital of the firm

Steps:

(i) Prepare Old Partner's capital A/c's (after all adjustment regarding Revaluation, General Reserve, Goodwill etc.)

(ii) Calculate the total Capital of the news firm as follows:
Total Capital of the firm =Combined adjusted × capital of old partners Reciprocal of the combined proportions of their share of profit.

(iii) New partner's capital will be equal to his share of the total Capital.

(iv) If goodwill is not brought in cash by the new partner, it should be better Dr. to his Current Account. This will be make the calculations of his sufficient capital more accurate and simple.

Revaluation of Assets and Liabilities

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.

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'.

Treatment of reserves, accumulated profits and losses:

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 ...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

Understanding Revaluation Account: It is an account which is used to record change in value of assets and liabilities. Following are the items which are to be recorded in the Revaluation Account:

(i) Credited to Revaluation Account:

- Increase in assets,
- Unrecorded assets,
- Decrease in liabilities,
- Writing back excess provision.

(ii) Debited to Revaluation Account:

- Decrease in assets,
- Increase in liabilities,
- Unrecorded liabilities, Liabilities provided.

(iii) Any gain or loss from the revaluation of assets and liabilities is to be distributed among the partners in their old profit sharing ratio and is adjusted in their Capital or Current Accounts.

(iv) Assets and liabilities revalued are to be shown in the books of firm at the revalued figures only.

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. **Revaluation Gain(profit):**

Revaluation A/c …Dr.

To Old Partners' Capital A/c [In old profit sharing ratio]

viii. **Revaluation Loss:**

Old Partners' Capital A/c …Dr.[In old profit sharing ratio]

To Revaluation A/c

MULTIPLE CHOICE QUESTIONS :

1.Sacrificing ratio is

(a) Old profit share-new profit share
(b) New profit share-old profit share
(c) Equal to old profit-sharing ratio
(d) Equal to new profit-sharing ratio

2.General reserve at the time of admission of a partner is transferred to

(a) Revaluation A/c
(b) The credit of Old Partner's Capital A/c
(c) The debit of Old Partner's Capital A/c
(d) the credit of Capital A/c s of all the partners

3.The asset that normally is valued/revalued at the time of admission of a new partner is

(a) Goodwill (b)Fixed assets (c)Stock (d)Investments

4.X and Y are sharing profits and losses in the ratio of 3:2. They admit Z as a partner and give him 2/10 share in the profit. The new profit-sharing ratio will be

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

5.Goodwill brought by the incoming partner is distributed among the old partners in their

(a) Old profit-sharing ratio (b) New profit-sharing ratio
(c) Sacrificing ratio (d) Gaining ratio

6.Mita and Sumit are partners in a firm with capitals of ₹6,00,000 and ₹4,00,000 respectively.Keshav was admitted as a new partner for 1/5 share in the profits of the firm.Keshav brought ₹40,000 as his share of goodwill premium and ₹3,00,000 as his capital.The amount of goodwill premium credit to Sumit will be

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

7.A and B are partners sharing profit or loss in the ratio of 3:2. C is admitted into the partnership as a new partner. A sacrifice 1/3 of his share of B sacrifices 1/4 of his share in favour of C. What will be C's share in the firm?

(a) 1/5 (b) 2/10 (c) 3/10 (d) None of the above

8. A and B are partners sharing profits in the ratio of 5 : 3. A surrenders 14th of his share and B surrenders 15 of his share in favour of C, a new partner. What is the sacrificing ratio?

(a)4:5 (b)5:4 (c) 12:25 (d) 25:12

9. If the incoming partner brings the amount of goodwill in Cash and also a balance exists in goodwill account, then this goodwill account is written off among the old partners in

(a) The new profit-sharing ratio (b) The old profit-sharing ratio

(b) The sacrificing ratio (d) The gaining ratio

10. Goodwill of a firm of A and B is valued at ₹30,000. It is appearing in the books at ₹12,000. C is admitted for 1/4 share. What amount is C supposed to bring for goodwill?

(a) ₹3,000 (b)₹4,500 (c)₹7,500 (d) ₹10,500

11. A and B are partners sharing profits and losses in the ratio of 7 : 5. They agree to admit C, their manager, into partnership who is to get 1/6th share in the profits. He acquires this share as 1/24th from A and 1/8th from B, The new profit sharing ratio will be

(a) 13:7:4 (b) 7:13:4 (c) 7:5:6 (d)5:7:6

12. On admission of a new partner

(a) Old firm is dissolved

(b) Old partnership is dissolved

(c) Both old partnership and firm are dissolved

(d) Neither partnership nor firm is dissolved

13. A partner maybe admitted into partnership

(a) With the consent on any one partner

(b) With the consent of majority of partners

(c) With the consent of all the old partners

(d) With the consent of 2/3 of old partners

14.**According to section 31(1) of the Indian Partnership Act, 1932, "A person can be admitted as a new partner only with the ___ unless otherwise agreed upon."**

(a) Consent of one partner (b) Consent of the existing partners

(c) Both (a) and (b) (d) Consent of the firm

15.In the Balance Sheet prepared after the new partnership agreement, Assets and Liabilities are usually shown at

(a) Original amount (b)Revalued amount

(c)Realisable amount (d) Current cost

16.**Sacrificing ratio is used to distribute ___ in the case of admission of a partner**

(a) Reserves (b) Goodwill

(c) Revaluation profit (d) Balance in Profit and Loss A/c

17.**When a partner brings his share of goodwill in cash, the amount is to be debited to**

(a) Premium for goodwill A/c (b) Cash A/c

(b) Capital A/c s of Old partners (d) Capital A/c s of new partners

18.**A and B are partners sharing profits and losses in the ratio of 5:4. C is admitted for 1/5th share. A and B decide to share equally in future. Sacrificing ratio will be**

(a) 5:4 (b) 2:7 (c) 7:2 (d) 1:1

19.Increase in the value of liabilities at the time of admission of a partner is

(a) Debited to Revaluation A/c (b) Credited to Revaluation A/c

(c) Credited to Partner's Capital A/c (d) Debited to Partner's Capital A/c

20.Unrecorded liabilities are transferred to

(a) Partner's Capital A/c (b) Revaluation A/c

(c) Profit and loss A/c (d) Partner's current A/c

ANSWERS

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

Case Study Base Questions

(On the basis of Case study 1, answer questions 16-20 and on basis of Case Study 2, answer questions 21-25.)

Case Study 1: Meera and Veera were partners with capitals of Rs. 1,20,000 and Rs. 1,60,000 respectively. On 1st April, 2010 they admitted Yamini as a partner for one forth share in profit. Yamini brings her capital Rs. 2,00,000 and Goodwill for 1/4th share in cash. Goodwill of the firm is valued at Rs.3,60,000 on admission of Yamini.

On that date the creditors of Meera and Veera were 60,000 and Bank Overdraft was 15,000. Their assets apart from cash included Stock 10,000; Debtors 40,000; Plant 80,000 and Building Rs.2,00,000.

It was agreed that Stock should be depreciated by 2,000; Plant to 80%; 5000 should be written off as Bad Debts; A Provision for Bad Debt is to be kept at 5% of Debtors. Building should be appreciated by 25%.

1. What would be the new profit sharing ratio after Yamini 's admission?

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

2. Yamini would bring Rs............................ as her share of goodwill.

   (a) 3,60,000 (b) 90,000 (c) 50,000 (d) 80,000

3. What would be the amount of cash balance in firm before admission of Yamini?

   (a) Rs.25,000 (b) Rs.1,00,000 (c) Rs.3,55,000 (d) Rs.75,000

4. The amount Provision for Bad Debts would be Rs.........................

   (a) 2,000 (b) 1,250 (c) 1,750 (d) 5,000

5. Which of the following right/rights Yamini would get after admission?

   (a)Right to admission (b) Right to share future profits

   (c) Right to share assets (d) Both B and C

Case Study 2: Ashok and Bharath are partners in a firm. Their Balance Sheet as at 31st Marsh 2021 was:

Liabilities	**Amount**	**Assets**	**Amount**
Workmen Compensation Reserve	5,400	Cash	10,000
		Debtors 80,000	
Outstanding Expenses	3,200	Less: Pro. for Bad Debts 4,000	76,000
Creditors	30,000	Stock	20,000
Ashok's Capital	50,000	Machine	38,600
Bharath's Capital	60,000	Profit and Loss A/c	4,000
	1,48,000		**1,48,000**

On 1st April 2021, they admitted Chandru as a new partner on the following conditions:

(i) Chandru will bring Rs.40,000 as capital but unable to bring his share of goodwill in cash.

(ii) The New profit sharing ratio between Ashok , Bharath and Chandru will be 3:2:1.

(iii) Claim towards workmen compensation is Rs.3,000.

(iv) Bad Debts amounting Rs.6,000 are to be written off.

(v) Creditors are to be paid Rs.2,000 more.

(vi) Rs.2,000 are to be provided for an unrecorded liability for damage.

(vii) Outstanding expenses be brought down to Rs.1,200.

(viii) Seema , an old customer whose account was written off as bad debts has promisedto pay Rs.2,500.

(ix) Goodwill of the firm is valued at Rs.18,000.

6. Sacrificing Ratio of Ashok and Bharath will be:

(a) 1:1 (b) 3:2

(c) Only Bharath sacrifices 1/6 (d) Only Ashok sacrifices 2/6

7. For Chandru‘s share of goodwill .... A/c will be debited with Rs. ....

(a)Chandru‘s Current; 3,000 (b) Chandru‘s Capital A/c; 8,000

(c) Bharath‘s Current A/c; 3,000 (d) Ashok‘s Capital A/c; 3,000

8. Which of the following is correct treatment:

(a)	Workmen Compensation Fund ....Dr	5,400	
	To Ashok‘s Capital A/c		2,700
	To Bharath‘s Capital A/c		2,700
(b)	Workmen Compensation Fund ....Dr	5,400	
	To Ashok‘s Capital A/c		2,700
	To Bharath‘s Capital A/c		1,800
	To Chandru‘s Capital A/c		900

(c)	Workmen Compensation Fund ....Dr	2,400	
	To Ashok's Capital A/c		1,200
	To Bharath's Capital A/c		1,200
(d)	Workmen Compensation Fund ....Dr	5,400	
	To Ashoks's Current A/c		2,700
	To Bharath's Current A/c		2,700

9. What entry will be passed for Seema, an old customer whose account was written off asbad debts has promised to pay Rs.2,500:

(a)	Seema A/c	... Dr	2,500	
	To Revaluation A/c			2,500
(b)	Revaluation A/c	... Dr	2,500	
	To Bad Debts Recovered A/c			2,500
(c)	Cash A/c	... Dr	2,500	
	To Bad Debts Recovered A/c			2,500
(d)	No entry will be passed.			

10. Balance of Profit and Loss A/c will be :

(a) Debited to Ashok and Bharath in old ratio.

(b) Credited to Ashok and Bharath in old ratio,

(c) Debited to Ashok and Bharath in their new ratio

(d) Credited to Ashok, Bharath and Chandru in new ratio.

Case Study Based Answers:

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

Assertion – Reasoning Based Questions

1. Assertion (A): The ratio in which old partners sacrifice their share of profit in favour of new partner is called Sacrificing Ratio.
   Reason (R): Old partners get goodwill share from new partner in sacrificing ratio.
   (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 and Reason(R) is not 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.
2. Assertion (A): At the time of admission of a new partner Balance of General Reserve is transferred to Old Partners' Capital A/c in old ratio.
   Reason (R): General Reserve appearing in Balance Sheet is created out of past profits.
   (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 and Reason(R) is not 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.
3. Assertion (A): New partner always bring his share of goodwill in cash.
   Reason (R): New partner brings goodwill against the sacrifice made by old partners for his share of Profit.
   (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 and Reason(R) is not 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): At admission existing goodwill is written off by debiting to

old partners' capital A/c

Reason (R): Goodwill is an intangible and fictitious asset.

(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 and Reason(R) is not 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.

5. Assertion (A): At the time of admission of a new partner surplus of Investment Fluctuation Reserve over loss in value of Investment is transferred to Old Partners' Capital A/c in old ratio.

Reason (R): Loss in value of Investment, if any, is adjusted first from Investment Fluctuation Reserve.

(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 and Reason(R) is not 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.

Assertion Reasoning Based Answers:

1.	B	2.	A	3.	D	4.	C	5.	A

SHORT ANSWERS (3/4MARKS)

1. Gyan and Govind are partners sharing profits in the ratio of 3 : 2 . They admitted Ganga as a partner for $1/4^{th}$ share in profits. He brings ₹20,000 as his goodwill,out of which ₹14,000 is adjusted (credited) in Govind's Capital Account and ₹8,000 in Gyan's Capital Account.From the given information , calculate sacrificing ratio and new profit sharing ratio.

SOLUTION:

Sacrificing ratio between Gyan and Govind is 8,000 : 12,000 or 2 : 3.

Gyan's sacrifice = 1/4 x 2/5 = 2/20

Govind's sacrifice = 1/4 x 3/5 = 3/20

Gyan's New profit share = 10/20 or 2

Govind's new profit share = 5/20

Ganga's new profit share = 1/4

New profit sharing rato = 2 :1 :1

2. Ravi and Kavi were partners in a firm sharing profits in the ratio of 3 : 2.They admit Shail into partnership for 1/4 share in profit. The partner passed the following journal entries at the time of admission of a Shail :

Bank A/c Dr 3,00,000

To Shail's Capital A/c 2,50,000

To Premium for Goodwill A/c 50,000

(Capital and premium for goodwill brought in cash)

Premium for Goodwill A/c Dr 50,000

Kavi's Capital A/c Dr 20,000

To Ravi's Capital A/c 70,000

(Premium for Goodwill credited to Ravi's Capital A/c)

Calculate (i)Firm's Goodwill (ii)Sacrifice/Gain to Ravi and Kavi on Shail's admission (iii)New profit sharing ratio

SOLUTION:

(i) Firm's goodwill = ₹50,000 x 4/1 = ₹ 2,00,000

(ii) Kavi's gain = ₹20,000 / ₹ 2,00,000 = 1/10

Shail's gain is 1/4

Ravi's sacrifice = Kavi's Gain + Shail'sgain = 1/10 + 1/4 = 7/20

(iii)New profit sharing ratio = 1 : 2 : 1

3. Balance Sheet as at 31st March,2022 of Amit and Sumit who share profits equally was:

Liabilities	Amount	Assets	Amount
Capital A/c Amit 2,00,000 Sumit 2,00,000	4,00,000	Goodwill	80,000
General reserve	1,00,000	Plant and machinery	1,50,000
Sundry Creditors	90,000	Furniture	1,10,000

Outstanding expenses	10,000	Computer	1,00,000
Bank Overdraft	50,000	Debtors	1,10,000
		Stock	90,000
		Cash in hand	10,000
TOTAL	6,50,000		6,50,000

Harit is admitted as a partner fom 1st April 2022 for 1/4 share in profits and losses for which he brings ₹ 2,00,000 as capital.He is unable to bring his share of goodwill. Give the journal entry for adjustment of goodwill.

SOLUTION:

Harit's Current A/c Dr 45,000

To Amit's Capital A/c 22,500

To Sumit's Capital A/c 22,500

(Harit's share of Goodwill adjusted)

4. Pankaj and Naresh were partners in a firm sharing profits in the ratio of 3:2 . Their fixed capital were Rs5,00,000 and 3,00,000 respectively . On 1st January 2017 Saurabh was Admitted as a new Partner for 1/5th share in the profits. Saurabh acquired his share of profit from Pankaj . Saurabh brought Rs 3,00,000 as his capital which should be kept fixed like the capitals of Pankaj and Naresh. Calculate the goodwill of the firm on Saurabh's admission and the new profit sharing ration of Pankaj , Naresh ,Saurabh. Also , pass necessary journal entry for the treatment of goodwill.

SOLUTION

(a) Calculate of hidden Goodwill :

Saurabh's share = 1/5

Saurabh's capital = 3,00,000

(i) Total capital of the firm = 3,00,000 x 5/1 = 15,00,000

(ii) Existing total capital of Pankaj, Naresh, Saurabh=5,00,000 +3,00,000+3,00,000 = 11,00,000

Goodwill of the firm =15,00,000 – 11,00,000 = 4,00,000

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

(b) Calculate new profit sharing ratio :

Pankaj's new share = 3/5 – 1/5 =2/5

Naresh's new share = 2/5

Saurabh's share = 1/5

New ratio = 2:2:1

(c)

BOOKS OF THE FIRM

JOURNAL ENTRY

DATE	PARTICULARS	LF	DR	CR
2017 JAN.1	Saurabh's current A/c dr. To Pankaj's current A/c (being credit given for goodwill to Pankaj on Saurabh's admission)		80,000	 80,000

5. Asin and Shreyas are partners in the firm. They admit Ajay as a new partner with 1/5th share in the profits of the firm. Ajay brings Rs 5,00,000 as his share of capital. The value of the total assets of the firm was Rs 15,00,000 and outside liabilities were valued at Rs 5,00,000 on that date. Give the necessary journal entries to record goodwill at the time of Ajay's admission. Also show your workings.

JOURNAL ENRTY

DATE	PARTICULARS	LF	DR	CR
	Ajay's current A/c dr. To Asin's capital A/c To Shreyas's capital A/c (being goodwill adjusted to sacrificing partners by adjusting through Ajay's current A/c in 1:1)		2,00,000	 1,00,000 1,00,000

WORKING NOTES:

(a) Calculate of the value of the hidden goodwill:

Net assets of the firm/net worth = total assets – total outside liabilities

= 15,00,000 – 5,00,000 = Rs 10,00,000

Total capital of new firm on the

Basis of Ajay's capital = 5,00,000 x 5 = Rs 25,00,000

Capital employed of the firm = 10,00,000 + 5,00,000(capital reserve)

= 15,00,000

Goodwill = 25,00,000 – 15,00,000 = 10,00,000

(b) Ajay's share of goodwill = 10,00,000 x 1/5 = Rs 2,00,000

6. Mamta and Seema are partners in a firm, sharing , profits in the ratio of 3:2. They admitted Rakhi as a partner with $1/4^{th}$ share in the profits of the firm. Rakhi brings Rs 8,00,000 as her share of capital. The value of the total assets of the firm was Rs 16,00,000 and outside liabilities were valued at 2,00,000 on that date .

Give the necessary journal entry to record goodwill at the time of Rakhi's admission. Also show your workings.

JOURNAL ENTRY

DATE	PARTICULARS	LF	DR	CR
	Bank A/c dr. To Rakhi's capital A/c (being Rakhi brought her capital in cash)		8,00,000	8,00,000
	Rakhi's current A/c dr. To Mamta's capital A/c To Seema's capital A/c (Bring goodwill adjusted to sacrificing partner's capital accounts)		2,50,000	1,50,000 1,00,000

WORKING NOTES:

(a) Calculate for hidden goodwill :

Total capital of the firm = Rakhi's capital x reciprocal of her share

= 8,00,000 x 4 = 32,00,000

Net worth = total assets – outside liabilities

= 16,00,000 – 2,00,000 = 14,00,000

Capital employed of = net worth + capital of the new partner

New firm = 14,00,000 +8,00,000 = 22,00,000

Goodwill = total capital of the firm –capital employed

= 32,00,000 – 22,00,000 = 10,00,000

(b) Rakhi's share of goodwill = 10,00,000 x 1/4 = 2,50,000

LONG ANSWERS (6MARKS)

Q.No.1 (Premium for Goodwill is brought in cash)

W and R are partners in a firm sharing profits in a firm sharing profits in the ratio of 3:2 . Their Balance Sheet as on 31^{st} March 2016 was as follows

BALANCE SHEET OF W AND R as on 31^{st}March , 2016

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	20000	Cash	12000
Provision for Bad Debts	2000	Debtors	18000
Outstanding Salary	3000	Stock	20000
General Reserve	5000	Furniture	40000
Capitals		Plant and Machinery	40000
W 60000	100000		
R 40000			
	130000		130000

On the above date, C was admitted for $1/6^{th}$ share in the profits on the following terms

(i) C will bring Rs.30000/- as his capital and Rs.10,000/- for his share of goodwill premium

(ii) Debtors Rs.1,500 will be written off as bad debts and a provision of 5% will be created for bad and doubtful debts.

(iii) Outstanding salary will be paid off.

(iv) Stock will be depreciated by 10% furniture by Rs.500 and Plant and Machinery by Rs.8%

(v) Investments Rs.2500 not mentioned in the Balance Sheet were to be taken into account.

(vi) A Creditor of Rs.2100 /- not recorded in the books was to be taken into account

Pass necessary Journal entries for the above transaction in the books of the firm on C's admission

Solution **(Journal)**

Date	Particulars	LF	(Dr.) Rs.	Cr.Rs.
2016 March, 31	General Reserve A/c Dr.		5000	
	To W's Capital A/c			3000
	To R's Capital A/c			2000
	(General Reserve distributed between W and R)			
	Bank Cash A/c Dr.			
	To C's Capital A/c			30000
	To Premium for Goodwill A/c.			10000
	(Capital and Premium for goodwill brought in cash by C)			
	Premium for Goodwill A/c. Dr.		10000	
	To W's Capital A/c			6000
	To R's Capital A/c			4000

	((premium for goodwill credited to W and R in their sacrificing ratio) i.e. 3:2 (WN 1)			
	Bad Debts A/c Dr		1500	
	Tp Debtors A/c			1500
	(bad debts written off)			
	Provision of Bad debts A/c. Dr		1500	
	To Bad debts A/c.			1500
	(bad debts met from provision for bad debts)			
	Revaluation A/c. Dr		325	
	To Provision for Bad Debts A/c (WN2)			325
	(Provision for bad debts created			
	Outstanding Salary Account Dr.		3000	
	To Bank /Cash A/c			3000
	(Outstanding salary paid)			
	Revaluation A/c. Dr.		5700	
	To Stock A/c			2000
	To Furniture A/c			500
	To Plant and Machinery A/c			3200
	(Decrease in value of assets recorded)			
	Investments A/c Dr		2500	
	To Revaluation A/c			2500
	(unrecorded investments now recorded)			

	Revaluation A/c Dr. To Sundry Creditors A/c (Unrecorded creditor now recorded)		2100	 2100
	W's Capital A/c Dr Rs Capital A/c Dr To Revaluation A/c (WN 3) (Loss on revaluation transferred to Old Partners Capital A/c in their old ratio		3375 2250	 5625

WORKING NOTES :

1. Unless agreed otherwise, sacrificing ratio of old partners will be same as their old profit sharing ratio

2.

Dr. PROVISION FOR BAD DEBTS ACCOUNT Cr.

Particulars	Rs.	Particulars	Rs.
To Bad Debts A/c	1500	By balance Balance b/d	2000
To Balance C/d (required)	825	By Revaluation A/c b/f	325
	2325		2325

3.

Dr. REVALUATION ACCOUNT Cr

Particulars	Rs.	Particulars	Rs.
To Provision for Bad Debts A/c	325	By Investments A/c	2500
To Stock Account A/c	2000	By Loss on Revaluation transferred to W'scapitalA/c(3/5) 3375 R's Capital A/c(2/5) <u>2250</u>	5625
To Furniture Account A/c	500		
To Plant and Machinery A/c	3200		
To Sundry Creditor s A/c	2100		
	8125		8125

2. (NEW PARTNER BRINGS ONLY A PART OF GOODWILL IN CASH)

A and B are partners sharing profits and losses in the ratio of 3 : 2 . On 31st march 2021 their Balance Sheet was as follows:

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Creditors	2,50,000	Cash in hand	25,000
Bills payable	1,00,000	Cash at bank	5,75,000
General reserve	1,50,000	Debtors	50,000
Capital A/C		Stock	3,00,000
A 8,00,000		Building	5,00,000
B 4,00,000	12,00,000	Machinery	2,00,000
	17,00,000	Goodwill	50,000
			17,00,000

They admit C as a partner with effect from 1st April, 2021 for 1/3rd share on the following terms:

(i) C will bring in Rs. 5,00,000 as capital and Rs 2,00,000 as his share of goodwill but he actually contributed only Rs. 1,20,000 towards goodwill.

(ii) Buildings and Machinery to be depreciated by 5%.

(iii) Stock to be revalued at Rs. 4,00,000.

(iv) There is an unrecorded delivery van worth Rs. 1,20,000.

(v) One month salary of Rs. 30,000 is outstanding.

Prepare Revaluation Account, Bank Account, Capital Account of the partners and the Balance Sheet after the admission of C.

SOLUTION:

Dr. REVALUATION ACCOUNT Cr.

PARTICULAR	AMOUNT	PARTICULARS	AMOUNT
To Building A/c	25,000	By stock A/c	1,00,000
To Machinery A/c	10,000	By delivery van A/c	1,20,000
To Outstanding salary A/c	30,000		
To Gain (profit) transferred to :			
A's capital A/c (3/5) 93,000			

B’s capital A/c (2/5) 62,000	1,55,000		
	2,20,000		2,20,000

Dr. BANK ACCOUNT Cr.

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To balance b/d	5,75,000	By balance c/d	11,95,000
To C’s capital A/c	5,00,000		
To premium for goodwill A/c	1,20,000		
	11,95,000		11,95,000

Dr. PARTNER’S CAPITAL ACCOUNT Cr.

PARTICULARS	A	B	C	PARTICULARS	A	B	C
To goodwill A/c (existing)	30,000	20,000	…	By balance b/d	8,00,000	4,00,000	…
				By general reserve	90,000	60,000	…
To balance c/d	10,73,000	5,82,000	5,00,000	A/c			
				By revaluation A/c	93,000	62,000	…
				By premium for goodwill A/c (in sacrificing ratio)	72,000	48,000	…
				By bank A/c			
				By C’s capital A/c	…	…	5,00,000
					48,000	32,000	…
	11,03,000	6,02,000	5,00,000		11,03,000	6,02,000	5,00,000

BALANCE SHEET OF THE NEW FIRM

As on 1st April,2021

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Bills payable	1,00,000	Cash in hand	25,000
Creditors	2,50,000	Cash at bank	11,95,000
Outstanding salary	30,000	Stock	4,00,000
Capital A/c:		Debtors	50,000

A 10,73,000		Delivery van	1,20,000
B 5,82,000		Building	4,75,000
C 5,00,000	21,55,000	Machinery	1,90,000
		C's capital A/c	80,000
	25,35,000		25,35,000

3. Following is the Balance Sheet as on 31st March 2021 of Meera and Sarthak, who share profits and losses in the ratio of 3:2.

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Capital A/c		Plant and Machinery	1,00,000
Meena 1,00,000		Land and Building	80,000
Sarthak 1,00,000	2,00,000	Debtors 1,20,000	
General reserve	1,50,000	Less: provision for doubtful	
Workmen compensation	50,000	debts 10,000	1,10,000
reserve	1,00,000	Stock	1,20,000
Creditors		Cash	90,000
	5,00,000		5,00,000

On 1st April 2021 they admit Rohit into the partnership on the following terms:

(i) Provision for doubtful debts would be increased by Rs 20,000.

(ii) Value of Land and Building would increase by Rs 1,80,000.

(iii) The value of stock would be increased by Rs 40,000

(iv) The liability against the workmen compensation reserve is determined at Rs 20,000

(v) Rohit bought Rs 1,00,000 in cash as his share of goodwill

(vi) Rohit would bring in further cash as would make his capital equal to 20% of the total capital of the new firm after the above revaluation and adjustments are carried out.

Prepare Revaluation Account, Partner's Capital Account and the Balance Sheet of the firm after Rohit's admission.

SOLUTION:

Dr. REVALUATION ACCOUNT Cr.

PARTICULARS	AMOUNT	PARTICULARS	AMOUNT
To provision for doubtful debts A/c To Gain (profit) transferred to: Meera's capital A/c 72,000 Sarthak's capital A/c 48,000	20,000 1,20,000 1,40,000	By Land and Building A/c By Stock A/c	1,00,000 40,000 1,40,000

Dr. PARTNERS CAPITAL ACCOUNT Cr.

PARTICULAR	MEERA	SARTHAK	ROHIT	PARTICULARS	MEERA	SARTHAK	ROHIT
To balance c/d (balancing figure)	3,40,000	2,60,000	1,50,000	By balance b/d	1,00,000	1,00,000	…
				By cash A/c	…	…	1,50,000
				By premium for goodwill A/c	60,000	40,000	…
				By revaluation A/c	72,000	48,000	…
				By general reserve A/c	90,000	60,000	…
				By workmen compensation reserve A/c	18,000	12,000	…
	3,40,000	2,60,000	1,50,000		3,40,000	2,60,000	1,50,000

BALANCE SHEET of M/s Meera , Sarthak and Rohit

As at 1st April 2021

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Capital A/c:		Land and Building	1,80,000
Meera 3,40,000		Plant and Machinery	1,00,000
Sarthak 2,60,000		Debtors 1,20,000	
Rohit 1,50,000	7,50,000	Less: provision for doubtful	
Workmen compensation	20,000	debts 30,000	90,000
claim	1,00,000	Stock	1,60,000
creditor		Cash(90,000+2,50,000)	3,40,000
	8,70,000		8,70,000

4. (Proportionate capital introduced by increasing partner).

Sahaj and Nimish are partners in a firm sharing profits and loses in the ratio of 2:1 . since both of them are specially abled, sometimes they find if difficult to run the business on their own . therefore,the admitted Gauri into partnership for 1/3rd share. She brought her share of goodwill in cash and proportionate capital. At the time of Gauri's admission , the Balance Sheet of Sahaj and Nimish was as under:

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Capital A/c:		Machinery	1,20,000
Sahaj 1,20,000		Furniture	80,000
Nimish 80,000	2,00,000	Stock	50,000
General reserve	30,000	Sundry debtors	30,000
Creditors	30,000	Cash	20,000
Employees provident fund	40,000		
	3,00,000		3,00,000

It was decided to:

(i) Reduce the value of stock by Rs 5,000.

(ii) Depreciation furniture by 10% and appreciate machinery by5%

(iii) Rs 3,000 of the debtors provide bad. A provision of 5% was to be created on sundry Debtors for doubtful debts.

(iv) Goodwill of the firm was valued at Rs 45,000.

Prepare revaluation account , partners capital account and the balance sheet of the reconstituted firm.

SOLUTION:

Dr. REVALUATION ACCOUNT Cr.

PARTICULARS	AMOUNT	PARTICULARS		AMOUNT
To stock A/c	5,000	By machinery A/c		6,000
To furniture A/c	8,000	By loss transferred to:		
To bad debts A/c	3,000	Sahaj capital A/c	7,567	
To provision for doubtful	1,350	(11,350 x 2/3)		
debts A/c		Nimish capital A/c	3,783	11,350
[5/100(30,000-3,000)]		(11,350 x 1/3)		
	17,350			17,350

PARTNERS CAPITAL ACCOUNT

Dr. Cr.

PARTICULARS	SAHAJ	NIMISH	GAURI	PARTICULARS	SAHAJ	NIMISH	GAURI
To revaluation	7,567	3,783	…	By balance b/d	1,20,000	80,000	…
A/c (loss)				By general	20,000	10,000	…
To balance c/d	1,42,433	91,217	1,16,825	reserve A/c	10,000	5,000	…
				By premium for			
				goodwill	…	...	1,16,825
				(45,000 x 1/3)			
				By bank A/c			
	1,50,000	95,000	1,16,825		1,50,000	95,000	1,16,825

BALANCE SHEET

LIABILITIES	AMOUNT	ASSETS	AMOUNT
Capital A/c:		Machinery	1,26,000
Sahaj		Furniture	72,000
1,42,433		Stock(50,000 – 5,000)	45,000
Nimish	3,50,000	Sundry debtors 30,000	
91,217	30,000	Less: bad debts 3,000	
Gauri	40,000	-----------	
1,16,825		27,000	
Creditors		Less: provision 1,350	
Employees provident fund		for doubtful debts	25,650
		Cash	20,000
		Bank	1,31,825
	4,20,000		4,20,000

PART A: ACCOUNTING FOR PARTNERSHIP FIRMS

Chapter – 05 : Retirement and Death of a Partner

Units/Topics	Learning Outcomes
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.	🕮 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.

BASIC CONCEPTS

Meaning of Retirement: When a partner leaves or retires from the firm due to any reason, it is known as retirement of a partner. On retirement or death ofa partner, the old partnership comes to an end and a new partnership comes into existence between the remaining partners. However the firm continues. Retirement involves a few preconditions that have been clearly laid down by Section 32(l) of the Indian Partnership Act, 1932. It states that a partner may retire:

- with the consent of all the partners
- in accordance with an express agreement amongst the partners.
- by issuing a notice in writing to all the partners stating the intention to retire (this occurs in cases where partnership is at will)

Adjustments Required:

Following are the various matters that need adjustment at the time of retirement:

(i) Determination of new profit-sharing ratio.

(ii) Determination of gaining ratio.

(iii) Treatment of goodwill.

(iv) Revaluation of assets and Reassessment of liabilities.

(v) Adjustment of reserves and accumulated profits or losses.

(vi) Adjustment of capitals.

(vii) Determination of the amount payable to the retiring partner.

New Profit-sharing Ratio:

The new profit-sharing ratio is the ratio in which the continuing partners will share profit. The share of each remaining partner will be the sum total of his old share of profit in the firm and the portion of the retiring partner's share of the profit acquired.

It is determined as:

New share = Old share + Acquired share

The new profit sharing ratio may be calculated as follows in the following circumstances:

Case 1 : When no information is given about remaining partners' new share, new ratio will be the same as old ratio among them.

Case 2: When retiring partner's share is acquired by remaining partners in a specified ratio, the acquired share is added to their existing share to arrive at their new share in the firm.

Gaining Ratio:

Gaining Ratio refers to the ratio in which the remaining partners gain the retiring or deceased partner's share of profit. It is calculated as:

Gaining Ratio = New share — Old Share

➨**Calculation of Gaining Ratio under different cases:**

Case I: No Agreement amongst Partners for New Profit-sharing Ratio

In case the partners have no express agreement, they continue to share it in their old profit-sharing ratio. Thus the gaining ratio is automatically their old profit-sharing ratio.

Case Il: Agreement amongst Partners for New Profit-sharing Ratio

When there is an agreement to share the retiring partner's share amongst the remaining partners, the gaining ratio is governed by such an agreement.

Case Ill: Acquisition of Retiring Partner's Share only by One Partner

When the retiring partner's share is gained entirely by one partner, then only gaining partner provides for the share of goodwill of the retiring partner. Difference between Sacrificing Ratio and Gaining Ratio.

S.No.	Basis	Sacrificing Ratio	Gaining Ratio
1.	Definition	It is the proportion in which the old partners sacrifice their share in favour of a new partner.	It is the proportion in which the old partners acquire the outgoing (retired or deceased) partner's share.
2.	Time of Calculation	Generally, it is calculated at the time of admission of a new partner.	Generally, it is calculated at the time of retirement or death of a partner.
3.	Purpose	It is calculated to know how the old partners shall share the goodwill brought in by the new partner.	It is calculated to know how the remaining partners shall contribute towards the share of goodwill of the retiring partner.
4.	Formula	Sacrificing Ratio = Old Share — New Share	Gaining Ratio = New Share — Old Share
5.	Effect on Share of Profit of Old/Remaining Partners	The old partners' share decreases.	The remaining partners' share increases.
6.	Effect on Capital Accounts	Old partners' capital accounts are credited for the share of goodwill in the sacrificing ratio.	Remaining partners' capital accounts are debited for the share of goodwill in the gaining ratio.

Treatment of Goodwill:

When a partner retires, the continuing partners gain his share of profit. They thus have to compensate the retiring partner for his share in the goodwill in the gaining ratio. Similarly when there is death of a partner, the continuing partners should bear the share of the goodwill due to the heirs of the deceased partner.

The accounting adjustments adopted to treat goodwill in the accounts depends directly on the fact whether goodwill already appears in the books or not.

Case I: When goodwill does not appear in the books of accounts

The share of goodwill of the retiring partner is credited to his capital account and continuing partners' capital accounts will be debited with share of goodwill of the retiring partner in gaining ratio. In this case, following entry is passed:

Continuing Partners' Capital/Current A/c. Dr. (In gaining ratio)

To Retiring Partner's Capital/Current A/c

(Being goodwill adjusted in partners' capitals)

Note: If any of the remaining Partners has also sacrificed a part of his share in profits of the firm on retirement or death of a Partner, his capital/current account will also be credited with his Proportion of sacrifice (i.e., Share of sacrifice x Firm's goodwill).

Case Il: When goodwill exists in the accounting books.

When goodwill account already appears in books, write off the existing goodwill by debiting all the partners' capital accounts (in case of fluctuating capitals) or current accounts (in case of fixed capitals) in their old profit-sharing ratio and crediting the goodwill account.

All Partners' Capital/ Current A/c Dr. (in old ratio)

To Goodwill A/c (existing value of goodwill)

(Being existing value of goodwill written off)

Later, credit the outgoing partners' capital/current account with his share of goodwill and debit the gaining partner(s) capital/current account in gaining ratio.

Remaining Partners' Capital/ Current A/c Dr. (in gaining ratio)

To Outgoing Partner's Capital/Current A/c (goodwill share)

(Being goodwill adjusted on a partner's retirement)

Hidden Goodwill:

If the firm has agreed to settle the account of retiring partner by paying him a lump-sum amount, then amount paid to him in excess of his adjusted capital shall be treated as his share of goodwill. For example A, B and C are partners. A retires, his capital account after making adjustment for reserves and profit on revaluation exists at < 60,000, B and C have agreed to pay him < 90,000 in full settlement of his claim. It implies that < 30,000 (₹90,000 — < 60,000) is A's share of goodwill of the firm. This will be treated by debiting < 30,000 in B and C's Capital Accounts in their gaining ratio and crediting A's Capital A/c.

Revaluation of Assets and Reassessment of Liabilities:

Generally when a partner retires from a partnership firm, the assets and liabilities are revalued or adjusted on the date of retirement so that the retiring partner gets his fair share of the firm's assets. When the assets and liabilities of the firm are revalued, a Revaluation Account/Profit and Loss Adjustment Account is prepared in the same way as is prepared in the case of admission of a new partner. The only difference is that in case of retirement, any profit or loss on revaluation is divided amongst all the partners (including the retiring partner), whereas in case of admission of a new partner, the new partner does not share such profit or loss on revaluation.

Memorandum Revaluation Account:

When the partners decide to give effect to revaluation of assets and reassessment of liabilities without affecting existing amounts of assets and liabilities, Memorandum Revaluation Account is prepared in the same manner as in case of admission of a partner. It should be remembered that first part of Memorandum Revaluation Account is transferred to Capital Accounts of all the partners including outgoing partner in their old profit-sharing ratio, while the second part of this account is transferred to the Capital Accounts of the continuing partners in their new profit-sharing ratio.

Treatment of Accumulated (Undistributed) Profits/Losses and Reserves:

Upon retirement of a partner, if there are any undistributed profits or reserves, the same need to be divided amongst all the partners in their old profit-sharing ratio. Accumulated profits and reserves belong to all partners, hence, they should be credited to all partners' capital accounts in their old profit-sharing ratio. Alternatively, only the retiring partner's share may be transferred to his capital account if the other partners continue to share profits in their old ratio and want to still show reserves in the Balance Sheet. The following entry will be made for distributing accumulated profits or reserves.

Profit and Loss A/c (credit balance)	Dr.
General Reserve A/c	Dr.
Workmen Compensation Reserve A/c	Dr.

(Excess of Reserve over Actual Liability)

To All Partners' Capital/Current A/c.

(Being accumulated profits distributed among partners in their old profit-sharing ratio upon retirement of a partner.)

For distributing accumulated losses:

If there is a debit balance of Profit and Loss Account in the Balance Sheet on the date of retirement of a partner, it must be written off by all the partners in old profit-sharing ratio.

All Partners' Capital/Current A/c. Dr.

To Profit and Loss A/c (debit balance)

(Being accumulated losses distributed amongst partners in their old profit-sharing ratio upon retirement of a partner)

For distributing surplus of specific funds:

Workmen's Compensation Reserve A/c	Dr. (Excess of Reserve over Actual Liability)
Investment Fluctuation Reserve A/c	
To All Partners' Capital A/c (or Current A/c)	Dr. (Excess of Reserve over Difference between Book value and market value of Investment).

(Being amounts in excess of actual requirement in specific reserves divided amongst partners in their old profit-sharing ratio upon retirement)

Final Payment to the Retiring Partner: The final amount payable to the retiring partner is determined by taking into accounts the following items:

l. Opening balance of capital account and current account of the retiring partner.
2. Retiring partner's share in revaluation profit.
3. Retiring partner's share in reserves and accumulated profits.
4. Retiring partner's share of profit till the date of retirement.
5. Retiring partner's share of goodwill.
6. Salary and/or interest on capital due to retiring partner.

The above mentioned items increase the amount payable to the retiring partner. The following items decrease the amount payable to the retiring partner.

l. Drawings and interest on drawings.

2. Retiring partner's share in the accumulated losses.
3. Retiring partner's share of revaluation loss.

Methods of Payment:

Case I: Full settlement of account in one single (lumpsum) payment.

Retiring Partner's Capital A/c Dr.

To Cash/Bank A/c

(Being retiring partner's whole claim settled at the time of retirement).

Case Il: Part payment of dues and balance transferred to loan account

Retiring Partner's Capital A/c Dr.

To Retiring Partner's Loan A/c

To Bank A/c

(Being retiring partner's claim party settled through cash and the rest transferred to the loan account at the time of retirement.)

Case Ill: Entire balance transferred to loan account and paid later in instalments.

Retiring Partner's Capital A/c Dr.

To Retiring Partner's Loan A/c

(Being retiring partner's whole claim transferred to the corresponding loan account at the time of retirement.)

Note: If the question does not specify the treatment of settlement of retiring Partners' account, the final Payment due to him is transferred to his Loan Account.

When the loan account of a retired partner is settled through payment of instalments, the latter includes both the principal sum and interest.

For interest generated on retiring partner's loan

Interest A/c Dr.

To Retiring Partner's Loan A/c

(Being interest generated on loan transferred to the corresponding loan account of the retired partner)

For payment of instalment of the retired partner's loan

Retiring Partner's Loan A/c Dr.

To Cash/Bank A/c

(Being instalment paid for the loan of the retired partner)

Note: Unless otherwise agreed, the retiring Partner is entitled to interest @6% p.a. until amount due to him, is paid. He may take share of profits that have been earned by the use of the amount due to him instead of interest as per his will.

Adjustment of Capital Accounts After Retirement: After retirement, the remaining partners may decide to have their individual capitals in the same proportion as their profit-sharing ratio in the newly constituted firm.

In this case, some partners may have to bring further capital to meet the deficit of their capital and others may have to withdraw excess capitals.

The procedure to adjust partners' capitals in their profit-sharing ratio is as follows:

Step-I Calculate the firm's total capital: The firm's total capital is calculated after retirement of a partner or if the amount of capital to be maintained is decided and is given already, then that amount is considered to be the entire capital of the firm.

Step-Il Determine proportionate capital: Once the total capital has been ascertained, it can easily be divided into continuing partners according to their new profit-sharing ratio after retirement.

Step-Ill Determine present capital after Adjustments: Arrive at present capital shares of each of the partners after all the adjustments made at the time of retirement.

Step-IV Compute the surplus/Deficit: Work out the difference between the new shares of capital and the ones at hand. All surplus and deficits have to be taken care ofby withdrawing excess funds or bringing in more capital respectively.

Alternatively, capitals may be adjusted through partner's current accounts. For this, the following entries will be passed:

(i) **If capital of remaining partner falls short, he brings in cash:**

Cash/Bank A/c Dr.

To Remaining Partner's Capital A/c

(i) **If capital of remaining partner has a surplus, he withdraws cash:**

Remaining Partner's Capital A/c Dr.

To Cash/Bank A/c

Or

(i) **If the surplus in capital account is transferred to current account:**

Remaining Partner's Capital A/c Dr.

To Remaining Partner's Current A/c

(i) **If the deficit in capital account is adjusted by transfer to current account:**

Remaining Partner's Current A/c Dr.

To Remaining Partner's Capital A/c

Note: Unless otherwise agreed, any surplus or deficiency should be adjusted in cash and not by transferring it to current account.

Retirement of a Partner During the Accounting Year:-

Sometimes, retirement of a partner may take place during accounting year. In that case, the retiring partner is entitled to his share in the profit of the current year up to the date of his retirement.

If retiring partner's share in profit has to be calculated on the basis of last year's profit, then it will be calculated up to the date of partner's retirement from the date of last Balance Sheet. Following points must be remembered:

If a Partner retires during an accounting year, and there is no change in the profit sharing ratio of continuing Partners, then the profit is credited through the Profit and Loss Suspense Account.

Following Journal entry will be passed:

Profit and Loss Suspense A/c Dr.

To Retiring Partner's Capital A/c

If a Partner retires during an accounting year, and there is a change in the Profit-sharing ratio of continuing Partners, then profit is credited through the continuing Partner's Capital Accounts is their gaining ratio.

Following Journal entry will be passed:

Continuing Partners' Capital A/c Dr.

To Retiring Partner's Capital A/c.

Note: In case of loss, reverse of the above entry is passed.

Death of a Partner: A partnership will come to an end immediately whenever a partner dies, although the firm may continue with the remaining partners.

From accounting point of view, there is no difference between the retirement of a partner and the death of a partner except the following:

(i) Retirement of a partner is usually planned and made effective from the date of Balance Sheet but death of a partner may occur on any day without notice during the year.

(ii) The payment of retiring partner's share will be received by himself but payment of deceased partner's share will be received by his heirs/executors.

Calculation of deceased partner's share of profit till the date of death

1. **On the basis of time**: If the time basis is used, the profit will be assumed to have uniformity over the year. According to this method, profit may be estimated by any one of the following two methods:

   (a) **On the basis of last year's profi**t: In this case, last year's profit is given in the question and on this basis, the profit of the period between the date of preparing last final accounts to the date of death is calculated. After that proportionate share of outgoing partner will be calculated.

   (b) **On the basis of average profit**: In this case, deceased partner's share of profit is worked out as follows:

      (i) Take the total profits of the required number of past years;

      (ii) Calculate the average profit, i.e., Total Profits + No. of years;

      (iii) Reduce the average profit for the period upto the date of death;

      (iv) Find out the share of profit of the deceased partner.

2. **On the basis of turnover (or sales):** If profits till the date of death are to be calculated on the basis of turnover, on such arrangement last year's profit and sales are given together with the sale of the current year upto the date of death of the partner. The profit is ascertained proportionately and the share of profit of deceased partner is calculated.

Deceased Partner's Share in Profit and Change in Profit-Sharing Ratio of Remaining Partners

At the time of death of partner, if there is a change in the profit-sharing ratio of the remaining partners, the share in profit of the deceased partner (from the date of last balance sheet to the date of death) on time or sales basis will be debited to the gaining partners' capital or current accounts.

In other words, when there is a change in Profit-sharing ratio of the remaining Partners, the share in profit of the deceased Partner will be made through the remaining Partners' capital/current accounts in their gaining ratio.

Following journal entry will be passed:

Remaining (Gaining) Partners' Capital/Current A/c Dr.

To Deceased Partner's Capital A/c

(Being share in profit credited to the deceased partner's capital account)

Note: When profit-sharing ratio of remaining or continuing partners does not change, then adjustment with regard to share of profit of a deceased partner is made through Profit and Loss Suspense Account.

Amount Payable to a Deceased Partner: The share of the deceased partner can be ascertained by preparing his capital account.

Dr. Deceased Partner's Capital Account Cr.

Particulars	Amount	Particulars	Amount
To Current A/c (Dr. balance)	……..	By Balance B/d. (Opening	………
To undistributed Losses A/c.	……..	Balance)	………
To revaluation A/c. (Loss)	……..	By Current A/c (Cr. Balance)	………
To Drawings A/c	……..	By Interest on Capital A/c	………
To Interest on Drawings A/c	……..	By Salary/Commission A/c	………
To Profit and Loss Suspense A/c		By Undistributed Profit A/c	……….
(Share in Loss)	………	By Goodwill A/c	………
To Deceased Partners's Executors		By revaluation A/c (Profit)	………
A/c (Balancing Figure)	………	By general reserve A/c	
		By Profit and Loss Suspense A/c	………
		(Share in Profit)	

The adjustments noted above are made in the capital account of the deceased partner and then the balance in his capital account is transferred to an account opened in the name of his executor. Entry will be:

Deceased Partner's Capital A/c Dr.

To Deceased Partner's Executor's A/c

(Being amount due to deceased partner transferred to his executor's account)

Note: In case there is a debit balance in Deceased Partner's capital A/c it is recovered from the private estate of the deceased Partner.

Settling Deceased Partner's Executor's Account: The legal heirs of the deceased may also be paid in two most common methods:

(i) When the payment is made in full settlement

Deceased Partner's Executor's A/c Dr.

To Bank A/c

(ii) When payment is made in installments

When interest is due

Interest A/c Dr.

To Deceased Partner's Executor's A/c

When instalment is paid

Deceased Partner's Executor's A/c Dr.

To Bank A/c

Goodwill: The treatment of goodwill in the event of death of a partner remains the same as in the case of retirement.

Multiple Choice Questions [1 mark]

1. On the retirement of a partner, profit on revaluation of assets and liabilities should be credited to the Capital Accounts of:

   (a) Retiring partner in their old ratio (b) All partners in their old ratio

   (c) Remaining partners in new ratio (d) Remaining partners in old ratio

2. On the retirement of Hari from the firm of Hari, Ram and Sharma' the Balance Sheet showed a debit balance of Rs.12,000 in the Profit and Loss Account. For calculating the amount payable to Hari, the balance will be transferred:

   (a) to the credit of the capital accounts of Hari, Ram and Sharma equally

   (b) to the debit of the capital accounts of Hari, Ram and Sharma equally

   (c) to the debit of the capital accounts of Ram and Sharma equally

   (d) to the credit of the capital accounts of ram and Sharma equally

3. At the time of retirement of Manu, from the firm of Shahid, Arora and Manu the balance sheet showed a workmen compensation reserve of 15,000 on the liabilities side after meeting the employees compensation liabilities thereof. For calculating the amount payable to Manu, the balance will be transferred:

   (a) to the credit of the capital accounts of Manu only

(b) to the credit of the capital accounts of Manu, Arora and Shahid

(c) to the debit of the capital accounts of Manu, Arora and Shahid

(d) to the credit of the capital accounts of Arora and Shahid only.

4. On the retirement of a partner, reserves should be transferred to the Capital Accounts of:

(a) Retiring partner (b) Remaining partners

(c) All partners (d) None of these.

5. Credit balance of Profit and Loss Account appearing in the Balance Sheet on the death of a partner is credited to:

(a) Deceased partner's capital account

(b) All partner's capital accounts (including deceased partner's capital account)

(c) Remaining partner's capital account

(d) None of the above.

6. P, Q and R are partners sharing profits in the ratio of 4:3:1. P retires and his share in taken by Q and R equally. Calculate new profit-sharing ratio of Q and R. 1 :1

7. In case of death of a partner, the whole amount standing to the credit of his Capital Account is transferred to:

(a) Capital Accounts of all partners (b) Capital Accounts of remaining partners

(c) His executor's account (d) Revenue Account of the Government

8. A, B and C share profits in the ratio of 1/2, 3/10 and 1/5. C dies. The gaining ratio of A and B will be:1:1

9. On retirement of a partner, the continuing partners' capital accounts are debited with retiring partner's share of goodwill in

(a) Old profit-sharing ratio (b) Gaining ratio

(c) New profit-sharing ratio (d) Equal ratio

10. Neetu, Seetu and Keetu have been sharing profit in the ratio of 3:5:7 respectively. Keetu retires and his share is taken up by Neetu and Seetu in the ratio of 3:2, the new ratio will be:

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

11. If at the time of retirement, there is some unrecorded liability, it will be:

(a) Debited to Revaluation A/c (b) Credited to Revaluation A/c

(c) Transferred to Old Partner's Capital A/c (d) Transferred to All Partners' Capital

12. The gain of remaining partners is equal to:

(a) Their new share (b) Their old share

(c) New share — Old share (d) Old share — New share.

13. Which of the following is debited to partners' capital accounts at the time of retirement of a partner?

(a) General Reserve (b) Profit on revaluation

(c) Accumulated losses (d) Accumulated profits.

14. At the time of retirement of a partner, Workmen Compensation Reserve after meeting the legal requirement, is transferred to:

(a) Revaluation Account (b) All Partners' Capital Account

(c) Sacrificing Partners' Capital A/c (d) Old Partner's Capital Account.

15. On the retirement of a partner increase in the value of assets is recorded in:

(a) Revaluation A/c (b) Cash A/c

(c) Old Partner's Capital A/c. (d) None of the above.

16. The purpose of preparation of revaluation account is:

(a) to find out gross profit

(b) to find out net profit

(c) to find out financial position

(d) to find out results of revaluation of assets and liabilities.

17. In the absence of any provision in the partnership deed, interest on amount remaining unpaid to the executor of deceased partner:

(a) will not be allowed (b) will be allowed @ 6% p.a.

(c) will be allowed even if there are no losses (d) will be allowed @ 5% p.a.

18. On the death of a partner, his share in the profits of the firm till the date of his death is transferred to the:

(a) Debit of Profit and Loss Account

(b) Credit of Profit and Loss Account

(c) Debit of Profit and Loss Suspense Account

(d) Credit of Profit and Loss Suspense Account.

19. As per Section 37 of the Indian Partnership Act, 1932, the executors would be entitled at their choice to the interest calculated from the date of death till the date of payment of the final amount due to the deceased partner at the rate of:

(a) 6% p.a. (b) 7% p.a. (c) 8% p.a. (d) 10% p.a.

20. M, N and P are partners in a firm, sharing profit in the ratio of Their capital accounts stand as Rs. 1,00,000, Rs. 1,00,000 and 50,000 respectively. N retired from the firm and balance in the reserve on that was 30,000. If goodwill of the firm is 60,000 and profit on revaluation is 14,100, what amount will be transferred to N's loan account?

(a) Rs. 1,41,640 (b) 17,640 (c) Rs. 1.01,640 (d) None of the Above

Answers

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

True or false

(i) In the event of death, the combined share of profit of the continuing partners will increase.

(ii) In the event of death, profit or loss on Revaluation Account is transferred to the continuing partners in the new profit-sharing ratio.

(iii) At the time of retirement and death, undistributed profits or losses and reserves are distributed among all the partners in their old profit-sharing ratio.

(iv) The firm is under obligation to pay an agreed rate of interest for the unpaid balance to the retiring partner.

(v) Gaining ratio is calculated at the time of retirement or death of a partner and change in profit- sharing ratio.

[Ans. (i) True, (ii) False, (iii) True, (iv) True, (v) True.]

Fill in the Blanks:-

1. P, Q and R are partners sharing profits and losses in the ratio of 2/5, 2/5 and 1/5 respectively. R retires, P and Q decide to share future profits in the ratio of 2: l. P ;s gain is ____________

2. _________________is the ratio in which the remaining partners acquire the share of

retiring or deceased partner.

3. Unless agreed otherwise, it is presumed that the continuing partners gain in their ________________and hence their ________________s same as their old profit-sharing ratio.

4. Advance or loan taken by the partner from the firm is ____________________ to the deceased partner __________________

5. In case of retirement, when the firm pays an amount in excess of total amount due to the retiring partner, then excess amount is treated as ________________.

Ans : (i) 4/15, (ii) Gaining Ratio, (iii) debited; Capital Account, (iv) old profit-sharing ratio, gaining ratio (v) hidden goodwill.]

Very Short Answer Questions: (1 Mark)

1. On the retirement of a partner, how is the profit-sharing ratio of remaining partners decided?

2. At the time of retirement of a partner, state the condition when there is no need to compute the gaining ratio.

3. At the time of retirement of a partner, state the condition when there is no need to compute the gaining ratio.

4. Jamuna, Ganga and Krishna are partners in a firm. Krishna retired from the firm. After making adjustments for Reserves and Revaluation of Assets and Liabilities, the balance in Krishna's capital account was Rs. 1,20,000 Jamuna and Ganga paid Rs. 1,80,000 in full settlement to Krishna. Identify the item for which Jamuna and Ganga paid 60,000 more to Krishna.

5. Name the account which is opened to credit the share of profit of the deceased partner, till the time of his death to his Capital Account.

6. State the need for treatrnent of good will on retirement of a partner.

7. For which share of goodwill a partner is entitled at the time ofhis retirement?

8. For which share of goodwill a partner is entitled at the time of his retirement?

9. X,Y and Z are partners sharing profits in 1/2, 2/5, 1/10 Find the new ratio of remaining partners if Z retires.

10. Why does a firm revalue its assets and liabilities on retirement or death of a partner?

11. Give the journal entry to distribute 'Workmen Compensation Reserve' of 60,000 at the time of retirement of Sajan, when there is no claim against it. The firm has three partners Rajat, Sajjan and Kavita

12. Kumar, Verma and Naresh were partners in a firm sharing profit and loss in the ratio of 3:2:2. On 23rd January, 2015 Verma died. Verma's share of profit till the date of his death was calculated at Rs. 2,350/. Pass necessary journal entry for the same in the books of the firm.

13. At what rate, interest is payable on the amount remaining unpaid to the executor of deceased partner?

14. Differentiate between 'Profit and Loss Appropriation Account' and 'Profit and Loss Suspense Account

15. Neetu, Meetu and Teetu were partners in a firm. On 1st January 2018, Meetu retired. On Meetu's retirement the goodwill of the firm was valued at Rs. 4,20,000. Pass necessary journal entry for the treatment of goodwill on Meetu's retirement,

16. Is the retirement of a partner means reconstitution of a firm?

17. At the time of Harsh's retirement, the total amount payable to him was Rs. 2,50,000. He took over a machinery of Rs. 25,000, a computer of Rs. 18,000 and a vehicle of Rs. 45,000 and remaining amount will be paid after 2 years. Give the journal entry at the time of retirement

18. X, Y and Z are partners in a firm sharing profits in the ratio of 3 : 2 : 1. On 1 st April 2017, X retires from the firm, Y and Z agree that the capital of the new firm shall be fixed at Rs, 2,10,000 in the profit sharing ratio. The Capital Accounts of Y and Z after all adjustments on the date of retirement showed balances of Rs.1,45,000 and Rs. 63,000 respectively. State the amount of actual cash to be brought in or to be paid to the partners.

19. A, B and C are partners in a firm whose books are closed on March 31st each year. A died on 30th June, 2017 and according to the agreement, the share of profits of a deceased partner upto the date of the death is to be calculated on the basis of the average profits for the last five years. The net profits for the last 5 years have been: 2013 Rs. 14,000; 2014 Rs. 18,000; 2015 Rs. 16,000; 2016 Rs. 10,000 (loss) and 2017 Rs. 16,000. Calculate A's share of the profits upto the date of death and pass necessary journal entry.

20. P, Q and R are partners in a firm without any partnership deed. R retires, his capital account after making adjustment of reserves and profit on revaluation exists at Rs. 64,000.

P and Q have agreed to pay him Rs. 80,000 in full settlement of his claim. Record necessary journal entry for goodwill on R's. retirement.

21. State the basis of calculating the amount of profit payable to the legal representative of a deceased partner in the year of death

22. Jayant, Kartik and Leena were partners in a firm sharing profits and losses in the ratio of 5:2:3. Kartik died and Jayant and Leena decided to continue the business. Their gaining ratio was 2 : 3. Calculate the new profit sharing radio of Jayant and Leena.

23. Jayant, Kartik and Leena were partners in a firm sharing profits and losses in the ratio of 5:2:3. Kartik died and Jayant and Leena decided to continue the business. Their gaining ratio was 2 : 3. Calculate the new profit sharing radio of Jayant and Leena.

24. A, B and C have been sharing profits in the ratio of 8 : 5 : 3. A retires. B takes 3/ 16th share from A and C takes 5/16th share from A. Calculate gaining ratio.

25. A, B, C and D are partners sharing profits in the ratio of 3 : 2 : 1 : 4. A retires and his share is acquired by B and C in the ratio of 3 : 2. Calculate new ratio and gaining ratio.

26. Give the journal entry to distribute 'Workmen Compensation Reserve' of < Rs. 70,000 at the time of retirement of Neeti, when there is a claim of Rs. 25,000 against it. The firm has three partners Raveena, Neeti and Rajat.

27. A, B and C were partners in a firm sharing profits and losses in the ratio of 4 : 3 : 2. B retired and his share was taken over by A and C equally. Calculate the gaining ratio

28. A, B and C are equal partners. C retires. He surrenders 3/5th of his share in favour of A and 2/5th in favour of B. Calculate new ratio and gaining ratio.

ANSWERS (From 1 to 28)

1. Profit sharing ratio of remaining partners is decided according to the mutual agreement among the remaining partners

2. There is no need to compute the gaining ratio when the continuing partners decide to share profits in the same ratio that existed among them prior to retirement,

3.

Basis of Difference	Sacrificing ratio	Gaining ratio
Meaning	It is the ratio in which the old partners surrenders a part of their profit-sharing in favour of new partner	It is the ratio in which the remaining partners acquire the outgoing (retired or deceased) partner's share.

4. Share of Goodwill

5. Profit and Loss Suspense Account

6. Since the retiring partner will not be sharing profit in future goodwill is given to compensate him for the same.

7. A partner is entitled to his own share of goodwill at the time of his retirement,

8. The retiring partner of the heirs of deceased partner are entitled to his share of goodwill because the level of reputation enjoyed by the firm or goodwill earned by the firm is the result of efforts of all partners of firm in the past.

9. Old ratio of X, Y and Z = 1/2:2/5:1/10 = 5:4:1

10. On the retirement of death of a partner, the retiring partner of the representative of deceased partner must be given his share of profit/loss arising out of change in the revaluation of assets and reassessment of liabilities. That is why assets and liabilities are revalued on retirement or death of a partner

11. Journal

Date	Particulars	L.F	Dr.	Cr.
	Workmen compensation Reserve A/c Dr.			
	To Rajat;s Capital A/c		60,000	
	To sajjans' Captial A/c			20,000
	To Kavitha's Captial A/c			20,000
	(Being workmen compensation reserve			20,000
	transferred to partner's Capital Account.			

12. Journal

Date	Particulars	L.F	Dr.	Cr.
2015	Profit and Loss Suspense A/c Dr.		2,350	

Jan. 23	To Verma's Capital A/c (Being Verma's share of profit upto 23rd Jan., 2015 transferred to his capital account)			2,350

13. 6% p.a.

14. Profit and Loss Appropriation Account is prepared to show the distribution of net profit (calculated after making adjustments regarding partners' remuneration, interest on Capital, interest on drawings etc.) among the partners while Profit and Loss Suspense Account is prepared to adjust the deceased partner's share of profit upto the date of his death.

15. Book of the Firm

Journal

Date	Particulars	L.F	Dr.	Cr.
2018 Jan. 1	Neetu's Capital A/c Dr. Tettu' Capital A/c Dr. To Meetu's Capital A/c (Being Meetu's share of goodwill credited in her capital account by debiting Neetu's and Teetu's capital account in the gaining ratio)		70,000 70,000	 1,40,000

Working Note:

Old Profit Sharing Ratio = l:1:1

Neetu's Share = 1/3, Meetu's Share = 1/3 and Teetu's Share = 1/3

Meetu retired on 1st jan. 2018, Gaining ratio = 1:1, goodwill Rs. 4,20,000

Meetu share = Rs. 4,20,000 x 1/3 = Rs. 1,40,000, Neetu's gain = 1,40,000 z 1/2 = 70,000, Teetu's gain 1,40,000 x 1/2 = 70,000

16. Yes, on the retirement ofa partner, the old partnership comes to an end but the firm continues and a new partnership comes into existence. So a retirement means reconstitution of firm

17.

Date	Particular	L.F	Dr.	Cr.
	Harish Capital A/c Dr. To Machinery A/c		2,50,000	 25,000

	To Computer A/c To Vehicle A/c To harish Loan A/c (Being assets took over by Harsh on his retirement and balance transferred to his loan account)			18,000 45,000 1,62,000

18. New Profit Sharing Ratio is 2 : I

Capital of firm =₹2,10,000

Calculation of actual cash to be withdrawn or brought in by Y and Z

Particulars	Y	Z
New Capital (2 : 1) Less: Existing Capital after adjustments Actual Cash (Withdrawn) or brought in	1,40,000 (1,45,000) 5,000	70,000 (63,000) 7,000
Note: In the absence of information, old ratio of remaining partners will be their new profit sharing ratio, i.e., 2:1.		

19. Average Profit = $\frac{14,000+18,000+16,000-10,000+16,000}{5}$ = $\frac{Rs.54,000}{5}$ = Rs.10,800

A's Share = rs. 10,800 x 3/2 x 1/3 = Rs. 900

Journal

Date	Particulars	L.F	Dr.	Cr.
2017 June 30	Profit & Loss Suspense A/c To A's Capital A/c (Being deceased partner's share of profit credited to his capital account)		900	 900

20.(i) It implies that Rs.16,000 (Rs.80,000 — Rs.64,000) is R's share of goodwill of the firm,

(ii) In the absence of agreement, profits will be share equally.

Date	Particulars	L.F	Dr.	Cr.
	P's Capital A/c. Dr.		8,000	

	Q's Capital A/c Dr. To R's Capital A/c (Being retiring partner's share of goodwill adjusted to continuing partners' capital accounts in their gaining ratio 1 : 1)		8,000	 16,000

21. Profit may be estimated:

(a) On the basis of Last year's profit/Average profits of last given number of years

(b) On the basis of Turnover/Sales.

22. Old Profit Sharing Ratio = 5:2:3

Jayant's share = 5/10, Kartik's share = 2/10, Leena's share = 3/10

Kartik dies; then gaining ratio ofJayant and Leena = 2:3; Kartik's Sacrifice = 2/10

Jayant 's Gain = 2/10 x 2/5 = 4/50

Jayant's New Share = Old Share + Gaining Share = 5/10 + 4/50 =29/50

Leena's Gain = 2/10x3/5=6/50

Leena's New Share = Old share + Gaining share = 3/10+6/50=21/50

New ratio of Jayant and Leena after Karthik's death 29/50:21/50 or 29:21

23. New ratio = Old ratio + Gaining ratio

Calculation of gaining share

Q's new share = 2/5 +0=2/5, R's New share = 1/5 +2/5 = 5/3

Thus, new ratio of Q and R will be 2 : 3.

24. When gain made by the remaining partners are expressly given in the question, there is no need to compute it, merely mention the gaining ratio as given in the question itself.

Share taken by B out of A's share = 3/16, share taken by C Out of A's share = 5/16.

Gaining ratio = B's Gain : C's Gain = 3/16 : 5/16 or 3:5.

25. (a) Calculation of new ratio:

(i) Calculation of gaining sahre of remaining partners:

B's gain = 3/5 of 3/10 = 9/50, C's gain = 2/5 of 3/10 = 6/50' D's gain 0/0 3/10 = 0

Thus gaining ratio = 9:6 or 3:2

(ii) Calculation of new gaining share of remaining partners :

New ratio = Old Ratio + Gaining Ratio

B's new share = 2/10 + 9/50 = 10+9/50 = 19/50

C's New share = 1/10 + 6/50 = 5+6/50 =11/50

D's New Share = 4/10 + 0/0 = 4+10/10 = 4/10

Thus, new ratio of B,C and D is 19/50 : 11/50 : 4/10 = 19:11:20/50 = 19:11:20

26.

Date	Particulars	L.F	Dr.	Cr.
	Workmen Compensation reserve A/c. Dr.		70,000	
	To Raveena's Captial A/c			15,000
	To Neeti's Capital A/x			15,000
	To Rajat's Capital A/c			15,000
	To Provision for Workmen Compensation Claim A/c			25,000
	(Being the liability for workmen compensation claim created and surplus WCR transferred to Partners' Capital Accounts in their old ratio			

27. Gaining Ratio of A and C is 1:1 as they have taken over B's share equally.

28. (a) Calculation of new profit-sharing ratio:

A's gain = 1/3 x 3/5 = 3/15

A's new Share = Old Share + Gained Share = 1/3 + 3/15 = 5+3/=8/15

B's gain = 1/3 x 2/5 = 2/5

B's new Share = Old share + Gained Share = 1/3 + 2/15 = 5+2/15=7/15

New Profit Sharing Ratio = 8/15:7/15 = 8:7

(b) Calculation of Gaining Ratio:

Gaining ratio = A's Gain: B's gain = 3/15 : 2/15 = 3 : 2

Short Answer Questions (3/4 marks)

1. Arjun, Bhim and Nakul are partners sharing profits and losses in the ratio of 14 : 5 : 6 respectively. Bhim retires and surrenders his 5/25th share in favour of Arjun. The goodwill of the firm is valued at 2 years' purchase of super profits based on average profits of last 3 years. The profits for the last 3 years are Rs50,000, Rs.55,000 and 60,000 respectively. The normal profits for the similar firm are Rs.30,000. Goodwill already appears in the books of the firm at Rs.75,000. The profit for the first year after Bhim's retirement was Rs.1,00,000. Give the necessary Journal Entries to adjust Goodwill and distribute profits showing your workings.

2. Nandan, John and Rosa are partners sharing profits in the ratio of 4:3:2 On 1st April, 2012, John gave a notice to retire from the firm. Nandan and Rosa decided to share future profits in the ratio of 1:1. The capital accounts of Nandan and Rosa after all adjustments showed a balance of Rs. 43,000 and Rs. 80,500 respectively. The total amount to be paid to John was Rs. 95,500. This amount was to be paid by Nandan and Rosa in such a way that their capitals become proportionate to their new profit-sharing ratio. Pass necessary Journal entries in the books of the firm for the above transactions. Show your working clearly.

3. 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 31st December, 2015 Vaibhav died. On that date his capital account showed a credit balance of Rs. 3,80,000 and goodwill of the firm was valued at Rs. 1,20,000. There was a debit balance of Rs. 50,000 in the Profit and Loss Account. Vaibhav's share of profit in the year of his death was to be calculated on the basis of the average profit and last five year. The average profit of last five years was Rs. 75,000.Pass Journal entries in the books of the firm on Vaibhav's death.

4. Vikas, Gagan and Momita 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, 2014 Momita died. According to the provisions of partnership deed, the legal representatives of a deceased partner are entitled for the following in the event of his/her death.

(i) Capital as per the last Balance sheet.

(ii) Interest on capital at 6% p.a. till the date of her death.

(iii) Her share of profit to the date of death calculated on the basis of the average profits oflast four years.

(iv) Her share of goodwill to be determined on the basis of three years' purchase of the average profits of last four years. The profits of last four years were:

Year	Profit (Rs.)

2010-2011	30,000
2011-2012	50,000
2012-2013	40,000
2013-2014	60,000

The balance in Momita's capital account on 31-03-2014 was Rs. 60,000 and she had withdrawn Rs. 10,000 till the date of her death. Interest on her drawings were Rs. 300. Prepare Momita's capital account to be presented to her executors.

5. Banwari, Girdhari and Murari are partners in a firm sharing profits and losses in the ratio of 4:5:6. On 31st March, 2014, Girdhari retired. On that date the capitals of Banwari, Girdhari and Murari before the necessary adjustments stood at Rs. 2,00,000, Rs.1,00,000 and Rs. 50,000 respectively. On Girdhari's retirement, goodwill of the firm was valued at 1,14,,000. Revaluation of assets and reassessment of liabilities resulted in a profit of Rs. 6,000. General Reserve stood in the books of the firm at Rs.30,000.

The amount payable to Girdhari was transferred to his loan account. Banwari and Murari agreed to pay Girdhari two yearly installments of Rs.75,000 each including interest p.a. on the outstanding balance during the first two years and the balance including interest in the third year. The firm closes its books on 31st March every year.

Prepare Girdhari's loan account till it is finally paid.

6. Shirish, Harit and Asha were partners in a firm sharing profits in the ratio of 5 : 4 : 1. Shirish died on 30th June, 2018. On this date their Balance Sheet was as follows:

Balance Sheet of Shirish, Harit and Asha as at 31st March 2018

Liabilities		Rs.	Assets	Rs.
Capitals			Plant and Machinery	5,60,000
Shirish	1,00,000		Stock	90,000
Harit	2,00,000		Debtors	10,000
Asha	3,00,000	6,00,000	Cash	40,000
Profits for the year 2017-18		80,000		
Bills Payable		20,000		
		7,00,000		**7,00,000**

According to the partnership deed, in addition to deceased partner's capital, his executor is entitled to :

(i) Share in profits in the year of death on the basis of average of last two years' profit. Profit for the year 2016—17 was 60,000.

(ii) Goodwill of the firm was to be valued at 2 years' purchase of average of last two years' profits. Prepare Shirish's Capital Account to be presented to his executor.

7. A, B and C were partners in a firm. A died on 31.3.2018 and the Balance Sheet of the firm on that date was as under:

Balance Sheet of A,B and C

Liabilities	Rs.	Assets	Rs.
Creditors	7,000	Cash at Bank	12,000
General reserve	9,000	Debtors	32,000
Workmen's Compensation Fund	10,000	Furniture	30,000
Profit and Loss Account	6,000	Plant	40,000
Capital		Patents	8,000
A 40,000			
B 30,000			
C 20,000	90,000		
	1,22,000		**1,22,000**

On A's death it was found that patents were valueless, furniture was to be brought down to Rs. 24,000, plant was to be reduced by Rs.10,000 and there was a liability of Rs. 7,000 on account of workrnen's compensation.

Pass the necessary journal entries for the above at the time of A's death.

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

9. A,B and C are partners in a firm. A retires on 1st January, 2013. On the date of retirement, Rs. 80,000 is due to him in all. It is agreed to pay him this amount in installments every year at the end of the year. Prepare A's Loan Account until he is paid the amount due to him. A is to be paid in four equal installments along with interest @10%p.a.

The partnership firm closes its books on 31srt December every year.

10. A, B and C are partners sharing profits and losses in the ratio of 2:3:1. B retries and sells his share of profit to A and C for Rs. 8,100, being purchased by A for Rs. 3,600 and by C for Rs. 4,500. The profit for the year B's retirement was Rs. 10,500.

You are required to give necessary journal entries to record the sale of B's share to A and C and distribution of profit among partners.

ANSWERS

1. **JOURNAL**

DATE	Particulars	L.F	Dr. (rs)	Cr. (rs)
	Arjun's Capital A/c Dr.		42,000	
	Bhim's Capital A/c Dr.		15,000	
	Nakul's Capital A/c Dr.		18,000	
	To Goodwill A/c			75,000
	(Being the amount of existing goodwill written off to the capital accounts of all partners)			
	Arjun's Capital A/c Dr.		10,000	
	To Bhim's Capital A/c			10,000
	(Being the share of goodwill adjusted)			
	Profit and Loss A/c Dr.		1,00,000	
	To Arjun's Captial A/c			76,000
	To Nakul's Capital A/c			24,000
	(being profit transferred to Capital A/c of Arjun and Nakul in their new profit - sharing ratio)			

1.Calculation of Share in existing goodwill:

Arjun's share in the goodwill = Rs. 75,000 x 14/25 = Rs. 42,000

Bhim's share in the goodwill = Rs. 75,000 x 5/25 of Rs. 15,000

Nakul's share in the goodwill = Rs.75,000 x6/25 = 18,000

II. Calculation of New ratio of Arjun and Nakul=19:6

III. Calculate Bhims share in Goodwill is 5/25 on 50,000(2 yrs of purchase super profit)

Super profit =Average profit -Normal profit.

2.Valuation of Goodwill :

Total Profit of last 3 years = Rs. 50,000 + Rs. 55,000 + Rs. 60,000

= Rs. 1,65,000

Average profit = $\frac{\text{Rs. } 1,65,000}{3}$ =Rs. 55,000

Super Profit = Rs. 55,000-Rs. 30,000 = Rs. 25,000

Goodwill = Super Profit x No. of years purchase

= Rs. 25,000 x 2 = Rs. 50,000

Bhim's share in Goodwill = Rs. 50,000 x 5/25 = Rs. 10,000.

3.Calculation of New Profit-Sharing ratio:

Old Ratio of Arjun, Bhim and Nakul = 14:5:6

Bhim surrenders his share in favour of Arjun =5/25

New Share of Arjun = $\frac{14}{25} + \frac{5}{25} = \frac{19}{25}$

New Share of Nakul = $\frac{6}{25}$

New Ratio of Arjun and Nakul = $\frac{19}{25} : \frac{6}{25}$ =19:6

2. In the Books of Nanda, John and Rosa

Journal

Date	Particulars	L.F	Dr. (rs)	Cr. (rs)
	Bank A/c Dr.		95,500	
	To Nandan's Capital A/c			66,500
	To Roasa's Capital A/c			29,000
	(Being amount paid by Nandan and Rosa to bring their capital into their new profit-sharing ratio I.e. 1:1)		95,500	
	John's Capital A/c Dr.			95,500

	To Bank A/c. (Being amount paid to John on his retirement)			

Working Notes:

(a) Total Adjusted Capital of the Firm:

Nandan's Capital Rs. 43,000

Rosa's Capital Rs. 80,500

John's Capital Rs. 95,500

Rs. 2,19,000

(b) Nandan and Rosa will contribute to the firm's Capital in 1:1 ratio

Nandan's New Capital = Rs. 1,09,500

Rosa's New Capital = Rs. 1,09,500

Amount to be brought in by Nandan = New Capital – Old Capital

= Rs. 1,09,500 – Rs. 43,000

= Rs. 66,500

Amount to be brought in by Rosa = New Capital – Old Capital

= Rs. 1,09,500 – Rs. 80,500

= Rs. 29,000.

3.Journal of Vikas, Vishal and Vaibhav

Date	Particulars	L.F	Dr. (rs)	Cr. (rs)
2015 Dec. 31	Vikas's Capital A/c Dr. Vishal's Capital A/c Dr. To Vaibhav's Capital A/c. (Being Vaibhav share of goodwill adjusted in the capital accounts of the existing partners in their gaining ratio i.e1:1)		12,000 12,000	 24,000
	Vaibhav's Capital A/c Dr. To Profit and Loss A/c (Being Vaibhav's share in debit balance of profit and loss account transferred) Or		10,000	10,000

	Vikas's Capital A/c Dr.		20,000	
	Vishal's Capital A/c Dr.		20,000	
	Vaibhav's Capital A/c Dr.		10,000	50,000
	To Profit and Loss A/c			
	(Being Vaibhav;s share in debit balance			
	of profit and loss account transferred)		11,250	
	Profit and Loss Suspense A/c Dr.			11,250
	To Vaibhav's Capital A/c			
	(Being Vaibhav's share of profit upto the date of death transferred to his			
	capital account)		4,05,250	
	Vaibhav's Capital A/c Dr.			4,05,250
	To Vaibhav's Executors A/c			
	(Being amount due to Vaibhav transferred to his executors' account)			

Working Note: Vaibhav's share of profit of current year = $75,000 \times \frac{9}{12} \times \frac{1}{5} = 11,250$

4.

Dr. **Momita's Capital Account** **Cr.**

Particulars	Amount (rs.)	Particulars	Amount (Rs.)
To Drawings A/c	10,000	By Balance b/d	60,000
To Interest on Drawings A/c	300	By Profit and Loss Suspense A/c	4,500
To Momitals Executor's A/c	83,000	By Interest on Capital	1,800
		By Vikas's Capital A/c	13,500
		By Gagan's Capital A/c	13,500
	93,300		93,300

Working Notes

(i) Calculation of Interest on Capital = $60,000 \times \underline{6} \times \underline{6} = 1,800$

100 12

(ii) Calculation of Mamita's Share of Profit $= 45,000 \times \frac{1}{5} \times \frac{6}{12} =$ Rs. 4,500

(iii) Share in Goodwill $= 45,000 \times 3 \times \frac{1}{5} =$ Rs. 27,000

5. **Gridhari's Loan Account**

Date	Particulars	Rs.	Date	Particulars	Rs.
2015			2014		
Mar.31	To bank A/c	75,000	April 1	By Girdhari's Capital	1,50,000
Mar 31	To Balance C/d	90,000	2015	A/c	
		1,65,000	Mar.31		15,000
2016				By Interest A/c	**1,65,000**
Mar.31	To Bank A/c	75,000	2015		
Mar 31	To balance C/d	24,000	April 1		90,000
			2016	Balance B/d	
			Mar.		9,000
		99,000	31	By Interest A/c	
2017					99,000
Mar.31	To bank A/c				24,000
		26,400		By Balance B/d	2,400
				By Interest A/c	26,400
		26,400			

Working Note:

Dr. **Gridhari's Capital Account** **Cr**

Particulars	Rs.	Particulars	Rs.
To Gridhari Loan A/c	1,50,000	By Balance b/d	1,00,000
		By Profit on revaluation	2,000
		By banwari's Capital A/c	15,200
		By Murari's Capital A/c	22,800
		By General reserve A/c	10,000
	1,50,000		1,50,000

Total Goodwill = Rs. 1,14,000

Girdhari's share = 1,14,000 x 5/15 = Rs. 38,000,

Banwari's gain = 38,000 x 4/10 = Rs.15,200

Murari's gain = 38,000 x 6/10 = Rs. 22,800

Giridhari's share in general reserve = 30,000 x 5/15 = rs. 10,000

6.

Dr. **Shirish's Capital Account** **Cr.**

Particulars	Rs.	Particulars	Rs.
To Shirish's Executor's A/c	218,750	By Balance b/d	1,00,000
		By Profit and Loss A/c	40,000
		By Profit and Loss Suspense A/c	8,750
		By Harit's Capital A/c	56,000
		By Asha's Capital A/c	14,000
	2,18,750		**2,18,750**

7. Journal

Date	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
	Revaluation A/c Dr.		24,000	
	To Patents A/c			8,000
	To Furniture A/c			6,000
	To Plant A/c			10,000
	(Being assets revalued)			

	Workmen's Compensation Fund A/c Dr.		10,000	
	To Claim for Workmen's Compensation			7,000
	To A's Capital A/c			1,000
	To B's Capital A/c			1,000
	To C's Capital A/c			1,000
	(Being compensation fund transferred to claim and balance distributed)			
	A's Capital A/c Dr.		8,000	
	B's Capital A/c Dr.		8,000	
	C's Capital A/c Dr.		8,000	
	To Revaluation A/c			24,000
	(Being loss on revaluation distributed among partners)			
	General reserve A/c Dr.		9,000	
	Profit and Loss A/c Dr.		6,000	
	To A's Capital A/c			5,000
	To B's Capital A/c			5,000
	To C's Capital A/c			5,000
	(Being loss on revaluation distributed among partners in a profit sharing ratio)			
	OR			
	General Reserve A/s Dr.		9,000	
	To A's Capital A/c			3,000
	To B's Capital A/c			3,000
	To C's Capital A/c			3,000
	(Being general reserve distributed)			
	Profit and Loss A/c Dr.		6,000	
	To A's Capital A/c			2,000
	To B's Capital A/c			2,000
	To C's Capital A/c			2,000
	(Being profit and loss distributed among partners)			

	A's Capital A/c Dr. To A's Executor's A/c (Being capital account transferred to A's executor's account)		38,000	38,000

8.

Date	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
2018 April 1	X's Capital A/c Dr. Y's Capital A/c Dr. To Z's Capital A/c (Being Z's share of goodwill adjusted in gaining ratio i.e 1:5)		10,000 50,000	 60,000

Working Notes:

(1) Calculation of Hidden Goodwill Rs.

Amount agreed to be paid in full settlement to Z 3,00,000

Less: Z's Captial (after all adjust,ents) 2,40,000

Hidden Goodwill 60,000

(2) Calculation of gaining ratio:

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

X's gain = $\frac{1}{4} - \frac{1}{6} = \frac{3-2}{12} = \frac{1}{12}$; Y's gain = $\frac{3}{4} - \frac{2}{6} = \frac{9-4}{12} = \frac{5}{12}$

Gaining ration of X and Y = 1:5

9.

Date	Particulars	Rs.	Date	Particulars	Rs.
2013			2013		
Dec. 31	To bank A/c		Jan. 1	By A's Capital A/c	80,000
	(20,000+8,000)	28,000		By Interest on rs.	
Dec. 31	To balance C/d	60,000	Dec.	80,000 @ 10%	8,000
		88,000	31		88,000
2014					
		26,000			60,000
Dec. 31					
		40,000			
‘’	ToBank A/c		2014	By Balance b/d	
					6,000
	(20,000+6,000)		Jan. 1	By Interest on Rs.	
	To Balance C/d		Dec.	60,000 @ 10%	
		66,000			66,000
2015			31		
		24,000			40,000
Dec. 31				By Balance b/d	
		20,000			4,000
Dec. 31			2015	By Interest on Rs.	
	To Bank	44,000	Jan. 1	40,000 @ 10%	44,000
	A/c(20,000+4000)	======	Dec.	By Balance b/d	20,000
2016	To Balance C/d		31	By Interest on Rs.	
Dec.31	To Bank			20,000 @ 10%	2,000
	A/c(20,000+2,000)	22,000			
		22,000			22,000
			2016		
			Jan. 1		
			Dec.		
			31		

10.

Date	Particulars	L.F	Dr. (rs)	Cr. (rs)
	A's capital A/c Dr			
	C's capital A/c Dr		3,600	
	To B's capital			8,100
	(Being Partners' Capital Account adjusted for the		4,500	
	sale of B's share to A and C)			
	Profit and Loss Appropriation A/c Dr.			
	To A's Capital A/c			7,000
	To C's Capital A/c		10,500	3,500
	(Being profit distributed in new ratio, i.e 2:1)			

Long Answer Questions[6 marks]

1. X, Y and Z were partners in a firm sharing profits in the ratio of 5:3:2. On 31st March, 2015 their Balance Sheet was as follows.

Balance Sheet of X,Y and Z

As at 31st March, 2015

Liabilities	Amt (Rs.)	Assets	Amt. (Rs.)
Creditors	21,000	Land and Building	62,000
Investment Flucluation Fund	10,000	Motor Vans	20,000
Profit and Loss A/c		Investments	19,000
Capitals	40,000	Machinery	12,000
X 50,000		Stock	15,000
Y 40,000		Debtors 40,000	
Z 20,000	1,10,000	Less:Provision 3,000	37,000
		Cash	16,000
	1,81,000		**1,81,000**

On the above date, Y retired and X and Y agreed to continue the business on the following items:

(i) Goodwill of the firm was valued at Rs. 51,000

(ii) There was a claim of Rs. 4,000 for Workmen's Compensation

(iii) Provision for bad debts was to be reduced by Rs. 1,000

(iv) Y will be paid Rs. 8,200 in cash and the balance will be transferred in his loan account which will be paid in four equal yearly instalments together with interest @10% p.a.

(v) The new profit sharing ratio between X and Z will be 3:2 and their capitals will be in their new profit sharing ratio, The capital adjustments will be done by opening current accounts.

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

Answer:

Dr. **Revaluation Account** **Cr.**

Particulars	Amt (Rs.)	Particulars	Amt. (Rs)
To claim for Workmen Compensation A/c	4,000	By Provision for Bad Debts A/c	1,000
		By Partners' Capital A/c. (transfer of loss)	
		X 1,500	
		Y 900	3,000
	4,000	Z 600	4,000

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	X (Rs.)	Y (rs.)	Z (Rs.)	Particulars	X (Rs.)	Y (Rs.)	Z(Rs.)
To Revaluation A/c	1,500	900	600	By Balance b/d	50,000	40,000	20,000
To Y's Capital A/c	5,100	--	10,200	By Investment Fluctuation Fund	5,000	3,000	2,000
To Cash A/c	---	8,200	--	By Profit and Loss A/c	20,000	12,000	8,000
To Y's Loan A/c	---	61,200	--	By X's Capital A/c	--	5,100	--
To X's Current A/c	15,840	--	--	By Z's Capital A/c	--	10,200	--
To Balance B/d	52,560	--	35,040				

				By Z's Current A/c	--	--	15,840
	75,000	70,300	45,840		75,000	70,300	45,840

Balance Sheet of X and Z

As at 31st March, 2015

Liabilities	Rs.	Assets	Rs.
Partners' Capital		Land and Building	62,000
X 52,560		Motor Van	20,000
Z 35,040	87,600	Investments	19,000
X' Current A/c	15,840	Machinery	12,000
Y's Loan	61,200	Stock	15,000
Creditors	21,000	Debtors 40,000	
Claim for Workmen Compensation	4,000	Less: Provision 2,000	38,000
		Cash	7,800
		Z's Current A/c	15,840
	1,89,640		**1,89,640**

2. N, S and B were partners in a firm sharing profits and losses in proportion of 1/2, 1/6 and 1/3 respectively. The Balance Sheet on 31st March 2017 was as follows:

Liabilities	Amount	Assets	Amount
Capital Account		Freehold Premises	40,000
N 30,000		Machinery	30,000
S 30,000		Furniture	12,000
B 28,000	88,000	Stock	22,000
Bills Payable	12,000	Sundry Debtors 20,000	
General Reserve	12,000	Less: Provision for	
Sundry Creditors	18,000	Doubtful Debts 1,000	19,000
		Cash	7,000
	1,30,000		**1,30,000**

B retired from the business on the above date and the partners agreed to the following:

(a) Freehold premises and stock were to be appreciated by 20% and 15% respectively

(b) Machinery and furniture were to be depreciated by 10% and 7% respectively.

(c) Provision for Doubtful debts was to be increased by Rs. 1,500

(d) On B's retirement, goodwill of the firm was valued at Rs. 21,000.

(e) The continuing partners decided to adjust their capitals in their new profit-sharing ratio after retirement of B. Surplus/deficit, if any, in their capital accounts was to be adjusted through their current accounts.

Prepare Revaluation Account, Partner's Capital Accounts and the Balance sheet of the reconstituted firm.

ANSWER:

Dr. **Revaluation Account** **Cr.**

Particulars	Rs.	Particulars	Rs.
To Machinery A/c	3,000	By Freehold Premises A/c	8,000
To Furniture A/c	840	By Stock A/c	3,300
To Provision for doubtful/Debts	1,500		
To Partner's Capital A/c			
N 2,980			
S 993			
B 1,987	5,960		
	11,300		11,300

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	N (Rs.)	S (rs.)	B (Rs.)	Particulars	N (Rs.)	S (Rs.)	B(Rs.)
To B's Capital A/c	5,250	1,750	--	By Balance b/d	30,000	30,000	28,000
	--	--	40,967	By N's Capital A/c	--	--	5,250
To B's Loan A/c	33,730	31,243	--	By S' Capital A/c	--	--	1,750
To Balance c/d				By General Reserve	6,000	2,000	4,000
				By revaluation A/c	2,980	993	1,987

	38,980	32,993	40,987		38,980	32,993	40,987
To N's Current A/c	--	15,000	--	By Balance b/d	33,730	31,243	--
To balance c/d	48,730	16,243	--	By S's Current A/c	15,000	--	--
	48,730	31,243	--		48730	31,243	--

WORKING NOTE:-

Capital adjustments:

1.Total capital of N and S after all adjustments:

N's Capital= 33,750,S Capital=31,243,Total Capital=64,973

New profit sharing ratio=3:1

N"s Capital=64,973x3/4=48,730; S's Capital=64,973x1/4=16,243

2.In The Absence Of Deed, New And Gaining Ratio Will Be The Old Ratio Only.

3. Sameer, Yasmin and Saloni were partners in a firm sharing profits and losses in the ratio of 4:3:3. On 31st March, 2016, their Balance Sheet was follows:

Balance Sheet of Sameer, Yasmin and Saloni as at 31st March, 2016

Liabilities		Amount	Assets		Amount
Creditors		1,10,000	Cash		80,000
General Reserve		60,000	Debtors	90,000	
Capitals ;			Less: Provision	10,000	80,000
Sameer	3,00,000		Stock		1,00,000
Yasmin	2,50,000		Machinery		3,00,000
Saloni	1,50,000	7,00,000	Building		2,00,000
			Patents		60,000
			Profit and Loss Account		50,000
		8,70,000			8,70,000

On the above date, Sameer retired and it was agreed that:

(i) Debtors of Rs. 4,000 will be written off as bad debts and a provision of 5% of debtors for bad and doubtful debts will be maintained.

(ii) An unrecorded creditor of Rs. 20,000 will be recorded

(iii) Patents will be completely written off and 5% depreciation will be charged on stock, machinery and building.

(iv) Yasmin and Saloni will share future profits in the ratio of 3:2

(v) Goodwill of the firm on Sameer's retirement was valued at Rs. 5,40,000.

Pass necessary journal entries for the above transactions in the books of the firm on Sameer's retirement.

ANSWER

Date	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
2016	General Reserve A/c Dr.		60,000	
Mar. 31	To Sameer's Capital A/c			24,000
(i)	To Yasmin's Capital A/c			18,000
	To Saloni's Capital A/c			18,000
	(Being General Reserve distributed among partners)			
	Sameer's Capital A/c Dr.		20,000	
(ii)	Yashmin's Capital A/c Dr.		15,000	
	Saloni's Capital A/c Dr.		15,000	
	To Profit and Loss A/c			50,000
	(Being accumulated losses divided among partners)			
(iii)	Bad debts A/c Dr.		4,000	
	To Debtors A/c			4,000
	(Being debtors of Rs. 4,000 written off)			
(iv)	Provision for Bad and Doubtful debts A/c Dr.		4,000	
	To Bad debts A/c			4,000
	(Being provision utilised for writing off bad debts)			
(v)	Provision for Bad and Doubtful debts A/c. Dr.		1,700	
	To Revaluation A/c			1,700
	(Being excess provision transferred to revaluation A/c)			
(vi)	Revaluation A/c Dr.		20,000	20,000

(vii)	To Creditors A/c (being increase in creditors recorded)		90,000	
(viii)	Revaluation A/c Dr. To Patents A/c To Stock A/c To Machinery A/c To Building A/c (Being decrease in assets recorded)			60,000 5,000 15,000 10,000
	Sameer's Capital A/c Dr Yashmin's Capital A/c Dr. Saloni's Capital A/c Dr. To Revaluation A/c (Being loss on revaluation transferred to Partners' Capital A/c)		43,320 32,490 32,490	1,08,300
(ix)	Yashmin's Capital A/c Dr. Saloni's Capital A/c Dr. To Sameer's Capital A/c (being Goodwill adjusted to Partners' Capital A/c on Sameer's retirement in gaining ratio 3:1)		1,62,000 54,000	2,16,000
(x)	Sameer's Capital A/c Dr To sameer's Loab A/c (Being balance of Sameer's capital account transferred to Sameer's Loan A/c)		4,76,680	4,76,680

Working Note:

Amount payable to Sameer = Rs. 3,00,000 – Rs. 43,320 + Rs. 24,000 – Rs. 20,000 + Rs. 2,16,000 = Rs. 4,76,680

5.Sushma, Gautam and Kanika were partners in a firm sharing profits in the ratio of 5:3:2. On 31st March, 2020, their Balance sheet was as follows:

Liabilities		Amount	Assets	Amount
Creditors		60,000	Cash at Bank	1,40,000
Employees' Provident Fund		40,000	Sundry Debtors	1,60,000
Profit and Loss Account		1,00,000	Stock	2,40,000
Capitals :			Investments	2,00,000
Sushma	3,00,000		Fixed Assets	3,60,000
Gautam	2,50,000			
Kanika	3,50,000	9,00,000		
		11,00,000		11,00,000

On the above date, Sushma retired and it was agreed that:

(i) Fixed Assets will be reduced to Rs. 2,90,000.

(ii) A provision of 5% on debtors for bad and doubtful debts will be created.

(iii) Stock was to be valued at Rs. 2,18,000. Sushma took over the stock at this value.

(iv) Goodwill of the firm on Sushma's retirement was valued at Rs. 8,00,000. Sushma's share of goodwill was treated by debiting Gautam and Kanika's Capital Account.

(v) Sushma was paid cash brought by Gautam and Kanika in such a way that their capitals became in profit sharing ratio and a balance of Rs. 58,000 was left in the bank.,

(vi) Gautam and Kanika will share the future profits in the ratio of 2:3.

Prepare revaluation Account, Partner's Capital Accounts and the Balance Sheet of the reconstituted firm.

Answer

Dr. Revaluation Account Cr.

Particulars	(Rs.)	Particulars		(Rs.)
To Fixed Assets A/c	70,000	By Loss and revaluation Transferred to:		
To Provision for Doubtful Debts A/c	8,000	Sushma's capital A/c	50,000	
To Stock A/c	22,000	Gautam's Capital A/c	30,000	
		Kanika's Capital A/c	20,000	1,00,000
	1,00,000			1,00,000

Dr. **Partner's Capital Accounts** **Cr.**

Particulars	Sushma (Rs.)	Gautam (Rs.)	Kanika (Rs.)	Particulars	Sushma (Rs.)	Gautam (Rs.)	Kanika (Rs.)
To Revaluation	50,000	30,000	20,000	By Balance	3,00,000	2,50,000	3,50,000
A/c				b/d	50,000	30,000	20,000
To Sushma's				By P/L A/c			
Capital A/c				By Gautam's			
To Stock A/c	--	80,000	3,20,000	Capital A/c	80,000	--	--
To bank A/c	2,18,000	--	--	By Kanika's			
To Balance C/d	4,82,000	--	--	Capital A/c	3,20,000	--	--
	--	2,40,000	3,60,000	By bank A/c	--	70,000	3,30,000
	7,50,000	3,50,000	7,00,000		7,50,000	3,50,000	7,00,000

Balance Sheet of Gautam and Kanika

As at 31st March, 2020

Liabilities	Amount	Assets	Amount
Creditors	60,000	Bank	58,000
Employees Provident Fund	40,000	Sundry Creditors	
Capital A/c		1,60,000	1,52,000
Gautam	2,40,000	Less : Provision 8,000	2,00,000
Kanika	3,60,000	Investments	2,90,000
	7,00,000	Fixed Assets	7,00,000

Questions with Incomplete Information/Missing Figure

1. X,Y and Z were partners in a firm sharing profits in the ratio of 5:3:2. The firm closes its books on 31st March every year. On 30.09.2016, Z died. The partnership deed provided that on the death of a partner his executors will be entitled to the following:

(i) Balance in his capital account and interest on capital @12% p.a. On 1.4.2016 balance in Z's Capital Account was Rs. 80,000.

(ii) 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 30.09.2016 were Rs. 4,00,000.

(iii) His share in the goodwill of the firm. The goodwill of the firm on Z's death was valued at Rs. 3,00,000.

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. Z had withdrawn Rs. 30,000 till 30.09.2016.

(ii) Interest on drawings @ 12% p.a which was calculated as Rs. 2,000.

The accountant of the firm prepared Z's Capital Account to be presented to his executor but in a hurry did no complete it. Z's Capital Account as prepared by the firm's accountant is presented below:

Dr. Z's Capital Account Cr.

Date	Particulars	Amount	Dated	Particulars	Amount
2016			2016		
Sept. 30	To…………..	30,000	April 1	By………..	80,000
Sept. 30	To…………..	2,000	Sept. 30	By………..	4,800
Sept. 30	To…………..	………	Sept. 30	By………..	20,000
			Sept. 30	By………..	……….
			Sept. 30	By………	……….
		1,64,800			**1,64,800**

You are required to complete Z's Capital Account.

ANS

Dr. Z's Capital Account Cr.

Date	Particulars	Amount	Dated	Particulars	Amount
2016			2016		
Sept. 30	To Drawings	30,000	April 1	By Balance c/d	80,000
Sept. 30	To int on drawings	2,000	Sept. 30	By int on capital	4,800
Sept. 30	To Z's Executor'sA/C	1,32,800	Sept. 30	By P&L suspense	20,000
			Sept. 30	A/c	37,500

		1,64,800	Sept. 30	By X;s capita A/c By Y's capital A/c	22,500 **1,64,800**

2. Complete the missing figures in the following accounts and balance sheet:(TRY TO DO)

Dr. **Revaluation Account** **Cr.**

Particulars	Amount	Particulars	Amount
To Plant and Machinery A/c	……….	By Land and Buildings A/c	……….
To provision for Doubtful Debts A/c	2,400	By provision for discount on creditors A/c	1,400
To profit transferred to Amar's Capital A/c 3,000 Bimal's Captial A/c 3,000 Chandra's Capital A/c 3,000	9,000		
	21,4000		**21,4000**

Dr. **Partners's Capital Account** Cr.

Particulars	Amt	Amt	Amt	Particulars	Amt	Amount	Amt
To Goodwill A/c	……..	…….	…….	By Balance b/d	……..	…….	……..
To Amir's Capital A/c	---	…...	…….	By revaluation A/c	……..	……..	……..
To bank A/c	87,000	---	--	By Bimal's Capital A/c	7,000	--	--
To Balance C/d	---	66,000	46,000	By Chandra's Capital A/c	7,000	--	--
	97,000	83,000	63,000		97,000	83,000	63,000
To balance C/d	--	…….	…….	By Balance b/d	--	…….	…….
				By Bank A/c	--	33,500	53,500
	--	--	--		---	----	---

Balance Sheet of Bimal and Chandra

As at 1st April, 2017

Liabilities		Amount	Assets		Amount
Capital Accounts			Land and Buildings		1,00,000
Bimal	99,500		Plant and Machinery (56,000-10,000)		46,000
Chandra	99,500	1,99,000	Motor Car		54,000
Creditors	50,000		Debtors	………..	
Less: Provision for discount on Creditors	……….	……….	Less : Provision for doubtful debts	……….	,………..
			Cash		2,000
		2,47,000			**2,47,600**

3.Complete the missing figures in the following Accounts and Balance Sheet of D, N and P who are sharing profits and losses in the ratio of 2:1:1

Dr. **Revaluation Account** **Cr.**

Particulars		Amt	Particulars	Amt
To stock A/c		3,000	By Land and Buildings A/c	……….
To Provision for Doubtful Debts A/c				`
To Provision for Repair Bill A/c				
To Profit transferred to Capital A/c. Of				
D	…………..			
N	…………..			
P	……………			
		10,000		**10,000**

Partners' Capital Accounts

Particulars	D (Rs)	N (Rs.)	P (Rs.)	Particulars	D (Rs.)	N (Rs.)	P(Rs.)
To P's Capital A/c (Goodwill)	--	……..	--	By balance B/d	80,000	40,000	40,000
TO bank A/c	26,000	--	--	By Revaluation A/c	1,000	500	500
TO P's Loan A/c	--	--	……..	By General Reserve A/c	…….	……….	……..
To Balance C/d	75,000	75,000	--	By N's Capital A/c (Goodwill)	….	---	3,000
				By bank A/c	--	27,500	--
	……….	………	……..		1,01,000	78,000	53,500

Balance Sheet

As at 1st April, 2017

Liabilities	Amount	Assets	Amount
Capital A/c:		Land and Building (1,00,000+10,000)	1,10,000
D …………			65,000
N …………	………	Plant and Machinery	12,000
P's Loan	………	Stock	
Provision for Repair	2,000	Debtors 35,000	30,000
Bill		Less: Provision for D/D 5,000	……..
Creditors	27,000	Bills Receivable	26,500
Bills Payable	………	Cash at Bank	
	2,55,500		…………

PRACTICE -Very Short Answer Questions: (1 Mark)

1. Define gaining ratio.
2. State any two items of deduction that may have to be made from the amount payable to a retiring partner.
3. How can a partner retire from a firm?
4. X, Y and Z were partners sharing profits in the ratio of 1/2., 1/3 and 1/5 and X retired from the firm. Calculate the gaining ratio of the remaining partners.

[Ans. Y : Z = 3 : 2)

5. Dinkar, Navita and Vani were partners sharing profits and losses in the ratio of 3 : 2 : l . Navita died on 30th June, 2017. Her share of profit for the intervening period was based on the sales during that period, which were Rs. 6,00,000. The rate of profit during the past four years had been 10% on sales. The firm closes its books on 31st March every year. Calculate Navita’s share of profit.

[Ans. Navita's share Rs.20,000]

Short Answer Questions (3,4 Marks)

6. Kavi, Ravi, Kumar and Guru were partners in a firm sharing profits in the ratio of 3 : 2: 2 : l. On 1st Feb., 2017 , Guru retired and the new profit sharing ratio decided among Kavi, Ravi and Kumar was 3 : I : l. On Guru's retirement , the goodwill of the firm was valued at Rs. 3,60,000.

   Showing your working notes clearly, pass necessary journal entry in the books of the firm for the treatment of goodwill on Guru's retirement.

   (Ans : Kavi's Capital A/c Rs. 81 ,000 (Dr.), Ravi's Capital A/c Rs. 18,000 (Cr.)

7. 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 : l. Goodwill of the firm is valued at ,00,000.Goodwill already appears in the books at Rs. 4,50,000 The profits for the first year after D'S retirement amount to Rs. 12,00,000 Give the necessary Journal entries to record Goodwill and to distribute the profits. Show your calculations clear

   [Ans. Adjustment of goodwill through partners' capital accounts; Dr. A's Capital A/c Rs. 1,20,000 ‘s Capital A/c Rs. 20,000 Cr.,C's Capital A/c Rs. 20,000, D's Capital A/c Rs. 1,20,000)

8. A, B and C were partners in a firm sharing profits in the ratio of 6 : 5 : 4. Their capitals were A : Rs. 1,00,000 B : Rs. 80,000 and C : Rs. 60,000 respectively. On 1st April 2009, 'C' retired from the firm and the new profit sharing ratio between A and B was decided as I l : 4. On C's retirement the goodwill of the firm was valued at Rs. 90,000. Showing your calculations clearly, pass necessary journal entry for the treatment of good will on C' s retirement.

[Ans. A's Capital A/c (Dr.) 30,000, B's Capital A/c (Cr.) Rs. 6,000 and C's Capital A/c (Cr.) 24,000]

9. A, B and C are partners in a firm whose books are closed on March 31st each year. B died on 30th June 2009 and according to the agreement, the share of profits of a deceased partner up to the date of the death is to be calculated on the basis of the average profits for the last five years. The net profits for the last 5 years have been: 2005, Rs. 14,000; 2006, Rs. 18,000; 2007, Rs.16,000; 2008, Rs. 10,000(loss) and 2009, Rs. 16,000. Calculate A's share of the profits upto the date of death and pass necessary journal entry.

   [Ans. Profit and Loss Suspense A/c (Dr.) Rs. 900 and B's Capital A/c (Cr.) Rs.900]

10. Sandeep, Praveen and Tara are partners sharing profits in the ratio of 3:2:1. On 1st April, 2012 Sandeep; gave a notice to retire from the firm. Praveen and Tara decided to share future profits, in the ratio of 2:3. The capital accounts of Praveen and Tara after all adjustments showed a balance of Rs. 64,000 and Rs. 1,00,000 respectively. The total amount to be paid to Sandeep was Rs. 1,23,000. This amount was to be paid by Praveen and Tara in such a way that their capitals become proportionate to their new profit-sharing ratio.

    Pass necessary Journal entries for the above transactions in the books of the firm.

    Show your workings clearly

    [Ans. (i) Dr. Bank A/c Rs. 1,23,000 Cr. Tara's Capital A/c Rs. 72,200, Praveen's Capital A/c Rs. 50,800 (ii) Dr. Sandeep's Capital A/c and Cr. Bank A/c Rs. 1,23,000)

Long Answer Questions FOR PRACTICE (6 Marks)

1. R, S and T were partners in a firm sharing profits in 2: 2 : I ratio. On 1st April, 2017, their Balance Sheet was as follows:

Balance Sheet

As at 1st April, 2017

Liabilities	**(Rs.)**	**Assets**	**(Rs.)**
Bank Loan	12,800	Cash	51,300
Sundry Creditors	25,000	Bills receivable	10,800
Capital A/c:		Debtors	35,600
R 80,000		Stock	44,600
S 50,000		Furniture	7,000
T 40,000	1,70,000	Plant and Machinery	19,500
Profit and Loss A/c	9,000	Building	48,000
	2,16,800		2,16,800

S retired from the firm on 1st April, 2017 and his share was ascertained on the revaluation of assets as follows:

Stock	Rs. 40,000
Furniture	Rs. 6,000
Plant and Machinery	Rs. 18,000
Building	Rs. 40,000

Rs.1,700 were to be provided for doubtful debts. The goodwill of the firm was valued at 12,000. S was to be paid 18,080 in cash on retirement and the balance in three equal yearly instalments. Prepare revaluation account, partners' capital account, S's loan account and Balance Sheet as on 1st April, 2017.

(Ans: Revaluation loss rs. 16,800; Partners' Capital R Rs. 73,680; T Rs. 36,840; S' Loan A/c Rs. 33,600; B/S Rs. 1,81,920)

2. Mohan, Vinay and Nitya were partners in a firm sharing profits and losses in the proportion of 1/2, 1/3 and 1/6 respectively. On 31st March, 2018, their Balance Sheet was as follows:

Balance Sheet of Mohan, Vinay and Nitya as at 31st March, 2018

Liabilities		(Rs.)	Assets		(Rs.)
Creditors		48,000	Cash at Bank		31,000
Employees' Provident Fund		1,70,000	Bills Receivable		54,000
Contingency Reserve		30,000	Book Debts	63,000	
Capitals:			Less: Provision for Doubtful		
Mohan	1,20,000		Debts.	2,000	61,000
Vinay	1,00,000		Plant and Machinery		1,20,000
Nitya	90,000	3,10,000	Land and Building		2,92,000
		5,58,000			5,58,000

Mohan retired on the above date and it was agreed that:

(i) Plant and machinery will be depreciated by 5%.

(ii) An old computer previously written off was sold for Rs. 4,000.

(iii) Bad debts amounting to 3,000 will be written off and a provision of 5% on debtors for bad and doubtful debts will be maintained.

(iv) Goodwill of the firm was valued at Rs.1,80,000 and Mohan's share of the same was credited in his account by debiting Vinay's and Nitya's accounts.

(v) The capital of the new firm was to be fixed at Rs. 90,000 and necessary adjustments were to be made by bringing in or paying off cash as the case may be.

(vi) Vinay and Nitya will share future profits in the ratio of 3:2.

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

[Ans. Loss on Revaluation Rs. 6,000; Partners' Capital A/c: Vinay Rs. 54,000, Nitya Rs. 36,000; Mohan's Loan A/c Rs. 2,22,000)

3. L, M and N were partners in a firm sharing profits in the ratio of 2 : l: l. On 1st April, 2013 their Balance Sheet was as follows:

Balance Sheet of L, M and N as at 1st April, 2013

Liabilities		(Rs.)	Assets		(Rs.)
Capital's			Land		8,00,000
L	6,00,000		Building		6,00,000
M	4,80,000		Furniture		2,40,000
N	4,80,000	15,60,000	Debtors	4,00,000	
General Reserve		4,40,000	Less: Provision	20,000	3,80,000
Workmen's Compensation Fund		3,60,000	Stock		4,40,000
Creditors		2,40,000	Cash		1,40,000
		26,00,000			26,00,000

On the above date N retired.

The following were agreed:

(i) Goodwill of the firm was valued at Rs. 6,00,000

(ii) Land was to be appreciated by 40% and Building was to be depreciated byRs.1,00,000

(iii) Furniture was to be depreciated by Rs. 30,000.

(iv) The liabilities for Workmen's Compensation Fund was determined at Rs. 1,60,000

(v) Amount payable to N was transferred to his loan account.

(vi) Capitals of L and M were to be adjusted in their new profit sharing ratio and for this purpose current accounts of the partners will be opened.

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

[Ans. Profit on Revaluation Rs. 1,90,000, Partners' capitals: L Rs. 10,35,000; M Rs. 5, 17,500, N's Loan A/c Rs. 8,37,500, L's Current A/c Rs. 1,20,000 (Dr.), M's Current A/c Rs. 1,20,000 (Cr.), Balance Sheet Total rs. 29,10,000)

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PART A: ACCOUNTING FOR PARTNERSHIP FIRMS

Chapter – 06: Dissolution of a Partnership Firm

Units/Topics	Learning Outcomes
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 notgiven 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 thepayment thereof.	🕮 Understand the situations under which apartnership firm can be dissolved. 🕮 Develop the understanding of preparation of realisation account and other related accounts.

Dissolution of a partnership firm:

According to Section 39 of the partnership Act 1932, the dissolution of partnership between all the partners of a firm is called the dissolution of the firm. This brings an end to the existence of firm, and no business is transacted after dissolution except the activities related to closing of the firm as the affairs of the firm are to be wound up by selling firm's assets and paying its liabilities and discharging the claims of the partners.

Dissolution of Partnership

Dissolution of partnership changes the existing relationship between partners but the firm may continue its business as before. The dissolution of partnership may take place in any of the following ways:

(1) Change in existing profit-sharing ratio among partners;

(2) Admission of a new partner;

(3) Retirement of a partner;

(4) Death of a partner;

(5) Insolvency of a partner;

(6) Completion of the venture, if partnership is formed for that; and

(7) Expiry of the period of partnership, if partnership is for a specific period of time;

Distinction Between Dissolution of Partnership and Dissolution of Firm

Basis of Difference	Dissolution of Partnership	Dissolution of Firm
Change in economic relationship	Continues in a changed form	Comes to an end
Termination of the business	Not terminated	Firm is closed
Settlement of Asset and Liabilities	Assets and Liabilities are revalued and new balance sheet is drawn	Assets are soled and liabilities are paid off
Court's Intervention	Court does not intervene	Can be dissolve by Court order
Closure of books	Does not require	The books of account are closed

Modes of Dissolution of a Partnership Firm :

Modes of dissolution of a firm are as under :

(1) Dissolution by Agreement (Section 40) : When all the partners agree to dissolve the firm or if there is any such agreement in partnership deed or amongst the partners regarding dissolution of firm.

(2) Compulsory Dissolution or Dissolution by the Operation of Law (Section 41) : In the following circumstances, the firm will be dissolved compulsorily :

(a) When any such event happens which makes the operation of business of the firm unlawful.

(b) When all partners or all partners except one are declared as insolvent by the court.

(3) Dissolution on the Happening of an Unexpected Event (Section 42) : In this, a firm will be dissolved in the following conditions :

(a) When partnership is formed for a particular period, then on the expiry of that period.

(b) When formation of partnership was for some objectives, then on the fulfilment of those objectives.

(c) When any partner is declared as insolvent.

(d) When any partner dies.

(4**) Dissolution by Notice of Partnership at will (Section 43**) : If partnership is at will, then any partner may notify other partners about his will in writing and then the firm may be dissolved.

(5) Dissolution by Court (Section 44) : On filing of a suit by a partner, the court may pass orders for dissolution in the following conditions :

(a) When any partner becomes of unsound mind.

(b) When any partner becomes permanently incapable of executing his duties as a partner.

(c) When any partner is guilty of any such conduct which may bring loss to the business.

(d) When any partner knowingly violates the terms of agreement again and again.

(e) When any partner transfers or assigns all his interests to a third person.

(f) When it is not possible to run the business without loss.

(g) When dissolution of firm is just and equitable in the opinion of the court.

Settlement of Accounts :Section 48 of the Indian Partnership Act, 1932, provides the following rules for the settlement of accounts between the partners :

(1) **Payment of Losses** : Losses shall be paid first out of profits, next out of capital and lastly, if necessary, by the partners individually in their profit sharing ratio.

(2) **Distribution of Assets** : Assets of the firm are first to be applied in paying the debts of the firm to the third parties; next in paying to each partner ratably what is due to him from the firm for advances as distinguished from capital; in paying to each partner ratably what is due to him on account of capital, and the residue to be divided among the partners in the proportion in which they were entitled to share profits.

(3) **Realisation Account** : Realisation Account is opened on dissolution of firm to close down the books of accounts of the firm. This account is a nominal account. The purpose of this account is to show the profit or loss on realisation of assets and payment of liabilities.

It is Prepared by

1. Transferring all assets except Fictitious assets, loan to partners and Cash or Bank account to the debit side of the account. Fictitious assets are transferred to the debit side of the Capital Account of the partners in their profit sharing ratio. Loan to a partner is retained and is received back from them.
2. Transferring all liabilities except Loan from Partners and Partners Capital Accounts to the credit side of the Account.
3. Amount realized on sale of assets is transferred to credit side of the account (including unrecorded assets and assets taken by a partner).
4. Liabilities paid are transferred to the debit side of the account (including unrecorded liabilities and liabilities assumed by a partner).
5. Expenses incurred by the firm on dissolution are debited.

   Balance in the account (either gain or loss) transferred to the Capital account of the Partners in their profit sharing ratio.

Dr. REALISATION ACCOUNT Cr.

Particulars	Amount	Particulars	Amount
To All Assets (Individually) (excluding Fictitious assets, Accumulated losses, loan to partners and Cash or Bank account	....	To All Liabilities Individually (Excluding Loan from Partners and Partners Capital Accounts, reserve, Accumulated profits)	....
To Provision on any Liability	....	By provision on any Assets	....
To Bank (Liabilities Paid including Unrecorded)	....	By Bank (Assets Realized including Unrecorded)	....
To Partners Capital/ Current A/c (Liabilities assumed by Partner)	....	By Partners' Capital/ Current A/c (Assets taken by Partner)	....
To Bank (Realization Expenses)	....		
To Partners' Capital/Current A/c (?) (Share among the partners in their Profit sharing ratio)	....	By Partners' Capital/Current A/c (?) (Share among the partners in their Profit sharing ratio)	....
	********		********

<u>Accounting Entries On dissolution of the firm</u>:

The accounting entries will be passed as under:

Accounting of assets (Excluding cash &	Realisation A/c Dr.

bank)	To All Assets A/c (Individual)
Accounting of goodwill on dissolution If goodwill account exists at the time of dissolution	Realisation A/c Dr. To Goodwill A/c Cash/Bank A/c Dr. To Realisation A/c (if realized value given)
Accounting of undisclosed assets: ●On selling in the market ●On taking over by any partner	 Cash/Bank A/c Dr. To Realisation A/c Partner's Capital/Current A/c Dr. To Realisation A/c
Provisions relating to assets are opened	Provision for Bad Debts A/c Dr. Provision for Discount on Debtors A/c Dr. Investment Fluctuation Reserve A/c Dr. To Realisation A/c
Transfer of debit balance of Profit & Loss A/c	Partners' Capital/Current A/c Dr. To Profit & Loss A/c
Closing the accounts of various liabilities	Sundry Creditors A/c Dr. Bills Payable A/c Dr. Partner's Wife's Loan A/c Dr. Bank Overdraft A/c Dr. Outstanding Expenses A/c Dr. Employees Provident Fund A/c Dr. To Realisation A/c
Accounting of undisclosed liabilities: (1) If paid by the firm (2) Taking over the responsibility regarding payment of liability by any partner	 Realisation A/c Dr. To Cash/Bank A/c Realisation A/c Dr. To Partner's Capital/Current A/c
Transfer of various reserve funds and credit balance of Profit & Loss A/c	Contingencies Reserve A/c Dr. Reserve Fund A/c Dr. Profit & Loss A/c Dr. To Partners' Capital/Current A/c
Realising assets (1) On sale of asset in cash (with selling price)	 Cash/Bank A/c Dr. To Realisation A/c
2) Asset taken over by any partner (with agreed price)	Partner's Capital/Current A/c Dr. To Realisation A/c
(3) Asset taken over by any creditor (with agreed price)	Realisation A/c (Claim Price—Agreed Price) Dr. To Bank A/c (Claim Price—Agreed Price)
(i) If the amount due to creditors and value of assets taken by them from firm is equa	No Entry needed
(ii) If the amount due to creditors is more than the value of asset, and the difference amount is paid by the firm	Realisation A/c Dr. To Bank A/c
(iii) If the amount due to creditors is less	Bank A/c Dr.

than the value of asset taken over by creditors and the creditors pay-off the excess amount to the firm.	To Realisation A/c
Payment of liabilities (1) Liabilities paid by firm.	 Realisation A/c Dr. To Cash/Bank A/c
(2) Liabilities taken over or paid by any partner	Realisation A/c Dr. To Partner's Capital/Current A/c
Payment of realisation expenses : (1) If paid by firm.	Realisation A/c Dr. To Cash/Bank A/c
2) Responsibility regarding payment of expenses taken over by any partner	Realisation A/c Dr. To Partner's Capital/Current A/c
(3) If it is clearly mentioned in partnership deed that dissolution expenses will be borne by any partner, then this amount will not be recorded in Realisation A/c of the firm.	No Entry needed
(4) If it is clearly mentioned in partnership deed that in case of dissolution the winding up expenses will be borne by any partner but if such expense is incurred by the firm on behalf of that partner then the following entry will be recorded	Partner's Capital/Current A/c Dr. To Cash/Bank A/c
Remuneration of dissolution work is to be paid to any partner	Realisation A/c Dr. To Partner's Capital/Current A/c
For closing realisation account (1) If debit balance of Realisation A/c (loss). (2) If credit balance of Realisation A/c (profit).	 Partners' Capital/Current A/c Dr. To Realisation A/c Realisation A/c Dr. To Partners' Capital/Current A/c
For payment of partner's loan	Partner's Loan A/c Dr. To Cash/Bank A/c
For closing of current accounts : (1) If debit balance of partners' current A/c.	 Partners' Capital A/c Dr. To Partners' Current A/c
(2) If credit balance of partners' current A/c	Partners' Current A/c Dr. To Partner's Capital A/c
For closing of partners' capital accounts : (1) Debit balance of partners' capital A/c.	 Cash/Bank A/c Dr. To Partners' Capital A/c
(2) Credit balance of partner's capital A/c.	Partners' Capital A/c Dr. To Cash/Bank A/c

Treatment of Reserves and Accumulated Profits :

The undistributed profits and losses and reserves are always transferred to partners' capital accounts in their profit sharing ratio and not to the realisation account.

For distribution of reserves or accumulated profits :

General Reserve Dr.
Reserve Fund Dr.
Profit & Loss A/c Dr.
To Partners' Capital A/c (in profit sharing ratio)
(Being undistributed profits and reserves transferred to partners' capital accounts)

For distribution of accumulated losses :

Partners' Capital A/c Dr.
To Profit & Loss A/c
(Being undistributed losses transferred to partners' capital accounts)

Partner's Loan Account : If a partner has given any loan to the firm, first of all, it will be shown on the credit side of partner's loan account. When all the outside liabilities are paid in full, afterwards this loan will be paid. Thus, partner's loan account is prepared separately and paid off by passing the following entry :

Partner's Loan A/c Dr.
To Cash/Bank A/c
(Being partner's loan paid off)

Note : Partner's loan account is prepared before partners' capital accounts because at the time of dissolution, capitals are paid off, only if, any balance is left after payment of partner's loan.

Treatment of Goodwill : In case of dissolution of a firm, **goodwill should be treated just like other assets** if realized value is given. If Information is not available/ Question is silent about the realisation of goodwill, it can be assumed that the goodwill is valueless and as such, nothing is received or realised from it.

Cash or Bank Account : All the receipts are recorded on the debit side and all the payments are recorded on the credit side of cash account. At the time of dissolution, this account is closed at last and total of both the sides (Dr. and Cr.) must be equal. It means all accounts are closed. Thus, this account also helps in the verification of the arithmetical accuracy of all the accounts at the time of dissolution.

If both cash and bank balances are given in the balance sheet, only one account, either cash account or bank account is prepared. If cash account is prepared, an entry is made for withdrawing the bank balance and if a bank account is prepared, an entry is passed for depositing the cash balance into bank which are as follows:

(i) **For cash deposited into bank:**

Bank A/c Dr.
To Cash A/c

(ii) **For cash withdrawn from bank:**

Cash A/c Dr.
To Bank A/c

QUESTIONS FOR PRACTICE: -

Objective Type Questions

TYPE OF QUESTIONS (1 MARK) [MCQ, OTQ COMPETENCY BASED, SOURCE BASED]

1. In case of dissolution of the partnership firm, Provision for Doubtful Debts is transferred to ___________Account.
2. Realisation Account is _______in nature.
3. Prabhanjann, a partner was appointed to look after the process of dissolution for

which he was allowed a remuneration of Rs. 5,000. Prabhanjann agreed to bear the dissolution expenses. Actual dissolution expenses Rs.3,000 paid by Prabhanjann. Realisation Account will be debited by______.

4. When Realisation expenses are borne& paid by the same partner :-

(a) No entry will be passed

(b) Realisation Account will be debited ,CashAccount will be credited

(c) Realisation Account will be debited ,Capital account will be credited

(d) Cash Account will be debited , Realisation Account will be credited.

5. Dissolution of the Partnership firm means :-

(a) Change in existing ratio of partners

(b) Dissolution of Partnership among all partners

(c) Death of a Partner

(d) Dissolution of firm.

6. On dissolution advertisement suspense appearing in balance sheet is shown in :-

(a) Realisation Account

(b) Partner's Capital Account

(c) Bank Account

(d) Revaluation Account

7. Harish one of the Partners was to bear all the Realisation Expenses for which he was given a commission of 3% of net cash realised from Dissolution. Cash realised from Assets was Rs. 25,000. Amount paid for paying off liabilities amounted to Rs. 5,000. The amount of commission will be:-

(a) Rs. 750 (b) Rs. 150 (c) Rs. 800 (d) Rs. 600

8. Court cannot pass the order to dissolve the firm ,when ;

(a) Partners' become incapable permanently.

(b) Partnership agreement persistently followed by Partners'

(c) Business of the firm cannot be carried except at a loss.

(d) A Partner is found guilty of misconduct, which is adversely affected the business

9. A firm is dissolved and on the date of dissolution, it has following assets in int's Balance Sheet:

Machinery	₹ 5,00,000	Furniture	₹ 50,000
Patents	₹ 50,000		

The firm is dissolved. Machinery realised ₹ 4,00,000.

Pass the necessary journal entry.

(Q. Nos. 10 to 12) There are two statements marked as Assertion(A) and Reason®. Readthe statements and choose the appropriate option from the option below.

(a) Both Assertion and Reason are true and Reason is the correct explanation of Assertion

(b) Both Assertion and Reason are true but, Reason is not the correct explanation of Assertion

(c) Assertion is true but reason is false

(d) Both assertion and reason are false

10.Assertion(A) :Dissolution of the firm means discontinuation of the firm.
Reason(R) : Economic relationship between the partners comes to an end.

11.Assertion(A):loan from spouse of a partner is considered as external liability.
Reason(R):It is shown on the debit side of realisation account.

12.Assertion(A): After dissolution, cash/bank account will have nill balance.
Reason(R): assets whether recorded or unrecorded, are credited to realisation account when realised.

Read the following case study and answer the question no. (13 to 16)

Kalaiarasu,Rohit and Anisha are partners who were sharing profits in the ratio of 2:2:1 decided to dissolve the firm when there balance sheet was as follow.

Balance Sheet

Liabilities		Amount(₹)	Asset	Amount(₹)
Creditors		50,000	Cash	60,000
Bank Loan		35,000	Debtors	75,000
Employee's Provident Fund		15,000	Stock	40,000
Investment Fluctuation Fund		10,000	Investments	20,000
Commission Received in Advance		8,000	Plant	50,000
			Profit and Loss A/c	3,000
Capital				
Kalaiarasu	50,000	1,30,000		
Rohit	50,000			
Anisha	30,000			
		2,48,000		2,48,000

Kalaiarasu was appointed to realise the assets. He has to receive 5% commission on the sale of asset and he has to bear all expenses of realisation. He realised the assets as follows.

Debtors 20% less, stock ₹ 35,500, investments 80%, plant 90% of the book value.

Expenses of realisation amounted to ₹ 7,500 paid by the firm on Kalaiarasu behalf. commission received in advance was returned to the customers after ducting ₹ 3,000.

Firm had to pay ₹ 8,500 of outstanding salary not provided for earlier. Compensation paid to the employees amounted to ₹ 17,000. This liability was not provided for the above balance sheet. ₹ 20,000 has to be paid for provident fund.

13. The amount received by firm after realisation of asset is _______________

(a) ₹ 1,56,500 (b) ₹ 1,85,000 (c) ₹ 1,88,000 (d) ₹ 2,45,000

14. commission charged by Kalaiarasu amounted to ____________

(a) ₹ 275 (b) ₹ 8,000 (c) ₹ 7,825 (d) ₹ 6,000

15. The amount of profit and loss received by Kalaiarasu, Rohit and Anisha is ______

(a) ₹ 1,000; ₹ 1,000; ₹ 1,000 (b) ₹ 750; ₹ 750; ₹ 1,500

(c) ₹ 1,200; ₹ 1,200; ₹ 600 (d) ₹ 500; ₹ 500; ₹ 2,000

16. Total amount of sundry liabilities transferred to realisation account is _______

(a) ₹ 1,10,000 (b) ₹ 1,12,000 (c) ₹ 83,000 (d) ₹ 1,18,000

17. On the dissolution of the firm, realisation account is closed through ;

(a) Bank A/c (b) Partners Capital A/c (c) Loan A/c (d) Drawings A/c

18. What journal entry will be passed if remuneration expenses of ₹ 5,450 where to be born by Rajesh, however it is paid by Janani?

(a) Janani's Capital A/c Dr. 5,450

To Bank A/c 5,450

(b) Rajesh's Capital A/c Dr. 5,450

To Janani's Capital A/c 5,450

(c) Janani's Capital A/c Dr. 5,450

To Rajesh's Capital A/c 5,450

(d) Rajesh's Capital A/c Dr. 5,450

To Bank A/c 5,450

19.State the order of the payment of the following:

(i) To each partner proportionately what is due to him/her from the firm for advance as distinguished from capital.

(ii) To each partner proportionately what is due to him/her on account of capital.

(iii) from the debts of the firm to the outsiders.

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

20. Match the following :

• Column I	• Column II
A. Loss on realisation	(i) Debit partners capital account
B. Profit on realisation	(ii) Credit realisation account
C. Asset sold	(iii) Credit partners' capital account
D. Creditors paid	(iv) Debit realisation account

Codes

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

Answers

1. [Realisation]
2. [Nominal]
3. [Rs. 5,000]
4. No entry will be passed
5. Dissolution of Partnership among all partners
6. Partner's Capital Account
7. Rs. 600
8. Partnership agreement persistently followed by Partners'
9. Bank A/c ...Dr. 4,50,000
To Realisation A/c 4,50,000
10. (a)
11. (c)
12. (b)
13. (a) 1,56500 (Debtors+Investment+Stock+Plant)
14. (c) (1,56,500*5/100 = 7825)
15. (c)
16. (d) 1,18,000
17. Partners Capital A/c
18. Rajesh's Capital A/c Dr. 5,450
To Janani's Capital A/c 5,450
19. (d) (iii) (i) (ii)
20. (d) (i) (iii) (ii) (iv)

<u>SHORT ANSWER QUESTIONS (3 & 4 marks)</u>

1. Madhu, Dharshini, Rithika and Thanuja 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. Anne, who is a financial advisor and legal consultant, to carry on the dissolution process. In the first instance, Ms. Anne had transferred various assets and external liabilities to Realisation A/c. Due to her busy schedule; Ms. Anne has delegated this assignment to you, being an intern in her firm. On the date of dissolution, you have observed the following transactions:

(i) Dharshini's Loan of ₹ 50,000 to the firm was settled by paying ₹ 42,000.
(ii)Thanuja's Loan of ₹ 40,000 was settled by giving an unrecorded asset of ₹ 45,000.
(iii)Loan to Madhu of ₹ 60,000 was settled by payment to Madhu's brother loan of the same amount.
(iv)Rithika'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.

Answer:

Journal Entries in the Books of Madhu, Dharshini, Rithika and Thanuja

Date	Particulars	Dr. Amount	Cr. Amount
1	Dharshini's Loan A/c Dr. To Bank A/c To Realisation A/c (Dharshini's Loan of ₹ 50,000 settled at ₹ 42,000)	**50,000**	 **42,000** **8,000**
2	Thanuja's Loan A/c Dr. To Realisation A/c (Thanuja's Loan of ₹ 40,000 settled by giving an unrecorded asset)	**40,000**	 **40,000**
3	Realisation A/c Dr. To Loan to Madhu A/c (Loan to Madhu was settled by payment to Madhu's brother Loan)	**60,000**	 **60,000**
4	Rhithika's Loan A/c Dr. To Realisation A/c To Bank A/c (Rhithika's Loan of ₹ 80,000 and Machinery was given as part payment and rest through bank)	**80,000**	 **60,000** **20,000**

2. Mani, Kishore and Fabian were partners in a firm, sharing profits and losses in the ratio of 7:2:1. The firm was dissolved on 31st March, 2021. After transfer of assets (other than cash) and external liabilities to the realisation Account, the following transactions took place. Pass journal entry.

(a) Furniture of ₹ 45,000 was sold by auction for ₹ 66,000 and the auctioneer's commission amounted to ₹ 2,000.

(b) Office equipment ₹ 90, 000 was taken over by creditors of the book value of ₹ 82,000 in full settlement.

(c) Fabian had given a loan of ₹1, 09,000 to the firm. He accepted ₹1, 00,000 in full settlement of his loan.

(d) Investments were ₹ 53,000 out of which ₹ 23,000 was taken by Kishore at ₹ 25,000. Balance of the investments was sold for ₹ 35,000.

(e) Expenses incurred on dissolution were ₹ 21,000 and were paid by Mani.

(f) Loss on revaluation was ₹ 40,000

Answer

a) Cash/Bank A/c Dr 64,000
To Realization A/c 64,000
Realisation A/c Dr 2,000
To Bank A/c 2,000
(b) No Entry
(c) Fabian's Capital A/c Dr 1,00,000
To Cash/Bank A/c 1,00,000
(d) Kishore's Capital A/c Dr 25,000
Cash/Bank A/c Dr 35, 000

To Realization A/c60,000
(e) Realisation A/c Dr 21,000
To Mani's Capital A/c 21,000
(f) Mani's Capital A/c Dr 28,000
Kishor's Capital A/c Dr 4,000
Fabian's Capital A/c Dr 8,000
To Realization A/c 40,000

3. Pass the necessary journal entries for the following transactions on the dissolution of the partnership firm of Vishwa and Jeeva after the various assets (other than cash) and external liabilities have been transferred to Realization Account :

(i) An unrecorded asset of ₹ 2,000 and cash ₹ 3,000 was paid for liability of ₹ 6,000 in full settlement.

(ii) 100 shares of ₹ 10 each have been taken over by partners at market value of ₹ 20 per share in their profit sharing ratio, which is 3 : 2.

(iii) Stock of ₹ 30,000 was taken over by a creditor of ₹ 40,000 at a discount of 30% in full settlement.

(iv) Expenses of realisation ₹ 4,000 were to be borne by Jeeva. Jeeva used the firm's cash for paying these expenses.

Particulars	Dr. Amount (₹)	Cr. Amount (₹)
(i)Realisation A/c Dr. To Cash A/c (Amount paid for settlement of liability)	3,000	3,000
(ii) Vishwa's Capital A/c Dr. Jeeva's Capital A/c Dr. To Realisation A/c (Investments taken over by Partners)	1,200 800	2,000
(iii)No Entry		
(iv)Jeeva's Capital A/c Dr. To Cash A/c (Realization expense to be borne by Jeeva, paid by firm)	4,000	4,000

4. Sanjay, Payal and Priyanka are partners they decided to dissolve the firm. Pass the necessary journal entries for the following after the various assets(other than cash and bank) and outside liabilities have been transferred to realization account

(i) There were total debtors of ₹ 76,000. A provision for bad and doubtful debts also stood in the books at ₹ 6,000. ₹ 12,000 debtors proved bad and rest paid the amount due.

(ii) Sanjay agreed to payoff his wife's lone of ₹ 7,000 at a discount of 5%

(iii) A machine which is not recorded in the books was taken over by Payal at ₹ 3,000 whereas its expected value was ₹ 5,000

5. Distinguish between dissolution of partnership and dissolution of partnership firm.
6. Pass necessary journal entries on the dissolution of partnership firm in the

following cases.

(i) Dissolution expenses were ₹ 800.

(ii) Dissolution expenses ₹ 800 were paid by Surya, a partner.

(iii) Sri Akash, a partner, was appointed to look after the dissolution work, for which he was allowed a remuneration of ₹ 10,000. Sri Akash agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 9,500 were paid by Sri Akash.

(iv) Kittu, a partner, agreed to look after the dissolution work for a commission of ₹ 5,000. Kittu agreed to bear the dissolution expenses. Actual dissolution expenses ₹ 5,500 were paid by Mohan, another partner, on behalf of Kittu.

(v) A partner, Kavitha, agreed to look after the dissolution proses for a commission of ₹ 9,000. She also agreed to bear the dissolution expenses. Kavitha took over furniture of ₹ 9,000 for her commission. Furniture had already been transferred to realization account.

7. Nobitha and Shizuka were partners in a firm sharing profits in the ratio of 3:7. On 23rd November, 2021 their firm was dissolved. After transferring assets(other than cash) and outsiders liabilities to realization account, you are given the following information.

(i) A creditor of ₹ 3,60,000 accepted machinery valued at ₹ 5,00,000 and paid to the firm ₹ 1,40,000.

(ii) A second creditor for ₹ 50,000 accepted stock at ₹ 45,000 in full settlement of his claim.

(iii) A third creditor amounting to ₹ 90,000 accepted ₹ 45,000 in cash and investments worth ₹ 43,000 in full settlement of his claim.

(iv) Loss on dissolution was ₹ 15,000.

Pass necessary journal entries for the above transactions in the books of firm by assuming that all payments were made by cheque.

LONG ANSWER QUESTIONS (6 marks)

1. Jennie and Lisa were partners in a firm sharing profits in the ratio of 3:2. The Balance Sheet of the firm on 11th July, 2020 was as follows:

Balance Sheet of the firm on 11th July, 2020

Liabilities	**Amount(₹)**	**Assets**	**Amount(₹)**
Sundry Creditors	80,000	Bank	1,72,000
Lisa's sister's loan	20,000	Debtors	27,000
Capitals :		Stock	50,000
Jennie		Furniture	2,20,000
1,75,000	3,69,00		
Lisa			
1,94,000			
	4,69,000		4,69,000

On the above date, the firm was dissolved. The assets were realised and the liabilities were paid off as follows:

(a) 50% of the furniture was taken over by Jennie at 20% less than book value. The remaining furniture was sold for ₹ 1,05,000.

(b) Debtors realised ₹ 26,000.

(c) Stock was taken over by Lisa for ₹ 29,000.

(d) Lisa's sister's loan was paid off along with an interest of ₹ 2,000.
(e) Expenses on realisation amounted to ₹ 5,000.
Prepare Realisation Account, Partners' Capital Accounts and Bank Account.
Answer:
Step 1 : Calculation of Profit or Loss earned in Dissolution process:

In the books of Jennie and Lisa

Dr. Realisation Account Cr.

Particulars	Amount(₹)	Particulars	Amount(₹)
To Stock A/c	50,000	By Lisa's Sister's Loan A/c	20,000
To Debtors A/c	27,000	By Sundry Creditors A/c	80,000
To Furniture A/c	2,20,000	By Bank A/c (Assets Realised) :	
To Bank A/c (Sundry Creditors)	80,000	Furniture 1,05,000	
To Bank A/c (Sister's Loan + Interest)	22,000	Debtors 26,000	1,31,000
To Bank A/c (Exp.)	5,000	By Jennie's Capital A/c (Furniture)	88,000
		By Lisa's Capital A/c (Stock)	29,000
		By Loss transferred to Partners' Capital A/c :	
		Jennie 33,600	
		Lisa 22,400	56,000
	4,04,000		4,04,000

Step 2 :Preparation of Partners' Capital Account

Dr. Cr.

Particulars	Jennie (₹)	Lisa (₹)	Particulars	Jennie (₹)	Lisa (₹)
To Realisation A/c	88,000		By Balance b/d	1,75,000	1,94,000
To Realisation A/c		29,000			
To Realisation A/c	33,600	22,400			
To Bank A/c	53,400	1,42,600			
	1,75,000	1,94,000		1,75,000	1,94,000

Step 3 : Preparation of Bank Account in order to reflect the actual payments or receipts of money on the event of winding up of the partnership firm

Dr. Cr.

Particulars	Amount	Particulars	Amount
To Bal. b/d	1,72,000	By Realisation A/c (Loan + Interest)	22,000
To Realisation A/c (Assets realised) :		By Realisation A/c (Creditors)	80,000
Furniture 1,05,000		By Realisation A/c (Expenses)	5,000
Debtors 26,000	1,31,000	By Jennie's Capital A/c	53,000
		By Lisa's Capital A/c	1,42,600

	3,03,000		3,03,000

2. Dora, Bujji and Isa are partners in a firm sharing profits and losses in the ratio of 3:2:1. They decided to dissolve the firm on 31st March, 2021. Pass necessary Journal Entries for the following transactions after all assets (other than cash and bank) and third party liabilities have been transferred to realization account.

(i) A typewriter completely written off from the books was sold for ₹9,000.

(ii)Dora took over stock worth ₹ 96,000 at ₹ 84,000.

(iii) Isa was to get remuneration of ₹ 42,000 for completing the dissolution process.

(iv) Creditors of ₹ 23,500 took over all the investments at ₹ 10,000. Remaining amount was paid to them in cash.

(v) Sundry creditors amounting to ₹ 40,000 were settled at a discount of 10%.

(vi) ₹ 5000 debtors previously written off were recovered.

3. Kalia, Dolu and Molu were partners in a firm sharing profits and losses in the ratio of 5 : 3 : 2. On 31st March, 2022 their Balance Sheet was as follows :

Balance Sheet of Kalia, Dolu and Molu as at 31st March, 2022

Particulars	Amount ₹	Particulars	Amount ₹
Creditors	35,000	Bank	22,000
General Reserve	25,000	Stock	25000
Capitals:		Debtors 20,000	
Kallia 50,000		Less Provision	
Dolu 30,000		for bad debts 2000	18,000
Molu 20,000	1,00,000	Furniture	15,000
		Land and Building	80,000
	1,60,000		1,60,000

On the above date, the firm was dissolved on the following terms :

(i) Land and Building realised for ₹ 85,000, Furniture realised for ₹ 6,000 and Debtors realised full amount.

(ii) Stock was taken over by Sonu at book value. There was an unrecorded asset which was taken over by Ashu for ₹ 3,000.

(iii) Monu agreed to bear all realisation expenses. For his services Monu was paid ₹ 2,000. Actual expenses on realisation amounted to ₹ 2,200.

(iv) Creditors were paid at 2% less.

Prepare Realisation Account .

4. A and B are partners sharing profits and losses equally. On 31st March, 2022, they decided to dissolve their firm. On the date of dissolution, their Balance Sheet was as

under :

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

Particulars	Amount ₹	Particulars	Amount ₹
Creditors	3,00,000	Bank	3,00,000
A's Loan	60,000	Stock	2,40,000
Mrs. A's Loan	70,000	Furniture	2,00,000
Capitals:		Plant and Machinery	1,00,000
A 2,30,000		Profit and Loss A/c	50,000
B 2,30,000			
	4,60,000		
	8,90,000		8,90,000

The assets were realised and liabilities were paid as under :

(i) Creditors were paid at 20% less.

(ii) Furniture was taken over by A for ₹ 1,80,000 and Plant and Machinery was sold for ₹ 80,000.

(iii) B took over the stock at ₹ 1,80,000.

(iv) A promised to pay Mrs. A's loan.

(v) Realisation expenses of ₹ 20,000 were paid by B.

Prepare Realisation Account.

5. Abhishek, Sai and Sankar are partners sharing profit in the ratio of 5:3:2. Their Balance Sheet as on March 31, 2022 was as follows:

Balance Sheet of Sunit, Amit and Vinit as on March 31, 2022

Particulars	Amount ₹	Particulars	Amount ₹
Creditors	90,000	Cash at Bank	15,000
Mrs. Sai's Loan	40,000	Debtors	35,000
Profit and Loss A/c	10,000	Stock	10,000
Capitals:		Investments	1,50,000
Abhishek 40,000		Machinery	80,000
Sai 50,000			
Sankar 60,000	1,50,000		
	2,90,000		2,90,000

The firm was dissolved on that date.

(i) Sai took over his wife's loan. One of the Creditors for Rs.2,600 was not claim the amount.

(ii) Assets realised as follows:

1. Machinery was sold for Rs.70,000,

2. Investments with book value of Rs.1,00,000 were given to Creditors in full settlement of their account.The remaining Investments were taken over by Sankar at an agreed value of Rs.45,000,

3. Stock was sold for Rs.11,000 and Debtors for Rs.3,000 proved to be bad,

4. Realisation expenses were Rs.1,500.

Prepare ledger accounts to close the books of the firm.

ANSWER:

(Realisation Loss : Rs. 28,500, Capital A/c Balance: Abhishek : 70,750, Sai: 44,450, Sankar: 11,300, Bank A/c : 1,28,000)

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Unit-3 - Accounting for Companies

Chapter – 07 : Accounting for Share Capital

Units/Topics	Learning Outcomes
Accounting for Share Capital ➢ Features and types of companies ➢ Share and share capital: nature and types. ➢ 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 EmployeeStock Option Plan (ESOP), Sweat Equity. ➢ Accounting treatment of forfeiture and re-issue of shares. ➢ Disclosure of share capital in the BalanceSheet of a company.	**After going through this Unit, the students will be able to:** 🕮 state the meaning of share and share capital and differentiate between equity shares and preference shares and different types of share capital. 🕮 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.

<u>Meaning of company</u>- Company A joint stock company is an artificial person, created by law, having a separate entity distinct from its members with a perpetual succession and a common seal.

Features-

(i) Artificial person (ii) Voluntary association (iii) Created by law (iv) Capital divisible into transferable shares (v) Limited liability(vi) Perpetual succession (vii) Common seal

(viii) Separate legal entity from its members (ix) May sue or be sued

Types of Companies

(i) Private companies According to Section 2 (68) of the Companies Act, 2013, it is a company with minimum paid-up share capital of 1,00,000 or such higher amount as may be prescribed in the Companies Act, 2013 and which by its Articles of Association

(a) Restricts the right to transfer its shares, if any.

(b) Except in one person company, limits the number of its members excluding its present and past employee members to 200; if the past or present employee acquired the shares while in employment and continues to hold them. If any share is held jointly by two or more persons, they shall be treated as a single member.

(c) Prohibits any invitation to the public to subscribe for any securities of the company.

The minimum number of members required to form a private company is two. The name of aprivate company ends with the words, 'Private Limited'.

(ii) Public company As per Section 2 (7) of Companies Act, 2013, public company is a company which

(a) is not a private company.

(b) has minimum capital of Rs 5 lakh or such higher paid-up capital as may be prescribed.

(c) is a private company, which is a subsidiary of a public company. Minimum requirement of a public company is seven persons.

(iii) One person company is a company which has only one person as a member. It is a company incorporated as a private company which has only one member. Rule 3 of the Companies (Incorporation)

Share- Total capital of the company is divided into a number of small indivisible units of a fixed amount and each such unit is called a share. The fixed value of a share, printed on the share certificate, is called nominal/ par / face value of a share.

Share Capital

(i) Authorised Share Capital is the maximum amount up to which a company can issue shares.

(ii) Issued Share Capital is a part of authorised share capital that is issued by the company for subscription.

(iii) Subscribed Share Capital is a part of issued share capital that is subscribed.

Subscribed Share Capital is shown as:

— Subscribed and fully paid-up.

— Subscribed but not fully paid-up.

Called-up amount is the amount of nominal value of share that has been called-up for payment.

Paid-up amount is the amount that is received by the company.

Reserve Capital is a part of subscribed share capital that a company resolves, by a Special Resolution, not to call except in the event and for the purpose of the company being wound up.

•Types of Shares: Shares that can be issued are Preference Shares or Equity Shares.

Preference Shares are the shares that carry preferential right as to dividend at fixed rate and preferential right as to repayment of capital.

Equity Shares are the shares that are not Preference Shares

Minimum Subscription -It is the amount stated in the prospectus as the minimum 90% amount that must be subscribed. Unless the sum payable on application for the sum so stated (minimum subscription) has been paid to and received by the company by cheque or other instruments, security cannot be allotted.

Rules of Debit and Credit

1. Increase in Assets / losses/expenses = Debited (Bank A/c, Calls in Arrears)
   Decrease in Assets/losses/expenses-CREDITED
2. Increase in /Capital Liabilities/Profit/Gain =Credited (Share Capital A/c/calls in advance/ Securities Premium Reserve/Share Forfeiture A/c)
   Decrease in Liabilities/Profit/Gain = Debited

JOURNAL ENTRIES FOR ISSUE OF SHARES FOR CASH

Upon the issue of share capital by a company, the under mentioned entries are made in the financial books:

(i) On receipt of the application money

Bank Account Dr. (with the actual amount received)

To Shares Application Account

(ii) On allotment of share

Share Allotment Account Dr. (With the amount due on allotment)

Share Application Account Dr. (With the application amount received on allotted shares.)

To Share Capital

(With the amount due Account on allotment and application).

(iii) On receipt of allotment money

Bank Account Dr. (with the amount actually received on allotment.)

To Share Allotment Account

Sometimes separate Application and Allotment Accounts are not prepared and entries relating to application and allotment monies are passed through a combined Application and Allotment Account.

(iv) On a call being made

Share Call Account Dr. (with the amount due on the call.)

To Share Capital Account

(v) On receipt of call money

Bank Account Dr. (with the due amount actually received on call)

To Share Call Account

When shares are issued at a premium, the premium amount is credited to a separate account called "Securities Premium Account" because it is not a part of share capital

(ii) Share Application A/c Dr. [No. of Shares Applied for x Application Amount per share]

To Securities Premium A/c [No. of Shares allotted x Premium Amount per share]

To Share capital A/c [No. of Shares allotted x per share for capital]

(b) Premium Amount called with Allotment Money

(i) Share Allotment A/c Dr.[No. of Shares Allotted x Allotted and Premium Money per share]

To Share Capital A/c [No. of Shares Allotted x Allotment Amount per share]

To Securities Premium A/c [No. of Share Allotted x Premium Amount per share]

(Amount due on allotment of Shares @ ₹ per share including premium)

(ii) Bank A/c Dr.

To Share Allotment A/c (Money received including premium consequent upon allotment)

Under subscription- When the number of shares applied for is less than the number of shares offered for issue.

Ex. Issued 1,00,000 shares and subscribed (90%) 90,000 Shares

Over subscription-then the number of shares applied for is more than the number of shares offered for issues.

Ex. Issued 1,00,000 shares and subscribed 1,20,000 shares

Calls in Arrears-When a shareholder defaults to pay the amount of call due within a specified period, then the unpaid amount is called calls- in -Arrears.

Calls in Arrears A/c Dr

To Share Allotment/Share calls A/c

Calls in Advance- A shareholder may pay the whole or a part of the unpaid amount as calls in advance although it has not been called up. This is called call in advance.

a)Bank A/c Dr

To Calls in advance

b) Calls in advance A/c Dr.

To Share first/final call A/c

Issue of shares consideration other than cash

No. Of Shares to be issued= Amount Payable/Issued price of share

Forfeiture of Shares-When a member fails to pay allotment or calls of the issue price of his shares within a stipulated time then the company has a power to cease his membership and forfeit his shares.

Forfeiture of Shares Issued at Par

Share Capital A/c. Dr.

To Share Allotment A/c

To Share Calls A/c

To Share Forfeiture A/c

Forfeiture of Shares Issued at Premium

A. (If premium has not been received)

Share Capital A/c. Dr.

Securities Premium Reserve

To Share Allotment A/c

To Share Calls A/c

To Share Forfeiture A/c

B. (If premium has been received)

Share Capital A/c. Dr.

To Share Allotment A/c

To Share Calls A/c

To Share Forfeiture A/c

Re-issue of forfeited share-forfeited shares may be reissued at par premium or discount or cancelled as per the provisions of the articles of association of the company.

For the re- issue of forfeited shares

a. If Re- issued at par

Bank A/c. Dr.

To Share Capital A/c

b. If reissued at a discount

Bank A/c Dr

Share Forfeiture A/c Dr

To Share capital A/c

C. If reissued at Premium

Bank A/c Dr

To Share Capital Reserve A/c

To Securities Premium Reserve A/c

2. For transfer of balance of forfeited Share account to capital reserve:

Share Forfeiture A/c Dr.

To Capital Reserve A/c

Private Placement of Shares-private placement means any offer of Securities or invitation to subscribe Securities to a selected group of persons through issue of a private placement offered by a company (other than public subscription). As per the provisions of section 23 of companies act 2013 both public and private company can issue shares through private placement.

Employee Stock Option Plan- I scheme under which whole time directors' officers and employees of the company are given a right to purchase or subscribe the Securities of the company at a future date and at a predetermined price.

Multiple Choice Questions:

1. The capital of a company is divided into units of small amount called:

(a) Shares (b) Debentures (c) Bonds (d) Stock

2.Tenure of a company is affected by:

(a) death of its member (b) insolvency of its member

(c) lunacy of its member (d) None of these

3.The portion of authorised capital of a company which can be called up only during winding up is called __________.

(a) Issued Capital (b) Subscribed Capital

(c) Capital Reserve (d) Reserve Capital

4. A company may issue shares:

(a) by public subscription (b) by private placement

(c) for consideration other than cash (d) All of these

5. Share Application/Allotment A/c is a:

(a) Real A/c (b) Nominal A/c (c) Personal A/c (d) None of these

6. Gain on reissue of forfeited shares is credited to:

(a) General Reserve (b) Capital Reserve

(c) Share Forfeiture A/c (d) Share Calls A/c

7. Calls-in-advance is shown in the company's Balance Sheet as:

(a) Addition to subscribed but not fully paid capital

(b) Addition to subscribed and fully paid capital

(c) Other non-current Liabilities

(d) Other current Liabilities

8. Ceilo Ltd. invited appications for 28,000 shares. Applications for 35,000 shares are received. The company rejected 5,000 shares and gave full allotment to applicants of 8,000 shares, and prorata allotment was given to rest of the applicants in the ratio:

(a) 6 : 5 (b) 11 : 10 (c) 8 : 3 (d) 9 : 8

9. Y Ltd. purchased a machinery from PK Ltd. and issued 540 shares of 25 each at a premium of 10% for purchase consideration. The book value of machinery in the books of Y Ltd. will be:

(a) 14,850 (b) 13,500 (c) 15,120 (d) 14,380

10. The minimum share application money is:

(a) 5 per share

(b) 5% of nominal value of shares

(c) 10% of the nominal value of shares

(d) 10% of the nominal value of shares

11. If vendors are issued fully paid shares of 8,00,000 in consideration of net assets 6,00,000. Then the balance of 2,00,000 will be:

(a) Debited of Statement of Profit and Loss

(b) Debited to Goodwill Account

(c) Credited to Capital Reserve Account

(d) Credited to Securities Premium Account

112. Which of the following statements is true?

(a) Authorised Capital = Issued Capital

(b) Authorised Capital > Issued Capital

(c) Paid up Capital > Issued Capital

(d) None of the above

13. Those preference shares which do not enjoy the right to share additional profits come under the category of:

(a) Irredeemable preference shares (b) Participating preference shares

(c) Non-Cumulative preference shares(d) Non-participating preference shares

14. Reserve capital is also known as:

(a) Capital Reserve

(b) Subscribed and fully paid up capital

(c) Subscribed but not fully paid up capital

(d) None of the above

15. H Ltd. had allotted 20,000 shares to the applicants of 28,000 shares on pro-rata basis. The amount payable on application was 2 per share. S applied for 840 shares. The number of shares allotted and the amount carried forward for adjustment against allotment money due from S will be:

(a) 120 shares; 240 (b) 680 shares; 320

(c) 640 shares; 400 (d) 600 shares, 480

16. Shareholders are:

(a) Customers of the company (b) Owners

(c) Creditors (d) None of these

117. On reissue of forfeited shares, the amount of discount cannot exceed:

(a) 10% face value of shares (b) 10% of called up capital of shares

(c) Amount received on forfeited shares (d) Amount not received on such shares

18. If 50 shares of 10 each, 9 called (including a premium of 2) is forfeited due to non payment of first call of 2 per share, then share capital will be debited by:

(a) 250 (b) 350 (c) 500 (d) 450

19. 250 shares of 20 each on which first and final call of 6 per share is not paid is forfeited. Out of these, 200 shares are reissued for 14 per share fully paid up. The

amount transferred to capital reserve will be:

(a) 1,800 (b) 1,200 (c) 2,800 (d) 1,600

20. Limited Company issued equity shares of 100 each. It has called up 75 on each share but received only 60 per share. The share capital account will be credited with:

(a) 60 per share (b) 75 per share

(c) 100 per share (d) None of these

21. When shares are forfeited, share capital account is debited by:

(a) Forfeited amount

(b) Called up amount on shares

(c) Paid up amount on shares

(d) Amount of capital reserve

22. Prem Ltd. forfeited 300 shares of 10 each, issued at a premium of 2 for non-payment of the final call of 3. Out of these, 200 shares were reissued at 11 per share. How much amount would be transferred to capital reserve?

(a) 1,400 (b) 1,000 (c) 2,400 (d) 600

123. Discount allowed on reissue of forfeited shares is debited to:

(a) Discount on Issue of Shares (b) Share Forfeited Account

(c) Statement of Profit and Loss (d) General Reserve

Answers:

Ans :

1) shares
2) (d) None of these
3) (d) Reserve Capital
4) (d) All of these
5) (c) Personal A/c
6) (b) Capital Reserve
7) (d) Other current liabilities
8) (b) 11:10
9) (a) 14,850
10) (b) 5% of the nominal value of shares
11) (b) Debited to Goodwill Account
12) (b) Authorised Capital > Issued Capital
13) (d) Non-participating preference shares
14) (d) None of these

15) (d) None of the above

16) (d) 600 shares, 480

17) (b) Owners

18) (c) Amount received on forfeited shares.

19) (b) 350

20) (d) 1,600

21) (b) 75 per share

22) (b) Called-up amount on shares

23) (a) 1,400

24) (b) Share Forfeiture Account

Assertion and Reason

In the following questions, a statement of assertion (A) is followed by a statement of Reason (R) Mark the correct choice as :

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

Both Assertion (A) and Reason (R)are true,and Reason (R) is not the correct explanation of Assertion (A)

(C)Assertion (A) is true, but Reason (R) is false.

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

11. Assertion (A) : Vivek limited gave shares worth rupees 2,50,000 to the vendor from whom it bought machinery.

Reason(R) The company can issue shares as against the payment to the vendors.

12. Assertion(A) : Kavya limited invited

applications for issuing 30,00,000 Equity shares of RS 10 each. The public applied for 27,10,000 shares. The company cannot proceed for the allotment of shares.

Reason (R): The application can only be processed if the company receives a minimum of 12.5% subscription.

13. Assertion (A): The Securities premium amount can be used to issue partially paid up bonus shares.

Reason (R): According to section 52(2) of the company's act, 2013 the amount of Securities Premium Reserve can be used only for some specific purposes.

Case based Questions

Read the passage given below and answer the question that follow:

Fisher ltd. Made and issue of 1,00,000 Equity shares of Rs 10 each. Amount was payable as follows:

On application Rs 2

On allotment ru Rs 3

On first and final call Rs 5

Applications were received of 1,80,000 shares. Pro rata allotment was made to the applicants.Rohan to whom 1,200 shares were allotted failed to pay the allotment and calls money.

14. For how many shares did Rohan apply for?

15. What will be the amount of calls in arrears for the company on allotment assuming all the other shareholders (except Rohan) paid money on allotment.

16. Sirish Limited has a paid up share capital of Rs 30,00,000 and a balance of Rs 5,00,000 in the securities Premium Reserve Account. The company also has a balance of Rs 2,00,000 in share issue expenses account. The company management decided not to carry over these balance of securities premium reserve account and share issue expenses account. State the purposes for which this balance in securities premium Reserve accounts can be utilized.

17. The directors of Minal chemical resolved that 200 shares of Rs. 100 each be forfeited for non payment of the second and final call of Rs. 30 per share. Out of these, 150 shares were re-issued at Rs. 60 per share to Mohit. Show the necessary journal entries for forfeiture and reissue of shares.

18. Nupur Ltd. took over the assets of Rs. 3,90,000 and liabilities of Rs. 40,000 of Rasova Ltd. for a consideration of Rs. 4,00,000 . 20% was paid by a cheque and the balance by issue of fully paid equity shares of Rs. 100 each at a premium of 60%. Show necessary journal entries for these transactions in the books of Madhur Ltd.

19. A company forfeited 100 Equity shares of Rs 10 each at a premium of 20% for non payment of final call of Rs 5 including the premium .Show the journal entry for forfeiture of shares.

20. Mohit Ltd purchased assets worth Rs. 65,00,000 from Bhavesh Industrial Corporation and took over their liabilities worth rupees 12,00,000 for a consideration of rs. 49,00,000. Rs. 7,20,000 was paid through a bank draft and balance through equity shares of Rs. 100 each fully paid. Record necessary Journal entries in the books of Mohit Ltd. Assuming that shares were issued at a premium of 10%.

21. Shivam ltd. reissued 3,000 shares at a price of Rs 10 per share as Rs. 7 share paid up. At the time of forfeiture, on these shares Rs. 12,000 had been forfeited. Record necessary journal entries in the book of accounts.

22. A holds 100 shares of Rs. 10 each on which he has paid Rs. 1 per share on application. B holds 200 shares of rs. 10 each on which he has paid rs. 1 on application , Rs. 2 on Allotment . C holds 300 shares of rs. 10 each who has paid Rs. 1 on application, Rs. 2 on allotment and rs. 3 on first call. They all failed to pay their arrears and second call of rs. 4 per share as well. All the shares of A,B and C were forfeited and subsequently reissued at rs. 11 per share as fully paid up. Pass necessary journal entries for forfeiture and reissue of shares without opening calls in the arrears account.

23. Sheetal Ltd. invited applications for 1,00,000 shares of rs. 100 each payable. Rs. 30 on application , Rs. 30 om allotment and the balance when required.Applications were received for 1,20,000 shares out of which applications for 1,00,000 shares were accepted and remaining applications were refused allotment. Allotment money was received on 99,500 shares. Pass journal entries in the books of Sheetal Ltd.

24. Sahil, a shareholder, failed to pay the money for the second and final call of Rs. 20 on 1,000 shares issued to him at Rs. 120 (face value of Rs. 100 per share). His shares were forfeited after the second and final call. Give the necessary journal entry for forfeiture of the shares.

25. Sunena, a shareholder holding 500 shares of Rs. 10 each, did not pay the allotment money of Rs. 4 per share (including a premium of Rs. 2) and the first and final call of Rs. 3. Her shares were forfeited after the first and final call. Give journal entry for forfeiture of the shares.

26. OM LTD. invited applications for 40,000 equity shares of rs. 10 each. The amount was payable as follows: on application rs. 3 per share; On allotment rs. 4 per share and first and final call rs. 3 per share. Applications were received for 37,500 shares. Ashok to whom 1,000 shares were allotted did not pay the allotment money and also first and final call. Sohan, who had applied for 500 shares, did not pay the first and final call. Pass necessary Journal entries to record the above transactions .

27. 600 Shares of Rs. 10 each, which had been issued at a premium of rs. 20 per share, are forfeited for nonpayment of Rs. 10 per share(including premium of rs. 6 per share). These shares were reissued resulting into a capital reserve of rs. 1500. Journalise the given transaction.

28. Bliss Products Ltd. registered with capital of ₹ 90,00,000 divided into 90,000 equity shares of ₹ 100 each. The company issued prospectus inviting applications for 50,000 equity shares of ₹ 100 each payable as ₹ 20 on application, ₹ 30 on allotment, ₹ 20 on first call and balance on second call. Applications were received for ₹40,000 shares. Raman to whom 1600 shares were allotted failed to pay final call money and these shares were forfeited. Of the forfeited shares, 600 shares were reissued to Sukhman, credited as fully paid for ₹ 90 per share. Present the Share Capital as per Schedule III of Companies Act, 2013.

29. A company invited applications for 20,000 shares of rs. 10 each payable as follows:

On application Rs. 3 per share and the balance on allotment.

The company received applications for 30,000 shares. It was decided to allot shares in the ratio of 2:3 to all applicants. It is a case of pro-rata allotment and the excess applications money received on 10,000 shares would be adjusted towards the amount due on the allotment of 20,000 shares.journalise the transitions .

30. BS limited forfeited 500 equity shares of rs 100 each for the non-payment of first call of rs.30 per share.The forfeited shares were reissued for rs 65000 fully paid up.Pass necessary journal entries in the books of the company:

31. S Ltd. Purchased Furniture for rs. 3,00,000 from Ravindram ltd. Rs.1,00000 were paid by drawing a promissory Note in a favour of Ravindram ltd. The balance was paid by issue of Equity Shares of rs. 10 each at a Premium of 25%.Pass necessary Journal Entries in the books of S ltd.

32.L ltd.Forfeited 470 Equity shares of rupees 20 each issues at a premium of RS 3 per share for the non payment of allotment money of rupees 8 (including premium rs 3) and first call of rs 5 per share.Final call of rs. 5 per share was not made.Out of these 235 shares were reissued at rs.19 each fully paid.Pass necessary journal entries for the above transactions in the books of L ltd .

33. X ltd. Forfeited 10 shares of rupees 10each,Rs. 7 called up on which the shareholder had paid application and allotment money of rs 5 per share.Out of these,8 shares were re issued to Y for rs.8 per share at rs.8 per paid up per share.Record the journal entries for Forfeiture and re-issue of shares by opening calls in Arrears and calls in advance account.

34. Crown ltd. Forfeited 50shares of rs.10each, for non payment of final call money of rs.3 per share.Out of these 20 shares were reissued to Taj at 8 per share.Record the journal entries for Forfeiture and re-issue of shares assuming that the company maintains Calls-in-arrears,call in advance account.

35. L ltd. Forfeited Mr.M's share who has applied for 600 shares and was allotted 400 shares failed to pay allotment money of rs.4 per share including premium of RS 2 on which he had paid application money of rs. 2only.Pass necessary Journal Entries for Forfeiture of shares by opening calls in Arrears, calls in advance account.

36. Mona Earth Mover Limited decided to issue 12,000 shares of Rs.100 each payable at Rs.30 on application, Rs.40 on allotment, Rs.20 on first call and balance on second and final call. Applications were received for 13,000 shares. The directors decided to reject the application of 1,000 shares and their application money being refunded in full. The allotment money was duly received on all the shares, and all sums due on calls are received except on 100 shares. Record the transactions in the books of Mona Earth Movers Limited.

37.Konica Limited registered with an authorised equity capital of Rs. 2,00,000 divided into 2,000 shares of Rs. 100 each, issued for subscription of 1,000 shares payable at Rs. 25 per share on application, Rs. 30 per share on allotment, Rs. 20 per share on first call and the balance as and when required. Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 100 shares held by him and 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 the company to record these share capital transactions.

38. Janta Papers Limited invited applications for 1,00,000 equity shares of Rs. 25 each payable as under: On Application Rs. 5.00 per share On Allotment Rs. 7.50 per share On First Call Rs. 7.50 per share (due two months after allotment) On Second and Final Call Rs. 5.00 per share (due two months after First Call) Applications were received for 4,00,000 shares on January 01, 2017 and allotment was made on February 01, 2017. Record journal entries in the books of the company to record these share capital transactions under each of the following circumstances: 1 The directors decide to allot 1,00,000 shares in full to selected applicants and the applications for the remaining 3,00,000 shares were rejected outright. 2 The directors decide to make a

pro-rata allotment of 25 percent of the shares applied for to every applicant; to apply the balance of application money towards the amount due on allotment; and to refund the amount remaining thereafter. 3 The directors totally reject applications for 2,00,000 shares, accept full applications for 80,000 shares and make a pro-rata allotment of the 20,000 shares to remaining applicants and the excess application money is to be adjusted towards allotment and calls to be made.

39. Journalise the following transactions in the books Pardeep Oil Ltd.

200 Share of 100 each issued at a premium of rs. 10 were forfeited for the non-payment of allotment money of Rs. 60 per share. The first and final call of rs. 20 per share on these shares were not made. The forfeited shares were reissued at rs. 70 per shares as fully paid-up.

150 shares of Rs. 10 each issued at a premium of Rs. 4 per share payable with allotment were forfeited for non-payment of allotment money of Rs. 8 per share including premium. The first and final call of Rs,4 per share was not made. The forfeited shares were reissued at Rs. 15 per share fully paid-up.400 shares of Rs. 50 each issued at per were forfeited for non-payment of final call of rs. 10 per share. 300 forfeited shares were reissued at Rs. 45 per share fully paid up.

40. On April 01, 2021 a limited company was incorporated with an authorised capital of Rs. 40,000 divided into shares of Rs. 10 each. It offered to the public for subscription of 3,000 shares payable as follows:

On application Rs. 3 per share

On Allotment Rs. 2 per share

On First call (One month after allotment) Rs. 2.50 per share

On Second and Final call Rs. 2.50 Per share

The shares were fully subscribed for by the public and application money duly received on April 15, 2021. The directors made the allotment on May 1, 2021. How will you record the share capital transactions in the books of a company if the amounts due have been received,and the company maintains the combined account for application and allotment.

41. High Light India Ltd. invited applications for 30,000 Shares of Rs. 100 each at a premium of Rs. 20 per share payable as follows: On Application Rs. 40 (including Rs.10 premium) On Allotment Rs. 30 (including Rs.10 premium) On First Call Rs. 30 On Second and Final Call Rs. 20 Applications were received for 40,000 shares and pro-rata allotment was made on the application for 35,000 share. Excess application

money was utilised towards allotment. Rohan to whom 600 shares were allotted failed to pay the allotment money and his shares were forfeited immediately after allotment. Aman who applied for 1,050 shares failed to pay on the first call and his shares were forfeited immediately after the first Call. Second and final call was made. All the money due on second call have been received. Of the shares forfeited, 1,000 shares were reissued as fully paid-up for Rs. 80 per share, which included the whole of Aman's shares.

42. Anshika Ltd. issued applications for 2,00,000 equity shares of ₹10 each, at a premium of ₹4 per share. The amount was payable as follows: On application ₹ 6 (including ₹2 premium) On allotment ₹ 7 (including ₹2 premium) Balance on first and final call Applications for 3,00,000 shares were received. Allotment was made to all the applicants on pro-rata basis. Mehak to whom 400 shares were allotted, failed to pay allotment and call money. Khushboo who had applied for 300 shares failed to pay call money. These shares were forfeited after Final call. 400 of the forfeited shared (including all shares of Khushboo) were reissued @ ₹8 per share as fully paid up. Pass necessary journal entries in the books of Anshika Ltd. for the above transactions by opening calls in arrears and calls in advance account wherever necessary.

43. Khyati Ltd. issued a prospectus inviting applications for 80,000 equity shares of ₹10 each payable as follows: ₹2 on application ₹3 on allotment ₹2 on first call ₹3 on final call Applications were received for 1,20,000 equity shares. It was decided to adjust the excess amount received on account of over subscription till allotment only. Hence allotment was made as under:

(i) To applicants for 20,000 shares – in full

(ii) To applicants for 40,000 shares – 10,000 shares

(iii) To applicants for 60,000 shares – 50,000 shares

Allotment was made and all shareholders except Tammana, who had applied for 2,400 shares out of the group

(iii), could not pay allotment money. Her shares were forfeited immediately, after allotment. Another shareholder Chaya ,who was allotted 500 shares out of group

(ii), failed to pay first call. 50% of Tamanna's shares were reissued to Satnaam as ₹ 7 paid up for payment of ₹ 9 per share. Pass necessary journal entries in the books of Khyati Ltd. for the above transactions by opening calls in arrears and calls in advance account wherever necessary.

44. A Ltd. issued 10,000 Equity Shares of Rs. 100 each at Rs. 120 payable as follows:

Rs. 25 on application, Rs. 45 on allotment (including premium), Rs. 20 on first call; and Rs. 30 on second and final call.9,000 Equity Shares were applied for and allotted. All the money was received with the exception of first call and the final call on 200 Equity Shares held by Ram. These Equity Shares Are forfeited. Pass Journal entries to record the above issue of shares and prepare extract of the Balance Sheet showing share capital.

ANSWER KEY

1.Ans :a

2.Ans : b

3.Ans: Capital Reserve

4.Ans.Current Liabilities

5.Ans 1800

Detailed Answer-

Amount forfeited on 300 shares=300x7=rs. 2100

Loss on re-issue of 300 shares=300x1=rs 300

Amount to be transferred to Capital Reserve A/c =2100-300=1800

6.Ans :Rs. 9600(1600xrs.6received)

7.Ans: C

8.Ans : b

9.Ans: Rs 1,20,000

10.Ans : d

11.Ans :A

Explanation: (Instead of paying the amount the company can issue shares to the vendors from the authorised share capital at par or premium)

12.Ans : C

(The company can only proceed with the allotment when it receives 90% of the application for subscription.)

13.Ans : d

14.Ans : Rohan applied for=1,80,000/1,00,000X 1,200= 2,160shares.

15.Ans. amount to be received from Rohan on application and allotment=1,200x(2+3)=1200x5= Rs 6,000

Subscribe Amount actually received from Rohan on application=2160x2= Rs 4320

Amount of calls in Arrears on allotment=6000-4320= Rs 1680

16.Ans . The purpose for which securities premium reserve account can be utilised are as follows:

i. To issue fully paid bonus shares to the extent not exceeding unissued share capital of the company.
ii. To write off preliminary expenses of the company.
iii. To Write off the expenses of or commission paid or discount allowed.
iv. To pay a premium on redemption of preference shares or debentures.
v. Buyback of shares.

JOURNAL ENTRIES

17. Solution:- JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1	Share Capital A/c Dr. To Share Forfeiture A/c (200 Shares forfeited for non-payment of final call at Rs. 30 per share)		20,000	20,000
2	Bank A/c Dr. Share forfeiture A/c Dr. To Share Capital A/c (Reissue of 150 shares of Rs. 100 each, Issued as fully paid for Rs. 60 each.		9000 6000	15000
3	Shares Forfeiture A/c Dr. To Capital Reserve A/c (profit on reissue of 150 forfeited to capital reserve)		4500	4500

<u>Working Notes:</u>

Total Amount forfeited on 200 shares = Rs. 14,000

Therefore amount forfeited on 150 shares = Rs. 14000x150/200 = Rs. 10,500

Transfer to capital reserve= Amount Forfeited on 150 shares - Discount on reissue = Rs. 10,500-6000= Rs. 4500.

18. Solution:- JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1	Assets A/c. Dr. Goodwill A/c. Dr. To Liabilities A/c To Rasova Ltd. (Assets and liabilities of Rasova ltd. taken over)		3,90,000 50,000	 40,000 4,00,000
2	Rasova Ltd. Dr. To Bank A/c		80,000	 80,000
3	Rasova Ltd. Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Balance due to Rasova Ltd. settled by issue of equity shares at a premium of 60%) Or Combined entry Rasova Ltd. Dr. To Bank A/c To Equity Share Capital A/c To Securities Premium Reserve A/c (Being 20% payment made to Rasova ltd by cheque and balance settled by issue of equity shares at a premium of 60 %.		3,20,000 4,00,000	 2,00,000 1,20,000 80,000 2,00,000 1,20,000

Working Notes:- No. of equity Shares issued =Amount Payable/Issue price
Rs. 3,20,000/Rs.160= 2000

19. Solution:- JOURNAL ENTRIES

Date	**Particulars**	**L.F.**	**Amount (Rs.)**	**Amount(Rs.)**
	Equity Share Capital A/c. Dr. Securities Premium A/c Dr. To Share Final call A/c To Share Forfeiture A/c (Being Shares forfeited)		1000 200	 500 700

20. Solution:- **JOURNAL ENTRIES**

PARTICULARS	L.F.	AMOUNT (DR.)	AMOUNT (CR)
Assets A/c Dr. To Liabilities A/c To Bhuvesh Industrial Corporation A/c To Capital Reserve A/c		65,00,000	 12,00,000 49,00,000 4,00,000
Bhuvesh Industrial Corporation A/c Dr. To Bank A/c		7,20,000	 7,20,000
Bhuvnesh Industrial Corporation A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c		41,80,000	 38,00,000 3,80,000

Working Notes: Calculation of Number of Shares Issued
Rs. 41,80,000/ Rs. 110= 38,000 Shares.

21. Solution:- **JOURNAL ENTRIES**

Date	Particulars	L.F.	Amount (Rs)	Amount (Rs)
1	Share Capital A/c Dr. To Calls in arrears A/c To Forfeited Share A/c (3000 shares forfeited)		21,000	 9000 12000
2	Bank A/c Dr. To Share Capital A/c To Securities Premium A/c (3000 shares reissued)		30,000	 21,000 9,000
3	Forfeited Shares A/c Dr. To Capital Reserve A/c (Balance of fortified share transfer to capital Reserve)		12,000	 12,000

22. Solution:- **JOURNAL ENTRIES**

Date	Particulars	L.F.	Amount (Dr)	Amount (Cr)
1.	Share Capital A/c Dr. (600@Rs.10) To Share Forfeiture A/c To Share Allotment A/c To Share First Call A/c		6000	 2,500 200 900 2400

	To Share Second and Final call A/c (for Forfeiture of 100 shares of A, 200 share of B and 300 share of C)			
2	Bank A/c Dr. (600 @ Rs. 11) To Share Capital A/c To Securities Premium Reserve A/c (reissue of 600 forfeited shares at premium)		6,600	6,000 600
3	Share Forfeiture A/c Dr. To Capital Reserve A/c (Share forfeiture A/c balance, after reissue transferred to capital reserve)		2,500	2,500

23. Solution:- **JOURNAL ENTRIES**

Date	**Particulars**	**L.F.**	**Amount (Dr)**	**Amount (cr)**
1	Bank A/c Dr. To Share Application A/c (Application money received on 1,20,000 shares @ Rs. 30 per share)		36,00,000	36,00,000
2	Share Application A/c Dr. To Share Capital A/c To Bank A/c (Application money adjusted and surplus refunded)		36,00,000	30,00,000 6,00,000
3	Share Allotment A/c Dr. To Share Capital A/c (Allotment money due on 1,00,000 shares @ rs. 30 per share)		30,00,000	30,00,000
4	Bank A/c Dr. To Shares Allotment A/c (Allotment money received on 99,500 shares)		29,85,000	29,85,000

24. Solution:- **JOURNAL ENTRIES**

DATE	PARTICULARS	L.F	AMOUNT DR.	AMOUNT CR.
	Share Capital A/c Dr. To Share second and Final Call A/c To Share Forfeiture A/c (Forfeiture of 1,000 shares for non-payment of the second and final call)		1,00,000	 20,000 80,000

25. Solution:- **JOURNAL ENTRIES**

DATE	PARTICULARS	L.F.	AMOUNT DR.	AMOUNT CR
	Share Capital Reserve A/c Dr. Securities Premium A/c Dr. To Share Allotment A/c To Share first and final Call A/c To Share Forfeiture A/c (Forfeiture of 500 shares for nonpayment of first and final call		5 ,000 1,000	 2000 1,500 2,500

26. Solution:- **JOURNAL ENTRIES**

Date	Particulars	L.F	Dr. Amount	Cr. Amount
1	Bank A/c Dr.. To Equity Shares Application A/c (Application money received on 37,500 equity share @ Rs. 3 per share)		1,12,500	 1,12,500
2	Equity Shares Application A/c Dr. To Equity Share Capital A/c (Application money transferred to equity share capital account)		1,12,500	 1,12,500
3	Equity Shares Allotment A/c Dr. To Equity Share Capital A/c (allotment money due on 37,500 equity share @ Rs. 4 per share)		1,50,000	 1,50,000
4	Bank A/c Dr. To Equity Share Allotment A/c		1,46,000	 1,46,000

	(allotment money received wn1)			
5	Equity Share First and Final call A/c Dr. To Equity Share capital A/c (First and final call money due on 37,500 equity shares @ Rs. 3 per share)		1,12,500	1,12,500
6	Bank A/c Dr. To Equity Share First and Final call A/c (First and final call money received except on 1,500 shares wn2)		1,08,000	1,08,000

Working Notes:-

Amount due on allotment 1,50,000
Less: Allotment money not paid by Ashok (1000xRs. 4)= 4,000
Amount received on Allotment 1,46,000

2. Amount due on first and final call 1,12,500
Less:- First call money not paid by Ashok and Sohan on 1,500 shares (1000+500) @ Rs. 3 per share 4500
Amount received on first and final call 1,08,000

27. Solution:- JOURNAL ENTRIES

Date	Particulars	L.F.	DR.	CR.
1	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Calls in Arrears A/c To Share Forfeiture A/c (600 Share forfeited)		6000 3600	6000 3600
2	Bank A/c Dr. Forfeited Share A/c Dr. To Share Capital A/c (Shares reissued)		3900 2100	6000
3	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance of share forfeiture transferred to capital Reserve A/c)		1500	1500

28. Solution:-

Extract of Balance Sheet of Bliss Products Ltd. As at ____

Particulars	Note No .	Amount Current Year
I. EQUITY AND LIABILITIES		
1. Shareholder's Fund		
a. Share Capital	**1**	**39,70,000**

Notes to Accounts:

Note No.	Particulars	Amount (₹)
1 Share Capital		
Authorized Capital		
90,000 Equity shares of ₹ 100 each		**90,00,000**
Issued Capital 50,000 Equity shares of ₹ 100 each		**50,00,000**
Subscribed Capital		
Subscribed and Fully Paid Capital		
39,000 Equity shares of ₹ 100 each		**39,00,000**
Add: Forfeited Shares (1,000 of ₹ 70 each)		**70,000**
		39,70,000

29.Solution:- **JOURNAL ENTRIES**

Date	Particulars	L.F.	Dr. Amt	Cr. Amt
1	Bank A/c Dr. To Share Application A/c (application money received on 30,000 shares @ Rs. 3 per share)		90,000	90,000
2	Share Application Alc Dr. To Share Capital A/c To Share Allotment A/c (Transfer of application money to share capital and the excess application money on 10,000 shares credited to share allotment account)		90,000	60,000 30,000
3	Share Allotment A/c Dr. To Share Capital A/c (Amount due on allotment of 20,000 share @ Rs. 7 per share)		1,40,000	1,40,000

4	Bank A/c Dr. To Share Allotment A/c (Allotment money received after adjusting the amount already received as excess application money		1,10,000	 1,10,000

30.Solution:- **JOURNAL ENTRIES**

Date	Particulars	L.F.	Dr.Amount	Cr.Amount
1	Share Capital A/c Dr. To Share Forfeited A/c To Share First call A/c/Calls-in-arrears A/c (500 share forfeited due to non payment of first call)		45,000	 30,000 15,000
2	Bank A/c Dr. To share Capital A/c To Securities Premium Reserve A/c (500 shares reissued fully paid)		65,000	 50,000 15,000
4	Forfeited Shares A/c Dr. To Capital Reserve A/c (Share Forfeited A/c transferred to Capital Reserve A/c)		30,000	 30,000

31. Solution:- **JOURNAL ENTRIES**

Date	Particulars	L.f	Dr. Amount	Cr Amount
1	Furniture A/c Dr. To Ravindram ltd. (Being furniture purchased)		3,00,000	 3,00,000
2	Ravindram Ltd. Dr. To Bills Payable A/c (Being part payment of furniture purchased made by issue of promissory note)		1,00,000	 1,00,000
3.	Ravindram ltd. Dr. To Equity Share capital A/c To Securities Premium Reserve A/c (The balance payment made by issue of 16,000 Equity Share at a premium of 25%)		2,00,000	 1,60,000 40,000

Working notes: number of equity share issued = purchase consideration/Issue price =Rs.2,00,000/Rs.12.5=16000shares

32.Solution:-

JOURNAL ENTRIES

Date	**Particulars**	**L.F.**	**Amount Dr.**	**Amount (Cr)**
1	Equity share capital A/c (470X15) Securities Premium Reserve A/c (470x3) To Equity Share Allotment A/c (470x8) To Equity Share First call A/c(470x5) To Equity Share Allotment A/c (470x5) (470 shares Forfeited for non payment of allotment and first call)		7,050 1,410	 3,760 2,350 2,350
2	Bank A/c Dr. Share Forfeiture A/c Dr To Equity share Capital A/c		4465 235	 4700
3	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance on re-issued shares transferred to Capital Reserve)		940	 940

Working Notes:
Amount to be transferred to Capital Reserve
Amount Forfeited on reissued shares=2350/470X235= 1175
Less:-Amount utilised at the time of re-issue=rs. (235)
Capital Reserve. =. 940

33. Solution:- **JOURNAL ENTRIES**

Date	**Particulars**	**L.F.**	**Amount Dr.**	**Amount Cr.**
1	Equity share capital A/c Dr. To Equity Share Forfeited A/c To calls in Arrears A/c (Forfeiture of 10 shares)		70	 50 20
2	Bank A/c Dr. To Share Capital A/c (8 shares reissued to Y at rs.8per share paid up)		64	 64
3	Equity Share Forfeited A/c Dr. To Capital Reserve A/c Gain on re-issue of forfeited share transferred to Capital		40	 40

	Reserve)			

34. Solution:- **JOURNAL ENTRIES**

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr)
1	Equity share capital A/c Dr. To Share Forfeited A/c To calls in Arrears A/c (50 shares Forfeited for non payment of calls)		500	 350 150
2	Bank A/c Dr. Share Forfeited A/c Dr. To Equity Share capital A/c (20 shares re-issued for rs.8per share)		160 40	 200
3	Share Forfeited A/c. Dr. To Capital Reserve A/c (Gain on re-issue of forfeited shares transferred to Capital Reserve Account)		100	 100

35. Solution:- **JOURNAL ENTRIES**

Date	Particulars	L F	Amount Dr .	Amount Cr
	Equity share capital A/c Dr. Securities Premium Reserve A/c Dr To Equity Share Forfeited A/c To Calls in arrears A/c (Mr. M's share Forfeited)		1600 800	 1200 1200

36.Books of Mona Earth Mover Limited

Solution:- **JOURNAL ENTRIES**

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr. To Share Application A/c (Application money on 13,000 shares @ Rs.30 per share received)		3,90,000	 3,90,000
	Share Application A/c Dr. To Share Capital A/c (Application money transferred to share capital)		3,60,000	 3,60,000

Share Application A/c Dr. To Bank A/c (Application money on 1,000 shares returned]	30,000	30,000
Share Allotment A/c Dr. To Share Capital A/c (Money due on allotment of 12,000 shares @ Rs. 40 per share)	4,80,000	4,80,000
Bank A/c Dr. To Share Allotment A/c (Money received on 12,000 shares @ Rs. 40 per share on allotment)	4,80,000	4,80,000
Share First Call A/c Dr. To Share Capital A/c (Money due on 12,000 shares @ Rs. 20 per share on first Call)	2,40,000	2,40,000
Bank A/c Dr. To Share First Call A/c (First Call money received except for 100 shares)	2,38,000	2,38,000
Share Second and Final Call A/c Dr. To Share Capital A/c (Money due on 12,000 shares @ Rs. 10 per share on Second and final Call)	1,20,000	1,20,000
Bank A/c Dr. To Share Second and Final Call A/c (Second and final call money received except for 100 shares)	1,19,000	1,19,000

37. **Books of Konica Limited**

Solution:- **JOURNAL ENTRIES**

DATE	PARTICULARS	L.F	AMOUNT	AMOUNT
1	Bank A/c Dr. To Equity Share Application A/c (Money received on application for 1,000 shares @ Rs. 25 per share)		25,000	25,000
2	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 1,000 shares to share capital		25,000	25,000
3	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 1,000 shares @ Rs.		30,000	30,000

	30 per share)			
4	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		30,000	30,000
5	Equity Share First Call A/c Dr. To Equity Share Capital A/c (First call money due on 1,000 shares @ Rs. 20 per share)		20,000	20,000
6	Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share First Call A/c To Calls in Advance A/c 1,250 (First call money received on 900 shares, calls in arrears for 100 shares @ Rs.20 per share and calls in advance for 50 shares @ Rs.25 per share.)		19,250 2000	20,000 1250

38. **Books of Janta Papers Limited**

Solution:- **JOURNAL ENTRIES**

DATE	PARTICULARS	L.F.	AMOUNT (RS)	AMOUNT (RS)
	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 4,00,000 shares @ Rs. 5 per share)		20,00,000	20,00,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Bank A/c (Transfer of application money on 1,00,000 shares to share capital and money refunded on rejected applications)		20,00,000	5,00,000 15,00,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 1,00,000 shares @ Rs 7.50 per share)		7,50,000	7,50,000
	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		7,50,000	7,50,000
	Equity Share First Call A/c Dr.		7,50,000	

	To Equity Share Capital A/c (First call money due on 1,00,000 shares @ Rs. 7.50 per share)			7,50,000
	Bank A/c Dr. To Equity Share First Call A/c (First call money received)		7,50,000	7,50,000
	Equity Share Second and Final Call A/c Dr. To Equity Share Capital A/c (Final Call money due on 1,00,000 shares @ Rs. 5 per share)		5,00,000	5,00,000
	Bank A/c Dr. 5,00,000 To Equity Share Second and Final Call A/c 5,00,000 (Final call money received)		5,00,000	5,00,000

Working Notes: **Rs.**
Excess Application Money **15,00,000**
Less Transfers : Share Allotment — 20,000 shares @ Rs. 7.50
1,50,000
Share Calls — 20,000 shares @ Rs. 12.50
<u>2,50,000</u>
(Amount to be refunded (including that on 11,00,000 the rejected applications)

39.Solution:- **JOURNAL ENTRIES**

Date	Particulars	L F.	Dr. Amount	Cr.Amount
(a)1	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Share Forfeiture A/c To Share Allotment A/c (200 shares forfeited for non-payment of allotment money @rs.60 including @rs.10 premium,rs 80 called up)		16,000 2,000	6000 12000
2	Bank A/c Dr Share Forfeiture A/c Dr To Share Capital A/c (Re-issue of 200 forfeited shares @rs.70 as fully paid up)		14,000 6,000	20,000
(b). 1	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Share Forfeiture A/c To Share Allotment A/c (Forfeiture of 150 shares, rs.6 called up)		900 600	300 1200

2	Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Re-issue of 150 shares @rs. 15 as fully paid)		2,250	 1500 750
3	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance of Share Forfeiture A/c transferred to capital Reserve)		300	 300
(C) 1	Share Capital A/c Dr. To Share Forfeiture A/c To Calls-in-arrears A/c (For 409 shares forfeited)		20,000	 16,000 4,000
2	Bank A/c Dr. Share Forfeiture A/c Dr To Share Capital A/c (For re-issue of 300 shares @rs.45 fully paid up)		13,500 1500	 15,000
3	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance of share Forfeiture A/c of 300 share reissued transferred to capital Reserve A/c (16000/400X300) -1500=rs.10500		10,500	 10,500

40.Solution:- **JOURNAL ENTRIES**

Date	Particulars	LF.	Amount (Dr.)	Amount (Cr)
2021	Bank A/c Dr. To Share Application and Allotment A/c		9,000	 9000
May 1	Share Application and Allotment A/c Dr. To Share Capital A/c		9000	 9000
	Share Application and Allotment A/c Dr. To Share Capital A/c		6000	 6000
	Bank A/c Dr. To Share Application and Allotment A/c		6000	 6000
	Share First Call A/c To Share Capital A/c		7500	 7500

	Bank A/c Dr. To Share First Call A/c		7500	 7500
	Share Second Call A/c To Share Capital A/c Bank A/c Dr. To Share Second call A/c		7500 7500	 7500 7500

41.Solution:- **JOURNAL ENTRIES**

DATE	PARTICULARS	L.F.	AMOUNT DR.	AMOUNT CR
	Bank A/c Dr. To Share Application A/c (Application money received on 40,000 shares)		16,00,000	 16,00,000
	Share Application A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c To Share Allotment A/c (Application money transferred to share capital account, securities premium account and the excess money transfered to share allotment account)		14,00,000	 9,00,000 3,00,000 2,00,000
	Share Application A/c Dr. To Bank A/c 2,00,000 (Amount returned on 500 shares)		2,00,000	 2,00,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Money due on allotment)		9,00,000	 6,00,000 3,00,000
	Bank A/c Dr. To Share Allotment A/c(Amount received in allotment)		6,86,000	 6,86,000
	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Share Allotment A/c To Share Forfeiture A/c (Forfeiture of 600 shares of Rohan for non-payment of allotment money)		30,000 6,000	 14,000 22,000
	Share First Call A/c Dr. To Share Capital A/c		8,82,000	 8,82,000

	(First Call money due on 29,400 shares)			
	Bank A/c Dr. To Share First Call A/c (First call money received on 28,500 shares)		8,55,000	8,55,000
	Share Capital A/c Dr. To Share First Call A/c To Share Forfeiture A/c (Forfeiture of 900 Aman Shares)		72,000	27,000 45,000
	Share Second and Final Call A/c Dr. To Share Capital A/c (Second and Final Call money due on 28,500 shares		5,70,000	5,70,000
	Bank A/c Dr. To Share Second and Final Call A/c (Due money received)		5,70,000	5,70,000
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (Reissue of 1,000 forfeited shares)		80,000 20,000	1,00,000
	Share Forfeiture A/c Dr. To Capital Reserve (Profit on 1,000 reissued shares transferred to capital reserve)		18,333	18,333

Working Notes:

(I) Excess amount received on Rohan's application

Rohan has been alloted = 600 Shares

He must have applied for Rs. 35,000/RS. 30,000 X600 =700 Shares

. Amount received from Rohan = 700 × Rs. 40	28,000
Amount Adjusted on Application = 600 × Rs. 40	(24,000)
Amount Adjusted on Allotment	4,000
Money due on Allotment = 600 × Rs. 30	18,000
Money Adjusted	(4,000)
Balance due on Allotment	14,000

(II) Amount received on allotment

Total Amount due on Allotment = Rs. 30,000 × Rs. 30 = 9,00,000

Amount received on Application (2,00,000)

7,00,000

Amount not received on Rohan's Share

(14,000)

6,86,000

	(III) Money received on First Call First Call money due on 29,400 shares 29,400 × Rs. 30 = 8,82,000 Application money not received on 900 Shares 900 × Rs. 30 (27,000) 8,55,000 (IV) 1000 shares have been reissued including 900 shares of Aman and Balance 100 shares of Rohan Profit on 100 shares = 22,000 /600X100= 3,667 Profit in 900 shares = 45,000 48,667 Less: Loss on reissue of 1,000 shares (20,000) 28,667

(V) Balance in Share Forfeiture Account of 500 shares Rs. 22,000 500 600 = Rs. 18,333

42.Solution

JOURNAL

Date	Particulars	L.F.	Amount (₹)	Amount (₹)
	Bank A/c Dr To Equity Share Application A/c (Being application money received on 3,00,000 shares)		18,00,000	18,00,000
	Equity Share Application A/c Dr To Equity Share Capital A/c To Securities Premium Reserve A/c To Equity Share Allotment A/c (Being 2,00,000 shares allotted, excess amount transferred to allotment)		18,00,000	8,00,000 4,00,000 6,00,000
	Equity Share Allotment A/c Dr To Equity Share Capital A/c To Securities Premium Reserve A/c (Being allotment due on 2,00,000 shares)		14,00,000	10,00,000 4,00,000
	Bank A/c Dr Calls in Arrears A/c Dr To Equity Share Allotment A/c (Being allotment money received on 199,600 shares)		7,98,400 16,00	8,00,000
	Equity Share First and Final Call A/c Dr. To Equity Share Capital A/c (Being share 1st call due on 2,00,000 shares)		2,00,000	2,00,000

Bank A/c Dr Calls in Arrears A/c Dr To Equity Share First and Final Call A/c 2,00,000 (Being first call received on 199,400 shares)	1,99,400 600
Equity Share Capital A/c Dr Securities Premium Reserve A/c Dr To Calls in Arrears A/c 2,200 To Share Forfeited A/c 4,600 (Being forfeiture of 600 shares executed)	6,000 800
Bank A/c Dr Equity Share Forfeited A/c Dr To Equity Share Capital A/c 4,000 (Being 400 shares reissued @ Rs 8, as fully called up)	3,200 800
Equity Share Forfeited A/c Dr To Capital Reserve A/c (Being gain on reissue of forfeited shares transferred to Capital Reserve)	2,400 2,400

43.Solution:- **JOURNAL**

Date	Particulars	L.F.	Amount ; ₹	Amount ;₹
	Bank A/c Dr To Equity Share Application A/c (Being application money received on 1,20,000 shares) Equity Share Application A/c Dr 2,40,0000		2,40,000	 2,40,000

To Equity Share Capital A/c To Equity Share Allotment A/c To Bank A/c (being 80,000 shares allotted and excess amount transferred to allotment and then refunded)	1,60,000 50,000 30,000
Equity Share Allotment A/c Dr 2,40,000 To Equity Share Capital A/c (Being share allotment due on 80,000 shares)	 2,40,000
Bank A/c Dr 1,84,800 Calls in Arrears A/c Dr 5,200 To Share Allotment A/c (Being allotment money received)	 1,90,000
Equity Share Capital A/c Dr 4,800 To Equity Share Forfeited A/c 5,200 To Calls in Arrears A/c (Being forfeiture of 2000 shares executed) 10,000	

	Equity Share First Call A/c Dr		1,56,000	
	To Equity Share Capital A/c			1,56,000
	(Being share first call due on 78,000 shares)			
	Bank A/c Dr		1,55,000	
	Call in arrear A/c Dr		1,000	
	To Equity Share First Call A/c			1,56,000
	(Being first call received on 77,500 shares)			
	Bank A/c Dr		9,000	
	To Equity Share Capital A/c			7,000
	To Security Premium Reserve A/c			2,000
	(Being 200 shares reissued @ Rs 7 paid up, for Rs 9)			
	Equity Share Forfeited A/c Dr.		2,400	
	To Capital Reserve A/c			2,400
	(Being gain on reissue of forfeited shares transferred to Capital Reserve)			

44.Solution:

JOURNAL OF A LTD.

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c. ...Dr.		2,25,000	
	To Shares Application A/c			2,25,000
	(Being the application money received on 9,000 Equity Shares)			
	Shares Application A/c. ...Dr.		2,25,000	
	To Share Capital A/c			2,25,000
	(Being the transfer of application money to Share Capital Account)			
	Shares Allotment A/c ...Dr.		4,05,000	
	To Share Capital A/c			2,25,000
	To Securities Premium Reserve A/c			1,80,000
	(Being the amount due on allotment—Rs. 25 on account of share capital and Rs. 20 on account of securities premium)			
	Bank A/c. ...Dr.		4,05,000	
	To Shares Allotment A/c			4,05,000
	(Being the amount due on allotment received)			
	Shares First Call A/c. ...Dr.		1,80,000	
	To Share Capital A/c			1,80,000
	(Being the amount due on first call @ Rs. 20 per share on 9,000 Equity Shares)			
	Bank A/c. ...Dr.		1,76,000	
	To Shares First Call A/c			1,76,000
	(Being the amount received on account of the first call, i.e., Rs. 20 on 8,800 Equity Shares) Shares			
	Second and Final Call A/c ...Dr.		2,70,000	
	To Share Capital A/c			2,70,000
	(Being the second and final call money due on 9,000 shares)			

Bank A/c ...Dr.	2,64,000	
To Shares Second and Final Call A/c		2,64,000
(Being the amount actually received on account of second and final call)		
Share Capital A/c. ..Dr.	20,000	
To Shares First Call A/c		4,000
To Shares Second and Final Call A/c		6,000
To Forfeited Shares A/c		10,000
(Being 200 shares forfeited for non-payment of first call and second and final call money)		

Accounting for Companies
Chapter – 08 : Accounting for Debentures

Units/Topics	Learning Outcomes
➢ 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. Writing off discount /loss on issue of debentures. *Note: Discount or loss on issue of debentures to be written off in the year debentures are allotted from Security Premium Reserve (if it exists) and then from Statement of Profit and Loss as Financial Cost (AS 16)*	🕮 Explain the accounting treatment of different categories of transactions related to issue ofdebentures. 🕮 Develop the understanding and skill of writingof 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 ofdebentures.

Points to Remember:

1. Loss on issue of Debenture A/c will be opened only when debentures are redeemable at premium.

2. No requirement of opening Discount on issue of Debenture A/c separately when redemption is made on premium because it will also be shown as a part of loss on issue of debenture A/c.

3.Payment of Interest (TDS)

(i) Interest on Debenture A/c Dr.
  To Debenture holder A/c
  To Tax Payable A/c

(ii) Debenture holder A/c Dr.
 Tax Payable A/c Dr.
  To Bank A/c

*These two entries will be passed , number of times the interest is paid

(iii) Statement of P & L A/c Dr.
  To Interest on Debenture A/c

This entry will be passed once in a year.

4. Debentures issued as collateral security are only as additional security to bank/ Financer, for which bank can exercise their rights as debenture holder when the company is not able to pay the dues on maturity.

5. Amount of Debentures issued as collateral security can be different from amount of bank loan.

6. No. of Debentures issued to vendor should be calculated as;

= (Amount Payable to Vendor (Purchase Consideration-amount paid) Issuing price of Debenture (Face value of Deb.-discount/+premium)

Debenture:

Debenture is a written acknowledgement of a debt by the company. It contains the terms for the repayment of the principal debt on specified date and for payment of interest at a fixed percent until the principal sum is paid.

Definition:

According to Section 2(30)of the Indian Companies Act, 2013,'Debenture includes debenture stock, bonds and any other securities of a company whether constituting a charge on the assets of the company or not'

Kinds of Debentures:

1. Secured (or) Unsecured Debentures
2. Registered (or) bearer Debentures
3. Redeemable (or) Irredeemable Debentures
4. Convertible and Non-Convertible Debentures

1.Secured or unsecured Debentures:

Secured debentures are issued by mortgaging an asset and debenture holders can recover their dues by selling that particular asset in case the company fails to repay the claim of debenture holders.

Unsecured Debentures are issued without mortgaging any asset.

2.Registered or Bearer Debentures:

Registered Debentures are those debentures, where names, address, etc., of the debenture holders are recorded in the register book of the company. Such debenture cannot be easily transferred to any other person.

Bearer Debentures may be referred to those debentures which are not recorded in the company's Register book. Such a type of Debenture is also known as bearer debenture and this can be easily transferred to any other person.

3. Redeemable (or) irredeemable Debentures:

Redeemable Debentures are those debentures which are redeemed/repaid on a predetermined date and at a Predetermined price.

Irredeemable Debentures: Irredeemable Debentures are those debentures which are not redeemed / repaid during the life time.

4.Convertible or non convertible Debentures:

Convertible Debentures: Convertible Debentures are those debentures which are converted into Specified number of equity shares after predetermined period at the option of the debenture holders.

Non Convertible debentures: Non convertible debentures are those debentures which are not converted into equity shares.

5. Zero coupon or specified interest rate debentures:

Zero coupon Debentures are those debentures which are not bearing any interest coupon rate.

Specified interest rate Debentures are those debentures which will bear specified interest rate**.**

Issue of Debentures for cash:

Debentures can be issued for cash

(i) at Par (ii)at Premium (iii) at Discount

(i)Issue of Debentures at Par:

When Debentures are issued at their face value, then it is called as issue of Debentures at par.

For example a Debenture of Rs.100 is issued for Rs.100.

(ii)Issue of Debentures at premium:

When Debentures are issued at a price more than their face value, they are said to have been issued at premium. For example if a debenture of Rs.100 is issued at Rs.120, then Rs.20 is the premium.

(iii)Issue of Debentures at discount:

When the company issue Debentures at a price, less than their face value, the debentures are said to have been issued at a discount. For example a debenture of Rs.100 is issued for Rs.95.

ACCOUNTING ENTRIES FOR ISSUE OF DEBENTURES FOR CASH:

(i)Amount received in Lump sum:

At Par	At Premium	At Discount
1. Bank A/c Dr. To Debenture Application & Allotment A/c	1. Bank A/c Dr. To Debenture Application & Allotment A/c	1. Bank A/c Dr. To Debenture Application & Allotment A/c
2. Debenture Application & Allotment A/c... Dr. To ....% Debentures A/c	2. Debenture Application & Allotment A/c Dr. To ....% Debentures A/c To Securities Premium Reserve A/c	2. Debenture Application and Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. To ....% Debentures A/c

(ii)Amount received in installments:

At Par	At Premium	At Discount
1. Bank A/c Dr. To Debenture Application A/c	1. Bank A/c Dr. To Debenture Application A/c	1. Bank A/c Dr. To Debenture Application A/c
2. Debenture Application A/c Dr. To ... % Debentures A/c	2. Debenture Application A/c Dr. To .... % Debentures A/c	2. Debenture Application A/c Dr. To .... % Debentures A/c
3. Debenture Allotment A/c Dr. To ... % Debentures A/c	3. Debenture Allotment A/c Dr. To ....% Debentures A/c To Securities Premium Reserve A/c	3. Debenture Allotment A/c.... Dr. Discount on Issue of Debentures A/c Dr. To .... % Debentures A/c
4. Bank A/c .... Dr. To Debenture Allotment A/c	4. Bank A/c Dr. To Debenture Allotment A/c	4. Bank A/c Dr. To Debenture Allotment A/c
5. Debenture Call(s) A/c Dr. To ... % Debentures A/c	5. Debenture Call(s) A/c Dr. To ... % Debentures A/c	5. Debenture Call(s) A/c Dr. To ... % Debentures A/c
6. Bank A/c Dr. To Debenture Call(s) A/c	6. Bank A/c Dr. To Debenture Call(s) A/c	6. Bank A/c Dr. To Debenture Call(s) A/c

Issue of Debentures for consideration other than cash:

Debentures can be issued for consideration other than cash too. In this case, there are two situations: issue of debentures to the vendor for purchase of assets and issue of debentures for purchase consideration.

(1) Issue of Debentures to the Vendor for Purchase of Assets: If a company purchases some assets from a vendor then in such case instead of making payment in cash, it can issue fully paid debentures to the vendor if the latter agrees.

Following entries will be passed for this purpose:

(*i*) **For purchase of assets**

Assets A/c Dr.
To Vendor's A/c
(Being assets purchased from vendor)

(ii) For issue of debentures to vendor

(a) *At Par*

Vendor's A/c Dr.

To .... % Debentures A/c

(Being debentures issued to vendor at par)

(b) *At Premium*

Vendor's A/c Dr.

To .... % Debentures A/c

To Securities Premium Reserve A/c

(Being debentures issued to vendor at premium)

(c) *At Discount*

Vendor's A/c Dr.

Discount on Issue of Debentures A/c Dr.

To ....% Debentures A/c

(Being debentures issued to vendor at discount)

Issue of Debentures as collateral security:

Collateral security means an additional security given to the lender in addition to the principal security. Sometimes, a company issues debentures as collateral security against loans taken from banks or other agencies. Collateral security is to be realised only when the principal security fails to meet the amount of loan.

Interest on Debentures:

Coupon rate Debentures issued by the company are entitled to periodical interest which is usually paid half yearly. Interest on Debentures is calculated at a fixed rate on the face value of the Debentures payable quarterly, half yearly or yearly as per the terms of issue. Interest on debentures is a charge against profit so it is payable even if the company incurs loss.

Entries will be:

When interest is due:

Debenture Interest A/c Dr

To Debenture holders A/c

On payment of Debenture interest

Debenture holders A/c Dr

To Bank A/c

On transfer of Debentures' interest to Statement of profit & loss A/c

Statement of profit & loss A/c Dr

To Debenture interest A/c

Issue of Debentures with terms of Redemption:

Case	*Conditions of Issue*	*Condition on Redemption*
1	Issued at Par	Redeemable at Par
2	Issued at Discount	Redeemable at Par
3	Issued at Premium	Redeemable at Premium
4	Issued at Par	Redeemable at Premium
5	Issued at Discount	Redeemable at Premium
6	Issued at Premium	Redeemable at Premium

WRITING OFF DISCOUNT / LOSS ON ISSUE OF DEBENTURES:

Discount or loss on issue of Debentures, both are capital loss for the company and they are incurred at the time of issue of debentures. It is generally written off from:

(i)Securities Premium Reserve

(ii)Statement of profit & loss

In case balance in securities premium reserve is not sufficient to write off the total amount of discount or loss, on issue of Debentures, it is written off from securities premium reserve, to the extent of balance available in Securities Premium Reserve and then the remaining balance is written off from Statement of Profit & Loss.

The following journal entry is followed:

Securities Premium Account Dr

And/then

Statement of Profit and loss(Finance cost)

To Discount/loss on issue of Debenture A/c

(Being discount/loss on issue of Debenture written off)

QUESTIONS

(i)	**MCQs:**
1.	Debentureholders are (a)The owners of the company (b)The vendors of the company (c)The creditors of the company (d)The debtors of the company

2.	Debentures are shown in the balance sheet of the company under the head of a. Non-current liabilities b. Current liabilities c. Share capital d. Non current assets
3.	Discount/loss on issue of Debenture should be written off (a)Within two years of the issue of Debentures (b)After the redemption of Debentures (c) In the year of issue of Debentures (d) During the life of Debentures
4.	Debenture holders are entitled to receive from the company (a)Dividend (b)Interest (c) Share of profit (d)None of these
5.	For recording the issue of Debentures as collateral security, the amount of Debenture issue is debited to: (a)Statement of profit & loss (b)Debentures suspense A/c (c)Debentures Account (d)General Reserve A/c
6.	As a purchase consideration of machinery of Rs.7,20,000, Debentures of Rs.100 each were issued at a premium of Rs.25 by the company. The number of Debentures issued by the company is Rs.________. (a)7,200 (b)7,000 (c)5,700 (d)5,760
7.	A company issued ₹ 50,000 10% debentures at a discount of 5% redeemable after 5 years at a premium of 5%. Loss on issue of debentures will be ₹ -----. a. ₹ 4,000 b. ₹ 5,000 c. ₹ 1,000 d. ₹ 2,500
8.	When debentures are issued at discount and redeemable at a premium which one of the following account is debited at the time of issue? a. Debentures account b. Premium on redemption of debentures account c. Loss on issue of debentures account d. None of these
9.	Debentures that do not carry any charge or security on assets of the company are known as: a. secured debentures b. unsecured debentures c. convertible debentures d. registered debentures.
10.	Debentures cannot be redeemed: (a)at par (b)at premium (c)at Discount (d)All of the above

	Answers: 1.(c),2.(a),3.(c),4.(b),5.(b),6.(d),7.(b),8(c),9(b),10(c).
(ii)	**CASE BASED QUESTIONS:**
Q1.	Read the following information and answer the given questions: Charan Ltd.,took over assets at Rs.6,00,000 and liabilities of Rs.40,000of Paras Ltd.,at an Agreed value of Rs.6,30,000.Charan Ltd., issued 10%Debentures of Rs.100 each at a discount of 10%of Paras Ltd., In full satisfaction of the purchase price. Charan Ltd., writes off any capital issues incurred during year, at the end of that financial year. In which account will be the difference between assets and liabilities taken over and the payment made be transferred to? (A)General Reserve (B)Debenture Redemption Reserve (C)Capital Reserve (D)Goodwill Ans:Option (D)is correct.
Q2.	What is the amount of discount given to Paras Ltd., on the issue of Debentures? (A)Rs.60,000 (B)Rs.70,000 (C)Rs.75,000 (D)Rs.65,000 Ans:Option (B)is correct.
Q3.	As Charan Ltd., writes off the capital losses, where will the discount on issue of Debentures be transferred to ? (A)Statement of profit & loss (B)General Reserve (C)Capital Reserve (D)Securities premium Ans:Option (A)is correct.
Q4.	Which amount of interest will be paid by charan Ltd., to Paras Ltd., for one year? (A)Rs.60,000 (B)Rs.63,000 (C) Rs.64,000 (D)Rs.70,000 Ans:Option (D)is correct.
(iii)	**Source based questions:**
1.	XYZ limited issued 4000,12% debentures of ₹ 100 each at a premium of 5%. The total amount of interest for one year will be: a. ₹ 48,000 b. ₹ 58,000 c. ₹ 50,000 d. ₹ 50,400 Ans:a)48,000
2.	ABC limited issues 10,000 9% debentures of 100 each at a premium of 5%

	payable at premium of 10%, the loss on issue of debentures account will be debited to by: a. ₹10,00,000 b. ₹1,00,000 c. ₹10,50,000 d. ₹1,05,000 Ans b)1,00,000
3.	10% debenture issued at ₹ 105 is repayable at ₹ 110, the face value of debenture being ₹ 100. Calculate the amount of loss on redemption of debentures: a. ₹ 10 b. ₹ 5 c. ₹15 d. ₹ 25 Ans a)Rs.10
4.	When 100 debenture issued at 5 % discount @ ₹ 100 each but redeemable at premium of 8%. How much amount will be credited as premium on redemption of debentures account: a. ₹ 5000 b. ₹ 4000 c. ₹ 8000 d. ₹ 6000 Ans. c)Rs.8,000
5.	Premium received on issue of debentures may be utilised for writing off: a. premium allowed on redemption of debentures b. writing off preliminary expenses c. writing off discount allowed on issue of shares d. all of the above. Ans:(d) all of the above
6.	A company can issue debentures a. for cash b. as a collateral security c. for consideration other than cash d. any of the above. Ans.(d)any of the above
7.	Debentures which are transferable by mere delivery are a. registered debentures b. first debentures c. bearer debentures d. second debentures. Ans:C bearer debenture

8.	Debenture interest: a. is payable only in case of profits b. accumulates in case of losses are inadequate profits c. is payable irrespective of profit or loss d. none of the above. Ans:C is payable irrespective of profit or loss.
iv	**ASSERTION-REASONING QUESTIONS:**
Sl.No .,	Question a. Both Assertion (A) and Reason (R) are true and reason is correct explanation of assertion. b. Assertion(A)and Reason(R)both are true but reason is not the correct explanation of assertion. c. Assertion(A) is true, Reason(R) is false. d. Assertion(A)is false, Reason(R) is true.
1.	Assertion(A)Issue price of debentures can be collected in lump sum or in installments Reason(R) :when Issue price is payable in lump sum, the amount received onapplicationiscreditedto“DebenturesApplicationandAllotmentAccount”
2.	Assertion(A):Debentureholder gets interest at the stated rate whether the company earns profit or not. Reason(R) :Interest on debenture is treated as an appropriation of profit.
3.	Assertion: Debentures can be issued as a collateral security Reason: The amount of loan can be realized in full with the help of collateral security during default (A) Both Assertion and reason are true and reason is correct explanation of assertion. (B)Assertion and reason both are true but reason is not the correct explanation of assertion. (C) Assertion is true, reason is false. (D)Assertion is false, reason is true.
4.	Assertion: Discount or loss on issue of debentures must be written off before such debentures are redeemed Reason: Discount or loss on issue of debenture is a capital loss

	(A) Both Assertion and reason are true and reason is correct explanation of assertion. (B) Assertionandreasonbotharetruebutreasonisnotthecorrectexplanationof assertion. (C) Assertion is true, reason is false. (D) Assertion is false, reason is true
5.	Assertion: Debentures are liability Reason: Debentures are shown on the asset side of the balance sheet (A) Both Assertion and reason are true and reason is correct explanation of assertion. (B) Assertion and reason both are true but reason is not the correct explanation of assertion. (C) Assertion is true, reason is false. (D) Assertion is false, reason is true
6.	Assertion(A):zero coupon bonds are issued without specified rate of interest. Reason(R):It is type of bond which is similar to the debenture and being issued by the government. a. Both assertion (A) and reason(R) are true and reason(R) is the correct explanation of assertion(A). b. Both assertion (A) and reason(R) are true and reason(R) is not the correct explanation of assertion(A). c. Assertion(A) is true but the reason (R) is false. d. Assertion(A)is false but the reason(R)is true.
7.	Assertion: If debentures of ₹100, issued for ₹95 and is redeemable at Rs. 105,then loss on issue debentures will be ₹10 Reason: Both on discount of issue and premium on redemption are capital losses and combined into one account a. Both A and R are individually true, and R is correct explanation of A b. Both A and R are individually true, and R is not the correct explanation of A c. A is true but R is False d. Both A and R are False

8.	Read the following statements: Assertion and Reason, choose one of the correct alternative given below: Assertion(A): The 'discount on debentures' issuance is charged to 'Securities Premium Account' and is reflected as an asset. Reason(R):The discount on debentures' issuance is noted as a capital losses ideas a fictitious asset. Hence, has to be written off during the years of its issue. a. Both A and R are individually true, and R is correct explanation of A b. Both A and R are individually true, and R is not the correct explanation of A c. A is true but R is False d. Both A and R are False
9.	Assertion(A):Debentures saves income tax. Reason(R): Interest on debenture is tax deductible expenditure. A) Both Assertion and reason are true and reason is correct explanation of assertion. B) Assertionandreasonbotharetruebutreasonisnotthecorrectexplanationofassertion. C) Assertion is true, reason is false. D) Assertion is false, reason is true.
10.	Assertion: Debenture holders are the owners of the company Reason: Debenture holders do not have the voting right A. Both Assertion(A) and Reason(R) are True and Reason (R) is the correct explanation of Assertion(A) B. Both Assertion(A) and Reason(R) are True and Reason(R) is not the correct explanation of Assertion(A) C. Assertion(A) is True but Reason(R) is False D. Assertion(A) is False but Reason(R)is True.
	ANSWERS: Assertion & Reasoning: 1.(b)2.(c)3.(a)4.(b)5.(c)6.(a)7.(a)8.(d)9.(a)10.(d)
v.	**OBJECTIVE TYPE QUESTIONS:**
	FILL IN THE BLANKS:

1.	Debenture holder are the __________ of the company. (creditors)
2.	From the point of view of security; ________ and _________ are the type of debentures. (secured, unsecured)
3.	When debentures are repayable after a specific time , it is called _________ of debentures. (Redemption)
4.	Interest on debenture is charge against _________ and is to be paid even if there is no profit in the company. (profit)
5.	Debentures are issued as other than cash, number of debentures will be calculated as purchase price dividing by _________ (issue price)
6.	Discount on issue of debenture is _________loss of the company. (capital)
7.	Premium on redemption of Debentures is------------ for a company. (loss)
	True /False:
1.	Debentures can be redeemed at premium (T)
2.	Unsecure debentures can be issued in India (F)
3.	A debenture holders is the owner of the company (F)
4.	Only redeemable debentures are compulsory redeemed (T)
5.	Issue of 10000 , 9% debenture of Rs. 100 each as collateral security for bank loan Rs. 100000. In this case debenture suspense A/c will be debited by debenture A/c(T)
6.	A company redeemed 100, 7% debentures of Rs.100 each on premium of 5%. Premium for redemption A/c will be debited by 700 (F)
7.	The payment of interest on Debentures is a charge on the profits of the company (T)
8.	The Debentures cannot be issued at a discount of morethan 10% of the face value. (F)

2.SHORT ANSWER TYPE: (3 Marks)

(i)Vanya Ltd., purchased a machinery for Rs.1,90,000 from a vendor. VanyaLtd., issues 10% Debentures of Rs.100 each at a discount of 5% to the vendor. Journalise the above transactions.

Ans: In the books of Vanya Ltd.,

Journal entries

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
	Machinery A/c Dr To Vendor's A/c (Being machinery purchased from Vendor)		1,90,000	 1,90,000
	Vendor's A/c Dr Discount on issue of Debentures A/c Dr To 10%Debentures A/c (Being Debentures issued to Vendors)		1,90,000 10,000	 2,00,000

(ii)K.K.Limited obtained a loan of Rs.10,00,000 from State Bank of India @9% interest.The company issued Rs.15,00,000,9%debentures of Rs.100 each,in favour of State Bank of India as collateral security.Passnecessary Journal entries for the above transactions:

(i)When company decided not to record the issue of 9%Debentures as collateral security.

(ii)When company decided to record the issue of 9%Debentures as collateral security.

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
(i)	Bank Account Dr To Bank Loan Account (Obtained loan from State Bank of India @9%)		10,00,000	 10,00,000
(ii)	Bank Account Dr To Bank Loan A/c (Obtained loan from State Bank of India @9%)		10,00,000	 10,00,000
(iii)	Debenture Suspense Account Dr To 9%Debentures A/c (Issued 9% Debentures as collateral Security in favour of State Bank of India)		15,00,000	 15,00,000

(3) SHORT ANSWER TYPE: (4 Marks)

WRITING OFF DISCOUNT / LOSS ON ISSUE OF DEBENTURES

Q1.X Ltd. issued ₹ 2,00,000, 10% Debentures at a discount of 5% .The terms of issue provide the repayment at the end of 4 years . Y Ltd. has a balance of ₹ 5, 00,000 in Securities Premium Reserve. The company decided to write off discount on issue of debentures from Securities Premium Reserve in the first year. Pass the journal entry.

Solution: **JOURNAL**

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
	Securities Premium Reserve A/c Dr To Discount on Issue of DebenturesA/c (Being Discount on Issue of Debentures written off)		10,000	 10,000

Note: Discount on Issue of Debentures = ₹ 2, 00,000×5% = ₹ 10,000

Q2. Y limited company issued ₹ 1, 00,000, 9% Debentures at a discount of 6% on 1st April, 2021.

These debentures are to be redeemed equally, spread over 5 annual instalments.

Pass the Journal entries for issue of debentures and writing off the discount on issue of debentures.

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
2021 Apr 1	Bank A/c Dr To Debenture Application &Allotment A/c (Being Application money received)		94,000	 94,000
April 1st	Debenture Application & Allotment A/c Dr Discount on Issue of Debentures A/c Dr To 9% Debentures A/c Debenture application money transferred to Debenture A/c)		94,000 6,000	 1,00,000
2022 Mar31	Statement of Profit & Loss A/c Dr To Discount on issue of debentures A/c (Being Discount on Issue of Debentures written off)		6,000	 6,000

Q3. Venus Ltd., is a real estate company.To discharge its corporate social responsibility, it decided to construct a night shelter for the homeless. The company took over assets of Rs.10,00,000 and liabilities of Rs.1,80,000 of Cayns Ltd., for Rs.7,60,000.Venus Ltd., issued 9%Debentures of Rs.100 each at a discount of 5%in fullsatisfaction of the purchase consideration in favour of Cayns Ltd., Pass necessary journal entries in the books of Venus Ltd., for the above transactions.

In the Books of Venus Ltd.,

Journal Entries

Date	Particulars	LF	Debit(Rs)	Credit(Rs)
(i)	Assets A/c Dr		10,00,000	
	To Liabilities A/c			1,80,000
	To Cayns Ltd.,			7,60,000
	To Capital Reserve A/c			60,000
	(Business purchased from Cayns Ltd.,)			
(ii)	Cayns Ltd., A/c Dr		7,60,000	
	Discount on issue of Debentures A/c Dr		40,000	
	To 9%Debentures A/c			8,00,000
	(Rs.8,00,000,9% Debentures issued at a discount of 5%)			

LONG ANSWER TYPE:

(6 Marks)

Q 1. Give Journal Entries for the Issue of Debentures in the following conditions.

1. Issued 2,000, 12% Debentures of ₹ 100 each at par, redeemable also at par.
2. Issued 2,000, 12% Debentures of ₹ 100 each at a discount of 2%, redeemable at par.
3. Issued 2,000, 12% Debentures of ₹ 100 each at a premium of 5%, redeemable at par.
4. Issued 2,000, 12% Debentures of ₹ 100 each at par but redeemable at 5% premium.
5. Issued 2,000, 12% Debentures of ₹ 100 each at a discount of 2%, redeemable at a premium of 5%.
6. Issued 2,000, 12% Debentures of ₹ 100 each at a premium of 5%, redeemable at a premium of 10%.

Date	Particulars	L F	Debit(Rs)	Credit(Rs)
Case 1	Bank A/c Dr. To 12% Debentures Application & Allotment A/c (Application money received)		2,00,000	2,00,000
	12% Debentures Application & Allotment A/c Dr. To 12% Debentures A/c (Transfer of application money to Debentures A/c, issued at par)		2,00,000	2,00,000
Case 2	Bank A/c Dr. To 12% Debentures Application &Allotment A/c (Application money received)		1,96,000	1,96,000
	12% Debentures Application & Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. To 12%Debentures A/c (Transfer of Application money to Debentures A/c, issued at a discount of 2%)		1,96,000 4,000	2,00,000
Case 3	Bank A/c Dr To 12%Debenture application & allotment A/c (Application money received)		2,10,000	2,10,000
	12%Debenture application & allotment A/c Dr To12%Debentures A/c To securities premium A/c (Transfer of application money to debenture A/c Issued at a premium of 5%)		2,10,000	2,00,000 10,000
Case 4	Bank A/c Dr To 12%Debenture application & allotment A/c (Application money received)		2,00,000	2,00,000
	12% Debenture application & allotment A/c Dr. Loss on issue of Debenture A/c Dr		2,00,000 10,000	

	To12%Debentures A/c To premium on redemption of debenture A/c (Transfer of application money to Debenture A/c issued at par but redeemed at premium)			2,00,000 10,000
Case 5	Bank A/c Dr. To 12% Debentures Application & Allotment A/c (Application money received)		1,96,000	1,96,000
	12% Debentures Application & Allotment A/c Dr Loss on Issue of Debentures A/c Dr To 12% Debentures A/c To Premium on Redemption A/c (Transfer of Application money to Debentures A/c, issued at a discount of 2% and Redeemable at a Premium of 5%)		1,96,000 14,000	2,00,000 10,000
Case 6	Bank A/c Dr To 12% Debentures Application & Allotment A/c (Application money received)		2,10,000	2,10,000
	12% Debentures Application & Allotment A/c Dr Loss on Issue of Debentures A/c Dr To 12% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption A/c (Transfer of Application money to Debentures A/c, issued at a Premium of 5% and Redeemable at a Premium of 10%)		2,10,000 20,000	2,00,000 10,000 20,000

Part B: Financial Statement Analysis

Chapter – 09 : Financial Statements of a company

Units/Topics	Learning Outcomes
Financial statements of a Company: ➢ Meaning, Nature, Uses and importance of financialStatement. ➢ Statement of Profit and Loss and Balance Sheet in 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.*	**After going through this Unit, the students will beable to:** 🕮 develop the understanding of major headings and sub-headings (as per Schedule III to the Companies Act, 2013) of balance sheet as per the prescribed norms / formats. 🕮 state the meaning, objectives and limitations of financial statement analysis.

Points to Remember

a) Learn the format of balance sheet and statement of profit and loss thoroughly

b) Students must be thorough in headings and sub headings of balance sheet and statement of profit and loss.

c) Students must learn all the points of notes and solve questions given below.

Meaning:

Financial statements are the end product of an accounting process. Financial statement is historical in nature and is prepared following the accounting concepts and principles. These statements present in an organized and summarized form detailed information about the financial performance of an entity for an accounting period and also discloses its financial position at the end of the period.

Definition:

"Financial statements provide a summary of accounts of a business enterprise, a balance sheet reflecting the assets, liabilities and capital as on a certain date and income statement showing the results and operations during a certain period." - John N Myer

A set of financial statements as per section 2(40) of the ICA 2013 includes:

Balance sheet:

It is a statement of liabilities and assets showing the financial position of an enterprise at a given date. It is also known as position statement.

Statement of profit and loss:

It shows the result of business operations during an accounting period. It is also known as income statement.

Cash flow statement:

It is a statement prepared in accordance with AS-3, to show inflow and outflow of cash and cash equivalents.

Statement of changes in equity:

It shows changes in equity during a year.

Notes to Accounts:

It is any explanatory note annexed to any document referred above.

Characteristics of Financial Statements:

- ✓ Financial statements relate to a specific task period and are historical in nature.
- ✓ Financial statements are expressed in monetary terms.
- ✓ They show profitability through statement of profit and loss and financial position through balance sheet.

Nature of Financial Statement

Recorded Facts:

Financial statements are prepared on the basis of facts recorded in accounting books.

Accounting Conventions:

Certain accounting conventions such as the conventions of accountancy such as the conventions of consistency, conservatism and full disclosure are required to be followed while preparing financial statements.

Postulates/Concepts:

Financial statements are prepared on certain basic assumptions known as postulates or concepts such as going concern concept, money measurement concept, realization concept etc.

Personal Judgements:

Personal opinion, judgements, and estimates also affect the financial statements.

Objectives of Financial Statement:

- ✓ To provide financial data on assets and liabilities of an enterprise.
- ✓ To provide information about the earning capacity.
- ✓ To provide sufficient and reliable information to various parties interested in financial statements.
- ✓ To present true and fair view of the working of the business.

Importance of Financial Statements:

Report on Stewardship Function Gaps between and management performance and expectations of owners can be understood with the help of financial statements report the performance of the management to the shareholders.

Basis for Fiscal Policies Financial statements provide basic input for industrial taxation and other economic policies of the government as these policies of government are related with the financial performance of the companies.

Basis for Granting of Credit Financial statements forms the basis for granting of credit, as credit granting institutions take decisions based on the financial performance of the companies.

Basis for Prospective Investors Financial statements help the investors to asses long term and short term solvency, as well as, the profitability of the concern.

Guide to the Value of the Investments Already Made Financial statements provide various types of information to the shareholders about their investments such as the status, safety and return on their investment etc.

Helps Trade Associations in helping their members Financial statements help trade associations for various purposes such as providing service and protection to their members.

Ch-09: Financial Statements of Company

Financial statements are the basic and formal annual reports through which the corporate management communicates financial information to its owners and various other external parties which include investors, tax authorities, government, employees, etc. These refer to:the balance sheet (position statement) as at the end of accounting period, the statement of profit and loss of a company and the cash flow statement.

PARTICULARS (1)	NOTE NO (2)	FIGURES AS AT THE END OF CURRENT REPORTING PERIOD (3)	FIRGURES AS AT THE END OF THE PREVIOUS REPORTING PERIOD (4)
1. EQUITY AND LIABILITIES **(1) Shareholders' Funds** **(a) Share Capital** **(b) Reserves and Surplus** **(c) Money received against share warrants** **(2) Share Applications Money Pending Allotment** **(3) Non-Current Liabilities** **(a) Long-term borrowings**			
TOTAL			

II ASSETS 1. Non-Current Assets (a) Fixed Assets (i)Tangible Assets (ii) Intangible assets (iii) Capital work-in progress (iv) Intangible assets underdevelopment (b) Non-current investments (c) Deferred tax assets (net) (d)Long-term loans and advances (e) Other non-current assets (2) Current Assets			
TOTAL			

PARTICULARS (1)	NOTE NO (2)	FIGURES FOR THE CURRENT RERPORTING	FIGURES FOR THE PREVIOUS REPORTING
I. Revenue from operations			
II. Other income			
III. Total Revenue (I+II)			
IV. Expenses: 1. Cost of materials consumed Purchases of stock-in-trade 2. Changes in inventories of finished goods Work-in-progress and stock-in-trade Employees benefits expenses 3. Finance costs 4. Depreciation and amortization			
Total expenses			
V. Profit Before Tax (III-IV)			
VI. Tax			
VII. Profit After Tax (V-VI)			

VSA QUESTIONS (MCQ ONE MARK)

1. Which report gives a review on the profitability of a business?

(a) Statement of changes in equity (b) Cash flow statement
(c) Balance sheet (d) Income statement

2. When assets are subtracted from liabilities it will be equal to?

(a) Capital (b) Net income
(c) Working capital (d) Goodwill

3. P&L statement is also known as?

(a) Statement of earnings (b) Statement of balance sheet
(c) Statement of operations (d) Statement of income

4. Which of the following options is not recorded in the Balance sheet?

(a) Cash (b) Rent expenses (c) Building (d) Goodwill

5. Current assets are also known as:

(a) Cash (b) Assets (c) Invested capital (d) Working capital

6. The main operation expenses of a business are termed as:

(a) Operating expenses (b) Non-administration expense
(c) Selling expenses (d) Administration expense

7. Cash receipt received from the sales fixed assets are recorded under the head of:

(a) Other activities (b) Investing activities
(c) Financing activities (d) Operating activities

8. A current asset that can be transferred into cash within three months is known as:

(a) Cash equivalent (b) Intangible asset
(c) Operating asset (d) Cash asset

9. A method used in a comparative analysis of financial statement is:

(a) Returning analysis (b) Common size analysis
(c) Preference analysis (d) Graphical analysis

10. Which statement shows the flow of cash and cash equivalents during the financial period?

(a) Statement of changes in equity (b) Cash flow statement
(c) Balance sheet (d) Income statement

11. Under which heading the item 'Bills discounted but not yet matured' will be shown in the Balance Sheet of a company?

(a) Current liability (b) Current Assets
(c) Contingent Liabilities (d) Unamortized Expenditure

12. While preparing the Balance Sheet of a company, 6% debentures is shown under which head?

(a) Share capital (b) Long term borrowings

(c) Short term borrowings (d) None of these

13. Which of the following will not cover under finance cost?

(a) Discount on issue of debentures written off

(b) Interest paid on bank overdraft

(c) Bank charges

(d) Premium payable on redemption of debentures written off

14. Surplus, i.e, Balance in Statement of Profit and Loss is shown as

(a) Share capital (b) Reserves and Surplus

(c) Other Long term Liabilities (d) Current Liabilities

15. In a company's Balance Sheet, the Debit (Negative) balance of Statement of Profit and Loss is shown under

(a) Non-Current Liabilities (b) Current Liabilities

(c) Non-Current Assets (d) Reserves and Surplus

16. In a company's Balance Sheet, the Debit (Negative) balance of Statement of Profit and Loss is shown under

(a) Non-Current Liabilities (b) Current Liabilities

(c) Non-Current Assets (d) Reserves and Surplus

17. Under which of the following headings/subheadings, calls in Advance will be presented in the Balance Sheet of a company as per Schedule III part I of the Companies Act, 2013?

(a) Current Liabilities (b) Share Capital

(c) Share Application Money Pending Allotment (d) Reserves and Surplus

18. As per Schedule III, Part – I of the Companies Act, 2013, 'Calls in arrears' will be presented under which of the following head/sub-head, in the Balance Sheet of a company?

(a) Reserve and Surplus (b) Current Liability

(c) Contingent Liabilities (d) Shareholders Funds

19. 2,000, 9% debentures of ₹100 each out of 8,000, 9% debentures are redeemable within 12 months of the date of the Balance Sheet. They will be shown in the Current Liabilities as:

(a) Short-term Borrowings (b) Other Current Liabilities

(c) Trade Payables (d) Short term Provisions

20. Under which expense head is loss on the issue of debentures shown in Statement of Profit and Loss?

(a) Cost of Debt (b) Other expenses

(c) Finance cost (d) Operating Cost

Answers:

Question Number	Correct Option	Question Number	Correct Option
1	**D**	**11**	**C**
2	**A**	**12**	**B**
3	**D**	**13**	**C**
4	**B**	**14**	**B**
5	**D**	**15**	**D**
6	**A**	**16**	**A**
7	**B**	**17**	**A**
8	**A**	**18**	**D**
9	**B**	**19**	**B**
10	**B**	**20**	**C**

Short Answer Questions(3 Marks)

1. One of the objectives of 'Financial Statement Analysis' is to judge the ability of the firm to repay its debt and assessing the short-term as well as the long-term liquidity position of the firm. State two more objectives of this analysis.

Ans :

(i) To know the managerial efficiency.

(ii) To make comparative study with other similar firms.

2. Briefly explain the significance of analysis of financial statement to (i) the Finance Manager and (ii) Trade Payables.

Ans :

(i) It helps the finance managers to assess the financial potential of the business.

(ii) Trade payables are particularly interested in firm's ability to meet their claims over a short period of time.

3. Why is the management interested in analysing financial statements ?

Or

State the significance of analysis of financial statements to ‘Top Management’.

Ans :

Management of a firm is interested in analysis of the financial statements to know the solvency, profitability and the capital structure of the firm.

4. How is analysis of financial statements important to the shareholders of the company?

Ans :

Shareholders get to know the profitability and earning capacity of the company.

5. How the solvency of business is assessed by ‘Financial Statement Analysis’ ?

Ans :

Solvency of business is assessed by applying solvency ratios, e.g., debt equity ratio, proprietary ratio, total assets to debt ratio and interest coverage ratio.

6. How the ‘Earning capacity of a business’ is assessed by “Financial Statement Analysis” ?

Ans :

Earning capacity of a business is assessed by applying profitability ratio e.g., gross profit ratio, net profit ratio, operating ratio, return on investment etc.

7. How is ‘window dressing’ a limitation of Financial Statement Analysis ?

Ans :

Some business concerns use window dressing (i.e., manipulation of accounts) for the financial statements so as to show better financial position on the date of final account. On account of such a case, the results obtained by financial analysis will be misleading.

8. How does ‘subjectivity’ become a limitation of Financial Statement Analysis ?

Ans :

Conclusions obtained from the analysis are affected, to a great extent, by subjectivity (i.e., personal judgement in making a choice out of alternatives available). In such a case, the financial statements are not free from bias.

9. State why shareholders are interested in Financial Statement Analysis.

Ans :

Shareholders are interested in the profitability, dividends, market value of their holdings and long-term solvency of the business concern.

10. State the interest of tax authorities in the analysis of financial statements.

Ans :

Tax authorities are interested in the financial analysis for determining tax liabilities of the business entity.

11. State the interest of investors in the analysis of financial statements.

Ans :

Investors are interested in the safety of their capital as well as appreciation of their capital through financial analysis.

12. State the importance of analysis of financial statements for trade union.

Ans :

Trade unions can judge the profitability of the business enterprises on the basis of analysis of financial statements because trade unions are interested in negotiating wages agreements.

13. State how qualitative aspects are ignored in financial statement analysis.

Ans :

Qualitative aspects like reputation of business, quality of product, efficiency of management etc. are ignored because these cannot be measured in monetary terms.

14. State why financial statement analysis is considered historical in nature.

Ans :

Financial statement analysis is considered as historical in nature because the analysis is made on data which is of past and not of future.

15. State the significance of analysis of financial statements to the 'Lenders'.

Ans :

Lenders are interested in analysis of financial statements to know the profit earning capacity and long-term solvency of the business.

16. Why is the government interested in analysing financial statements ?

Ans :

On the basis of analysis of financial statements, government can judge which industry is progressing on the desired lines and which industry needs help.

Short Answer Questions (3 / 4 Marks)

Question 1: Explain briefly any four objectives of 'Analysis of Financial Statements'.

Answer:

Four objective of ‘Analysis of Financial statements are as follows:

1. To assess the current profitability and operational efficiency of the firm as a whole as well its different departments so as to judge the financial health of firm.
2. To ascertain the financial position of firm.
3. To identify the reasons for change in the profitability and financial position of the firm.
4. To Judge the ability of the firm to repay its debt and assessing the short-term as well as the long-term liquidity position for the firm.

Question 2: State under which major headings and sub-headings will the following items be presented in the Balance

Sheet of a company as per Schedule-Ill, Part-I of the Companies Act, 2013.

(i) Prepaid Insurance

(ii) Investment in Debentures

(iii) Calls-in-arrears

(iv) Unpaid dividend

(v) Capital Reserve

(vi) Loose Tools

(vii) Capital work-in-progress

(viii) Patents being developed by the company.

Items	**Major heads**	**Sub-heads**
1. Prepaid insurance	Current Assets	Other current assets
2. Investment in debenture	Non-current Assets	Non-current investment
3. Calls in Arrears	Shareholders Fund	Subscribed capital (less from subscribe but not fully paid)
4. Unpaid dividend	Current liabilities	Other current liabilities
5. Capital Reserve	Shareholder Fund	Reserve and Surplus
6. Loose tools	Current Assets	Inventories
7. Capital work in progress	Non-current Assets	Fixed Assets (Capital work in progress)
8. Patent being developed by the company	Non-current Assets	Fixed Assets (intangible asset under development

Question 3: 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) Cheques and Bank Drafts in Hand

(ii) Loose tools

(iii) Securities Premium Reserve

(iv) Long-Term Investments with maturity period less than six months

(v) Work-in-Progress

(vi) Mining Rights

(vii) Publishing titles

(viii) Debtors

Items	Heads	Sub-heads
(i) Cheques and Bank Drafts in Hand	Current Assets	Cash & Cash Equivalents
(ii) Loose Tools	Current Assets	Inventories
(iii) Securities Premium Reserve	Shareholders' Funds	Reserves & Surplus
(iv) Long term Investments with maturity period less than six months	Current Assets	Current Investments
(v) Work-in-Progress	Current Assets	Inventories
(vi) Mining Right	Non Current Assets	Fixed Assets-Intangible
(vii) Publishing Titles	Non Current Assets	Fixed Assets-Intangible
(viii) Debtors	Current Assets	Trade Receivables

Question 4: 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

S. No.	Item	Major Head	Sub Head
(i)	Debentures with maturity	Current Liabilities	Other Current

	period in current financial year		Liabilities
(ii)	Securities Premium Reserve	Shareholder's Fund	Reserves and Surplus
(iii)	Provident Fund	Non-Current Liabilities	Long Term Provision

Question 5: Under which sub-headings will the following items be placed in the Balance Sheet of a company as per Schedule-Ill, Part-I of the Companies Act, 2013?

(i) Prepaid Expenses

(ii) Loose Tools

(iii) Loans Repayable on Demand

(iv) Provision for Employee Benefit

(v) Negative Balance in the Statement of Profit and Loss

(vi) Bank Overdraft

(vii) Bills Receivables

(viii) Trade Marks

Answer:

	Items	**Sub-Head**
(i)	Prepaid Expenses	Other Current Assets
(ii)	Loose Tools	Inventories
(iii)	Loans repayable on demand	Short Term borrowings
(iv)	Provision for employees benefit	Long term provisions
(v)	Negative balance in Statement of Profit and Loss	Reserves and Surplus
(vi)	Bank Overdraft	Short Term borrowings
(vii)	Bills Receivable	Trade Receivables
(viii)	Trade Marks	Fixed assets Intangible

Question 6

(a) 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) Capital Work in progress; and

(ii) Provision for warranties.

Answer:

S.No.	Items	Headings	Sub-headings
(i)	Capital work in progress	Non-current assets	Fixed assets
(ii)	Provision for warranties	Non-current liabilities	Long term provisions

Question 7:

(i) One of the objectives of analysis of financial statement is to ascertain the relative importance of the different components of the financial position of the firm'. State two other objective of this analysis.

(ii) List any four items of 'reserve' that are shown under the headings 'Reserves and Surplus' in the Balance Sheet of a company as per schedule III of the Companies Act 2013.

Answer:

(i) Objectives of Analysis of Financial Statement:

(i) Assessing the earning capacity or profitability of the firm as a whole as well as its different departments so as to judge the financial health of the firm.

(ii) Judging the ability of the firm to repay its debts and assessing the short term as well as long term liquidity position of the firm.

(ii) Reserve and Surplus:

(i) Capital Reserve

(ii) Securities Premium Reserve.

(iii)Revaluation Reserve.

(iv)Capital Redemption Reserve.

Question 8:

(i) One of the objectives of 'financial Statement Analysis, is to identify the reasons for change in the financial position of the enterprise. State two more objectives of this analysis.

(ii) Name any two items that are shown under the head 'Other Current Liabilities' and any two items that are shown under the head 'Other Current Assets' in the Balance Sheet of a company as per Schedule III of the Companies Act, 2013.

Answer:

(i) Objectives:

1. To evaluate the business in Terms of profit in present and future.

2. To evaluate the efficiency of various parts or departments of the business.

(ii) Other Current Liability:

1. Unpaid dividend
2. Current maturity of long term debts.
3. Other Current Assets.
4. Discount in issue of debentures (to be written off within 12 months).
5. Accrued incomes.

Question 9: List the major heads under which the 'Equity and Liabilities' are presented in the balance sheet of a company as per Schedule III Part I of the Companies Act, 2013.

Answer:

The major heads under which 'Equity and Liabilities' are presented:

1. Share holders' Fund
2. Share Application Money Pending allotment
3. Non-Current liabilities
4. Current Liabilities

Question 10:

List the major heads under which the 'Assets' are presented in the balance sheet of a company as per Schedule III Part I of the Companies Act, 2013.

Answer:

The major heads under which the 'Assets' are presented:

(a) Non-current Assets

(b) Current Assets

Question 11: Name the sub-heads under the head

(a) shareholders Funds' and

(b) Non-Current Liabilities as per Schedule III Part I of the balance sheet.

Answer:

(a) The sub-heads under Shareholders Funds are

1. Share Capital
2. Reserves and surplus
3. Money received against share warrants

(b) The sub-heads under 'Non-current liabilities' are

1. Long-term Borrowings
2. Deferred Tax Liabilities (Net)

3. Other Long-term Liabilities
4. Long-term Provisions

Question 12:

X Ltd. has an authorized capital of₹ 15,00,000 divided into 1,00,000 equity shares of ₹ 10 each and 50,000, 9% preference shares of ₹ 10 each. The company invited applications for all the preference shares but only 90,000 equity shares. All the preference shares were subscribed, called and paid while subscriptions were received for only 85,000 equity shares.

During the first year ₹ 8 per share were called.

Ram holding 1,000 shares and Shyam holding 2,000 shares did not pay first call of ₹ 2.

Shyam's shares were forfeited after the first call and later on 1,500 of the forfeited shares were reissued at ₹ 6 per shares ₹ 8 called up.

(a) Show share capital in the Balance Sheet as per revised Schedule VI as at 31st March 2013.

(b) Prepare relevant 'Notes to Accounts'.

Answer:

Balance Sheet of X Ltd.
As at 31.03.2013 (Extract)

(a)

Particulars	Note No.	31.03.2013 (₹)
I EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(a) Share Capital	1	11,77,000
(b) Reserves & Surplus	2	6,000
Total		**11,83,000**

(b) **Notes to Accounts**

Particulars		(₹)
1. SHARE CAPITAL		
Authorised Capital		
1,00,000 equity shares of ₹ 10 each		10,00,000
50,000, 9% preference shares of ₹ 10 each		5,00,000
Issued capital		
90,000 equity shares of ₹ 10 each		9,00,000
50,000, 9% preference shares of ₹ 10 each		5,00,000
Subscribed Capital		
Subscribed and fully paid		
50,000, 9% preference shares of ₹ 10 each		5,00,000
Subscribed but not fully paid		
84,500 equity shares of ₹ 10 each ₹ 8 called up	6,76,000	

Question 13: From the following information extracted from the books of XY Ltd., prepare a Balance sheet of the company as at March 31, 2012 as per Schedule III of the Companies Act, 2013.

Particulars	Amount in '000' (₹)
Long-Term Borrowings	500
Trade Payable	300
Share Capital	400
Reserve and surplus	90
Fixed assets (Tangible)	800
Inventories	20
Trade receivables	80
Cash and cash equivalents	120

Answer:

Balance Sheet of XY Ltd.
As at March 31, 2012

Particulars	Note No.	2011–12 (₹ in '000')
I EQUITY AND LIABILITIES		
(1) Shareholders' Funds		
(*a*) Share capital		400
(*b*) Reserves and surplus		90
(2) Non Current Liabilities		
Long-term borrowings		500
(3) Current liabilities		
Trade payables		30
Total		**1020**
II ASSETS		
(1) Non-current Assets		
(*a*) Fixed Assets		
Tangible Assets		800
(2) Current Assets		
(*a*) Inventories		
(*b*) Trade receivables		20
(*c*) Cash & Cash Equivalents		80
		120
Total		**1020**

Question 14: JW Ltd was a company manufacturing geysers. As a part of its long term goal for expansions, the company decided to identify the opportunity in rural area. Initial plan was rolled out for Bhiwani village in Haryana. Since, the village did not have regular supply of electricity, the company decided to manufacture solar geysers. The core team consisting of the Regional Managers, Accountant and the Marketing Manager was taken from the Head office and the remaining employees were selected from the village and neighborhood area. At the time of preparation of financial statement the accountant of the company fell sick and the company deputed a junior accountant temporarily from the village for two months. The Balance Sheet prepared by the junior accountant showed the following items against the Major heads and sub-head mentioned which were not as per Schedule III of the Companies Act 2013. Items Major Head

a. Loose Tools Trade Receivable
b. Cheque in Hand Current Investment
c. Term Loan from Bank Other long Term Liabilities
d. Computer Software Tangible Fixed Assets

Present the above items under the correct major head and sub-head as per the

Schedule III of Companies Act 2013.

Answer:

Item	Heads	Sub-heads
Loose Tools	Current assets	Inventories
Cheques in hand	Current assets	Cash and Cash Equivalent
Term loan from Bank	Non-Current Liabilities	Long Term Borrowings
Computer Software	Non-Current assets	Fixed Assets-Intangible Assets

Question 15: M K Limited is a computer hardware manufacturing company. While preparing its accounting records it takes into consideration the various accounting principles and maintains transparency. At the end of the accounting year, the company follows the 'Companies Act, 2013 and Rules there under' for the preparation of its Financial Statements. It also prepares its Income Statement and Balance Sheet as per the format provided in Schedule III to the Act. Its Financial Statements depict its true & fair financial position. For the financial year ending March 31,2017, the accountant of the company is not certain about the presentation of the following items under relevant Major Heads & Sub Heads, if any, in its Balance Sheet:

1. Securities Premium Reserve
2. Calls in Advance
3. Stores & Spares

Advice the accountant of the company under which Major Heads and Sub Heads, if any, he should present the above items in the Balance Sheet of the company.

Answer:

S.No.	Items	Major head	Sub-Head
i)	Securities Premium Reserve	Shareholders' Funds	Reserve and Surplus
ii)	Calls in Advance	Current Liabilities	Other Current Liabilities
iii)	Stores and Spares	Current Assets	Inventory

PART – B - FINANCIAL STATEMENT ANALYSIS

CHAPTER – 10 : ANALYSIS OF FINANCIAL STATEMENTS

Units/Topics Learning Outcomes	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 prescribed form with major headings and sub headings (as per Schedule III to the Companies Act,2013) ✍ Note: Exceptional items, extraordinary items and profit (loss) from discontinued operations are excluded.	**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 Companies Act, 2013) of balance sheet as per the prescribed norms / formats. 🕮 State the meaning, objectives and limitations of financial statement analysis. 🕮 Discuss the meaning of different tools of 'financial statements analysis'.

Introduction:

In previous chapter, we learnt about the financial statements (Income Statement and Balance Sheet) of companies. These summarised reports help to know the operating results and financial position of the concern. To know the operational efficiency and interpretation require proper analysis and interpretation of such information for which a number of techniques (tools) have been developed by financial experts. In this chapter we will have an overview of these techniques.

Meaning of Analysis of Financial Statements:

The process of critical evaluation of the financial information contained in the financial statements in order to understand and make decisions regarding the operations of the firm is called 'Financial Statement Analysis'.

The term 'financial analysis' includes both 'analysis and interpretation'.

The term "**Analysis**" means simplification of financial data by methodical classification given in the financial statements.

"Interpretation" means explaining the meaning and significance of the data.

Significance of Analysis of Financial Statements:

Analysis of financial statement assesses **the financial strengths and weaknesses of the firm** by properly establishing relationships between the various items of the balance sheet and the statement of profit and loss.

Financial analysis is useful and significant to different users in the following ways:

(a) Financial Manager: The tools for analysis help in studying accounting data so as to determine the continuity of the operating policies, investment value of the business, credit ratings and testing the efficiency of operations.

(b) Top Management: Financial analysis helps the management in measuring the success of the company's operations, appraising the individual's performance and evaluating the system of internal control.

(c) Trade Payables: Trade payables are particularly interested in the firm's ability to meet their claims over a very short period of time. Their analysis will, therefore, evaluate the firm's liquidity position.

(d) Lenders: They analyse the firm's profitability over a period of time, its ability to generate cash, to be able to pay interest and repay the principal and the relationship between various sources of funds (capital structure relationships).

(e) Investors: They concentrate on the analysis of the firm's present, future profitability and also interested in the firm's capital structure to ascertain its influences on firm's earning and risk.

(f) Labour Unions: Labour unions analyse the financial statements to assess whether the firm can presently afford a wage increase, possibility to wage increase through increased productivity or by raising the prices.

(g) Others: The economists, researchers, etc., analyse the financial statements to study the present business and economic conditions. The government agencies need it for price regulations, taxation and other similar purposes.

Objectives of Analysis of Financial Statements:

Analysis of financial statements reveals important facts concerning managerial performance and the efficiency of the firm.

(a) Assessing the earning capacity of the firm – To determine whether adequate profits are being earned (or) not. Earning capacity of the firm is assessed on the basis of Profitability ratios (like Gross Profit Ratio, Operating Profit Ratio, etc.,)

(b) **Measures the management's efficiency** – To determine operational efficiency of the management and in judging whether the financial policies adopted by the management are proper (or) not.

(c) **Assessing the solvency** – To assess both short term and long term solvency of the business.

(d) **Inter – firm and Intra – firm Comparison** – To detect the weakness and applying corrective measures in time.

(e) **Forecasting and preparing budgets** – To forecast and prepare budgets on the basis of evaluation of past results.

(f) **Providing useful information** – To provide useful information to various parties like creditors, investors, lenders, banks, government, etc.,

(g) **To measure the financial strength** – To assess the financial potential of the business.

Tools (or) Techniques of Analysis of Financial Statements:

Comparative Statements: These are the statements showing the profitability and financial position of a firm for different periods of time in a comparative form to give an idea about the position of two or more periods. This analysis is also known as **'horizontal analysis'.**

Common Size Statements: These are the statements which indicate the relationship of different items of a financial statement with a common item by expressing each item as a percentage of that common item. This analysis is also known as **'horizontal analysis'.**

Trend Analysis: It is a technique of studying the operational results and financial position over a series of years.

Ratio Analysis: It describes the significant relationship which exists between various items of a balance sheet and a statement of profit and loss of a firm.

Cash Flow Analysis: It refers to the analysis of actual movement of cash into and out of an organisation. The difference between the inflow and outflow of cash is the net cash flow.

Limitations of Financial Analysis are:

The main limitations of Financial Analysis are:

(a) **Ignores price level changes:** The financial accounting principles are based on stable money measurement principle, i.e. price level changes are not considered.

(b) **Historical information:** Financial statements are based historical concept as they are record past events and facts. Therefore, it does not give information about future.

(c) **Ignores qualitative aspects:** Financial statements are based on money measurement principle, therefore, non-monetary aspects are ignored such as qualitative management, honesty, sincerity, public relations, etc.,

(d) **Suffers from limitations of financial statements:** If financial figures are false, the financial analysis picture will become false.

(e) **Window dressing:** Sometimes companies conceal the material facts and exhibit false position in order to show the better picture of the business.

(f) **Variation in Accounting Policies:** Different accounting policies also may have dissimilarity in comparison of financial statements.

(g) **Personal Bias:** Since, subjectivity is inherent in personal judgment, analysis of such financial statements is not free from bias.

One Mark Questions:

1. The term ___________ means simplification of financial data by methodical classification given in the financial statements.

   (a) Ratio (b) Analysis (c) Interpretation (d) All of the above

2. ___________ means explaining the meaning and significance of the data.

   (a) Ratio (b) Analysis (c) Interpretation (d) All of the above

3. ___________ is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationships between the various items of the balance sheet and the statement of profit and loss.

   (a) Ratio Analysis (b) Cash Flow Analysis

   (c) Marketing Analysis (d) Financial Analysis

4. Select the odd on basis of users of financial statements.

   (a) Owners (b) Investors (c) Managers (d) Employees

5. Select the odd on basis of users of financial statements.

   (a) Investors (b) Creditors (c) Tax Authorities (d) Employees

6. To whom the financial data is much useful to assess wages, bonus, etc.,

   (a) Owners (b) Investors (c) Managers (d) Employees

7. Interpretation of Financial Statements includes:

   (a) Criticisms and Analysis (b) Comparison and Trend Study

(c) Drawing Conclusion (d) All the above

8. ______ is also called horizontal analysis.

(a) Comparative Statement Analysis (b) Common – Size Statement Analysis

(c) Ratio Analysis (d) Cash Flow Statement Analysis

9. ______ is also called vertical analysis.

(a) Comparative Statement Analysis (b) Common – Size Statement Analysis

(c) Ratio Analysis (d) Cash Flow Statement Analysis

10. Horizontal Analysis is also known as :

(a) Dynamic Analysis (b) Structural Analysis (c) Static Analysis (d) None of these

11. Vertical Analysis is also known as :

(a) Static Analysis (b) Dynamic Analysis (c) Structural Analysis (d) None of these

12. The most commonly used tools for financial analysis are:

(a) Comparative Statements (b) Common-size Statement

(c) Accounting Ratios (d) All the above

13. For calculating trend percentages any year is selected as:

(a) Current year (b) Previous year (c) Base year (d) None of these

14. Tools for comparison of financial statements are:

(a) Comparative Balance Sheet (b) Comparative Income Statement

(c) Common-size Statement (d) All the above

15. Trend ratios and trend percentage are used in:

(a) Dynamic analysis (b) Static analysis

(c) Horizontal analysis (d) Vertical Analysis

16. Comparative Financial Statements show:

(a) Financial position of a concern (b) Earning capacity of a concern

(c) Both of them (d) None of these

17. Comparative financial analysis process shows the comparison between the items of which statement:

(a) Balance Sheet (b) Profit & Loss Statement

(c) (a) and (b) both (d) None of these

18. Which of these are not the methods of financial statement analysis?

(a) Ratio Analysis (b) Comparative Analysis

(c) Trend Analysis (d) Capitalisation Method

19. Common-size financial statements are mostly prepared:

(a) In proportion (b) In percentage (c) (a) and (b) both (d) None of these

20. Financial analysis is significant because it:

(a) Ignores qualitative aspect

(b) Judges operational efficiency

(c) Suffers from the limitations of financial statements

(d) It is affected by personal ability and bias of the analysis

21. What is shown by the Income Statement ?

(a) Accuracy of books of accounts (b) Profit or loss of a certain period

(c) Balance of Cash Book (d) None of these

22. What is shown by Balance Sheet ?

(a) Accuracy of books of accounts (b) Profit or loss of a specific period

(c) Financial position on a specific date (d) None of the above

23. Which of the following is the purpose or objective of financial analysis ?

(a) To assess the current profitability of the firm

(b) To measure the solvency of the firm

(c) To assess the short-term and long-term liquidity position of the firm

(d) All the above

24. Which of the following is **not** a limitations of financial statement analysis ?

(a) To measure the financial strength

(b) Affected by window-dressing

(c) Do not reflect changes in price level

(d) Lack of Qualitative Analysis

25. An annual report is issued by company to its :

(a) Directors (b) Auditors (c) Shareholders (d) Management

26. Balance Sheet provides information about financial position of the enterprise :

(a) At a Point of Time (b) Over a Period of Time

(c) For a Period of Time (d) None of the above

27. In which meeting of company directors report is presented?

(a) Directors Meeting (b) Annual General Meeting

(c) Manager's Meeting (d) All of the above

28. When Financial Statements of two or more organisations are analysed, it is called

(a) Intra-firm Analysis (b) Inter-firm Analysis

(c) Vertical Analysis (d) None of these

29. Which of the following statement correct?

(a) Retained Earnings = Total Income

(b) Retained Earnings = Revenue - Expenses

(c) Retained Earnings = Gross Profit

(d) None of the above

Assertion Reasoning Type Questions:

Alternatives:

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

b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

c) Assertion (A) is true but Reason (R) is False

d) Assertion (A) is False but Reason (R) is True.

30. **Assertion (A):** Financial Statements of a company are prepared in the form prescribed in Schedule III of the Companies Act, 2013

Reason (R): Section 129 of the companies Act, 2013 prescribes Schedule III as per which financial statements have to be prepared by all companies.

31. **Assertion (A):** Certain accounting conventions like conventions of consistency, conservatism, full disclosure, etc. are allowed while preparing financial statements.

Reason (R): use of accounting conventions makes the financial statements comparable, simple and realistic.

32. **Assertion (A):** The Balance Sheet is a list of assets and liabilities of the company presented in the specified format for the year ended on that date.

Reason (R): The Balance Sheet is a statement of assets and liabilities of the company as of that day.

33. **Assertion (A):** The Management uses accounting information to arrive at various decisions like determination of selling price, cost controls, investment into new ventures, etc.

Reason (R): The management has the responsibility to safeguard the customer's investment and increase its value by managing the business efficiently.

34. **Assertion (A):** Statement of Profit and Loss shows the results of business operations for the year ended on that date.

Reason (R): It is prepared in the form prescribed in Part II of Schedule III of the Companies Act, 2013.

Answers:

1. (b) Analysis
2. (c) Interpretation
3. (d) Financial Analysis
4. (b) Investors
5. (d) Employees
6. (d) Employees
7. (d) All the above
8. (a) Comparative Statement Analysis
9. (b) Common – Size Statement Analysis
10. (a) Dynamic Analysis
11. (a) Static Analysis
12. (d) All the above
13. (c) Base year
14. (d) All the above
15. (c) Horizontal analysis
16. (c) Both of them
17. (c) (a) and (b) both
18. (d) Capitalisation Method
19. (b) In percentage
20. (b) Judges operational efficiency
21. (b) Profit or loss of a certain period
22. (c) Financial position on a specific date
23. (d) All the above
24. (a) To measure the financial strength
25. (c) Shareholders
26. (a) At a Point of Time
27. (b) Annual General Meeting
28. (b) Inter-firm Analysis
29. (b) Retained Earnings = Revenue - Expenses

Assertion Reasoning Type Questions:

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

31. a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
32. d) Assertion (A) is False but Reason (R) is True.

    Explanation:- Balance Sheet is not a list. It is the statement.
33. c) Assertion (A) is true but Reason (R) is False

    Explanation:- Cutomer does not invest in the business, he just purchase goods for his satisfaction. Management is not responsible to increase the value of his purchasing.
34. b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)

    Explanation:- Both Reason and Assertion are true. But Reason does not explain how profit and loss shows the results of Business operations.

Reference:

1. Books – NCERT, T S Grewal, DK Goel, Sandeep Garg
2. https://www.learninsta.com/mcq-questions-for-class-12-accountancy-chapter-9/
3. https://commerceschool.in/assertion-reason-mcqs-of-financial-statements-of-a-company-class-12/

Part B: Financial Statement Analysis

Chapter- 12 : Accounting Ratios

Units/Topics	Learning Outcomes
➢ **Accounting Ratios:** Meaning, Objectives, Advantages, classification and computation. ➢ **Liquidity Ratios:** Current ratio and Quickratio. ➢ **Solvency Ratios:** Debt to Equity Ratio, TotalAsset 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.	🕮 state the meaning, objectives and significance of different types of ratios. 🕮 develop the understanding of computation ofcurrent 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 inventoryturnover 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.

Meaning of Key Words

1. Ratio: It is an arithmetical expression of relationship between two interdependent or related items.

2. Accounting Ratio: Accounting Ratio means ratio calculated on the basis of accounting information.

3. Pure Ratio: It is a ratio expressed as quotient. For example, 2 : 1.

4. Percentage: It is a ratio expressed in percentage. For example, 25%.

5. Times: It is a ratio expressed in number of times. For example, 3 Times.

6. Fraction: It is a ratio expressed as fraction. For example, 3/4 or .75.

7**. Liquidity Ratios:** These ratios measure the ability of the enterprise to meet its short-term financial commitments. These include: Current Ratio and Quick Ratio/Liquid Ratio/Acid Test Ratio.

8. Solvency Ratios: These ratios measure long-term financial position of the enterprise. These include: Debt to Equity Ratio; Total Assets to Debt Ratio; Proprietary Ratio and Interest Coverage Ratio.

9. Activity or Turnover Ratios: These ratios measure efficiency in use of assets of the enterprise in generating sales. These include: Inventory Turnover Ratio; Trade Receivables Turnover Ratio; Trade Payables Turnover Ratio, Working Capital Turnover Ratio.

10. Profitability Ratios: These ratios show the profitability of the enterprise. These include: Gross Profit Ratio; Operating Ratio; Operating Profit Ratio; Net Profit Ratio and Return on Investment (ROI).

Accounting Ratios - Meaning

Relationship between two figures, expressed in arithmetical terms is called a ratio. Accounting ratio is one of the tools of financial analysis which requires regrouping of data by application of arithmetical relationships which provides crucial financial information and points out the areas which require investigation.

Method of Expressing Ratios

(a) Proportion Ratio / Pure Ratio or Simple Ratio

(b) Times Method

(c) Percentage Method

(d) Fraction Method.

Meaning of Ratio Analysis:

Ratio analysis is a process of identifying the financial strengths and weaknesses of the firm by logically establishing relationships between the numbers given in the balance sheet and profit and loss account, and interpreting the results there of in order to derive meaningful conclusions.

An Analysis of financial of financial Statements with the help of 'accounting ratios' is termed as "Ratio Analysis".

Objectives of Accounting Ratios: -

Accounting ratios are true test of the profitability, efficiency and financial soundness of the company. These ratios have the following objectives: -

(1) Measurement of the profitability

(2) Judging the operational efficiency of management.

(3) Assessing the efficiency of the management.

(4) Measuring short and long term financial position of the company

(5) Facilitating comparative analysis of the performance

(6) Indicator of true efficiency

(7) Helpful in budgeting and forecasting

(8) Helpful in simplifying accounting figures

(9) Useful to shareholders, creditors, investors, workers and government.

Classification of Ratios:-

A. Liquidity Ratio

B. Solvency Ratio

C. Activity Ratio

D. Profitability Ratio

<u>Classification of Accounting Ratio</u>

(a) On the basis of objectives

(i) Financial Ratios

(ii) Liquidity Ratios or short term financial ratios

1. Current ratio
2. Liquid ratio

(b) On the basis of financial statements

1. Income statement Ratios
2. Balance sheet ratios
3. Inter statement ratios

Solvency ratios or Long term financial ratios:

1. Debt to equity ratio
2. Total Assets to Debt ratio
3. Proprietary ratio
4. Interest coverage ratio

Activity or performance or turnover ratios:

1. Stock or inventory turnover ratio
2. Trade Receivable turnover ratio
3. Trade Payables turnover ratio
4. Working capital turnover ratio

Profitability Ratios:

1. Gross profit ratio
2. Net profit ratio
3. Operating ratio
4. Operating Profit ratio
5. Return on investment or capital employed

ACCOUNTING RATIOS

Formula

A. Liquidity Ratios:

To meet its commitments, business needs liquid funds. The ability of the business to pay the amount due to stakeholders as and when it is due is known as liquidity, and the ratios calculated to measure it are known as ‘Liquidity Ratios’. Liquidity ratios are also known as short-term solvency ratios. There are two types of Liquidity ratios, they are:-

1.Current Ratio:- Current Ratio is the proportion of current assets to current liabilities. It is also known as working capital ratio. The ideal ratio of current ratio is 2:1.It is expressed as follows:

Current Ratio = Current Assets / Current Liabilities

List of Current assets:- Current Investments, Inventories, Trade Receivables (less provision, Cash and Cash Equivalents, Short-term loans And advances, Other Current Assets(Prepaid exp., Accrued income, Advance Tax.)

List of current liabilities:- Short-term Borrowings(including Bank overdraft),Trade payables, other current liabilities(Unpaid dividends, interest Accrued on borrowings, income received in advance, outstanding exp.) Short-term provisions (provision for tax and proposed dividend).

2. Liquid Ratio:- Liquid ratio is also known as Quick Ratio or Acid Test Ratio. Current ratio is the proportion of Current Assets to Current Liabilities. An ideal Quick ratio is said to be 1:1. It is expressed as below:

Quick Ratio = Quick Assets / Current Liabilities.

Quick Assets = Current Assets – (Prepaid expenses + Closing Stock)

B. Solvency Ratio:-

These ratios are calculated to assess the ability of the firm to meet its long-term liabilities as and when they become due. Some important solvency ratios are:-

1. Debt Equity Ratio:- Debt Equity Ratio measures the relationship between Long-term Debt and Equity. Ideal ratio of Debt Equity ratio is 2:1.

$$\textbf{Debt Equity Ratio} = \frac{\textbf{Debt}}{\textbf{Equity}}$$

Debt here means Long-term Debt and Equity means shareholders fund or Net worth. Long-term Debt includes Long-term Borrowings and Long-term Provisions.

For Example:- Debentures, Mortgage Loan, Bank loan, loan from financial institutions, Public Deposits, etc

Shareholder's Fund = Share Capital and Reserve and Surplus.

2. Total Assets to Debt Ratio:- Total assets to Debt ratio establishes relationship between Total Assets and Long-term Debt.

$$\textbf{Total Assets to Debt Ratio} = \frac{\textbf{Total Assets}}{\textbf{Debt}}$$

Total Assets = Non-Current Assets (Tangible and Intangible + Non-current Investments+ Long-term Loans and Advances) + Current Assets.

Debt = Long-term Borrowings and Long-term Provisions.

3. Proprietary Ratio:- Proprietary ratio expresses the relationship of Proprietor's(Shareholders) funds to Total Assets and is calculated as follows :

$$\textbf{Proprietary Ratio} = \frac{\textbf{Shareholders funds}}{\textbf{Total Assets}}$$

4. Interest coverage Ratio:- This ratio is calculated by dividing the Profit before Charging Interest and Income-tax by fixed interest charges. An Interest Coverage Ratio of 6 to 7 times is considered appropriate and is calculated as follows :

$$\textbf{Interest Coverage Ratio} = \frac{\textbf{Net Profit before charging Interest and Tax}}{\textbf{Fixed Interest Charges.}}$$

$$\text{5. Debt to Capital Employed Ratio} = \frac{\text{Debt}}{\text{Capital Employed}}$$

C. Activity (or Turnover) Ratios:-

The turnover ratios basically exhibit the activity levels characterised by the capacity of the business to make more sales or turnover. The activity ratios express the number of times assets employed. Higher turnover ratio means better utilisation of assets and signifies improved efficiency and profitability, and as such is known as efficiency ratios. The important activity ratios calculated under this category are:

1. Inventory Turnover Ratio:- It expresses the relationship between the cost of Revenue from operations and average inventory during the year. The higher the ratio, the better it is, since it shows that more sales are being produced by a rupee of investment in inventories.

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Revenue from Operation}}{\text{Average Inventory}}$$

Cost of Revenue from operation= Opening Inventory + Purchases + Direct Expenses.
– Closing Stock

(or)

= Revenue from operations – Gross Profit

$$\text{Average Inventory} = \frac{\text{Opening Inventory + Closing Inventory}}{2}$$

$$\text{Average Age of Inventory} = \frac{\text{Months/ Days in a Year}}{\text{Inventory Turnover Ratio}}$$

2. Trade Receivables Turnover Ratio:- It expresses the relationship between Credit Revenue from Operations and Average Trade Receivables during the year.

$$\text{Trade Receivables Turnover Ratio} = \frac{\text{Net Credit Revenue from Operations}}{\text{Average Trade Receivables}}$$

Average Trade Receivables = $\frac{\text{Opening Trade Receivables + Closing Trade Receivables}}{2}$

Average Collection Period = $\frac{\text{Months/ Days in a Year}}{\text{Trade Receivables Turnover Ratio}}$

3. Trade Payables Turnover Ratio:- It expresses the relationship between credit Purchase and average trade payables during the year.

Trade Payables Turnover Ratio= $\frac{\text{Net Credit Purchase}}{\text{Average Trade payables}}$

Average Trade payable= $\frac{\text{Opening Trade Payables + Closing Trade Payables}}{2}$

Average Payment Period = $\frac{\text{Months/ Days in a Year}}{\text{Average Trade payable}}$

4. Working Capital Turnover Ratio:- This ratio indicates the velocity of utilization of networking capital. A higher ratio measures the efficient utilization of working capital.

Working Capital Turnover Ratio= Cost of Revenue from operations/Net Revenue from Operations

Fixed Assets Turnover Ratio= $\frac{\text{Net Revenue from Operations}}{\text{Average Fixed Assets}}$

Net Assets Turnover Ratio= $\frac{\text{Net Revenue from Operations}}{\text{Average total Assets}}$

D. Profitability ratios:- Profitability ratios are calculated to analyse the earning capacity of the business which is the outcome of utilisation of resources employed in the business. There is a close relationship between the profit and the efficiency with which the resources employed in the business are utilised. Following are the important profitability ratios:-

1. Gross Profit Ratio:- This ratio shows the relationship between Gross Profit and Revenue from operations.

Gross Profit Ratio= $\frac{\textbf{Gross Profit}}{\textbf{Revenue from operations}} \times 100$

(Gross Profit = Revenue from operations – Cost of Revenue from operations)

Cost of Revenue from operation= Opening Inventory + Purchases + Direct Exp – Closing Stock

or

= Revenue from operations – Gross Profit.

2. Operating Ratio:- It is computed to analyse cost of operation in relation to Revenue from operations. Lower the Operating Ratio, better it is, because it will leave higher margin of profit on Revenue from operations. It is calculated as follows:

$$\textbf{Operating Ratio} = \frac{\textbf{Cost of Revenue from operations + Operating Expenses}}{\textbf{Revenue from operations}} \times \textbf{100}$$

Operating Expenses = Employee Benefit Exp. + Depreciation + Other Exp. (i.e. Office and Administration Exp. + Selling and Distribution Exp. + Discount + Bad debts + Interest on short-term loans)

3. Operating Profit Ratio:- It is calculated to reveal operating margin. It may be computed directly or as a residual of operating ratio. It is calculated as follows:

$$\textbf{Operating Profit Ratio} = \frac{\textbf{Operating Profit}}{\textbf{Revenue from operations}} \times \textbf{100}$$

Operating Expenses = Employee Benefit Exp. + Depreciation + Other Exp. (i.e. Office and Administration Exp. + Selling and Distribution Exp. + Discount + Bad debts + Interest on short-term loans)

Operating Profit = Gross Profit – other operating Exp. + other operating incomes

Other operating incomes = commission Received + Discount Received.

Operating Profit Ratio = 100 – Operating Ratio.

4. Net Profit Ratio:- It establishes the relationship between Net Profit and Revenue from operations. It is calculated as follows:

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Revenue from operations}} \times 100$$

Net Profit = Gross Profit – Indirect Expenses. & losses + Other Incomes.

Generally, Net Profit refers to Profit after Tax (PAT).

5. Return on Investment:- It is also known as Return on Capital Employed or Rate of Return Yield on Capital. It explains the overall utilisation of funds by a business enterprise. It is calculated as follows:

$$\text{Return on Investment} = \frac{\text{Net Profit before Interest, Tax \& Dividend}}{\text{Capital Employed (Liabilities side Approach)}} \times 100$$

Capital Employed = Shareholder's Funds + Non-Current Liabilities (Long-term Borrowings +Long-term Provisions) - Non- trade Investments

Capital Employed (Assets side Approach)

Capital Employed = Non-current assets + working capital

Non-current assets = Tangible Assets + Intangible assets + Non-Current Investments + Long term Advances.

Working capital = Current Assets – Current Liabilities.

Multiple Choice Questions:

1.Two basic measures of liquidity are:

(A) Inventory turnover and Current ratio

(B) Current ratio and Quick ratio

(C)Gross Profit ratio and Operating ratio

(D) Current ratio and average Collection period

2.Current ratio is:

(A) Solvency Ratio (B) Liquidity ratio

(C) Activity Ratio (D) Profitability Ratio

3.Current Ratio is :

(A) Liquid Assets/Current Assets (B) Fixed Assets/Current Assets

(C) Current Assets/Current Liabilities (D) Liquid assets/Current Liabilities

4.Liquid Assets do not include:

(A) Bills Receivable (B) Debtors

(C) Inventory (D) Bank Balance

5.Ideal Current Ratio is:

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

6. Working Capital is the :

(A) Cash and Bank Balance

(B) Capital borrowed from Banks

(C) Difference between Current Assets and Current Liabilities

(D) Difference between Current Assets and Fixed assets

7.Current assets include only those assets which are expected to be realized within……

(A) 3 months (B) 6 months (C) 1 year (D) 2 years

8.A Company's liquid assets are Rs.5,00,000 and its current liabilities are Rs.3,00,000.Thereafter, it paid Rs.1,00,000 to its trade payables. Quick ratio will be:

(A) 1.33:1 (B) 2.5:1 (C) 1.67:1 (D) 2:1

9.A Company's Quick Ratio is 1.5:1; Current Liabilities are Rs.2,00,000 and Inventory is Rs.1,80,000.Current Ratio will be:

(A) 0.9:1 (B)1.9:1 (C)1.4:1 (D)2.4:1

10.Fixed Assets Rs.5,00,000; Current Assets Rs.3,00,000; Equity Share Capital Rs.4,00,000; Reserve Rs.2,00,000 ; Long –term debts Rs.40,000. Proprietary Ratio will be:

(A) 75% (B)80% (C)125% (D)133%

11.If Debt equity ratio exceeds ……………., it indicates risky financial position.

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

12.Equity Share Capital Rs.20,00,000; Reserves Rs.5,00,000; Debentures Rs.10,00,000; Current Liabilities Rs.8,00,000. Debt-equity ratio will be:

(A) 0.4 : 1 (B) 0.32 : 1 (C) 0.72 : 1 (D) 0.5 : 1

Competency Based Questions (MCQS)

13. On the basis of following data, the Debt-Equity Ratio of a Company will be: Equity Share Capital Rs.5,00,000; General Reserve Rs.3,20,000; Preliminary Expenses Rs.20,000; Debentures Rs.3,20,000; Current Liabilities Rs.80,000.

(A) 1:2 (B) 0.52:1 (C) 0.4:1 (D) 0.37:1

14. Operating Profit=……………..

(A) Current assets – Current liabilities

(B) Capital employed – Debt

(C) Revenue from operations - operating cost

(D) Revenue from operations – Non-operating expenses

15. The …………….ratios provide the information critical to the long run operations of the firm

(A) Liquidity (B) Activity (C) Solvency (D) Profitability

16. Opening Inventory Rs.1,00,000; Closing Inventory Rs.1,50,000; Purchases Rs.6,00,000; Carriage Rs.25,000; wages Rs.2,00,000. Inventory Turnover Ratio will be:

(A) 6.6 Times (B) 7.4 Times (C) 7 Times (D) 6.2 Times

17. Revenue from Operations Rs.2,00,000; Inventory Turnover ratio 5; Gross Profit 25%. Find out the value of Closing Inventory, if Closing Inventory is Rs.8,000 more than the Opening Inventory.

(A) Rs.38,000 (B) Rs.22,000 (C) Rs.34,000 (D) Rs.26,000

18.Total revenue from operations Rs.9,00,000; Cash revenue from operations Rs.3,00,000; Debtors Rs.1,00,000; B/R Rs.20,000. Trade Receivables Turnover Ratio will be:

(A) 10 Times (B) 6 Times (C) 7.5 Times (D) 9 Times

19. A firm's credit revenue from operations is Rs.3,60,000, cash revenue from operations is Rs.70,000. Cost of revenue from operations is Rs.3,61,200. Its gross profit ratio will be:

(A) 11% (B) 15% (C) 18% (D) 16%

20. Revenue from Operations Rs.6,00,000; Gross Profit 20%; Office Expenses Rs.30,000;Selling Expenses Rs.48,000.Calculate operating ratio.

(A) 80% (B) 85% (C) 96.33% (D) 93%

21. Credit revenue from operations Rs.6,00,000; Cash revenue from operations Rs.1,50,000; Debtors Rs.1,00,000; B/R Rs.50,000. Average collection period will be :

(A) 2 months (B) 2.4 months (C) 3 months (D) 1.5 months

22. On the basis of the following data, the working capital turnover ratio of a company will be:

Liquid assets Rs.3,70,000; Inventory – Rs.80,000; Current liabilities Rs.1,50,000; Cost of revenue from operations Rs.7,50,000.

(A) 2.5 times (B) 3 times (C) 5 times (D) 4 times

23. Patents and copy rights are

(A) Liquid assets (B) Current assets (C) Tangible assets (D) Intangible assets

24. Fill in the blanks with appropriate word:

……………is the process of determining and interpreting numerical relationship between figures of the financial statements.

(A)Ratio Analysis (B) Cross Analysis

(C)Horizontal Analysis (D) Vertical analysis

25. Revenue from operations = Cost of revenue from operations +…………….

(A) Gross profit (B) Operating profit

(C) Net profit (D) Non-operating profit

26. Working capital is the:

(A) Cash and Bank balance

(B) Capital borrowed from the banks

(C) Difference between Current assets and Current Liabilities

(D) Difference between Current assets and Fixed assets

27.Current assets do not include:

(A) Prepaid expense (B) Inventory (C) Goodwill (D) Bills Receivable

28.The …………………of a business firm is measured by its ability to satisfy its short term obligations as they become due.

(A) Activity (B) Liquidity (C) Debt (D)Profitability

29.Long term solvency is indicated by :

(A) Current ratio (B) Quick ratio

(C) Net profit ratio (D)Debt/Equity ratio

30. Fixed assets Rs.5,00,000, Current assets Rs.3,00,000 Equity share capital Rs.4,00,000 Reserves-Rs.2,00,000 Long -term debts Rs.40,000.

Proprietary ratio will be :

(A) 75% (B) 80% (C) 125% (D) 133%

Assertion and Reasoning Based Questions

31. **(A)Assertion -** Profitability ratios are calculated to analyse the earning capacity of the business

(R)Reason -Ratio analysis is helpful to take investment decision.

(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

32. **(A) Assertion-** Depreciation and Amortization expenses are included in the operating expenses

(R) Reason – They are costs incurred to earn revenue

(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

33. **(A)Assertion-** Net Revenue from operations = Credit revenue from operations + cash revenue from operations – Revenue from operations Returns

(R) Reason – Operating cost is an important component of Operating ratio.

(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

34. **(A) Assertion-** Working capital turnover ratio has been calculated on the basis of Revenue from operations.

(R) Reason – It shows the number of times working capital has been rotated in producing Revenue from operations.

(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

35. **(A) Assertion-** Loan on Mortgage and Bank loan are long term borrowings

(R) Reason – These should not be included in current liabilities.

(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

ANSWER KEY – MCQS

1	**B**	**1**
2	**B**	**1**
3	**C**	**1**
4	**C**	**1**
5	**D. 2:1**	**1**
6	**C**	**1**
7	**C**	**1**
8	**D. 5,00,000-1,00,000/3,00,000-1,00,000=4,00,000/2,00,000 = 2:1**	**1**
9	**D. Liquid assets/2,00,000=1.5/1 so Liquid assets=3,00,000 Current assets=Liquid assets+inventory 3,00,000+1,80,000=4,80,000/2,00,000=2.4:1**	**1**
10	**A.8,00,000/6,00,000 *100=75%**	**1**
11	**B . It is the standard debt equity ratio.**	**1**
12	**D. 10,00,000/20,00,000=.5:1**	**1**
13	**C. 3,20,000/8,00,000=.4:1**	**1**
14	**C.**	**1**
15	**C. Ability to pay long term obligations.is assessed by solvency ratios**	**1**
16.	**D. 7,75,000/1,25,000= 6.2 times**	**1**
17	**C. Gross profit=50,000, CRFO=1,50,000 Average**	**1**

	inventory=30,000; 2x+8000/2=30,000 2x+8000=60,000, 2x=52,000; x(opening inventory) =26,000 closing inventory is 26,000+8,000=34,000	
18	A 60,000/6,00,000=10 times	1
19.	D 68,800/4,30,000*100 = 16%	1
20	D Cost of revenue from operations-4,80,000 Operating cost= 4,80,000+78000=5,58,000 Operating ratio= 5,58,000/6,00,000*100=93%	1
21	D Trade receivable turnover ratio=6,00,000/75,000=8 times Average collection period = 12/8 = 1.5 monrths	1
22	A . 2.5 times Working capital Rs.3,00,000 Working capital turnover ratio=7,50,000/3,00,000=2.5 times	1
23.	D. Intangible assets	1
24.	A. Ratio analysis	1
25.	A. Gross profit	1
26	C	1
27	B	1
28	B	1
29	D	1
30	D	1
31	B	1
32	A	1
33	B	1
34	A	1
35	A	1

THREE MARKS QUESTIONS & ANSWERS

1.Calculate Working capital Turnover Ratio from the following information

Revenue from Operations	Rs. 12,00,000;
Current assets	Rs. 5,00,000;
Total Assets	Rs. 8,00,000;
Non-current Liabilities	Rs. 4,00,000; and
Shareholders Funds	Rs. 2,00,000.

Ans. Working Capital Turnover Ratio = Revenue from Operations

Working Capital

Rs. 12,00,000

Rs. 3,00,000 = 4 Times.

Working capital = Current Assets - Current Liabilities

= Rs. 5,00,000 - Rs.2,00,000 = Rs. 3,00,000

Current Liabilities = Total Assets - Non - current Liabilities - Shareholder's Fund

= Rs 8,00,000 - 4,00,000 - Rs.2,00,000 = Rs.2,00,000

2. From the follow information, Calculate operating Ratio:

Information

Cash Revenue from Operations	: Rs.10,00,000
Credit Revenue from Operations	: 120% of cash revenue from operations
Operation Expenses	: 10% of total Revenue from Operations
Rate of Gross Profit	: 40%
Opening Inventory	: Rs.1,50,000
Closing Inventory	: Rs.20,000 more than Opening Inventory.

Ans:Opearting Ratio =Cost of Revenue from Opetations +Operating Expenses x 100

Revenue from Operations

= Rs.13,20,000+2,20,000

Rs.22,00,000

= Rs.15,40,000 x 100 = 70%

Rs.22,00,000

Working Notes

1. Cash Revenue from Operations = Rs.10,00,000

Credit Revenue from Operations = Rs.12,00,000

Therefore, Total Revenue from Operations = Rs.22,00,000

2. Operating Expenses = 10 % of Rs.22,00,000 = Rs.2,20,000

3. Gross Profit = 40% of Rs.22,00,000 = Rs.8,80,000

So, Cost of Revenue from Operations = Rs.22,00,000 - Rs.8,80,000 = Rs.13,20,000

3.Net Profit after interest and tax of M Ltd., was Rs.1,00,000. Its Current Assets were Rs.4,00,000 and Current Liabilities were Rs.2,00,000. Tax rate was 50%. Its Total Assets were Rs.10,00,000 and 10% Long-term Debt was Rs.4,00,000. Calculate return on Investment.

Ans: Return on Investment = Net Profit before Interest and Tax

Capital Employed = Rs.2,40,000 x 30%

Rs.8,00,000

Net Profit before Interest and Tax = Net Profit after Interest and Tax + Interest on Long-term Debt

= Rs.1,00,000 + Rs.1,00,000 + Rs.40,000 = 2,40,000

Capital Employed = Total Assets - Current Liabilities

= Rs.10,00,000 - Rs.2,00,000 = Rs.8,00,000

Tax = Rs.1,00,000 x 50/50 = Rs.1,00,000

Interest on Long-term Debt = 10% of Rs.4,00,000 = Rs.40,000

4. Rate of Gross Profit on Revenue from Operations of a Company is 25%. Its Gross profit Rs.5,00,000. Its shareholders' Funds are Rs.25,00,000. Non-Current Liabilities are Rs.8,00,000 and Non-Current Assets are Rs.23,00,000. Calculate its Working Capital Turnover Ratio.

Ans: Working Capital Turnover Ratio = Revenue from Operations/Working Capital

= Rs.20,00,000/Rs.10,00,000

= 2 Times

Gross Profit = Rs.5,00,000

So, Revenue from Operations = 100/25 x Rs.5,00,000 = Rs.20,00,000

Working Capital = Shareholders' Funds + Non-current Liabilities - Non-current Assets

= Rs.25,00,000 + Rs.8,00,000 - Rs.23,00,000 - Rs.10,00,000

5. Revenue from Operations Rs.4,50,000. Gross Profit 25% 0n Cost, Operating expenses Rs.22,500. Calculate Operating Profit Ratio.

Ans: Operating Profit Ratio = Operating Profit x 100 ______

Revenue from Operations (Net Sales)

= Rs.67,500 x 100___ = 15%

Rs.4,50,000

WORKING NOTES

1. Calculation of Cost of Revenue from Operations;

Let Cost of Revenue from operations = Rs.100; Gross Profit Rs.25

Revenue from Operations = Rs.100 +Rs.25 = Rs.125

When Revenue from Operations is Rs.4,50,000,

Cost of Revenue from Operations = Rs.4,50,000 x Rs.100/Rs.125 = 3,60,000

Operating Profit = Revenue from Operations - Operating Cost

= Rs.4,50,000 - Rs.3,82,500 = Rs.67,500

Operating Cost = Cost of Revenue from Operations + Operating Expenses.

= Rs.3,60,000 + Rs.22,500 = Rs.3,82,500.

6. Compute Gross Profit Ratio from the following information:

Revenue from Operations (Net Sales) Rs.6,00,000: Gross Profit 25% on Cost.

Ans: Let the Cost be Rs.100; Gross Profit = 25%; Sales = Rs.125.

Cost of Revenue from Operations (Cost of Goods sold) = Rs.100/Rs.125 x Rs.6,00,000

= Rs.4,80,000

Gross Profit = Revenue from Operations - Cost of Revenue from Operations

= Rs.6,00,000 - 4,80,000 = Rs.1,20,000

Gross Profit Ratio = Gross Profit x 100

Revenue from Operations

= Rs.1,20,000 x 100 = 20%

Rs.6,00,000

7. Current Assets RS. 10,00,000, Inventories Rs. 5,00,000, Working Capital Rs. 6,00,000.Calculate current Ratio.

Ans: Current ratio = 2.5:1

Hints: 1. Inventories are already included in Current assets.

2.Current Liabilities = Current Assets - Working Capital.

8. Total Assets Rs. 2,60,000; Total Debts Rs. 1,80,000; Current Liabilities Rs. 20,000. Calculate Debt to Equity Ratio.

Ans: Debt to Equity ratio = 2.5:1

Hints: 1.Long - term Debts = Total Debts - Current Liabilities.

2. Shareholders' Funds = Total Assets - Total Debts.

9. Debt to Equity Ratio of a company is 0.5 : 1. Which of the following suggestions would increase, decrease or not change it:

(i) Issue of Equity Shares; (ii) Cash received from debtors;

(iii)Redemption of Debentures (iv) Purchased goods on credit.

Ans: (i) Decrease; (ii) No change (iii) No change (iv) No change.

10. Shareholders' Funds Rs. 1,60,000 ; Total debts Rs. 3,60,000; Current Liabilities Rs. 40,000. Calculate Total assets to Debt Ratio.

Ans: Total assets to Debt Ratio = 1.625 : 1

Hints: 1. Long - term Debts = Total Debts - Current Liabilities.

2. Total Assets = Long - term Debts + Shareholders' Funds + Current Liabilities

4 MARKS QUESTIONS & ANSWERS

Q1. What are the uses of return on investment?

Ans. Following are the uses of return on investment: -

(1) It measures overall profitability of the business.

(2) It helps in making investment decisions.

(3) Return on investment helps in determining the price of the products.

(4) It is a very significant ratio for measuring operational efficiency of the management.

(5) It can also be used to compare the profitability of the firm with other firms of the industry.

(6) It is used for comparing the performance of the different departments and sections of the enterprise.

(7) It also assists in planning capital structure of the company.

Q2. Explain the limitations of accounting ratios:

Ans. The ratios, though indicate profitability, efficiency and financial soundness, but they are not the solution of all following limitations: -

(1) False result: - In case, financial statements are incorrect or the data upon which ratios are based is incorrect, ratios calculated will also be false and defective.

(2) Limited comparability: - The ratio of the one firm can not always be compared with the performance of other firm, if uniform accounting policies are not adopted by them.

(3) Price level changes affect ratios: - The comparability of ratios suffers, if the price of the commodities in two different year's is not the same.

(4) Ignoring qualitative factors: - Ratio analysis is the quantitative measurement of the performance of the business. It ignores the qualitative aspect of the firm, how so ever important it may be.

(5) No single standard ratio: - There is no a single standard ratio, which can indicate the true performance of the business at all time and in all circumstances because every firm has to work in different situations and circumstances.

(6) Window dressing: - Manipulation in financial statements conceals the material facts and exhibits false position so the ratio analysis based upon these statements is also defective.

(7) Misleading results in the absence of absolute data: - In the absence of actual data, the size of the business can not be known. Profitability of the two firms is same but the magnitude of their business may be quite different.

(8) Impressed by personal bias and ability of the analyst: - Accounting as we know is not an exact science. Accounting results are affected by the ability of the analyst. If the analyst is biased, he will prove his point of view by manipulation and ratio analysis will be defective.

COMPETENCY BASED QUESTIONS (4 MARKS)

Q3. From the following data, calculate net profit ratio.

Gross sales RS.20,00,000.

Sales tax 7% on gross sales

Income tax 40%

Profit before tax RS. 4,00,000

Ans. Net sales = Gross sales – sales tax

= 20,00,000 – (<u>7 x 20,00,000</u>)

100 1

= 20,00,000 – 1,40,000

= RS. 18,60,000

Net profit before tax RS. 4,00,000

Income tax = 4,00,000 x 40/100

= RS. 1,60,000

Net profit after tax = 4,00,000 – 1,60,000

= RS.2,40,000

(a) Net profit before tax ratio = $\frac{4,00,000}{18,60,000}$ x $\frac{100}{1}$

= 21.5%

(b) Net profit after tax ratio = $\frac{2,40,000}{18,60,000}$ X $\frac{100}{1}$

= 12.9%

Q4. Calculate the amount of opening debtors and closing debtors from the following figures:

Debtors turnover ratio 4 times

Cost of goods sold RS. 6,40,000

Gross profit ratio 20%

Closing debtors were RS. 20,000 more than at the beginning. Cash sales being 331% of credit sales.

3

Ans. 20% on sales = 25% on cost

Gross profit = $\frac{6,40,000}{1}$ x $\frac{25}{100}$

„ „ = RS. 1,60,000

Net sales = cost of goods sold + gross profit

„ = 6,40,000 + 1,60,000

= RS. 8,00,000

1 of credit sales = 1 of net sales

3 4

Cash sales = 8,00,000 x $\frac{1}{4}$

„ = 2,00,000

Net credit sales = Net sales – Cash sales

„ „ = 8,00,000 – 2,00,000

Net credit sales = RS. 6,00,000

Let opening debtors = RS. X

Closing debtors = x + 20,000

Average debtors = $\frac{x + x + 20,000}{2}$

„ „ = x + 10,000

Debtors turnover = $\frac{\text{Net credit sales}}{\text{Average debtors}}$

$$\frac{4}{1} = \frac{6,00,000}{x + 10,000}$$

4x + 40,000 = 6,00,000

$$4x = \frac{5,60,000}{4}$$

x = 1,40,000

Opening debtors = RS. 1,40,000

Closing debtors = 1,40,000 + 20,000

Closing debtors = RS.1,60,000

Q5. Calculate current ratio from the following information: -

Stock turnover: 4 times Stock at the end is RS. 20,000 more than the stock in the beginning.Sales: RS. 3,00,000; Gross profit ratio: 25% on cost;

Current liabilities = RS. 40,000 Quick ratio: 0.75

Ans. Gross profit 25% on cost = 20% on sales

Gross profit = $\frac{3,00,000}{1} \times \frac{20}{100}$

= RS. 60,000

Cost of goods sold = 3,00,000 – 60,000

„ „ = RS.2,40,000

Let opening stock = RS. X

Closing stock = x + 20,000

Average stock = $\frac{x + x + 20,000}{2}$

„ „ „ = x + 10,000

Cost of goods sold = stock turnover Ratio

Average stock $\frac{2,40,000}{x + 10,000} = \frac{4}{1}$

4x + 40,000 = 2,40,000

4x = 2,00,000

x = Rs.50,000

Closing stock = 50,000 + 20,000

„ „ = RS.70,000

Liquid assets = Liquid ratio

Current liabilities

$\frac{L.A}{40,000} = \frac{0.75}{1}$

L.A = RS. 30,000

Current assets = Liquid assets + closing stock

„ „ = 30,000 + 70,000

„ „ = RS. 1,00,000

Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

„ „ = $\frac{1,00,000}{40,000}$

Current ratio = 2.5:1

Q6. Calculate gross profit ratio from the following: -

Credit sales = RS. 3,24,000

Cash sales (being 20% on total sales)

Purchases = RS. 2,97,000

Excess of opening stock over closing stock

= Rs. 18,900

Ans. 20% on total sales = 25% on credit sales

Cash sales = 3,24,000 x $\frac{25}{100}$

= RS. 81,000

Net sales = 3,24,000 + 81,000 (credit sales + cash sales)

„ „ = 4,05,000

Cost of goods sold = opening stock + purchases + direct expenses – closing stock

Let closing stock = RS. X

Opening stock = x + 18,900

Cost of goods sold = x + 18,900 + 2,97,000 – x

Cost of goods sold = RS. 3,15,900

Gross profit = Net sales – cost of goods sold

„ „ = 4,05,000 – 3,15,900

Gross profit = RS. 89,100

Gross profit ratio = $\frac{89,100}{4,05,000}$ x $\frac{100}{1}$

Gross profit ratio = 22%

Q.7 You are required to calculate return on capital employed from the following:

Net profit after tax : Rs.2,00,000,

Rate of income tax: 60%,

4,000 10% convertible debentures =Rs.4,00,000, of Rs.100 each ,fully paid up,

current assets =Rs.4,30,000;

current liabilities =Rs.2,30,000;

Fixed assets (at cost)	:	Rs.9,70,000;
Depreciation up to date	:	Rs.1,70,000;

Ans. Capital employed= net fixed assets + net working capital;

„ „ =9,70,000-1,70,000+4,30,000-2,30,000;

„ „ = Rs.10,00,000;

Net profit before tax = (2,00,000*100)/(1*(100-60));

„ „ = Rs.5,00,000;

Net profit before interest & tax = 5,00,000+40,000;

=RS.5,40,000

Return on capital employed = $\frac{\text{Net profit before interest tax \& dividend}}{\text{capital employed}} \times \frac{100}{1}$

„ „ = $\frac{5,40,000}{10,00,000} \times \frac{100}{1}$

ROI = 54%;

Q8. Closing Trade Receivables Rs.1,20,000, Revenue from Operations Rs.14,40,000, Provision for Doubtful Debts Rs.20,000. Calculate Trade Receivables Turnover Ratio

Ans: Trade Receivables Turnover Ratio = 12 Times

Q9. Opening Inventory Rs.2,00,000; Closing Inventory Rs.1,20,000. Inventory Turnover Ratio 8 Times;Selling Price 25% above cost. Calculate Gross Profit Ratio.

Ans: Gross Profit Ratio = 20%

Q10. From the following information, calculate Inventory Turnover Ratio:

Revenue from Operations	Rs. 16,00,000
Average Inventory	Rs. 2,20,000

Gross Loss Ratio 5%

Ans: Inventory Turnover Ratio = 7.64 Times

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Cash Flow Statement

Chapter – 12: 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 willbe able to:** 🕮 State the meaning and objectives of cash flowstatement. 🕮 Develop the understanding of preparation of
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.*	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 declaredby the shareholders.*

Meaning:

Cash Flow Statement is prepared in accordance with Accounting Standard- 3 (AS-3)- Cash Flow Statement. A cash flow statement provides information about the historical changes in cash and cash equivalents of an enterprise by classifying cash flows into operating, investing and financing activities.

Objectives:

- To provide useful information about cash flows (inflows and outflows) of an enterprise during a particular period under various heads, i.e., operating activities, investing activities and financing activities.
- To ascertain the sources of cash and equivalents
- To ascertain applications of cash and cash equivalents.

- To ascertain net charge in cash and cash equivalents.

Benefits:

1. Useful for Short term financial Planning
2. Useful in preparing the Cash Budget
3. Helpful in Trend analysis of Cash Receipt and Cash payments
4. Explain the reasons of difference of Cash from earning
5. Helpful for Management for taking various decisions.
6. Helpful in comparative Study of Actual cash position with budget.
7. Helpful in making dividend decision.

Key Terms Used:

- **Cash and Cash Equivalents:** Cash in Hand & Cash at Bank, Cheques & Drafts on hand, Marketable Securities, Short Term Investments
- **Operating Activities:** The principal revenue generating activities (or the main activities) of the enterprise

  Cash Inflows from operating activities

  (i) Cash receipts from sale of goods and the rendering of services.

  (ii) Cash receipts from royalties, fees, commissions and other revenues.

  Cash Outflows from operating activities

  (i) Cash payments to suppliers for goods and services.

  (ii) Cash payments to and on behalf of the employees.

  (iii) Cash payments to an insurance enterprise for premiums and claims, annuities, and other policy benefits.

  (iv) Cash payments of income taxes
- **Investing Activities:** Purchase and sale of long-term assets or fixed assets such as machinery, furniture, land and building, long term investment

  Cash Inflows from Investing Activities

  (i) Cash receipt from disposal of fixed assets including intangibles. (Cash sales of Non current assets)

  (ii) Cash receipt from the repayment of advances or loans made to third parties (except in case of financial enterprise).

  (iii) Cash receipt from disposal of shares, warrants or debt instruments of other enterprises except those held for trading purposes. (Cash sales of investments)

(iv) **Interest received** in cash from loans and advances.

(v) **Dividend received** from investments in other enterprises

Cash Outflows from investing activities

(i) Cash payments to acquire fixed assets including intangibles and Capitalized research and development. (Purchase of non current assets)

(ii) Cash payments to acquire shares, warrants or debt instruments of other enterprises (Purchase or investment in non current investments)

- **Financing Activities:** Activities that result in changes in the size and composition of the owners' capital (including preference share capital in case of a company) and borrowings of the enterprise.

Cash Inflows from financing activities

(i) Cash proceeds from issuing shares (equity or/and preference).

(ii) Cash proceeds from issuing debentures, loans, bonds and other short/ long-term borrowings.

(iii) Bank Overdraft & Short term loans

Cash Outflows from financing activities

(i) Cash repayments of amounts borrowed.

(ii) **Interest paid** on debentures and long-term loans and advances.

(iii) **Dividends paid** on equity and preference capital.

FORMAT OF CASH FLOW STATEMENT

(INDIRECT METHOD) FOR THE YEAR ENDED……………………..

{As per Accounting Standard-3 (Revised)}

Particulars	**₹**	**₹**
I. <u>CASHFLOWFROMOPERATINGACTIVITIES</u>		
Net profit before tax and extraordinary items(Note 1)		…..
Adjustment for Non Cash &Non Operating Items:		
Add:		
*Depreciation	…..	
*Goodwill, Patents and Trademarks amortised(written off)	…..	
*Interest on Bank Overdraft / Cash Credit	…..	
*Interest on Borrowings and Debentures	…..	
*Loss on Sale of Fixed Assets	…..	
	…..	

*Increase in Provision for doubtful debts Less: *Interest Income *Dividend Income *Rental Income *Gain on Sale of Fixed Assets *Decrease in Provision for doubtful debts **OperatingprofitbeforeWorkingCapitalchanges** Add: Decrease in Current Assets & Increase in Current Liabilities Less: Increase in Current Assets & Decrease in Current Liabilities **Cash generated from Operations** Less Tax Paid **Cash Flow From (or Used in) Operating Activities I**	(…..) (…..) (…..) (…..) (…..) ….. (…..)	…. (…..) **…..** ….. **…..** (….) **……**
II. CASHFLOWFROMINVESTINGACTIVITIES + Proceeds from sale of fixed assets + Proceeds from sale of non current investments + Proceeds from sale of intangible assets + Interest and Dividend received (for non-financial companies Only) + Rent received - Payment for Purchase of Fixed Assets - Payment for Purchase of non - current Investments - Payment for purchase of intangible assets like goodwill **Cash Flow From(or used in)Investing Activities II**	….. ….. ….. ….. ….. (…..) (…..) (…..)	**.-.-.-.**
III.CASHFLOWFROMFINANCINGACTIVITIES + Proceeds from Issue of Shares and Debentures + Proceeds from Other Long-term Borrowings + Increase in Bank Overdraft/Cash Credit - Decrease in Bank Overdraft/Cash Credit - Payment of Final Dividend - Payment of Interim Dividend - Payment of Interest on Debentures and Loans(Short-term	….. ….. ….. (…..) (…..) (…..) (….)	

and long-term) - Repayment of Loans - Redemption of Debentures/Preference Shares - Payment of Share Issue Expenses **Cash Flow From (or Used in)Financing Activities III**	(….) (.....) (….).	.-.-.-.
IV. Net Increase/Decrease in Cash &Cash Equivalents (I+II+III)		.-.-.-.
V. Add: Cash & Cash Equivalents in the beginning of the year		.-.-.-.
VI. Cash & Cash Equivalents at the end of the year		.-.-.-.

Note 1 Calculation of Net Profit Before tax and extraordinary items:

Net Profit as per Statement of Profit & Loss or difference between closing balance & opening balance of surplus i.e., balance in statement of profit & loss

Add: + Transfer to Reserves.

+ Proposed Dividend for current year.

+ Interim Dividend paid during the year.

+ Provision for Tax Made for the current year.

+ Extraordinary Items, if any, Debited to the Statement of Profit & Loss.

Less: - Extraordinary Items, if any, Credited to the Statement of Profit & Loss.

- Refund of Tax Credited to the Statement of Profit & Loss.

=Net Profit Before Tax and Extraordinary Items.(Note 1)

ASCERTAINING MISSING AMOUNTS OF FIXED ASSETS OR DEPRECIATION:-

Case 1 : When fixed asset is shown at written down value(depreciated value).

Under this case, there is **"**PROVISION FOR DEPRECIATION ACCOUNT OR ACCUMULATED DEPRICIATION ACCOUNT" **NOT GIVEN** in the question. Depreciation is given in Adjustment. This Depreciation is credited to the Assets Account and balance of the asset account shows the written down value of the asset, which is also called the book value.

If Balancing figure is in Dr Side, Its Purchase of Asset – Less in Investing Activities

If Balancing figure is in Cr Side, Its Sale of Asset – Add in Investing Activities

Gain on Sale- Dr side- Less in Operating Activities under Adjustment for non cash item

Loss on Sale-Cr side- Add in Operating Activities under Adjustment for non cash item

Example: Calculate Cash Flow from Investing Activities from the Following particulars:

particulars:	31/03/2020 ₹	31/03/2021 ₹
Plant & Machinery (written down value)	6,00,000	7,50,000

Additional Information:

Machine costing ₹1,00,000 on which ₹30,000 had accumulated as depreciation was sold for ₹60,000

Depreciation charged on Plant & Machinery for the year 31/3/2021 ₹50,000

Solution:

Dr Plant & Machinery Account Cr

Particulars	₹	Particulars	₹
Balance b/d	6,00,000	Bank (sale)	60,000
Bank (balancing fig-Purchase)	2,70,000	Loss on sale(1,00,000-30,000-60,000)	10,000
		Depriciation	50,000
		Balance c/d	7,50,000
	8,70,000		8,70,000

Case 2: ***When fixed asset is shown at Original Cost***

Under this case, there **“**PROVISION FOR DEPRECIATION ACCOUNT OR ACCUMULATED DEPRICIATION ACCOUNT” **IS GIVEN** in the question.

Dr. Fixed Asset A/c Cr.

Particulars	₹	Particulars	₹
To Balance b/d	xxx	By Bank A/c. (Sale of Fixed Asset)	xxx
To Profit/Gain on Sale of Fixed Assets(Statement of Profit & Loss)*	xxx	By Loss on Sale of Asset A/c. (Statement of Profit &Loss)*	xxx
To Bank A/c. (Purchase)	xxx	By Accumulated Depreciation A/c. (Accumulated depreciation on fixed asset sold)	xxx
		By Balance c/d.	
	xxxx		xxxx

Note : Balancing amount either Purchase of fixed asset is on debit side of the account or sale of fixed asset on the credit side of the account.

Dr. Accumulated Depreciation A/c Cr.

Particulars	₹	Particulars	₹
To Fixed Assets A/c(Accumulated depreciation on fixed asset) To Balance c/d	xxx	By Balance b/d By Depreciation A/c(Current Year)	xxx
	xxx		xxxx

Example: The balances in Equipment account and Accumulated depreciation account as on March 31, 2015 and 2016 are given below:

Balance as at	March 31, 2015	March 31, 2016
Equipment	65,00,000	78,70,000
Accumulated depreciation	10,80,000	16,32,000

The equipment costing Rs. 12,30,000 accumulated depreciation thereon Rs. 7,18,000 was sold for Rs. 4,68,000.

Required:

(i) Compute the amount of equipment purchased, depreciation charged for the year and loss on sale of equipment.

(ii) How each of the item related to the equipment will be reported in the statement of cash flows?

Solution: (i)

Dr Equipment Account Cr

Particulars	₹	Particulars	₹
Balance b/d Bank (balancing fig-Purchase)	65,00,000 26,00,000	Bank (sale) Depriciation Loss on sale(12,30,000-7,18,000-4,68,000) Balance c/d	4,68,000 7,18,000 44,000 78,70,000
	91,00,000		91,00,000

Dr. Accumulated Depreciation A/c Cr.

Particulars	₹	Particulars	₹
To Fixed Assets A/c To Balance c/d	7,18,000 16,32,000	By Balance b/d By Depreciation A/c (bal fig)	10,80,000 12,70,000
	23,50,000		23,50,000

Cash Flow Statement

Particulars	₹
Cash Flow from Operating Activities:	
Net Profit	
(+) Depreciation charged on Equipment	12,70,000
(+) Loss on sale of Equipment	44,000
Cash Flows from Investing Activities:	
(+) Sale of Equipment	4,68,000
(-_ Purchase of Equipment	(26,00,000)

HINTS:

- Cash Inflow: Cash Comes into the Business – ADD
- Cash Outflow: Cash Goes Out from the Business - MINUS
- Interest Paid: Add in Operating Activities under Adjustment for non operating items & Less in Financing Activities
- Dividend Paid: Add in Profit Before Tax & Less in Financing Activities
- Interest Received & Dividend Received & Rent Received: Less in Operating Activities under Adjustment for non operating items & Add in Investing Activities
- Increase in Goodwill – Less in Investing Activities
- Decrease in Goodwill - Add in Operating Activities under Adjustment for non operating items
- Proposed Dividend :

  Previous Year - Add in Calculation of Net Profit Before Tax & Less in Financing Activities

  Current Year – Will not be taken – Ignore

- Calculation of Net Profit Before Tax and extraordinary items:

  Profit After Tax (Current Year Less Previous Year) …

  + Tax Made

  + Increase in General Reserve

  +Previous Year Proposed Dividend & Dividend Paid

- **Provision for Tax**

  <u>Case 1 – only one amount is given in adjustment</u>

  Treatment – Add in Calculation of Net profit before Tax

  Less (as a last item) in Operating Activites

  <u>Case 2 – Opening and Closing Balances are given in Balance sheet or Notes to accounts (2 amounts)</u>

  Treatment - Add Closing Balance in Calculation of Net profit before Tax

  Less Opening Balance (as a last item) in Operating Activites

  Case 3 - <u>Opening and Closing Balances are given in Balance sheet or Notes to accounts And Provision for Tax made or tax paid is given in the adjustments (3 amounts)</u>

  - Prepare Provision for Tax Account and find the missing figure.
  - If Provision for Tax Made is given, find Tax Paid (Balancing Figure)
  - If Tax Paid is given, find Provision for Tax Made (Balancing Figure)
  - Provision for Tax Made - Credit Side Provision for Tax Account – Add in Calculation of Net profit before Tax
  - Tax Paid - Debit side Provision for Tax Account – Less (as a last item) in Operating Activites
  - Opening & Closing balance will appear in Provision for Tax Account. Not in Cash Flow Statement

Dr Provision For Tax Account Cr

Particulars	₹	Particulars	₹
Bank (Tax Paid)		Balance B/d(opening balance)	
Balance C/d (Closing Balance)		Statement of P&L A/c (Tax made	

- VI. Cash & Cash Equivalents at the end of the year

  <u>Less V Cash & Cash Equivalents in the beginning of the year</u>

  IV Net Increase/Decrease in Cash & Cash Equivalents (I+II+III)

ONE MARK QUESTIONS:

Q 1 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

Q 2 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.

Q 3 From the following information find out the inflow of Cash by sale of Officeequipment's 31st March, 2022 31st March, 2021 Office Equipment ₹ 2,00,000 ₹ 3,00,000

Additional Information: Depreciation for the year 2021-22 was Rs. 40,000. Purchase of Office Equipment purchased during the year Rs. 30,000. Part of Office Equipment sold at a profit of Rs. 12,000

a) ₹ 1,00,000 b) ₹ 1,02,000 c) ₹ 90,000 d) ₹ 1,12,000

Q 4 Which of the following transaction will not result in flow of cash?

a) Purchase of building of ₹12,75,000 for cash

b) Cash deposited into bank ₹12,50,000

c) Issue of Equity shares of ₹20,00,000 for cash

d) Redemption of 8% Debentures of ₹7,50,000 for cash

Q 5 While preparing cash flow statement, "commission and royalty received" is shown as

a) Financing Activity b) Investing Activity

c) Operating Activity d) Cash and Cash Equivalents

Q 6 Balance Sheet Extract

Equity & Liabilities	31/03/2019	31/03/2020
12% Debentures	2,00,000	1,60,000

Additional Information:

Interest on debentures is paid on half yearly basis on 30th September and 31st March each year. Debentures were redeemed on 30th September 2019.

How much amount (related to above information) will be shown in Financing Activity for Cash Flow Statement prepared on 31st March 2020?

A. Outflow ₹40,000 B. Inflow ₹42,600 C. Outflow ₹61,600 D. Outflow ₹64,000

Q 7 Which of the following is not an investing cash flow?

A. Purchase of marketable securities for ₹25,000 cash.

B. Sale of land for ₹28,000 cash.

C. Sale of 2,500 shares (held as investment) for ₹15 each.

D. Purchase of equipment for ₹500 cash.

Q 8 State whether Decrease in outstanding employees benefits by ₹3000 will result in inflow, outflow or no flow of cash while preparing cash flow statement.

Q 9 State whether interest received in cash from loans and advances will result in inflow, outflow or no flow of cash while preparing cash flow statement.

Q 10 State whether issued bonus shares ₹50,000 will result in inflow, outflow or no flow of cash while preparing cash flow statement.

Q 11 State whether redemption of debentures will result in inflow, outflow or no flow of cash while preparing cash flow statement.

Q 12 State whether Increase in Current Investment by ₹ 6,000 will result in inflow, outflow or no flow of cash while preparing cash flow statement.

Q 13 Define 'Cash Equivalents'.

Q 14 Give any one example of an activity which is a financing activity for every enterprise.

Q 15 'Sale of marketable securities at par' would result in inflow of cash. State whether the statement is True or False.

Q 16 State the primary objective of preparing Cash Flow Statement.

Q 17 Under which type of activity will 'Interest received on Investments' be classified while preparing Cash Flow Statement?

Q 18 Under which type of activity will 'Rent Paid' be classified while preparing Cash Flow Statement?

Q 19 M/s Mevo and Sons.; a bamboo pens producing company, purchased a machinery for ₹ 9,00,000. It received dividend of ₹ 70,000 on investment in shares. The company also sold an old machine of the book value of ₹ 79,000 at a loss of ₹ 10,000. Compute Cash flow from Investing Activities.

Q 20 While preparing Cash Flow Statement, match the following activities

I. Payment of cash to acquire Debenture by an Investing Company - a. Financing activity

II. Purchase of Goodwill - b. Investing Activity

III. Dividend paid by manufacturing company c. Operating activity

SIX MARKS QUESTIONS:

Q 1 Read the following hypothetical text and answer the given questions on the basis of the same: Aashna, an alumnus of CBSE School, initiated her start up Smartpay, in 2015. Smartpay is a service platform that processes payments via UPI and POS, and provides credit or loans to their clients.. During the year 2021-22, Smartpay issued bonus shares in the ratio of 5:1 by capitalising reserves. The profits of Smartpay in the year 2021-22 after all appropriations was ₹ 7,50,000. This profit was arrived after taking into consideration the following items: -

Particulars	Amount (₹)
Interim Dividend paid during the year	90,000
Depreciation on Machinery	40,000
Loss of Machinery due to fire	20,000
Insurance claim received for Loss of Machinery due to Fire	10,000
Interest on Non-Current Investments received	30,000
Tax Refund	20,000

Additional Information:

Particulars	**31.3.22 (₹)**	**31.3. 21(₹)**
Equity Share Capital	12,00,000	10,00,000
Securities Premium Account	3,00,000	5,00,000
General Reserve	1,50,000	1,50,000
Investment in Marketable Securities	1,50,000	1,00,000
Cash in hand	2,00,000	3,00,000
Machinery	3,00,000	2,00,000
10% Non-Current Investments	4,00,000	3,00,000
Bank Overdraft	2,50,000	2,00,000
Goodwill	30,000	80,000
Provision for Tax	80,000	60,000

(i) Goodwill purchased during the year was ₹ 20,000.

(ii) Proposed Dividend for the year ended March 31, 2021 was ₹ 1,60,000 and for the year ended March 31,2022 was ₹ 2,00,000.

You are required to:

1. Calculate Net Profit before tax and extraordinary items.
2. Calculate Operating profit before working capital changes.
3. Calculate Cash flow from Investing activities.
4. Calculate Cash flow from Financing activities.
5. Calculate closing cash and cash equivalents.

SOLUTION:

1. Net Profit before tax and extraordinary items=Net Profit for the year+ Interim Dividend + Loss of assets due to fire + Provision for Tax + Proposed Dividend - Insurance claim received for Loss due to Fire – Tax refund = 7,50,000 + 90,000 + 20,000 + 80,000 + 1,60,000 – 10,000 – 20,000 = ₹ 10,70,000

2. Operating profit before working capital changes= Net Profit before tax and extraordinary items + Adjustments for non-cash and non-operating expenses and

goodwill amortised – Adjustments for non-cash and non-operating incomes = 10,70,000 + 40,000 + 70,000** – 30,000 = 11,50,000

** Goodwill amortised = Opening goodwill + Goodwill purchased - Closing goodwill

3. Cash flow from Investing Activities = Interest on Non-Current Investments + Insurance claim for loss of assets due to fire – Purchase of Investments – Purchase of Machinery – Goodwill purchased = 30,000 + 10,000 – 1,00,000 - 1,60,000 – 20,000 = ₹ (2,40,000) Outflow

4. Cash flow from Financing Activities: Raise of Bank overdraft – Interim Dividend Paid – Final Dividend paid = 50,000 – 90,000 – 1,60,000 = ₹ (2,00,000) Outflow

5. Closing Cash and Cash Equivalents : Cash in Hand + Investment in Marketable Securities = 2,00,000 + 1,50,000 =3,50,000

Q 2 On the basis of information given by Aradhana Ltd., prepare Cash Flow Statement for the year ending 31st March, 2021: Aradhana Ltd. Balance Sheet as on 31st March, 2021

Particulars	Note No.	31st March, 2020	31st March, 2021
I. Equity and Liabilities			
1. Shareholder's Funds			
(a) Share Capital		5,00,000	7,30,000
(b) Reserves 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) Fixed Assets			
(i) Tangible Assets	5	4,50,000	5,00,000
(ii) Intangible Assets	6	3,10,000	3,02,000
(b) Long-term Loans and Advances		4,00,000	4,30,000
2. Current Assets			
(a) Inventories		2,70,000	2,90,000
(b) Trade Receivables		2,40,000	2,60,000
(c) Cash and Cash Equivalents		2,65,000	2,98,000
Total		19,35,000	20,80,000

Notes to Accounts:

Particulars		31st March 2020	31st March 2021
1.	Reserves and Surplus		
	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
		3,60,000	4,60,000
4.	Short-Term Provisions		
	Provision for Tax	3,25,000	3,20,000
5.	Tangible Fixed Assets		
	Machinery	5,50,000	6,60,000
	Less: Provision for Depreciation	1,00,000	1,60,000
		4,50,000	5,00,000
6.	Intangible Fixed Assets		
	Patents	3,10,000	3,02,000

Additional Information: 1. Debentures were redeemed on 1st April,2020. 2. Tax paid during the year ₹2,80,000

Solution: Aradhana Ltd.

ash Flow statement for the year ended 31.3.2021

	Particulars		Details	Amount (`)
A)	**Cash flow from Operating Activities**			
	Net Profit Before Tax and Extraordinary Items (W.Note No. 1)		2,95,000	
	Adjustments for non-cash and non-operating items			
	Add :- Depreciation of the year	60,000		
	Amortisation of patents	8,000		
	Interest on Debentures	20,000	88,000	
	Operating Profit Before working capital changes		3,83,000	
	Add:- Increase in creditors	20,000		
	Increase in Bills Payable	80,000		
	Less:- Increase in Inventories	20,000		
	Increase in Trade Receivables	20,000	60,000	
	Cash generated from operations		4,43,000	
	Less:- Payment of Tax		(2,80,000)	
	Cash Flow from operating Activities(A)			**1,63,000**
B)	Cash Flow From Investing Activities			
	Purchase of Machinery		(1,10,000)	
	Investment in long term loans and advances		(30,000)	
	Cash used in Investing Activities (B)			**(1,40,000)**
C)	Cash Flow From Financing Activities			
	Issue of Equity shares		2,30,000	
	Payment of Interest		(20,000)	
	Redemption of Debentures		(2,00,000)	**10,000**
D)	Net Increase 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. Net Profit as per statement of Profit and Loss 20,000

Add: Tax provided during the year 2,75,000

2,95,000

2. Provision for Tax A/c

Dr. Cr.

Particulars	Amount	Particular	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

Q 3

Calculate 'Cash Flows from Investing Activities' and 'Cash Flows from Financing Activities' for the year ended 31st March, 2021 from the following Balance Sheet of Kamna Ltd. as at 31st March, 2021 showing your workings clearly :

Kamna Ltd.
Balance Sheet
as at 31st March, 2021

Particulars	Note No.	31st March, 2021 (₹)	31st March, 2020 (₹)
I. Equity and Liabilities			
1. Shareholders' funds			
(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			
Trade payables		2,20,000	2,81,000
Total		**19,60,000**	**17,51,000**
II. Assets			
1. Non-Current Assets			
(a) Fixed Assets			
(i) Tangible Assets	2	10,70,000	8,50,000
(ii) Intangible Assets	3	40,000	1,12,000

2. Current Assets			
(a) Current Investments		2,40,000	1,50,000
(b) Inventories		1,20,000	1,21,000
(c) Trade Receivables		1,70,000	1,43,000
(d) Cash and Cash Equivalents		3,20,000	3,75,000
Total		**19,60,000**	**17,51,000**

Notes to Accounts :

Note No.	Particulars	31st March, 2021 (₹)	31st March, 2020 (₹)
1.	Reserve and Surplus Surplus i.e. Balance in Statement of Profit & Loss	3,00,000	2,00,000
2.	Tangible Assets :		
	Machinery	12,70,000	10,00,000
	Accumulated Depreciation	(2,00,000)	(1,50,000)
		10,70,000	**8,50,000**
3.	Intangible Assets :		
	Goodwill	40,000	1,12,000

Additional Information :

A piece of Machinery costing ₹ 24,000 on which accumulated depreciation was ₹ 16,000, was sold for ₹ 6,000.

Solution:

Calculation of Cash Flows from Investing Activities
for the year ended 31st March 2021

Particulars	(₹)	(₹)
Purchase of Machinery	(2,94,000)	
Sale of Machinery	6,000	
Cash used in Investing Activities		(2,88,000)

Working Notes:

Dr. *Machinery A/c* *Cr.*

Particulars	*Amount* (₹)	*Particulars*	*Amount* (₹)
To Balance b/d	10,00,000	By Bank A/c	6,000
To Bank A/c (Balancing figure)	2,94,000	By Accumulated Depreciation	16,000
		By Statement of Profit & Loss	2,000
		By Balance c/d	12,70,000
	12,94,000		12,94,000

Dr. *Accumulated Depreciation* *Cr.*

Particulars	*Amount* (₹)	*Particulars*	*Amount* (₹)
To Machinery	16,000	By Balance b/d	1,50,000
To Balance c/d	2,00,000	By Statement of Profit & Loss (Balancing figures)	66,000
	2,16,000		2,16,000

Calculation of Cash Flows from Financing Activities
for the year ended 31st March 2021

Particulars	(₹)	(₹)
Issue of Share Capital	1,00,000	
Long-term borrowings raised	70,000	
Cash Flows from Financing Activities		1,70,000

Q 4 Read the following hypothetical text and answer the given questions on the basis of the same: Krishika an alumni of IIM Ahemdabad initiated her startupKrishika Ltd. in 2018. The profits of Krishika Ltd. in the year 2019-20 after all appropriations was ₹ 31,25,000. This profit was arrived after taking into consideration the following items:-

S. No.	Particulars	Amount (in ₹)
1.	Gain on sale of fixed tangible assets	12,50,000
2.	Goodwill written off	7,80,000
3.	Transfer to General Reserve	8,75,000
4.	Provision for taxation	4,37,500

Additional Information:-

Particulars	31.03.2020 (in ₹)	31.03.2019 (in ₹)
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

4.1 Net Profit before tax will be ₹……………………………

(a)Rs. 22,50,000 (b)Rs. 35,62,500

(c) Rs. 39,67,500 (d)Rs. 44,37,500

4.2 Operating profit before working capital changes will be ₹………..

(a) 52,17,500 (b) 64,67,500

(c) 39,67,500 (d) 39,69,500

4.3 Cash from operating activities before tax will be₹……………………

(a) 35,57,500 (b) 40,67,500

(c) 37,87,500 (d) 35,67,300

4.4 Cash flow from Operating Activities will be₹……………………

(a) 39,95,000 (b) 31,20,000

(c) 40,67,500 (d) 31,00,000

Hints: 4.1 (d) 44,37,500 4.2 (c) 39,67,500 4.3 (a) 35,57,500

4.4 (b) 31,20,000

Q 5

Notes to Accounts :

Note No.	Particulars	31.3.2021 ₹	31.3.2020 ₹
1	Reserves and Surplus		
	(Balance in Statement of Profit and Loss)	1,25,000	55,000
2	Short-term Borrowings		
	Bank Overdraft	6,000	5,000
3	Short-term Provisions		
	Provision for Tax	9,000	5,500
4	Tangible Assets		
	Machinery	10,00,000	8,50,000
	Accumulated Depreciation	(70,000)	(45,000)
		9,30,000	8,05,000
5	Intangible Assets		
	Patents	25,000	15,000

ended
as at
20
)00
)00

Additional Information :

Tax paid during the year amounted to ₹ 6,500.

Long-term Borrowings		1,00,000	62,500
3. Current Liabilities			
(a) Short-term Borrowings	2	6,000	5,000
(b) Trade Payables		7,500	41,500
(c) Short-term Provisions	3	9,000	5,500
Total		9,97,500	8,69,500
II – Assets :			
1. Non-Current Assets			
Fixed Assets			
(a) Tangible Assets	4	9,30,000	8,05,000
(b) Intangible Assets	5	25,000	15,000
2. Current Assets			
(a) Current Investments		4,000	2,500
(b) Inventories		18,500	29,500
(c) Trade Receivables		13,000	11,500
(d) Cash and Cash Equivalents		7,000	6,000
Total		9,97,500	8,69,500

Solution

Calculation of 'Cash Flows from operating activities'
for the year ended 31st March, 2021

Particulars	*Amount* (₹)
Net profit before tax and extraordinary items	80,000
Add : Non-cash and Non-operating expenses :	
Depreciation	25,000
Net profit before changes in working capital	1,05,000
Add : Decrease in Current Assets and increase in Current Liabilities :	
Inventories	11,000
Less : Increase in Current Assets and decrease in Current Liabilities :	
:	(1,500)
Trade Receivables	(34,000)
Trade payables	
Cash generated from operations	80,500
Less : Tax paid	(6,500)
Cash Flow from operating activities	74,000

Dr. *Provision for Tax* *Cr.*

Particulars	(₹)	*Particulars*	(₹)
To Bank A/c	6,500	By Balance b/d	5,500
To Balance c/d	9,000	By Statement of Profit &loss	10,000
	15,500		15,500

Working Notes :

Calculation of net profit before tax :

	(₹)
Net Profit	70,000
Add provision for Tax	10,000
	80,000

Q 6

Following was the Balance Sheet of Bajaj Ltd. as on 31st March, 2021 :

Bajaj Ltd.

Balance Sheet as on 31st March, 2021

Particulars	Note No.	31.03.2021 (₹)	31.03.2020 (₹)
I. Equity and Liabilities :			
1. Shareholder's funds :			
(a) Share Capital		19,00,000	17,00,000
(b) Reserves and Surplus	1	6,00,000	3,00,000
2. Non-Current Liabilities :			
12% long term borrowings		5,00,000	4,00,000
3. Current Liabilities :			
(a) Short term Borrowings	2	1,70,000	1,75,000
(b) Short term Provisions	3	2,00,000	1,65,000
Total		**33,70,000**	**27,40,000**
II. Assets :			
1. Non Current Assets :			
Fixed Assets			
(i) Tangible Assets	4	25,00,000	21,00,000
(ii) Intangible Assets	5	4,00,000	3,00,000
2. Current Assets :			
(a) Current Investments		1,40,000	1,70,000
(b) Inventories		2,60,000	1,30,000
(c) Cash and Cash Equivalents		70,000	40,000
Total		**33,70,000**	**27,40,000**

Notes to Accounts

Note No.	Particulars	31.03.2021 (₹)	31.03.2020 (₹)
1	Reserves & Surplus :		
	Surplus i.e. Balance in Statement of Profit and Loss	6,00,000	3,00,000
2	Short term borrowings :		
	Bank Overdraft	1,70,000	1,75,000
3	Short term provisions :		
	Provision for tax	2,00,000	1,65,000
4	Tangible Assets :		
	Machinery	25,00,000	21,00,000
5	Intangible Assets :		
	Goodwill	4,00,000	3,00,000

Additional Information :

(i) A machine of the book value of ₹ 40,000 was sold for ₹ 50,000.

(ii) Depreciation charged on machinery during the year was ₹ 2,00,000.

(iii) ₹ 1,00,000, 12% long term borrowings were obtained on 31-3-2021.

Calculate cash flows from investing and financing activities.

Hints: Cash flow from investing activities (6,90,000) & Financing activities 2,47,000

Q 7

Prepare Cash Flow Statement on the basis of information given in the Balance Sheets of Relga Ltd. as at 31st March, 2019 and 31st March, 2020:

Particulars	Note No.	31st March 2019	31st March 2020
I. Equity and Liabilities			
1. Shareholder's Funds			
(a) Share Capital		2,00,000	2,50,000
(b) Reserves 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) Fixed Assets			
(i) Tangible Assets	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
(c) Cash and Cash Equivalents		65,000	98,000
Total		4,35,000	5,80,000

Note to

General Reserve	50,000	70,000
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. Tangible Fixed Assets		
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 ₹30,000; provision for depreciation on it ₹10,000 was sold at a loss of 50% on book value. 2. Debentures were redeemed on 31st March 2020.

Hints: Operating Profit Before Working Capital Changes ₹75,000. Cash from operating activities ₹1,30,000. Cash from investing activities ₹(1,15,000). Cash from financing activities ₹18,000.

Q 8 From the following Balance Sheet of Dreams Converge Ltd as at 31.3.2018 and 31.3.2017; Calculate Cash from operating activities. Showing your workings clearly

Particulars	Note No.	31.3.2018 (₹)	31.3.2017 (₹)
I. EQUITY AND LIABILITY :			
1. Shareholder's Fund:		7,00,000	5,00,000
a. Share Capital			
b. Reserve and Surplus		3,50,000	2,00,000
2. Non-Current Liabilities:			
Long Term Borrowings		50,000	1,00,000
3. Current Liabilities:			
a. Trade Payables		1,22,000	1,05,000
b. Short term Provisions (Provision for tax)		50,000	30,000
TOTAL		**12,72,000**	**9,35,000**
II. ASSETS :			
1. Non Current Assets:			
a. Fixed Assets:			
i. Tangible Assets	1	5,00,000	5,00,000
ii. Intangible Assets	2	95,000	1,00,000
b. Non-current Investments		1,00,000	Nil
2. Current Assets:			
a. Inventory		1,30,000	55,000
b. Trade Receivable		1,47,000	80,000
c. Cash and Cash Equivalents		3,00,000	2,00,000
TOTAL		**12,72,000**	**9,35,000**

Notes

Note Number	**Particulars**	**31.3.2018 (₹)**	**31.3.2017 (₹)**
1	**Tangible Assets:**		
	Machinery	2,80,000	2,00,000
	Accumulated depreciation	(1,00,000)	(80,000)
		1,80,000	**1,20,000**
	Equipment	3,20,000	3,80,000
		5,00,000	**5,00,000**
2	Intangible Assets :		
	Goodwill	95,000	1,00,000

Additional Information: i. Machinery of the book value of 80,000 (accumulated depreciation ₹ 20,000) was sold at a loss of ₹ 18,000

Hints: Net Profit before Tax ₹2,00,000

Operating Profit before Working Capital ₹2,63,000

Cash From Operating Activities ₹1,38,000

I Cash from Operating Activity - ₹1,08,000

Q 9 From the following Balance Sheet of G Ltd. as at 31st March, 2019 and additional information, prepare Cash Flow Statement:

	Particulars	Note	31.03.2019	31.03.2018
1.	**Non-Current Assets :**			
	(a) Fixed Assets	3	9,50,000	6,05,000
	(b) Non-Current Investments		1,35,000	1,00,000
2.	**Current Assets :**			
	(a) Current Investments		80,000	40,000
	(b) Trade Receivables		90,000	2,00,000
	(c) Cash and Cash Equivalents		2,00,000	1,70,000
	Total		14,55,000	11,15,000

Notes to Accounts :

Note No.	Particulars	31.03.2019 ₹	31.03.2018 ₹
1.	**Reserves and Surplus :**		
	Surplus (i.e. Balance in Statement of Profit and Loss)	3,30,000	2,20,000
		3,30,000	2,20,000
2.	**Long-term Borrowings :**		
	10% Debentures	1,60,000	1,00,000
		1,60,000	1,00,000
3.	**Fixed Assets :**		
	Machinery (cost)	10,70,000	7,00,000
	(–) Accumulated Depreciation	(1,20,000)	(95,000)
		9,50,000	6,05,000

Additional information :

10% Debentures ₹ 60,000 were issued on 1st April, 2018.

Hints: Net Profit before Tax ₹1,10,000. Operating profit before the working Capital changes ₹1,51,000. Net Cash generated from Operating Activities ₹2,31,000. Net Cash used in investing activities ₹(4,05,000). Cash flows from Financing Activities ₹2,44,000

Q10.

(i) From the following information, calculate cash flow from Investing Activities :

Particulars	31.3.2020 ₹	31.3.2019 ₹
Plant and Machinery	3,00,000	2,00,000
Goodwill	1,20,000	40,000

Additional Information :

A machine costing ₹ 50,000 (depreciation provided thereon ₹ 15,000) was sold for ₹ 40,000. Depreciation charged during the year was ₹ 50,000. Show your working notes clearly.

(ii) From the following information, calculate cash flow from Financing Activities :

Particulars	31.3.2020 ₹	31.3.2019 ₹
Equity Share Capital	18,00,000	10,00,000
12% Debentures	4,00,000	3,00,000
Securities Premium Reserve	1,40,000	1,00,000

Additional Information :

Interest paid on Debentures was ₹ 36,000.

Hints: Cash used inInvesting Activities (2,25,000)&Financing Activities (9,04,000)

ANSWERS TO ONE MARK QUESTIONS:

Q 1 d) Subtracted under Operating Activities as Extraordinary Item and Inflow under Investing Activities also

Q 2 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.

Q 3 b) ₹ 1,02,000

Q 4 b) Cash deposited into bank ₹12,50,000

Q 5 c) Operating Activity

Q 6 C. Outflow ₹61,600.

Q 7 Purchase of marketable securities for ₹25,000 cash.

Q 8 Outflow

Q 9 In flow

Q 10 No Flow

Q 11 Redemption of debentures result in outflow of cash as it involves use of cash

Q 12 No Flow

Q 13 Cash Equivalents are defined as 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

Q 14 Activity which is financing for every enterprise: (Any One) (i) Payment of dividend (ii) Interest on Long term Borrowings (iii) Issue of Shares for cash (iv) Issue of Debenture for cash

Q 15 False because it will lead to no change in cash and cash equivalents.

Q 16 The primary objective of Cash Flow Statement is to provide useful information about cash flows (inflows and outflows) of an enterprise during a particular period under operating, investing and financing activities.

Q 17 Investing activity.

Q 18 Operating activity

Q 19 Cash flow from Investing Activities

Inflows	Amount (₹)
Dividend Received	70,000
Sale of Old Machinery	69,000
Outflows Purchase of Machinery	(9,00,000)
Net Cash outflow from Investing Activities	(7,61,000)

Q 20 – I-c; II- b; III- a

SAMPLE QUESTION PAPER 2022-23

SUBJECT ACCOUNTANCY 055

CLASS XII

TIME 3 HOURS **MAX. MARKS 80**

GENERAL INSTRUCTIONS:

1. This question paper contains 34 questions. All questions are compulsory.
2. This question paper is divided into two parts, Part A and B.
3. Part - **A is compulsory for all candidates**.
4. Part - B has two options i.e. **(i) Analysis of Financial Statements and (ii) Computerised Accounting.** Students must attempt **only one** of the given options.
5. Question 1 to 16 and 27 to 30 carries 1 mark each.
6. Questions 17 to 20, 31and 32 carries **3** marks each.
7. Questions from 21 ,22 and 33 carries **4** marks each
8. Questions 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.**

PART A

(Accounting for Partnership Firms and Companies)

<table>
<tr><th>S.No.</th><th>Question</th><th>Marks</th></tr>
<tr><td colspan="3">Part A :- Accounting for Partnership Firms and Companies</td></tr>
<tr><td>1.</td><td>Navya and Radhey were partners sharing profits and losses in the ratio of 3: 1. Shreya was admitted for 1/5th share in the profits. Shreya was unable to bring her share of goodwill premium in cash. The journal entry recorded for goodwill premium is given below:
<table>
<tr><th>Date</th><th>Particular</th><th>LF</th><th>Debit (₹)</th><th>Credit (₹)</th></tr>
<tr><td></td><td>Shreya's Current A/c. Dr.
To Navya's Capital A/c.
To Radhey's Capital A/c
(Being entry for goodwill treatment passed)</td><td></td><td>24,000</td><td>
8,000
16,000</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
</table>
The new profit-sharing ratio of Navya, Radhey and Shreya will be:
a) 41: 7: 12
b) 13:12: 10
c) 3:1: 1
d) 5:3: 2</td><td>1</td></tr>
</table>

2. Assertion (A):- Commission provided to partner is shown in Profit and Loss A/c.
Reason (R):- Commission provided to partner is charge against profits and is to be provided at fixed rate.

a) (A) is correct but (R) is wrong
b) Both (A) and (R) are correct, but (R) is not 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)

Marks: 1

3. A share of ₹ 10 each, issued at ₹ 4 premium out of which ₹ 7 (including ₹ 1 premium) 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

OR

While issuing_____________type of Debentures, company doesn't give any undertaking for the repayment of money borrowed by issuing such debentures.

a) Zero Coupon Rate Debentures   b) Non-Convertible Debentures

c) Secured Debentures	d) Non-Redeemable Debentures

Marks: 1

4. Samiksha, Arshiya and Divya were partners in a firm sharing profits and losses in the ratio of 5: 3: 2. With effect from 1st April 2022, they agreed to share future profits and losses in the ratio of 2: 5: 3. Their Balance Sheet showed a debit balance of ₹ 50,000 in the Profit and Loss Account and a balance of ₹ 40,000 in the Investment Fluctuation Fund. The market value of an investment is ₹30,000 against the book value of ₹50,000. Partners have decided, not to show revised valued in the balance sheet and to pass an adjusting entry for it.
Which of the following is the correct treatment of the above?

a)	Samiksha's Capital A/c. Dr.	9,000	
	To Arshiya's Capital A/c.		6,000
	To Divya's Capital A/c		3,000
b)	Arshiya's Capital A/c. Dr.	5,000	
	To Samiksha's Capital A/c.		2,000
	To Divya's Capital A/c.		3,000
c)	Arshiya's Capital A/c. Dr.	2,000	
	Divya's Capital A/c. Dr.	1,000	
	To Samiksha's Capital A/c		3,000
d)	Arshiya's Capital A/c. Dr.	6,000	
	Divya's Capital A/c. Dr.	3,000	
	To Samiksha's Capital A/c		9,000

Or

Sohan and Mohan are partners sharing profits and losses in the ratio of 2:3 with the capitals of ₹ 5,00,000 and ₹ 6,00,000 respectively. On 1st January 2022, Sohan and Mohan granted loans of ₹ 20,000 and ₹ 10,000 respectively to

Marks: 1

	the firm. Determine the amount of loss to be borne by each partner for the year ended 31st March 2022 if the loss before interest for the year amounted to ₹ 2,500. a) Share of Loss Sohan –₹ 1,250 Mohan – ₹ 1,250 b) Share of Loss Sohan –₹ 1,000 Mohan – ₹ 1,500 c) Share of Loss Sohan –₹ 820 Mohan – ₹ 1,230 d) Share of Loss Sohan –₹ 1,180 Mohan – ₹ 1,770	
5.	Vihaan and Mann 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 Mann 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
6.	Savitri Ltd. issued 50,000, 8% Debentures of ₹ 100 each at certain rate of premium and to be redeemed at 10% premium. At the time of writing off Loss on Issue of Debentures, Statement of Profit and Loss was debited with ₹ 2,00,000. At what rate of premium, these debentures were issued? a) 10% b) 16% c) 6% d) 4% **Or** Durga Ltd. issued 80,000, 10% Debentures of ₹ 100 each at certain rate of discount and were to be redeemed at 20% premium. Existing balance of Securities Premium before issuing of these debentures was ₹ 25,00,000 and after writing off Loss on Issue of Debentures, the balance in Securities Premiumwas ₹ 5,00,000. At what rate of discount, these debentures were issued? a) 10% b) 5% c) 25% d) 15%	1
7.	Attire Ltd, issued a prospectus inviting applications for 12,000 shares of ₹10 each payable ₹3 on application, ₹ 5 on allotment and balance on call. Publichad applied for certain number of shares and application money was received. Which of the following application money, if received restricts the company to proceed with the allotment of shares, as per SEBI guidelines? a) ₹ 36,000 b) ₹ 45,000 c) ₹ 30,000 d) ₹ 32,400	1
8.	Amay, Bina and Chander are partners in a firm with capital balances of ₹ 50,000, ₹ 70,000 and ₹ 80,000 respectively on 31st March, 2022. Amay decides	1

	to retire from the firm on 31st March, 2022. With the help of the information provided, calculate the amount to be paid to Amay on his retirement. There existed a general reserve of ₹ 7,500 in the balance sheet on that date. The goodwill of the firm was valued at ₹ 30,000. Gain on revaluation was ₹24,000. **a)** ₹ 88,500 — **b)** ₹ 90,500 **c)** ₹ 65,375 — **d)** ₹ 70,500 **Or** A, B and C are partners. A's capital is ₹ 3,00,000 and B's capital is ₹1,00,000. C has not invested any amount as capital but he alone manages the whole business. C wants 30,000 p.a. as salary, though the deed is silent. Firm earned a profit of ₹1,50,000. How much will each partner receives as an appropriation of profits? **a)** A ₹ 60,000; B ₹ 60,000; C ₹ 30,000 **b)** A ₹ 90,000; B ₹ 30,000; C ₹ 30,000 **c)** A ₹ 40,000; B ₹ 40,000 and C ₹ 70,000 **d)** A ₹ 50,000; B ₹ 50,000 and C ₹ 50,000	

Read the following hypothetical situation, Answer Question No. 9 and 10

Puneet and Raju are partners in a clay toys making firm. Their capitals were ₹ 5,00,000 and ₹ 10,00,000 respectively. The firm allowed Puneet to get a commission of 10% on the net profit before charging any commission and Raju to get a commission of 10% on the net profit after charging all commission. Following is the Profit and Loss Appropriation Account for the year ended 31st March 2022.

Dr. Profit and Loss Appropriation Account for the year ended 31st March 2022 Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Puneet's Capital A/c (Commission) (----- x10/100)	44,000	By Profit and Loss a/c	....
To Raju's Capital A/c (Commission)	-----------		
To Profit share transferred to :-			
Puneet's Capital A/c	-----------		
Raju's Capital A/c	------------		
	=========		==========

9.	Raju's commission will be:- a) ₹ 40,000 — b) ₹ 44,000	1

	c) ₹ 36,000	d) ₹ 36,440	
10.	Puneet's share of profit will be :-		1
11.	Choose the correct sequence of the following transactions in context of Division of Profits. (i) Guarantee by Firm to Partners (ii) Guarantee by Partners to Firm (iii) Transfer of Profits to Profit and Loss Appropriation Account (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.	If 10,000 shares of ₹10 each were forfeited for non-payment of final call money of ₹ 3 per share and only 7,000 shares were re-issued @ ₹ 11 per share as fully paid up, then what is the amount of maximum possible discount that company can allow at the time of re-issue of the remaining 3,000 shares? a) ₹ 28,000 — b) ₹ 21,000 c) ₹ 9,000 — d) ₹ 16,000		1
13.	As per Companies Act 2013, Securities Premium Balance can be utilised for which of the following purpose? a) Issuing bonus to existing shareholders to convert partly paid up into fully paid-up bonus shares. — b) Providing for Premium payable on Redemption of Debentures. c) Writing off all Capitalised Expenditures — d) Buy Back of Debentures		1
14.	Ganga and Jamuna are partners sharing profits 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 and she agrees to contribute proportionate capital of the new firm. How much capital will be brought by Saraswati? a) ₹ 43,750 b) ₹ 37,500 c) ₹ 50,000 d) ₹ 40,000		1
15.	Green and Orange are partners. Green draws a fixed amount at the beginning of every month. Interest on drawings is charged @8% p.a. At the end of the year interest on Green's drawings amounts to ₹ 2,600. Monthly drawings of Green were: a) ₹ 8,000		1

	b) ₹ 60,000 c) ₹ 7,000 d) ₹ 5,000 **Or** Girdhar, a partner withdrew ₹ 5,000 in the beginning of each quarter and interest on drawings was calculated as ₹ 1,500 at the end of accounting year 31 March 2022. What is the rate of interest on drawings charged? a) 6% p.a. b) 8% p.a. c) 10% p.a. d) 12% p.a.	
16.	At the time of dissolution of a firm, Creditors are ₹ 70,000; Firm's Capital is ₹ 1,20,000; Cash Balance is ₹ 10,000. Other assets realised ₹ 1,50,000. Gain/Loss in the realisation account will be: a) ₹ 30,000 (Gain) b) ₹ 40,000 (Gain) c) ₹ 40,000 (Loss) d) ₹ 30,000 (Loss)	1
17.	Nirmala, Divisha and Sara were partners in a firm sharing profits and losses in the 3:4:3. Books were closed on 31st March every year. Sara died on 1st February, 2022. As per the partnership deed Sara's executors are entitled to her share of profit till the date of death on the basis of Sales turnover. Sales for the year ended 31st March 2021 was ₹ 10,00,000 and profit for the same year was ₹ 1,20,000. Sales show a positive trend of 20% and percentage of profit earning is reduced by 2%. Journalise the transaction along with the working notes.	3
18.	Amay, Anmol and Rohan entered into partnership on 1st July, 2021 to share profits and losses in the ratio of 3:2:1. Amay guaranteed that Rohan's share of profit after charging interest on capital @ 6% p.a would not be less than ₹ 36,000 p.a. Their fixed capital balances are: ₹ 2,00,000, ₹ 1,00,000 and ₹ 1,00,000 respectively. Profit for the year ended 31st March, 2022 was ₹1,38,000. Prepare Profit and Loss Appropriation A/c. **Or** Ajay, Manish and Sachin were partners sharing profits in the ratio 5:3:2. Their Capitals were ₹ 6,00,000; ₹ 8,00,000 and ₹ 11,00,000 as on April 01, 2021. As per Partnership deed, Interest on Capitals were to be provided @ 10% p.a. For the year ended March 31, 2022, Profits of ₹ 2,00,000 were distributed without providing for Interest on Capitals. Pass an adjustment entry and show the workings clearly.	3

19.	Anthony Ltd. issued 20,000, 9% Debentures of ₹ 100 each at 10% discount to Mithoo Ltd. from whom Assets of ₹ 23,50,000 and Liabilities of ₹ 6,00,000 were taken over. Pass entries in the books of Anthony Ltd. if these debentures were to be redeemed at 5% premium. **Or** Random Ltd. took over running business of Mature Ltd. comprising of Assets of ₹ 45,00,000 and Liabilities of ₹ 6,40,000 for a purchase consideration of ₹ 36,00,000. The amount was settled by bank draft of ₹ 1,50,000 and balance by issuing 12% preference shares of ₹ 100 each at 15% premium. Pass entries in the books of Random Ltd.	3
20.	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 profitsequally. For this purpose, goodwill is to be valued at two year's purchase of theaverage 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. Journalise the transaction along with the working notes.	3
21.	Altaur 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. 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.	4
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 due	4

	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 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.	
23.	OTUA Ltd. was registered with an authorised capital of 2,00,000 equity shares of ₹ 100 each. The company offered 60,000 shares for public subscription at 25% premium. The share was payable as ₹ 40 on application and balance on allotment, with premium. Public had applied for 85,000 shares. Pro-rata allotment was made in the ratio of 5:4 and remaining applications were sent letters of regret. Mr. Anand holding 4,000 shares failed to pay allotment money and his shares were forfeited. Out of these 3,000 shares were re-issued at a discount of ₹ 20 per share. Pass necessary entries in the books of the OTUA Ltd. **Or** Pass entries for forfeiture and re-issue in both the following cases. **(a)** Vikram Ltd. forfeited 5,000 shares of Rahul, who had applied for 6,000 shares for non-payment of allotment money of ₹ 5 per share and first and final call of ₹ 2 per share. Only application money of ₹ 3 was paid by him. Out of these 3,000 shares were re-issued @ ₹ 12 per share as fully paid. **(b)** Ratan Ltd. forfeited 3,000 shares of ₹ 10 each (issued at ₹ 2 premium) for non-payment of first call of ₹ 2 per share. Final call of ₹ 3 per share was not yet made. Out of these 2,000 shares were re-issued at ₹ 10 per share as fully paid.	6
24.	X and Y were partners in the profit-sharing ratio of 3: 2. Their balance sheet as at March 31, 2022 was as follows:	6

Balance Sheet as at March 31, 2022

Liabilities		**Amount (₹)**	**Assets**		**Amount (₹)**
Creditors		56,000	Plant and Machinery		70,000
General Reserve		14,000	Buildings		98,000
Capital Accounts:			Stock		21,000
X	1,19,000		Debtors	42,000	
Y	1,12,000	2,31,000	(-)Provision	7,000	35,000
			Cash in Hand		77,000
		3,01,000			3,01,000

Z was admitted for 1/6th share on the following terms:

(i) Z will bring ₹ 56,000 as his share of capital, but was not able to bring any amount to compensate the sacrificing partners.

(ii) Goodwill of the firm is valued at ₹. 84,000.

(iii) Plant and Machinery were found to be undervalued by ₹ 14,000 Building was to brought up to ₹ 1,09,000.

(iv) All debtors are good.

(v) Capitals of X and Y will be adjusted on the basis of Z's share and adjustments will be done by opening necessary current accounts.

You are required to prepare revaluation account and partners' capital account.

Or

P, Q and R were partners in a firm sharing profits in the ratio of 3:2:1 respectively. 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 Account	1,200
R	10,000	35,000		
		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.	
25.	A, B and C were partners sharing P&L in the ratio 5:3:2. A died on 30th June, 2019. Entry for treatment of goodwill after his death was passed as follows:- <table><tr><th>Date</th><th>Particulars</th><th>L.F</th><th>Debit (₹)</th><th>Credit (₹)</th></tr><tr><td></td><td>B's Capital A/c Dr. C's Capital A/c Dr. To A's Capital A/c (Entry for goodwill treatment passed at the time of death of partner)</td><td></td><td>1,80,000 1,20,000</td><td> 3,00,000</td></tr></table> A's profit till date of death was estimated as ₹ 1,20,000, based on the average profits of past three years. Final dues payable to A's executors on the date of death was calculated as ₹ 8,40,000 out of which ₹ 2,40,000 was paid immediately by giving him Furniture valued for the same and balance was to bepaid in three equal annual instalments starting from 30 June, 2020, together with interest rate as specified in Section 37 of Indian Partnership Act, 1932.. Pass necessary entry for profit share to be credited to A's Capital and also prepare A's executors account till final settlement.	6
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 ₹ 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
	Part B :- Analysis of Financial Statements **(Option – I)**	
27.	Financial statements are prepared on certain basic assumptions (pre-requisites) known as____________. <table><tr><td>a) Provision of Companies Act,2013</td><td>b) Accounting Standards</td></tr><tr><td>c) Postulates</td><td>d) Basis of Accounting</td></tr></table> **Or** Which one of the following is correct?	1

	(i) Quick Ratio can be more than Current Ratio. (ii) High Inventory Turnover ratio is good for the organisation, except when goods are bought in small lots or sold quickly at low margins to realise cash. (iii) Sum of Operating Ratio and Operating Profit ratio is always 100%. a) All are correct. b) Only (i) and (iii) are correct. c) Only (ii) and (iii) are correct. d) Only (i) and (ii) are correct	
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.	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. **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.	1
30.	From the following information find out the inflow of Cash by sale of Office	1

	equipment's 31st March, 2022 — 31st March, 2021 Office Equipment ₹ 2,00,000 — ₹ 3,00,000 Additional Information: Depreciation for the year 2021-22 was Rs. 40,000 Purchase of Office Equipment purchased during the year Rs. 30,000 Part of Office Equipment sold at a profit of Rs. 12,000 a) ₹ 1,00,000 b) ₹ 1,02,000 c) ₹ 90,000 d) ₹ 1,12,000	
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 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.	Lala Ltd. and Bala Ltd. use different accounting policies for inventory valuation. These variations leave a big question mark on the cross-sectional analysis and comparison of these two firms was not possible. Identify the limitation of Ratio Analysis highlighted in the above situation. Also explain any two other limitations of Ratio Analysis apart from the identified above.	3
33.	Determine Return on Investment and Net Assets Turnover ratio from the following information:- Profits 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. **Or** Debt to Capital Employed ratio is 0.3:1. State whether the following transactions, will improve, decline or will have no change on the Debt to Capital Employed Ratio. Also give reasons for the same. (i) Sale of Equipments costing ₹ 10,00,000 for ₹ 9,00,000. (ii) Purchased Goods on Credit for ₹ 1,00,000 for a credit of 15 months, assuming operating cycle is of 18 months. (iii) Conversion of Debentures into Equity Shares of ₹ 2,00,000.	4

	(iv) Tax Refund of ₹ 50,000 during the year.	
34.	Read the following hypothetical text and answer the given questions on the basis of the same:	6

Aashna, an alumnus of CBSE School, initiated her start up Smartpay, in 2015. Smartpay is a service platform that processes payments via UPI and POS, and provides credit or loans to their clients.. During the year 2021-22, Smartpay issued bonus shares in the ratio of 5:1 by capitalising reserves. The profits of Smartpay in theyear 2021-22 after all appropriations was ₹ 7,50,000. This profit was arrived after taking into consideration the following items: -

Particulars	Amount (₹)
Interim Dividend paid during the year	90,000
Depreciation on Machinery	40,000
Loss of Machinery due to fire	20,000
Insurance claim received for Loss of Machinery due to Fire	10,000
Interest on Non-Current Investments received	30,000
Tax Refund	20,000

Additional Information:

Particulars	**31.3.22 (₹)**	**31.3. 21(₹)**
Equity Share Capital	12,00,000	10,00,000
Securities Premium Account	3,00,000	5,00,000
General Reserve	1,50,000	1,50,000
Investment in Marketable Securities	1,50,000	1,00,000
Cash in hand	2,00,000	3,00,000
Machinery	3,00,000	2,00,000
10% Non-Current Investments	4,00,000	3,00,000
Bank Overdraft	2,50,000	2,00,000
Goodwill	30,000	80,000
Provision for Tax	80,000	60,000

(i) Goodwill purchased during the year was ₹ 20,000.
(ii) Proposed Dividend for the year ended March 31, 2021 was ₹ 1,60,000 and for the year ended March 31,2022 was ₹ 2,00,000.

You are required to:
1. Calculate Net Profit before tax and extraordinary items.
2. Calculate Operating profit before working capital changes.
3. Calculate Cash flow from Investing activities.
4. Calculate Cash flow from Financing activities.
5. Calculate closing cash and cash equivalents.

Part B :- Computerised Accounting
(Option – II)

27.	The syntax of PMT Function is ____________ (a) PMT (rate, pv, nper, [fv], [type]) (b) PMT (rate, nper, pv, [fv], [type]) (c) PMT (rate, pv, nper, [type], [fv]) (d) PMT (rate, nper, pv, [type], [fv]) **Or** In Excel, the chart tools provide three different options___________,___________and ___________for formatting. (a) Layout, Format, DataMaker (b) Design, Layout, Format (c) Format, Layout, Label (d) Design, DataMaker, Layout	1
28.	Which formulae would result in TRUE if C4 is less than 10 and D4 is less than 100? (a) =AND(C4>10, D4>10) (b) =AND(C4>10, C4<100). (c) =AND(C4>10, D4<10). (d) =AND (C4<10, D4,100)	1
29.	Which function results can be displayed in Auto Calculate? (a) SUM and AVERAGE (b) MAX and LOOK (c) LABEL and AVERAGE (d) MIN and BLANK **Or** When navigating in a workbook, which command is used to move to the beginning of the current row? (a) [Ctrl]+[Home] (b) [Page Up] (c) [Home] (d) [Ctrl]+[Backspace]	1
30.	What category of functions is used in this formula: =PMT (C10/12, C8, C9,1) (a) Logical (b) Financial	1

	(c) Payment (d) Statistical	
31.	State any three types of Accounting Vouchers used for entry in Tally software.	3
32.	State any three requirements which should be considered before making an investing decision to choose between ‘Desktop database’ or ‘Server database’.	3
33.	State the features of Computerized Accounting system. **Or** Explain the use of ‘Conditional Formatting’.	4
34.	Describe two basic methods of charging depreciation. Differentiate between both of them.	6

ANSWER KEY - SAMPLE QUESTION PAPER 2022-23

SUBJECT ACCOUNTANCY 055

CLASS XII

S.NO	Question	Marks
	Part A **(Accounting for Partnership Firms and Companies)**	
1.	a) 41: 7: 12	1
2.	c) Both (A) and (R) are incorrect	1
3.	b) ₹ 4 per share OR d) Non – Redeemable Debentures	1
4.	a) Samiksha's Capital A/c. Dr. 9,000 To Arshiya's Capital A/c. 6,000 To Divya's Capital A/c 3,000 Or d) Share of Loss Sohan –₹ 1,180 Mohan – ₹ 1,770	1
5.	d) ₹ 3,00,000	1
6.	c) 6% OR b) 5%	1
7.	c) ₹ 30,000	1
8.	d) ₹70,500 Or d) A ₹ 50,000; B ₹ 50,000 and C ₹ 50,000	1
9.	c) ₹ 36,000	1
10.	a) ₹ 1,80,000	1
11.	c) (iii) ; (ii) ; (i); (iv)	1
12.	b) ₹ 21,000	1
13.	b) Providing for Premium payable on Redemption of Debentures.	1
14.	c) ₹ 50,000	1
15.	d) 5,000 Or d) 12% p.a	1
16.	d) ₹ 30,000 (loss)	1
17	Journal Entry	3 (1 + 2)

Date	Particulars	L.F.	Dr. Amount	Cr. Amount

	Date	Particulars	L.F	Debit (₹)	Credit (₹)	
	1.02.22	Profit and Loss Suspense A/c Dr. To Sara's Capital A/c (Being Sara's share of profit allowed till the date of her death)		30,000	30,000	

Workings: Profit % to sales turnover for the year ended 31st March,2021=1,20,000/10,00,000 X100= 12%

Estimated sales for the year ended 31st March,2022=₹ 10,00,000+20% of ₹ 10,00,000 = ₹ 12,00,000

Estimated sales till 01st February,2022 = ₹ 12,00,000 x 10/12 = ₹ 10,00,000

Profit percentage 12-2=10%

Profit amount till 01st February, 2022 = 10% of ₹ 10,00,000 = ₹ 1,00,000

Sara's share of profit till 1st February,2022= $\frac{1,00,000 \times 3}{10}$ = ₹ 30,000

18 (3 (1/2 x6))

Dr. Profit and Loss Appropriation A/c for the year ending on 31st March, 2022 Cr.

Particulars		Amount (₹)	Particulars	Amount (₹)
To Interest on Capital:			By Profit and Loss A/c	1,38,000
Amay's Current A/c		9,000		
Anmol's Current A/c		4,500		
Rohan's Current A/c		4,500		
To Partners' Current A/c:				
Amay	53,000			
Anmol	40,000			
Rohan	27,000**	1,20,000		
		1,38,000		**1,38,000**

** Guarantee met for 9 months.

Or (Or 3 (1+2))

Journal Entry

Date	Particulars	L.F	Debit (₹)	Credit (₹)
(i)	Ajay's Capital A/c Dr. To Manish's Capital A/c To Sachin's Capital A/c (Adjustment entry passed)		52,000	 4,000 48,000

Working Notes

Particulars	Ajay		Manish		Sachin		Firm	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Profits taken back	1,00,000		60,000		40,000			2,00,000
Interest on Capital to be credited		48,000		64,000		88,000	2,00,000	
	1,00,000	48,000	60,000	64,000	40,000	88,000	2,00,000	2,00,000
	52,000 (Dr.)		4,000 (Cr.)		48,000 (Cr.)			

19. (3)

Books of Anthony Ltd.

Journal Entries

Date	Particulars	L.F	Debit (₹)	Credit (₹)

Date	Particulars	L.F	Debit (₹)	Credit (₹)
(i)	Assets A/c Dr. Goodwill A/c Dr. To Liabilities A/c To Mithoo Ltd. A/c (Business purchased of Mithoo Ltd. comprising of Assets and Liabilities)		23,50,000 50,000	 6,00,000 18,00,000
(ii)	Mithoo Ltd. A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Debentures issued to Mithoo Ltd. at Discount, redeemable at Premium)		18,00,000 3,00,000	 20,00,000 1,00,000

OR

Books of Random Ltd.

Journal Entries

Date	Particulars	L.F	Debit (₹)	Credit (₹)
(i)	Assets A/c Dr. To Liabilities A/c To Mature Ltd. A/c To Capital Reserve A/c (Business purchased of Mithoo Ltd. comprising of Assets and Liabilities)		45,00,000	 6,40,000 36,00,000 2,60,00
(ii)	Mature Ltd. A/c Dr. To Bank A/c To 12% Preference Share Capital A/c To Securities Premium A/c (Debentures issued to Mithoo Ltd. at Discount, redeemable at Premium)		36,00,000	 1,50,000 30,00,000 4,50,000
	No. of Shares = 34,50,000/115 = 30,000 shares @ 100 + 15 each			

20. Sol — 3 (1+2)

Journal Entry

Date	**Particulars**	**L.F.**	**Dr. Amount**	**Cr. Amount**
1.4.20	Nobita's Capital A/c Dr. To Doremon's Capital A/c (Being goodwill adjusted at the time of change in profit sharing ratio)		26,667	 26,667

Workings:

(i) Calculation of gaining ratio and sacrificing ratio:

Doremon's gain or sacrifice = 3/6-2/6= 1/6 (sacrifice)

Shinchan's gain or sacrifice = 2/6-2/6 =0

Nobita's gain or sacrifice = 1/6 – 2/6 = -1/6 (gain)

(ii) Calculation of goodwill:

CALCULATIONOF NORMAL 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

Goodwill =Average Profits X No. of years Purchase
Average Profits = Total Normal Profits/Number of years
= 3,20,000/4 = 80,000
Goodwill= 80,000 X 2= ₹1,60,000
A's share of goodwill= 1,60,000 X 1/6= ₹26,667

21. (Marks: 4 (1+3))

Books of Altaur Ltd.
Balance Sheet (Extract) as at .....

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
EQUITY AND LIABILITIES			
Shareholders' Funds			
Share Capital	1	63,25,000	Nil

Notes to Accounts

1. Share Capital		Amount (₹)
Authorised Share Capital		
25,00,000 Equity Shares @ ₹ 10 each		2,50,00,000
1,50,000 9% Preference Shares @ ₹ 100 each		1,50,00,000
		4,00,00,000
Issued Share Capital		
8,00,000 Equity Shares @ ₹ 10 each		**80,00,000**
Subscribed Share Capital		
(i) Subscribed and Fully Paid up	--------	
(ii) 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. (Marks: 4)

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.		50,000	
	To Bank A/c			42,000
	To Realisation A/c			8,000
	(Dhwani's Loan of ₹ 50,000 settled at ₹ 42,000)			
(ii)	Paavni's Loan A/c Dr.		40,000	
	To Realisation A/c			40,000

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

Books of OTUA Ltd.
Journal Entries

Date	Particulars	L.F	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr. To Equity Share Application A/c (Application money received on 85,000 shares)		34,00,000	34,00,000
(ii)	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c To Bank A/c (Application money transferred to share capital, share allotment and refunded)		34,00,000	24,00,000 6,00,000 4,00,000
(iii)	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Allotment due on 60,000 shares with Premium)		51,00,000	36,00,000 15,00,000
(iv)	Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share Allotment A/c (Allotment received on 56,000 shares)		42,00,000 3,00,000	45,00,000
(v)	Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Share Forfeited A/c To Calls in Arrears A/c (4,000 shares forfeited for non-payment of allotment money)		4,00,000 1,00,000	2,00,000 3,00,000
	Bank A/c Dr. Share Forfeited A/c Dr. To Equity Share Capital A/c (3,000 shares re-issued @ ₹ 80 per share)		2,40,000 60,000	3,00,000
	Share Forfeited A/c Dr. To Capital Reserve A/c		90,000	90,000

6

	(Gain on re-issue of forfeited shares transferred to capital reserve)			

OR

Books of Vikram Ltd.

Journal Entries

(i)

Date	Particulars	L.F	Debit (₹)	Credit (₹)
(i)	Share Capital A/c Dr. To Share Forfeited A/c To Calls in Arrears A/c (5,000 shares forfeited for non-payment of allotment and call money)		50,000	 18,000 32,000
(ii)	Bank A/c Dr. To Share Capital A/c To Securities Premium A/c (3,000 shares re-issued @ ₹ 12 per share)		36,000	 30,000 6,000
(iii)	Share Forfeited A/c Dr. To Capital Reserve A/c (Gain on re-issue of forfeited shares transferred to capital reserve)		10,800	 10,800

(ii)

Books of Ratan Ltd.

Journal Entries

Date	Particular	L.F	Debit (₹)	Credit (₹)
	Share Capital A/c Dr. To Share Forfeited A/c To Calls in Arrears A/c (3,000 shares forfeited for non-payment of first call money)		21,000	 15,000 6,000
	Bank A/c Dr. To Share Capital A/c (2,000 shares re-issued @ ₹ 10 per share)		20,000	 20,000
	Share Forfeited A/c Dr. To Capital Reserve A/c (Gain on re-issue of forfeited shares transferred to capital reserve)		10,000	 10,000

24. Dr. Revaluation Account Cr. 6

Particulars	**Amount (₹)**	**Particulars**	**Amount (₹)**
To Partner's Capital A/c: X 19,200		Plant and Machinery Buildings A/c	14,000 11,000

Y 12,800	32,000	Provisions for Doubtful Debt A/c	7,000
	32,000		32,000

Dr. Partner's Capital Accounts Cr.

Particulars	X	Y	Z	Particulars	X	Y	Z
Y's Current A/c	----	24,000	----	Balance b/d	1,19,000	1,12,000	—
Balance c/d	1,68,000	1,12,000	56,000	Bank A/c	—	—	56,000
				Z's Current A/c	8,400	5,600	—
				General Reserve A/c	8,400	5,600	—
				Revaluation A/c	19,200	12,800	—
				X's Current A/c	13,000		
	1,68,000	1,36,000	56,000		1,68,000	1,36,000	56,000

OR

Dr. Revaluation A/c Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To Provision for Doubtful Debts	400	By Building A/c	7,000
To Partner's Capital A/c:			
P 3,300			
Q 2,200			
R 1,100	6,600		
	7,000		7,000

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

25. Journal Entries 6

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
2019 June 30	Profit and Loss Suspense A/c Dr. To A's Capital A/c (Being share of profit provided till the date of his death)		1,20,000	1,20,000

Dr. A's Executors A/c Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2019 June 30	Furniture A/c		2,40,000	2019 June 30	A's Capital A/c		8,40,000
2020 Mar.31	Balance c/d		6,27,000	2020 Mar.31	Interest A/c		27,000
			8,67,000				8,67,000

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
2020 June 30 2021 Mar. 31	Bank A/c Balance c/d		2,36,000 4,18,000	2020 Apr. 1 June 30 2021 Mar. 31	Balance b/d Interest A/c Interest A/c		6,27,000 9,000 18,000
			6,54,000				6,54,000
2021 June 30 2022 Mar. 31	Bank A/c Balance c/d		2,24,000 2,09,000	2021 Apr. 1 June 30 2022 Mar. 31	Balance b/d Interest A/c Interest A/c		4,18,000 6,000 9,000
			4,33,000				4,33,000
2022 June 30	Bank A/c		2,12,000	2021 Apr. 1 June 30	Balance b/d Interest A/c		2,09,000 3,000
			2,12,000				2,12,000

26. Books of Health2Wealth Ltd. — 6 (2+2+2)

a) Journal Entries

Date	Particulars	L.F	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr. To Debenture Application and Allotment A/c (Application money received)		55,00,000	 55,00,00
(ii)	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 8% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (Debenture issued at premium, to be redeemed at premium)		55,00,000 10,00,000	 50,00,000 5,00,000 10,00,000

b)

Dr. Loss on Issue of Debentures A/c Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
2021 1 Oct.	To Premium on Redemption of Debentures	10,00,000	2022 31 Mar.	By Securities Premium A/c By Statement of Profit and Loss A/c	7,80,000 2,20,000
		10,00,000			10,00,000

c) Journal Entries

Date	Particulars	L.F	Debit (₹)	Credit (₹)
31 Mar. 2022	Debenture Interest A/c Dr. To Debentureholders A/c (Interest due on debentures)		2,00,000	 2,00,000
31	Debentureholders A/c Dr.		2,00,000	

	Mar. 2022	To Bank A/c (Interest paid to debentureholders)			2,00,000		
	31 Mar. 2022	Statement of Profit and Loss Dr. To Debenture Interest A/c (Interest on Debentures charged to Statement of Profit and Loss)		2,00,000	 2,00,000		

Part B :- Analysis of Financial Statements
Option -I

27.	c) Postulates Or c) Only (ii) and (iii) are correct	1
28.	b) 3 times	1
29.	d) Subtracted under Operating Activities as Extraordinary Item and Inflow under Investing Activities also 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
30.	b) ₹ 1,02,000	1
31.	(see table below)	3

Item	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 Equipments and Intangible Assets Property, Plant and Equipments
(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

32.	Variations of Accounting Practice as Limitation is highlighted in the given statement.	3

	Two Other Limitations (Any two of the following, with suitable explanation) (a) Limitations of Accounting Data (b) Ignores Price-level Changes (c) Ignore Qualitative or Non-monetary Aspects (d) Forecasting	
33.	Return on Investment = EBIT / Capital Employed x 100 = 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 Assets Turnover ratio = Revenue from Operations/Capital Employed = 3,60,00,000/1,20,00,000 = 3 times Or (i) Ratio will improve. Reason – Capital Employed will decrease and Debt will remain same (ii) Ratio will remain same. Reason – Both Debt and Capital Employed will remain same. (iii) Ratio will decline. Reason – Debt will decrease but Capital Employed will remain same. (iv) Ratio will decline. Reason – Capital Employed will increase but Debt will remain same.	4
34.	1. Net Profit before tax and extraordinary items=Net Profit for the year+ Interim Dividend + Loss of assets due to fire + Provision for Tax + Proposed Dividend - Insurance claim received for Loss due to Fire – Tax refund = 7,50,000 + 90,000 + 20,000 + 80,000 + 1,60,000 – 10,000 – 20,000 = ₹ 10,70,000 2. Operating profit before working capital changes= Net Profit before tax and extraordinary items + Adjustments for non-cash and non-operating expenses and goodwill amortised – Adjustments for non-cash and non-operating incomes = 10,70,000 + 40,000 + 70,000** – 30,000 = 11,50,000 ** Goodwill amortised = Opening goodwill + Goodwill purchased - Closing goodwill 3. Cash flow from Investing Activities = Interest on Non-Current Investments + Insurance claim for loss of assets due to fire – Purchase of Investments – Purchase of Machinery – Goodwill purchased = 30,000 + 10,000 – 1,00,000 - 1,60,000 – 20,000 = ₹ (2,40,000) Outflow 4. Cash flow from Financing Activities: Raise of Bank overdraft – Interim Dividend Paid – Final Dividend paid = 50,000 – 90,000 – 1,60,000 = ₹ (2,00,000) Outflow 5. Closing Cash and Cash Equivalents : Cash in Hand + Investment in Marketable Securities = 2,00,000 + 1,50,000 =3,50,000	6 (1.5+ 1.5+ 1+ 1+ 1)
	Part B :- Computerised Accounting	

	(Option – II)	
27.	a) PMT (rate, nper, pv, [fv], [type]) Or a) Design, Layout, Format	1
28.	d) =AND (C4<10, D4,100)	1
29.	a) SUM and AVERAGE Or c) [Home]	1
30.	(b) Financial	1
31.	Types of Accounting Vouchers (i) Contra Vouchers (ii) Payments Vouchers (iii) Receipt Vouchers	3
32.	The points to be considered before making investment in a database: (any three) (i) What all data is to be stored in the database? (ii) Who will capture or modify the data, and how frequently the data will be modified? (iii) Who will be using the database, and what all tasks will they perform? (iv) Will the database (backend) be used by any other frontend application? (v) Will access to database be given over LAN/ Internet, and for what purposes? (vi) What level of hardware and operating system is available?	3
33.	Features of computerized accounting system: (i) Simple and integrated. (ii) Transparency and control. (iii) Accuracy and speed. (iv) Scalability. (v) Reliability Or Uses of conditional formatting: (i) It helps in making needed information highlighted. (ii) It changes the appearance of cells ranges. (iii) Colour scale may be used to highlight cells . (iv) useful in making decision making.	4
34.	Two basic methods of charging depreciation are: Straight line method : This method calculates fixed amount of depreciation every year which is calculated keeping in view the useful life of assets and its salvage value at the end of its useful life. Written down value method: This method uses current book value of the asset for computing the amount of depreciation for the next period. It is also known as declining balance method.. Differences: 1. Equal amount of depreciation is charged in straight line method. Amount of depreciation	6

	goes on decreasing every year in written down value method. 2. Depreciation is charged on original cost in straight line method. The amount is calculated on the book value every year. 3. In straight line method the value of asset can come to zero but in written down value method this can never be zero. 4. Generally rate of depreciation is low in case of straight line method but it is kept high in case of written down value method. 5. It is suitable for assets in which repair charges are less and the possibility of obsolescence is less. It is suitable for the assets which become obsolete due to changes in technology.	

SAMPLE QUESTION PAPER 2-2022-23

SUBJECT ACCOUNTANCY 055

TIME 3 HOURS MAX. MARKS 80

GENERAL INSTRUCTIONS:

This question paper contains 34 questions. All questions are compulsory.

2. This question paper is divided into two parts, Part A and B.

3. Part - A is compulsory for all candidates.

4. Part - B has two options i.e. (i) Analysis of Financial Statements and (ii) Computerised Accounting. Students must attempt only one of the given options.

5. Question 1 to 16 and 27 to 30 carries 1 mark each.

6. Questions 17 to 20, 31and 32 carries 3 marks each.

7. Questions from 21 ,22 and 33 carries 4 marks each

8. Questions 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.

PART A

(Accounting for Partnership Firms and Companies)

1	Any change in the relationship of existing partners which results in an end of the existing agree ment and enforces making of new· agreement is called: (a)Revaluation of partnership (b)Reconstitution of partnership (c)Realisation of partnership (d)None of the above	1
2.	**Assertion(A):** XYZ are partners with Fixit capitals of Rs.9,00,000 each the partnership deed allowed for salary of Rs.1,00,000 per annum tonX and interest on capital @5% per annum. Net profit for the year is Rs.5,00,000. Amounts of appropriation will be credited to their respective capital accounts **Reason (R):** When capital accounts are fixed, all appropriations are credited or debited in the partners current accounts	1

	Reason (R): When capital accounts are fixed, all appropriations are credited or debited in the partners current accounts a. Assertion(A) and Reason(R) are correct and Reason(R) is the correct explanation of Assertion(A) b. Assertion(A) and Reason(R) are correct and Reason(R) is not the correct explanation of Assertion(A) c. Assertion(A) is correct but Reason(R)is not correct d. Assertion(A) is not correct but Reason(R)is correct	1
3	X Ltd. purchased Sundry Assets of Rs.600000 and Liabilities of 50000 from Y Ltd.9% Debentures of Rs 100 each were issued as purchase consideration of Rs.475000. Amount of capital Reserve will be: (a) 50,000 (b) 65,000 (c) 15,000 (d)75000 Or A company issued 6,000 shares of Rs. 10 each money to be called up:- On application Rs. 3 on allotment Rs. 3 on first call Rs. 2 and remaining on second call. On allotment one shareholders having 100 shares paid full amount The amount collected on allotment......... (a) 18,000 (b) 12,000 (c) 18,400 (d) 18,600	1
4	A and B are partners sharing profit and losses in the ratio of 3 : 2. A's capital is Rs. 1,20,000 and B's capital is Rs. 60,000. They admit C for 1/5thshare of profits. C should bring as his capital (a) Rs. 36,000 (b) Rs. 48,000 (c) Rs. 58,000 (d) Rs. 45,000 Or The Goodwill of firm Rs 1,80,000 valued at three year's purchase of super profit . If capital employed is Rs 2,00,000 and Normal rate of return is 10% per annum .The amount of average profit will be ______ (a) 80,000 (b) 60,000 (c) 20,000 (d) 18,000	1
5.	Siddharth and Nitish were partners in a firm sharing profits and losses in the ratio of 3:2. Their capitals were Rs.3,00,000 and Rs.4,00,000 respectively. They were entitled to interest on capital @ 10 %. The firm earned profit of Rs.21,000 during the year .The interest on Sidharth capital will be (a) ₹12,000 (b) ₹9,000 (c) ₹30,000 (d) ₹40,000	1
6	A company issued 1000 7% Debentures of Rs 100 at 5% Discount and Repayable at 10 % Premium .What will be the amount of Loss on issue of Debentures.: (a) Rs 10,000	1

	(b) Rs 20,000 (c) Rs 15,000 (d) Rs 30,000. Or Discount or loss of issue of debenture to be written off after 12 months from the date of balance sheet or after the period of operating cycle in shown as : (a) Other current asset (b) Other non current assets (c) Other long term liability (d) Other current liabilities	
7	A company Forfeited 1,000 shares of Rs 10 each , Rs 7 called up. For the non payment of Rs 2 First call . All these shares were reissued at Rs 5 per share, ₹7 paid up. What will the amount transferred to capital Reserve account : a) 2,000 b) 3,000 c) 4,000 d) 5,000.	1
8	Manu,Binu and Sini are partners sharing profits in the ratio 5:4:1. Sini is given guarantee that her share in the year will not be less than Rs.5000. Profit for the year ended 31 March 2023 is Rs.40,000. Deficiency in the guaranteed profit of Sini is to be borne by Binu. Deficiency to be borne by Binu is (a) ₹1,500 (b) ₹4,000 (c) ₹5,000 (d) ₹1,000 Or Nisha, Nimi &Nikesh are partners sharing profits in the ratio 2:2:1. Nimi retires from the firm .The capital account of Nisha, Nimi &Nikesh are Rs 60,000 Rs70,000 and Rs 50,000 respectively after adjustment of goodwill , reserves and Revaluation profit . Nimi was to paid in cash brought in by Nisha &Nikesh in such a way that their capital are in proportion of new ratio . How much amount Nisha &Nikesh must bring to pay Nimi : (a)Rs 50,000 by Nisha & Rs 20,000 by Nikesh (b)Rs 60,000 by Nisha & Rs 10,000 by Nikesh (c) Rs35,000 by Nisha and Rs 35,000 by Nikesh (d)Rs 40,000 by Nisha and Rs 30,000 by Nikesh	1
	Read the hypothetical text and Based on this case, answer questions 9 &10 Vineet & Dhanya were partners in firm sharing profits in the ratio 2:1. As per partnership deed interest is allowed on capital @10% p.a. On 31/3/2022 their fixed capital account balances were₹3,00,000 and ₹2,00,000 respectively. On 30/6/2021 Vineet had withdrawn ₹ 50,000 out of capital and Dhanya introduced ₹50,000 as additional capital. The firm earned a profit of ₹1,50,000 for the year ended 31/3/2022	
9	Capital of Vineet on 1/4/2021 were ₹----------	1
10	Net divisible profit of the firm for the year ended 31/3/2022 will be————	1
11.	In which of the following case, revaluation account is debited? (a)Increase in value of asset (b)Decrease in value of asset	1

	(c) Decrease in value of liability (d) No change in value of assets	
12	Silver spoon Ltd had allotted 20,000 shares to the applicants of 28,000 shares on *pro rata basis*. The amount payable on application was Rs.2 per share Mukesh had applied for 420 shares .The number of shares allotted and the amount carried forward for adjustment against allotment money due from Mukesh are (a) 300 shares, Rs.240 (b) 340 shares, Rs.200 (c) 320 shares ,Rs 100 (d) 60 shares Rs.120	1
13	As per sec. of the companies Act amount. received as premium on securities cannot be utilized for :- (a)Issuing fully paid bonus shares to the members (b)Purchase of fixed assets (c)Writing off preliminary expenses (d)Buy back of its own shares	1
14	Ravi,Sachin and Kapil are equal partners. Virat is admitted as a partner in the firm for 1/4th share. Virat brings Rs.20,000 as capital and Rs.5000 being half of the premium for Goodwill. The value of goodwill of the firm is (a) ₹10,000 (b) ₹20,000 (c) ₹40,000 (d) None of these	1
15	A,B&C are partners sharing profits in the ratio 5:3 :2. They decided to share future profits in the ratio of 2:3:5. Workmen compensation reserve in balance sheet is Rs.50,000. No information as to workmen compensation claim is given. Workmen compensation reserve will be (a) distributed among A,B,C in the ratio 5:3:2 (b) distributed among A,B,C in the ratio 2:3:5 (c) distributed among A,B,C in the ratio 1:1:1 (d) Will be carried forward to new balance sheet Or P,Q &R are partners sharing profits equally. P drew regularly ₹ 4,000 in the beginning of every month for six months ended 30th September, 2020. Calculate interest of P's drawing @ 5% p.a. a) ₹350 b) ₹200 C) ₹1,200 d) ₹700	1
16	On Dissolution of firm X,a partner has taken over furniture at Rs. 7,200 (being 10% less than book value). Its book value is :- (a)Rs. 7,920 (b)Rs. 8,000 (c)Rs. 7,200	1

	(d)Rs. 7,000	
17	Partiv, Mili and Reena are partners in a firm sharing profits in the ratio of 3: 2 : 1. Reena dies and the balance in her capital account after making necessary adjustments on account of reserves, revaluation of assets and liabilities workout to be ₹60,000. Partiv and Mili agreed to pay to her executor's ₹75,000 in full settlement of her claim. Calculate goodwill of the firm and record Journal Entry for treatment of goodwill on Reena's death	3
18	Amita and Babu are partners sharing profits in the ratio of 3:2, with capitals of ₹50,000 and ₹ 30,000 respectively. Interest on capital is agreed @ 6% p.a. Babu is to be allowed an annual salary of ₹2,500. During the year 2021-22, the profits prior to the calculation of interest on capital but after charging Babu's salary amounted to ₹12,500. A provision of 5% of the profit is to be made in respect of commission to the manager.Prepare Profit and Loss Appropriation account . Or Pass necessary rectifying journal entries for the omissions committed while preparing Profit and Loss Appropriation Account. You are also required to show your workings clearly. Madhu and Sagar are partners in a firm sharing profits in the ratio of 3:2. Their fixed capitals are: Madhu ₹2,00,000, and Sagar ₹3,00,000. After the accounts for the year are prepared it is discovered that interest on capital @10% p.a. as provided in the partnership agreement, has not been credited in the capital accounts of partners before distribution of profits.	3
19	A company issued 1,00,000, 9% debentures of ₹100 each at discount of 5%, but redeemable at premium of 5%. Give journal entries for issue of debentures Or Dye&dye Ltd., purchased building worth ₹1,50,000, Machinery worth 1,40,000 and furniture worth 10,000 from Colours ltd, and took over its liabilities of ₹20,000 for a purchase consideration of 3,15,000. Dye&dye Ltd. paid the purchase consideration by issuing 12% debentures of 100 each at a premium of 5%. Record necessary journal ent ries.	3
20	X and Y are partners in a firm sharing profit/loss in the ratio of 2:1. They agree to admit Z as a new partner for 1/4th share. Z brought in ₹ 3,00,000 for share of capital and necessary amount of cash for share of goodwill. Goodwill valued at ₹ 1,20,000. X and Y withdraw 40% of premium for goodwill from the firm. Pass necessary Journal entries for the above in books of the firm	3
21	Beauty Unlimit Ltd. has an authorised capital of ₹10,00,000 divided into equity shares of ₹10 each. The company invited applications for 50,000 shares. Applications for 45,000 shares were received. Final call of ₹3 per share was not made. All money were duly received except on first call of₹ 2 per share on 1,000 shares. 600 of these shares were forfeited. Present the 'Share Capital' in the Balance Sheet of the company. Also prepare 'Notes to Accounts.	4
22	Abhishek &Navin were partners in a firm sharing profits and losses in the ratio of 3:7. On 31st March,2022, their firm was dissolved. On that date the Balance Sheet showed a stock of ₹ 90,000 and creditors of ₹1,00,000. After transferring the assets and liabilities to the realisation account, the following transactions took place: i. Abhishek took over 50% of the total stock at 10% discount. ii. 20% of the total Stock was taken over by creditors of ₹20,000 and balance was paid by cheque.iii. Remaining stock was sold at 10% loss. iv. 40% of the remaining creditors were paid by cheque at a discount of 5% and the balance were taken by Navin. Journalise in the books of the firm.	4
23	Good bricks Limited issued for public subscription of 1, 20,000 equity shares of ₹ 10 each at a premium of ₹2 per share payable as under: With Application ₹3 per share On allotment (including premium)₹ 5 per share	6

On First call. ₹ 2 per share

On Second and Final call. ₹ 2 per share

Applications were received for 1, 60,000 shares. Allotment was made on *pro-rata* basis. Excess money on application was adjusted against the amount due on allotment.
Manohar, whom 4,800 shares were allotted, failed to pay for the two calls. These shares were subsequently forfeited after the second call was made. All the shares forfeited were reissued to Sudha as fully paid at ₹7 per share.
Record journal entries in the books of the company to record these transactions relating to share capital.

Or

Pass journal entries for forfeiture and re-issue in both of the following cases
(a) 200 shares of 100 each issued at a premium of 10 were forfeited for the non-payment of allotment money of 760 per share. The first and final call of 20 per share on these shares were not made. The forfeited shares were reissued at 70 per share as fully paid-up.
(b)150 shares of 10 each issued at a premium of 4 per share payable with allotment were forfeited for non payment of allotment money of ₹8 per share including premium. The first and final call of ₹4 per share was not made. The forfeited shares were reissued at 15 per share fully paid-up.

24 Ram and Sanjay were partners sharing profits in the ratio of 2:1. On 1st April 2022.They admitted Bharat, as a new partner for 1/4 share in profits. Bharat will bring ₹ 60,000 for Goodwill and ₹1,50,000 as capital, At the time of admission the Balance Sheet Ram and Lakshman was as under 6

Liabilities		Assets	
Capital accounts		Plant	66,000
Ram. 70,000		Furniture	30,000
Sanjay. 60,000	1,30,000	Investment	40,000
General Reserve	18,000	Stock	46,000
Bank Loan	18,000	Debtors 38,000	
Creditors	72,000	Less provision. 4,000	34,000
		Cash	22,000
	2,38,000		2,38,000

It was decided to
(i) Reduce the value of stock by .10, 000.
(ii) Plant to be valued at 80,000.
(iii) An amount of .3,000 included in creditors was not payable.
(iv) Half of the investment were taken over by Ram and remaining were valued at ₹.25,000.
Prepare revaluation account, partners 'capital account and Balance sheet of the reconstituted firm

Or

A, B and C were partners in a firm sharing profits & losses in proportion to their capitals. Their Balance Sheet as at March 31, 2022 was as follows: 6

Balance Sheet
as at March 31, 2022

Liabilities		Assets	
Capitals:		Bank	21,000
A ₹5,00,000		Stock	9,000
B ₹3,00,000		Debtors. 15,000	
C ₹2,00,000	10,00,000	Less: provision for	
General Reserve	75,000	Doubtful debts 1,500	13,500
Creditors	23,000	Loan to A	35,500
Outstanding Salary	7,000	Land & Building	8,00,000
B's Loan	15,000	Profit & Loss Account	2,41,000
	11,20,000		11,20,000

On the date of above Balance Sheet, C retired from the firm on the following terms:

1. Goodwill of the firm will be valued at ₹ 3,00,000.

	2. Provision for Bad Debts would be maintained at 5% of the Debtors. 3. Land & Building would be appreciated by 90,000. 4. A agreed to repay his Loan. 5. The loan repaid by A was to be utilized to pay C. The balance of the amount payable to C was transferred to his Loan Account bearing interest @ 12% per annum. Prepare Revaluation Account, Partners' Capital Accounts and the Balance Sheet of the reconstituted firm.	
25	Sandhya, Kiran and Sooraj were partners in a firm sharing profits and losses in the ratio of 2:2:1. On 31st March, 2022 their Balance Sheet was as follows: Balance Sheet of Sandhya, Karan and Sooraj as on 31.3.2022	6

Creditors	3,00,000	Fixed Assets	5,00,000
General Reserve	2,00,000	Stock	1,50,000
Capitals		Debtors	1,50,000
Sandhya: 1,50.000		Bank	1,50,000
Kiran. 2,00,000			
Sooraj. 1,00,000	4,50,000		
	9,50,000		9,50,000

	Kiran died on 12.6.2022. According to the partnership deed, the legal representatives of the deceased partner were entitled to the following: (i) Balance in his Capital Account. (ii) Interest on Capital 12% p.a. (iii) Share of goodwill. Goodwill of the firm on Kiran's death was valued at 60,000. (iv) Share in the profits of the firm till the date of his death, calculated on the basis of last year's profit. The profit of the firm for the year ended 31.3.2022 was 3,65,000. Prepare Karan's Capital Acount to be presented to his representatives.	
26	(I)"Alpha Ltd." purchased Machinery from Mukta Machine Ltd. for ₹ 6,90,000. Mukta Machine ltd. was paid by accepting a draft of ₹90,000 payable after three months and the balance by issue of 6% debentures of 100 each at a discount of 20%. Pass necessary journal entries for the above transactions in the books of "Alpha Ltd." (ii)Savio Ltd. issued 2,500, 8% Debentures of 100 each at a discount of 10% on 1st April, 2019 redeemable at par after five years. The company has a balance of 15,000 in Securities Premium Reserve. The company decided to use the Securities Premium Reserve for writing off the loss on issue of debentures and also decided to write off the remaining discount in the first year itself. Pass the Journal Entries for Issue of Debentures and writing off the Discount on Issue of Debentures.	6
	Part B :- Analysis of Financial Statements (Option – I)	
27	Under the sub head of short – term provision which one is shown from the following : (a) Interest accrued and due on borrowing (b) Proposed dividend (c) unpaid dividend (d) calls in advance Or Current ratio 4:1, Current assets Rs. 60,000 quick assets are 2:5:1. Calculate inventory A) 22,500 B) 37,500 C) 15,000 D) 25,000	1

28	If Revenue from operations is Rs 12,00,000 and cash revenue from operations is 20% if credit revenue from operations . What will be credit revenue from operations : A Rs 2,00,000 B Rs 8,00,000 C Rs 10,00,000 D Rs 12,00,000.	1
29	Investment costing Rs. 10,000 sold for Rs. 12,000. The amount shown in investing activity is a) Rs. 2,000 b) Rs. 10,000 c) Rs. 12,000 d) Rs. 2,200 Or Interest received on investment by a financing company is shown under: (a) Operating Activity (b)Investing Activity (c)Financing Activity (d)Cash and Cash Equivalents	1
30	Plant and Machinery of Book Value of Rs. 5,00,000 at a loss of 5%. Inflow under Investing Activities will be a)Rs. 4,75,000 b) Rs. 5,00,000 c) Rs. 3,80,000 d) Rs. 3,60,000	1
31	Under which sub-heads will the following items be placed in the Balance Sheet of the company as per Schedule III of Companies Act,2013? i. Cheques in hand ii. Loose tools iii. Securities Premium Reserve iv. Long-term Investments with maturity period less than six months v. Building under Construction vi. Livestock	3
32	The proprietary ratio of M. Ltd. is 0.80: 1. State with reasons whether the following transactions will increase, decrease or not change the proprietary ratio: 1. Obtained a loan from bank 2,00,000 payable after five years.. 2. Purchased machinery for cash 75,000. 3. Redeemed 5% redeemable preference shares 1,00,000	3
33	From the following details, calculate Return on Investment and Total Assets to Debt ratio: Fixed Assets ₹ 75,00,000; Current Assets ₹ 40,00,000; Current Liabilities ₹ 27,00,000; 12% Debentures ₹ 80,00,000; Net Profit after tax ₹ 2,94,000; Tax rate 40%. Or From the following information, compute 'Debt-Equity Ratio' and Current Ratio Long-Term Borrowings. ₹ 2,00,000 Long-Term Provisions. ₹1,00,000 Current Liabilities. ₹50,000 Non-Current Assets ₹3,60,000 Current Assets. ₹90,000	4
34	Read the following hypothetical text and answer the given question on the basis of the same. Nimisha an MBA graduate had started a business in the year 2021 and following are the results of the business for the year ended 31st March 2023	6

Particulars	Note no	2022-23	2021-22
Equity & Liabilities: **(1) Shareholders Funds** (a) Share Capital (b) Reserves and Surplus (Profit & Loss Balance) **(2) Non-Current Liabilities**		7,00,000 2,00,000	6,00,000 1,10,000

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
II. Assets			
(1) Non-Current Assets			
(a) Fixed Assets Tangible Assets		11,00,000	8,00,000
(2) Current Assets			
(a) Inventories		70,000	60,000
(b) Trade Receivables		32,000	40,000
(c) Cash and Cash Equivalents		28,000	35,000
Total		12,30,000	9,35,000

1. Calculate cash flow from operating activities
2. Calculate cash flow from investing activities
3. Calculate cash flow from financing activities

****

SQP 1 - ANSWER KEY 2022-23

SUBJECT ACCOUNTANCY 055

TIME 3 HOURS MAX.MARKS 80

1.	(b)Reconstitution of partnership	1
2.	d. Assertion(A) is not correct but Reason(R)is correct	1
3	(d)75000 Or. (c) 18,400	1
4	.(d) Rs. 45,000 Or (a)Rs 80,000	1
5.	(b) ₹9,000	1
6	(c) Rs 15,000. Or (c) Other long term liability	1
7	b) 3,000	1
8	(d)₹1,000. Or (b)Rs 60,000 by Nisha & Rs 10,000 by Nikesh	1
9	₹350,000	1
10	₹1,00,000	1
11	(b) Decrease in value of asset	1
12	(a) 300 shares, Rs.240	1
13	(b)Purchase of fixed assets	1
14	(c) ₹40,000	1
15	(a)distributed among A,B,C in the ratio 5:3:2. Or (a) ₹350	1
16	(b)Rs. 8,000	1
17	Partiv's Capital A/c. Dr. 9,000Mili's Capital A/c. Dr. 6,000 To Reena's Capital A/c. 15,000 (Reena's share of goodwill adjusted in Partiv's and Mili's capital accounts in their gainingratio of 3:2)	3
18	Profit after charging Babu salary 12,500add Babu salary. 2,500 15,000 Less provision for managers commission 5% of Rs.15,000 (750) Net profit as per P&L account 14,250 Share of profit transferred to Amita's capital account Rs.4 ,170Babu's capital account Rs.2 ,780 Or Madhu's Current A/c.Dr.10,000 To Sagar's Current A/c. 10,000 (Adjustment for omission of interest on capitals)	

19

Date	Particulars	L/F			
	Bank A/c. Dr. To 9% Debenture Application & Allotment A/c (Debentures Application money re-ceived)		95,000	95,000	1 mark
	9% Debenture Application &Allotment A/c. Dr Loss on Issue of Debentures A/c. Dr		95,000 10,000		

	To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Debentures application money transferred)			1,00,000 5,000	2 marks

Or

Date	Particulars	L/F	Debit ₹	Credit ₹	
	Building A/c. Dr. Plant & Machinery A/c. Dr Furniture A/c Dr Goodwill A/c. Dr To Liabilities A/c To Colours Ltd (Purchase of assets and taking over of liabilities of Colours Ltd.)		1,50,000 1,40,000 10,000 35,000	 20,000 3,15,000	2 1
	Colours ltd Dr. To 12% Debentures A/c To Securities Premium Reserve A/c (Issue of 3,000 debentures at a premium of 5%)		3,15,000	 3,00,000 15,000	

20

Date	Particulars	L/F	Debit ₹	Credit ₹	
	Cash A/c Dr. To Z's Capital A/c To Premium for goodwill A/c (Being cash brings for share of capital & premium for g/w)		3,30,000	 3,00,000 30,000	3
	Premium for goodwill A/c Dr. To X's Capital A/c To Y's Capital A/c (Being premium for goodwill transferred in sacrificing ratio)		30,000	 20,000 10,000	
	X's Capital A/c Dr. Y's Capital A/c Dr. To Cash A/c (Being 40% of premium for goodwill withdrawn by X and Y)		8,000 4,000	 12,000	

21 **Balance sheet of Beauty Unlimit Ltd** 4

Particular	Note no	CY	PY
EQUITY AND LIABILITIES 1. Shareholders' Funds (a) Share Capital	1	3,13,000	

Note to account:

Authorised capital 1,00,000 equity shares of 10 each			10,00,000	
Issued Capital 50,000 equity shares of ₹10 each issued to public			5,00,000	

		Subscribed Capital Subscribed but not fully paid capital 44,400 equity shares of ₹10 each, ₹7 called up Add: Shares forfeited A/c (600x5) Less: Calls-in-arrears A/c (400×2)		3,10,800 3,000 (800)	**3,13,000**	
22		I. Abhishek's CapitalA/c Dr To Realisation A/c (50% of Stock taken over) II .Realisation account. Dr To Bank A/c iii. Cash/ Bank A/c Dr To Realisation A/c (30% of stock sold) IV.Realisation A/c To Bank A/c To Navin's capital A/c (Remaining creditors settled)		40,500 2,000 24,300 78,400	 40,500 2,000 24,300 30,400 48,000	4
23		Equity Share Capital A/c (4,800×10). Dr To Share First Call A/c (4,800×2) To Share Final Call A/c (4,800×2) To Share Forfeiture A/c (4,800×6) (4,800 shares forfeited for the non-payment of First Call and Final Call		48,000	 9,600 9,600 28,800	6
		Bank A/c. Dr Share Forfeiture A/c. Dr To Equity Share Capital (4,800 shares reissued @ ₹ 7 per share, fully paid-up)		33, 600 14,400	 48,000	
		Share Forfeiture A/c. Dr To Capital Reserve A/c (Share forfeiture balance of 4,800 shares transferred to capital reserve)		14,400	 14,400	
		(Amt received on application:Rs.4,80,000 Allotment: Rs.4,80,000 Share first call: Rs.2,30,400 Share final call: Rs.2,30,400				
		Or				
	(a)	Share Capital A/c. Dr Securities Premium Reserve A/c. Dr To Share Forfeiture A/c To Share Allotment A/c/Calls-in-arrears A/c (200 shares forfeited for non-payment of allotment money @ ₹60 including premium , 80 called up)		16,000 2,000	 6,000 12,000	
		Bank a/c. Dr Share Forfeiture A/c. Dr To Share Capital A/c (Reissue of 200 forfeited shares @ 70, as fully paid up)		14,000 6,000	 20,000	
	(b)	Share Capital A/c. Dr Securities Premium Reserve A/c. Dr To Share Forfeiture A/c		900 600	 300	

	To Share Allotment A/c/Calls-in-arrears A/c (Forfeiture of 150 shares, 6 called up)			1,200	
	Bank a/c. Dr To Share Capital A/c To Securities Premium Reserve A/c. (Re issue of 150 shares at Rs.15 as fully paid)		2,250	1,500 750	
	Share Forfeiture A/c. Dr To Capital Reserve A/c (Balance of share forfeiture account transferred to capital reserve)		300	300	

24	Revaluation profit Ram 8000 Sanjay Rs.4000(3 marks); Partners capital account:Ram Rs.1,10,000 Sanjay Rs.90,000 Bharat Rs.50,000(3 marks), balance sheet Rs.3,37,000(2 marks) Or	6
	Revaluation profit A ₹45,375, B ₹27 ,225 ,C ₹18,150 C loan account Rs.209,450. Closing balance of Capital A -Rs.4,24,875, B-Rs2,54,925 Balance sheet Rs.9,34,250	
25	Kiran's Capital a/c	6

particulars	Amt	particulars	Amt
To Kiran's Executors' A/c	3,38,000	By Balance b/d By Interest on Capital A/c By P & L Suspense A/c By Sandhya 's Capital A/c By Sooraj's Capital A/c By General Reserve A/c	2,00,000 4,800 29,200 16,000 8,000 80,000
	3,38,000		3,38,000

Q		Particulars		Dr	Cr	Marks
26	(I)	Plant and Machinery A/c. Dr To Mukta Machine Ltd. A/c (Being Machinery purchased.)		6,90,000	6,90,000	1 mk
		Mukta Machine Ltd. A/c. Dr. Discount on Issue of Debentures A/c (7,500 × 20) To Bills Payable A/c To 6% Debentures A/c (7,500 x 100) (Being Purchase consideration settled.)		6,90,000 1,50,000	90,000 7,50,000	2 mk 1/2 mk
	(Ii)	Bank A/c (2,500 x 90). Dr. To Debenture Application and Allotment A/c (Being Application money received.)		2,25,000	2,25,000	1.5 mk
		Debenture Application and Allotment A/c Discount on Issue of Debentures A/c (2,500 × 10) To 8% Debentures A/c (2,500 x 100) (Being Debentures allotted.)		2,25,000 25,000	2,50,000	1mk
		Securities Premium Reserve A/c. Dr. Statement of Profit and Loss (Finance Cost) (25,000 - 15,000) To Discount on Issue of Debentures A/c		15,000 10,000	25,000	

	(Being Discount on issue of Debentures written off.)	
27	(b) Proposed dividend. Or (a) 22,500	
28	C Rs 10,00,000	
29	c) Rs. 12,000. Or (a) Operating Activity	1
30	a)Rs. 4,75,000	
31	Items. Heading i. Cheques in hand. Cash & Cash Equivalents ii Loose tools. Inventories iii Securities Premium Reserve. Reserves & Surplus iv Long term Investments with maturity period less than six months. Current Investment v Building under Construction. Fixed Assets-Capital in Progress vi. Livestock. Fixed Assets- Tangible Assets (Each item 1⁄2 mark)	3
32	1. Decrease 2. No change 3. Decrease	3
33	Return on Investment = {14,50,000/88,00,000} x100=16.48% Total Assets to Debt Ratio = 1,15,00,000/80,00,000 = 1.44 : 1 Or Debt-Equity Ratio = Debt / Equity (Shareholders' Funds) = 3,00,000 / 1,00,000 = 3 :1, Current ratio=9:5	4
34	1. Cash flow from operating activities Rs.3,08,000	6
	2. Cash used in investing activities Rs.5,15,000	
	3. Cash flow from financing activities Rs.2,00,00	

SAMPLE PAPER - 3(2022-23)

ACCOUNTANCY (055)CLASS XII

MAX MARKS: 80 **TIME : 3 Hrs**

<u>**GENERAL INSTRUCTIONS**</u>:

This question paper contains 34 questions.

1. **All questions are compulsory.**
2. **This question paper is divided into two parts, Part A and B.**
3. **Part - A is compulsory for all candidates.**
4. **Part - B has two options i.e. (i) Analysis of Financial Statements and (ii) Computerised Accounting.Students must attempt only one of the given options.**
5. **Question 1 to 16 and 27 to 30 carries 1 mark each.**
6. **Questions 17 to 20, 31and 32 carries 3 marks each.**
7. **Questions from 21 ,22 and 33 carries 4 marks each**
8. **Questions 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 mark**

<u>**PART A (Accounting for Partnership Firms and Companies)**</u>

1 Ram and Shyam are partners sharing profits and losses equally. Financial Statements are prepared for the year ended 31st March, 2021, which show a profit of ₹ 1,50,000before allowing interest on a loan of ₹ 50,000 from Shyam 10% p.a. Each partner is entitled to salaryas : Ram₹ 15,000 per annum and Shyam₹10,000 per annum

2 What is Ram's total appropriation of profit for the year ended 31st March, 2021

a) ₹77,500
b) ₹70,000
c) ₹75,000
d) ₹80,000

3 Given below are two statements, one labelled as Assertion(A)and other labelled as Reason(R)

Assertion(A): 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.

Reason(R): It is defined in the Partnership Act, 1932.

In the context of above two statements, which of the following is correct?

- Assertion(A) and Reason(R) are correct but the Reason(R)is not the correct explanationof

Assertion (A).

- Both Assertion(A)and Reason (R)are correct and Reason(R)is the correct explanationof Assertion (A).
- Assertion(A) is correct but the Reason(R)is not correct.
- Both Assertion(A)and Reason(R)are not correct.

4 Mohit Ltd purchased the running business of Prem Ltd consist total asset of ₹ 10,00,000 liabilities of ₹ 2,00,000. Mohit Ltd paid ₹ 2,00,000 immediately in cash and balance by issuing 7,000 shares of ₹ 100 each at a premium of ₹ 20 per share. The goodwill A/c will be debited by ₹ ____________.

OR

Collateral security means ________ security:

- primary
- secondary
- government
- collective

5 What will be partners' profit share if Chaman's share of profit is guaranteed at ₹60,000?

a)₹1,50,000,₹90,000,₹60,000 b)₹1,90,000,₹50,000,₹60,000

c)₹1,60,000,₹80,000,₹60,000 d)₹1,44,000,₹96,000,₹60,000

OR

In case of fixed capitals, partners will have

- Credit balances in their Capital Accounts
- bit balances in their Capital Accounts
- Creditor debit balances in their Capital Accounts
- Credit balance or nil balance in their Capital Accounts

6 A manager gets 5% commission on net profit after charging such commission. Gross profit ₹5,80,000 and expenses of indirect nature other than manager's commission are ₹ 1,60,000.Commission amount will be

7.

a)₹21,000b)₹20,000c)₹15,000d)₹22,000

8.A company issued ₹ 50,000 10% debentures at a discount of 5% redeemable after 5 years at a premium of 5%. Loss on issue of debentures will be ₹ -----------------

a. ₹ 4,000

b. ₹ 5,000

c. ₹ 1,000

d.₹ 2,500

OR

X Ltd. took over Building of ₹ 20,00,000 and Machinery of ₹ 5,00,000 and liabilities of ₹6,00,000 of YLtd. XLtd. paid the purchase consideration by issuing10,000 Debentures of ₹100 each at a premium of 10%and ₹11,00,000 by Bank Draft. Purchase Consideration will be

:a.₹22,00,000 b.₹25,00,000 c.₹19,00,000

d.₹21,00,000

9. A company issued 10,000shares of ₹10 each at par for which Application were received for 50,000 shares. Amount called up:-On application ₹4 each, on allotment ₹3 and final call remaining amount. Shares were allotted on pro-rata basis Excess money will be refunded. Afterutilization for allotment and final call. The Bank A/c will be credited withOn the retirement of Hari from the firm of 'Hari, Ram and Sharma' the balance-sheet showeda debit balance of ₹12,000 in the profit and loss account. For calculating the amount payable to Hari this balance will be transferred

- to the credit of the capital accounts of Hari, Ram and Sharma equally
- to the debit of the capital accounts of Hari, Ram and Sharma equally
- to the debit of the capital accounts of Ram and Sharma equally
- to the credit of the capital accounts of Ram and Sharma equally

OR

At the time of retirement of a partner, Workmen Compensation Reserve after meeting the legal requirement, is transferred to:-

(A)Revaluation Account (B)All Partners Capital A/C (C)Sacrificing Partners' Capital A/C (D)Old Partners Capital A/C.

Read the following hypothetical situation, answer Question No. 9,10 and 11

Amar, Binod and Chaman are in trading business of Jute and Jute products. They have beensharing profits equally upto the year ended 31st March,2020. They reconstituted the firm and profit-sharing ratio was changed to 3:2:1.Chaman being a working partner demanded that he should be paid annual salary of ₹ 75,000. The partners did not agree to salary demanded by Chaman but agreed to give him minimum guaranteed profit of ₹60,000.Their capitals as on 1stApril, 2020 were ₹5,00,000,₹4,00,000 and ₹3,00,000 respectively. Profit for the year ended on 31stMarch,2021 was ₹3,00,000. Answer the following questions (9-12)on the basis of above

10. What will be partners' profit share if Chaman's share of profit is guaranteed at ₹60,000?

a)₹1,50,000,₹90,000,₹60,000 b)₹1,90,000,₹50,000,₹60,000 c)₹1,60,000,₹80,000,₹60,000 d)₹1,44,000,₹96,000,₹60,000

11. What will be partners' profit share if deficiency in Chaman's profit share is to be borneby Amar and Binod in the ratio of 4:1?

a)₹1,50,000,₹90,000,₹60,000 b)₹1,42,000,₹98,000,₹60,000 c)₹1,44,000,₹96,000,₹60,000 d)₹1,20,000₹1,20,000,₹60,000

12. What will be partners' profit shares, if Chaman's share of profit is guaranteed by Amar personally?

a) ₹1,40,000,₹1,00,000,₹60,000

b) ₹1,44,000,₹96,000,₹60,000

c) ₹1,60,000,₹80,000,₹60,000

d) ₹1,20,000,₹1,20,000,₹60,000

13. What will be partners' profit shares ,if Chaman's share of is guaranteed after allowing in-tereston capital @ 6% p.a.

a) ₹1,09,600,₹56,400,₹60,000

b) ₹89,600,₹76,400,₹60,000

c) ₹99,600,₹66,400,₹60,000

d) ₹1,00,800,₹67,200,₹60,000

13.At the time of admission of a Partner, Gain (Profits)or Losses arising on the revaluation ofassets and reassessment of liabilities is transferred to__________________________in the ....

- Old partner's capital a/c, old ratio
- Sacrificing partner's capital a/c, sacrificing ratio
- Gaining partner's capital a/c, gaining ratio
- Old partner's capital a/c, sacrificing ratio

14 Match List-I with List-II and select the correct answer using the codes given below the lists(at the time of admission of partner situation):

List-I(Item/ Transaction) List-II\(Entry) (a)Increase in liabilities 1. Credit- Revaluation a/c

(a) Bad Debts Recovered 2. Credit- Partner's Capital a/c(c)Accumulated losses 3. Debit- Revaluation a/c (d)Profit & Loss a/c (Cr). 4. Debit- Partner's Capital a/c

A. (a)-3, (b)-1, (c)-2, (d)-4

B. (a)-1, (b)-3, (c)-4, (d)-2

C. (a)-1, (b)-3, (c)-2, (d)-4

D. (a)-3, (b)-1, (c)-4, (d)-2

15 As per Section 52 of Companies Act 2013, Securities Premium Reserve cannot be utilisedfor:

(A) Writing off capital losses.

(B) Issue of fully paid bonus shares.

(C) Writing off discount on issue of securities.

(D) Writing off preliminary expenses

OR

Calculate the amount of second & final call when Ekta Ltd, issues Equity shares of ₹ 10 each at a premium of 40% payable on Application ₹ 3, On Allotment ₹ 5, On First Call ₹2.

(A) Second & final call ₹ 3.

(B) Second & final call ₹ 4.

(C) Second & final call ₹ 1.

(D) Second & final call ₹ 14.

16 A company issued ₹ 50,000 10% debentures at a discount of 5% redeemable after 5 years at a premium of 5%. Loss on issue of debentures will be ₹ -----------------

a. ₹ 4,000

b. ₹ 5,000

c ₹ 1,000

d. ₹ 2,500

17 Amita, Babli and Charmi are partners sharing profits in the ratio of 5:3:2. Babli retires andnew profit-sharing ratio between Amita and Charmi is agreed at 2:3. They also decided to record the effect of the following without affecting their book values:

General reserve	₹1,20,000	Contingency reserve - 70,000	
Profit & Loss A/c (Dr.)	30,000	Advertisement suspense Account	₹ 10,000

You are required to give single necessary adjusting entry.

18 B, C and D are partners sharing profits in the ratio of 1:1:1. As per the partnership deedSalary is allowed to the partners as follows:

•B is entitled to a salary of ₹ 2,000 per month.

•C is entitled to salary of ₹ 16,000 p.a.

•D is entitled to a salary of ₹ 4,000 quarterly.

Calculate the amount of salary payable to the partners in the following cases:Case 1. When there is profit of ₹ 62,000

Case 2. When there is profit of ₹ 35,000Case 3. When there is loss ₹ 20,000

OR

Garry, Harry and Robert were partners in a firm sharing profits in the ratio of 7:4:9 . Theircapitals on 1st April 2021 were: Garry ₹ 2,00,000 ; Harry ₹ 75,000 and Robert₹ 3,50,000. Their partnership deed provided for the following:

(i)10% of the net profit to be transferred to General Reserve.(ii)Interest on capital is to be allowed @ 9% p.a.

(iii) Salary of ₹ 6,000 per month to Harry(iv)Interest on Drawings @ 6% p.a.

Drawings made against the anticipated profits, by Garry during the year ₹ 25,000, Harry withdrew ₹ 5,000 at the end of each quarter, Robert withdrew ₹ 25,000 on1st June 2021 forpersonal use. During the year ended 31st March 2022 the firm earned profits of ₹ 1,70,000. Prepare Profit and Loss Appropriation Account.

19 Parmar Ltd. invited applications for 10,000 Equity Shares of ₹ 100 each issued at par. Theamount was payable on application. The issue was oversubscribed by 2,000 shares and allotment was made on pro rata basis. Pass necessary Journal entries

OR

Deepak Ltd. company purchased furniture ₹ 2,20,000 from M/s Furniture Mart. 50% of the amount was paid to Furniture Mart by accepting a bill of exchange and for the balance the company issued 9% debentures of ₹ 100 each at a premium of 10% in favour of Furniture Mart. Pass necessary journal entries in the books of Deepak Ltd company for abovetransactions.

20 Aman and Suman are partners in a firm sharing profit and losses in the ratio of 3:2. They admitted Chaman as a new partner and the new profit-sharing ratio will be 2:1:1. Chaman brought in ₹ 50,000 as his capital and ₹ 20,000 for his share of Goodwill. Goodwill already appeared in the books of Aman and Suman at ₹ 5,000. Pass the necessary journal entries in thebooks of the new firm for the above transactions.

21 Abhishek Ltd. is registered with capital of ₹ 50,00,000 divided into 50,000 equity sharesof Rs 100 each, The Company issued 25,000 equity shares for subscription. Subscription wasreceived for 23,750 shares and all the due amount was duly received, except the first and finalcall of Rs 20 per share on 600 shares. Show the 'Share Capital' in the Balance Sheet of the company.

OR

Meet Ltd. forfeited 900 Equity Shares of ₹ 100 each for the non-payment of allotment money of ₹ 30 per share and the first call of ₹ 20 per share. The second and final call of ₹ 25 per share has not been made . The forfeited shares were reissued for ₹ 90 per share , ₹ 75 paid-up. Journalise the above

22 Pass necessary journal entries for the following transactions on the dissolution of the firm of

Paresh and Ramesh after assets (other than cash) and outside liabilities have been transferred to Realisation Account

- Stock of ₹ 2,00,000. P took over 50% of stock at a discount of 10%. Remaining stockwas sold at profit of 25% on cost.
- Land and building (book value. ₹ 12,50,000) sold for ₹ 15,00,000Realisation expenses ₹5,000

paid by the firm on behalf of partner Q

23 Record the journal entries for forfeiture and reissue of shares in the following cases: Anupama Ltd. forfeited 20 shares of ₹ 10 each, ₹ 7 called-up on which the shareholder had paid applica- tion and allotment money of ₹ 5 per share. Out of these, 15 shares were reissued to Naresh as ₹ 7 per share paid-up for ₹ 8 per share. Anuj Ltd. forfeited 90 shares of ₹ 10 each, ₹ 8 called-up issued at a premium of ₹ 2 per share to '*R*' for non-payment of allotment money of₹ 5 per share (including premium). Out of these, 80 shares were reissued to Sanjay as ₹ 8 called-up for ₹ 10 per share.

OR

Vanraj Ltd. was incorporated with a capital of ₹ 2,00,000 divided into shares of ₹ 10 each. 2,000 shares were offered for subscription and out of these, 1,800 shares were applied for and allotted. ₹ 3 per share (including ₹ 1 premium) was payable on application, ₹ 4 per share (including ₹ 1 premium) on allotment, ₹ 2 per share on first call and ₹ 3 per share on final call. All the money was received. Give necessary Journal entries and show share capital in the Balance Sheet

24. Following was the Balance Sheet of *A* and *B* who were sharing profits in the ratio of 2 : 1 asat 31st March, 2021:

Liabilities		**Amount ₹**	**Assets**	**Amount ₹**
Capital A/cs:			Building	25,000
A	15,000		Plant and Machinery	17,500
B	10,000	25,000	Stock	10,000
Sundry Creditors		32,950	Sundry Debtors	4,850
			Cash in Hand	600
		57,950		**57,950**

They admit *C* into partnership on 1st April, 2021, on the following terms:

- *C* was to bring ₹ 7,500 as his capital and ₹ 3,000 as goodwill for 1/4th share in the firm.
- Values of the Stock and Plant and Machinery were to be reduced by 5%.
- A Provision for Doubtful Debts was to be created in respect of Sundry Debtor ₹ 375.
- Building was to be appreciated by 10%.

Prepare Profit and Loss Adjustment Account (or Revaluation Account), Partners' CapitalAccounts and Balance Sheet of the new firm.

OR

X, Y, and Z were partners in a firm sharing profits in the ratio of 5:3:2. On 31st March,2019 their balance sheet was as follows:

Liabilities		₹	Asset		₹
Creditors		21,000	Land and Building		62,000
Investment Fluctuation fund		10,000	Motor Vans		20,000
Profit and Loss A/C		40,000	Investments		19,000
Capitals:			Machinery		12,000
X	50,000		Stock		15,000
Y	40,000		Debtors	40,000	
Z	20,000	1,10,000	Less: Provision	3,000	37,000
			Cash		16,000
		1,81,000			1,81,000

On the above date, Y retired and X and Z agreed to continue the business on the following terms:

- Goodwill of the firm was valued at ₹51,000.
- There was a claim of ₹4, 000 for Workmen's compensation.
- Provision for bad debts was to be reduced by₹1000.
- Y will be paid ₹8,200 in cash and the balance will be transferred to his loan Account.
- The new profit sharing ratio between X and Z will be 3:2 and their capitals will bein their new profit sharing ratio .The capital adjustments will be done by opening current accounts.

Prepare Revaluation Account, Partners' Capital Account, and the Balance sheet of there-constituted firm.

25. Rohit, Sultan and David are partners in a firm sharing profits in the ratio of 2:2:1 respectively. Firm closes its accounts on 31st March every year. Sultan died on 1st August,2019. There was a balance of ₹96,000 in Sultan's capital account in the beginning of the year. In the event of death of any partner, the partnership deed provided for the following:

- Interest on capital will be calculated at the rate of 12% p.a.
- The executor of the deceased partner shall be paid ₹15,000 for his share ofgood-will.
- His share of reserve fund which is ₹10,000 shall be paid to his executor.
- His share of profit till the date of death shall be calculated based on previous year's profit which is ₹1, 20,000.

Prepare Sultan's capital account to be presented to his executor

26. Pass necessary Journal Entries for 'issue of debentures' for the following:

- X Ltd. issued 1,500, 12% Debentures of ₹100 each at a discount of 10%, redeemable at a premium of 5%.

- Y Ltd. issued 1,600, 9% Debentures of ₹100 each at a premium ₹20 per Debenture,redeemable at a premium of ₹10 per Debenture.

- Z Ltd. issued 2,000, 9% Debentures of ₹100 each at a discount of 6% redeemable at par.

PART B –ANALYSIS OF FINANCIAL STATEMENTS

27 Which of the following is not an activity ratio?

- Inventory turnover ratio
- Interest coverage ratioorking capital turnover ratio
- Trade receivables turnovetios

28

ASSERTION AND REASONING QUESTIONS Choose the correct answer out of the following choices • Both Assertion (A) and Reason (R) are true and Reason (R) is the correctexplanation of Assertion (A) • Both Assertion (A) and Reason (R) are true but Reason (R) is not the correctexplanation of Assertion (A) • Assertion (A) is true but Reason (R) is false • Assertion (A) is false but Reason (R) is true
(A)current ratio of a company will increase by redemption of debentures (R) debentures are considered current liability in the year of redemption

29. Sheetal Ltd. has a current ratio of 3:1. If its stock is Rs. 40,000 and totalcurrent liabilities are Rs. 75,000, the quick ratio will be:

a) 2.7:1 b) 2.47 c) 4 d) 2.36:1

30. Profit earned before the issuance of a certificate entitling the company to commencebusiness is shown as a..................................... in the balance sheet.

31. If the Debt to equity ratio is 2:1 state whether the following Will increase /decrease or will not change the ratio.

- Purchase of fixed asset by taking long term loan.
- Sale of fixed asset of book value Rs.40000 for Rs.50000
- Issue of new shares for cash

32. Mahindra & Mahinder started a small co. under the GOI’s Startup scheme. Their financial performance for the last yr. was as under: From the given information calculate the following ratios:

1. Current ratio 2.Operating ratio 3.Inventory turnover 4.Proprietary ratio

Particulars	Rs.
Revenue from operations	2200000
Operating expenses	10% of Revenue from operations
G.P.	40%
Opening stock	150000
Closing stock	20000 more than opening stock
Liquid assets	130000
Liquid ratio	0.65:1
Share capital	500000
Fixed Assets	500000
Reserves & surplus	100000

33 From the following information
Calculate:. Interest coverage ratio 2.ROI 3.GP ratio 4. Working capital turnover ratio

N.P. after tax Rs.650000, 12.5% Debentures Rs. 800000,
Income tax-50%, Fixed Assets Rs.2460000,
Depreciation reserve Rs.460000, Current Assets Rs.1500000,
Current liabilitiesRs.700000
Cash revenue from operations-25% of Total Revenue from operations,
Credit Revenuefrom operations-Rs.900000, G.P.50% on cost of RFO.

34

From the following Balance sheet and additional information of B Ltd, prepare a Cash Flow Statement.

Particulars	Note No	31-3-2021	31-3-2020
I. Equity and Liabilities			
1. Shareholder's Funds			
a. Share capital		450000	300000
b. Reserves and surplus		185000	50000
2. Current liabilities			
a. Short term borrowings (Bank OD)		50000	50000
b. Trade payables		105000	85000
TOTAL		**790000**	**485000**
II. Assets			
1. Non-current assets			
Property, plant and equipment (FA)		480000	200000
2. Current assets			
• Inventories		90000	80000
• Trade receivables		90000	120000
• Cash		300000	85000
TOTAL		**790000**	**485000**

Notes to Accounts:

Particulars	**31-3-2021**	**31-3-2020**
1. Reserves and Surplus		

Surplus. i. e (Balance in Statement of profit and loss)		185000	50000

Additional information:

- Income tax paid during the year was Rs.35000/-
- Dividend paid during the year was Rs.30000/-
- Interest on Bank over draft for the year was Rs. 4000/-

****

SPQ - 3 ANSWER KEY (2022-23)

ACCOUNTANCY (055) **CLASS XII**

1. Rs.75,000 ,2. (a) 3. Rs.1,00,000 OR Secondary

4. (a) , 5.(b) ,6(b) OR 6(c) , 7. Rs.1,00,000 8.(b) OR 8 (B)

9. (d) , 10(b), 11(a) , 12(d) , 13(a) , 14(d) ,15(c) OR 15(b)

16(b) ,

17 Gaining Partners capital A/c......... Dr, To Retiring Partners Capital A/c 30,000

18. Journal Entry

19. Record the correct Journal

20. Average profit ₹ 1,08,000

Less: Partners' remuneration₹18,000Normalprofit on capital employed

(₹ 6,00,000 x 10/100) ₹ 60,000 78,000

Super profit = ₹ 30,000 Goodwill = 30,000 x 2 =60,00021.Correct Journal Entry

22. Correct Journal Entry

23 Journal from issue to reissue

24.Revaluation A/c, Partners Capital Account & Balance Sheet25.Amount due to Sultan 1,35,000

26 Journal for issue with specific terms and conditions27(b) ,28(a) , 29(b) ,30. Contingent liability

31.improve, no change, decline

32. 1-1.5:1 2-70% 3-8.25 times 4-0.75:1

33. Interest coverage ratio (times) : 1. 14 times 2. 50% , G.P. ratio is 33.33%Working capital turn-over ratio 1.5 times

34 Net Cash Flow from Operating Activities= ₹ 5,12,000 Net Cash used in InvestingActivities= ₹ (7,20,000) Net Cash Flow from Financing Activities= ₹ 2,08,000

****

KENDRIYA VIDYALAYA SANGATHAN

SAMPLE QUESTION PAPER- 3 (2022-23)

SUBJECT : ACCOUNTANCY 055

CLASS XII

TIME 3 HOURS **MAX. MARKS:80**

GENERAL INSTRUCTIONS:

1. This question paper contains 34 questions. All questions are compulsory.
2. This question paper is divided into two parts, Part A and B.
3. Part - **A is compulsory for all candidates**.
4. Part - B has two options i.e. **(i) Analysis of Financial Statements and (ii) Computer-ised Accounting.** Students must attempt **only one** of the given options.
5. Question 1 to 16 and 27 to 30 carries 1 mark each.
6. Questions 17 to 20, 31and 32 carries **3** marks each.
7. Questions from 21 ,22 and 33 carries **4** marks each.
8. Questions 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.**

PART A

(Accounting for Partnership Firms and Companies)

1. Vishnu and Sushmitha are partners respectively sharing profits in the ratio of 3:2. Their capitals as on 1st April 2022 were Rs 1,60,000 and Rs 1,20,000 respectively. They admit Balachandran into the partnership on that date giving him a 1/5th share in the future profits, which he acquired equally from Vishnu and Sushmitha. Balachandran is to bring in Rs 1,20,000 as his share of capital. The journal entry for hidden goodwill is:

Date	Particulars	L.F	Dr.	Cr.
	Balachandran's current A/c Dr To Vishnu's Capital A/c To- Sushmitha's Capital A/c		40,000	 20,000 20,000

The new profit-sharing ratio of Vishnu Sushmitha and Balachandran will be:

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

2. Assertion (A):- Salary provided to partner is shown in Profit and Loss A/c.
 Reason (R):- Salary provided to partner is charge against profits and is to be provided at

fixed amount.

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)

3. The portion of the capital which can be called-up only on the winding up of the Company
is called..

a) Authorised capital

b) Issued capital

c) Subscribed capital

d) Reserve Capital (1)

OR

ABC Ltd acquired assets of Rs 10,00,000 and took over liabilities of Rs 10,000 from Sanjana Ltd. ABC Ltd issued 10% debentures of Rs 100 each at a discount of 10%. as
purchase consideration. The number of debentures issued will be..

a) 10,000

b) 11,000

c) 12,000

d) 24,000

4. Virar and Sanvi were partners in a firm sharing profits and losses in 3:1 ratio. They admitted Parthiv for 1/4 share of profits. Parthiv could not bring his share of goodwill premium in cash. The Goodwill of the firm was valued at Rs. 80,000 on Parthiv's admission. Record necessary journal entry for goodwill on Parthiv's admission.
Which of the following is the correct treatment of the above?

a)	Parthiv's Capital A/c Dr. To Virar's Capital A/c To Sanvi's Capital A/c	80,000	 60,000 20,000
b)	Parthiv's Capital A/c Dr. To Virar's Capital A/c To Sanvi's Capital A/c	24,000	 20,000 4,000
c)	Parthiv's Capital A/c Dr. To Virar's Capital A/c To Sanvi's Capital A/c	80,000	 40,000 40,000
d)	Parthiv's Capital A/c Dr. To Virar's Capital A/c To Sanvi's Capital A/c	20,000	 15,000 5,000

OR (1)

Abhi and Sakhi are partners sharing profits and losses in the ratio of 3 : 2. Their capital accounts showed balances of Rs. 1,50,000 and Rs. 2,00,000 respectively on April 01, 2021. Show the calculation of interest on capital for the year ending 31 March, 2022. If the partnership deed provides for interest on capital @ 8% p.a. and the firm earned a profit of Rs. 14,000 during the year. Interest on capital for the partners will be:

a) 12,000 and 18,000 respectively.
b) 15,000 and 20,000 respectively.
c) 6,000 and 8,000 respectively.
d) 7,000 and 7,000 respectively.

5. Jolly and Kithu are partners sharing profits and losses in the ratio of 3:1. Their capitals at the end of the financial year 2021-2022 were Rs. 1,50,000 and Rs. 75,000. During the year 2021-2022, Jolly's drawings were Rs. 20,000 and the drawings of Kithu were Rs. 5,000, which had been duly debited to partner's capital accounts. Profit before charging on capital for the year was Rs. 16,000. The same had also been debited in their profit sharing ratio. Kithu had brought additional capital of Rs. 16,000 on October1,2021. Opening capitals of Jolly and Kathu were…

a) 1,58,000 and 60,000 respectively.
b) 60,000 and 1,58,000 respectively.
c) Both a) and b) are wrong.
d) 1,50,000 and 75,000 respectively.
e) Complete the following journal entries (1)

6. Journal in the books of Eagle Ltd. Find out the correct option.

Date	**Particulars**	**(Rs) Dr**	**(Rs) Cr**
	AssetsA/c Dr. GoodwillA/c Dr. To Liabilities A/c To Wonder Ltd. (For the purchase of business of Wonder Ltd)	30,00,000 5,00,000	 3,00,000 32,00,000
	Wonder Ltd A/c Dr Disc. On iss ofDeb.A/c Dr. To Bills Payable A/c To 6% Debentures A/c (For 10% of the purchase consideration paid through bill and for the rest issued **d))………** 6% debentures of Rs100 each at a discount of 4%)	32,00,000 **a)…….**	 **b)…….** **c)………**

I a) 32,00,000 b) 3,20,000, c) 30,000 d) 5,00,000
II a) 1,20,000 b) 3,20,000 c) 30,00,000 d) 30,000
III a) 5,00,000 b) 3,00,000 c) 1,00,000 d) 10,000
IV a) 10,000 b) 8,000 c) 10,00,000 d) 11,00,000 (1)

OR

Surya Ltd, purchased a running business from Nila Ltd, for a sum of 1,50,000 payable by issue of 10,000, 12% debentures of rupees 10 each at a premium of Rs. 2 per share and the balance in cash. The asset and liabilities taken over were:
Fixed asset (tangible) Rs.1,00,000, Trade receivables Rs.30,000; Inventory Rs.50,000 Trade payable Rs.20,000. The amount of goodwill/ Capital reserve will be:

a) 1,00,000 b) 20,000 c) 40,000 d) None of these.

7. Sarada Ltd, issued a prospectus inviting applications for 10,000 shares of ₹10 each payable ₹5 on application, ₹ 3 on allotment and ₹ 2 on call. Public had applied for certain number of shares and application money was received. As per SEBI guidelines, which of the following application money, if received restricts the company to proceed with the allotment of shares?

a) Rs 50,000 b) Rs 45,000 c) Rs 1,00,000 d) Rs 38,000 (1)

8. M, N and O are partners in a firm sharing profit and losses in 3:4:2. N retired from the firm. The profit on revaluation on that date was ₹ 72,000. New profit sharing ratio be- tween M and O is 5:3. Profit on revaluation will be distributed as:

a) M ₹ 32,000; N ₹ 24,000; O ₹16,000
b) M ₹ 24,000; N ₹ 32,000; O ₹16,000
c) M ₹ 45,000; O ₹ 27,000
d) M ₹ 47,250; N ₹ 24,750

OR (1)

A group of 40 people wants to form a partnership firm. They want your advice regarding the maximum number of persons that can be there in a partnership firm and the name of the Act under whose provisions it is given.

Read the following hypothetical situation, answer Question No. 9,10 and 11

P, Q and R are Partners in a firm sharing profits and Losses in the ratio of 5:4:1. The Partnership deed provided for the following:

1) Salary of ₹ 3,000 per quarter to P and Q.
2) R was entitled to a commission of ₹ 8,000.
3) Q was guaranteed a profit of ₹ 70,000 p. a and any deficiency will be borne by P and R equally.
4) The Profit for the year ended 31st March, 2022 was ₹ 2,00,000.

Profit and Loss Appropriation Account

Particulars	Amount	Particulars	Amount
To salary-	……….	By profit & Loss	………

P- Q-			
To R's commission	8,000		
To profit Transferred to P- Q-70,000 R-	1,68,000		
	……….		……….

9. P's salary will be:
a) 12,000
b) 6,000
c) 24,000
d) 9,000 (1)

10. Deficiency of Q is…
a) 1,000
b) 2,000
c) 1,400
d) 2,800 (1)

11. R's share of profit is…..
a) 82.600
b) 70,000
c) 15,400
d) 2,00,000 (1)

12. If 5,000 shares of ₹10 each were forfeited for non-payment of first and final call money of ₹ 2 per share and only 3,000 shares were re-issued @ ₹ 11 per share as fully paid up, then what is the minimum amount that the company have to get at the time of re-issue of the remaining 3,000 shares?
a) 6,000 b) 24,000 c) 5,000 d) 11,000 (1)

13. Securities Premium can be utilized for:
a) Writing off preliminary expenses b) Issue fully paid bonus shares c) Write off expenses/ discount on issue of debentures d) All the above (1)

14. At the time of death of a partner the profits of the deceased partner till the date of death is transferred to...........Account.
a) Revaluation Account
b) Capital Account
c) Profit and Loss suspense Account
d) Executor's A/c (1)

15. Under what circumstances the premium for goodwill paid by incoming partner will not be recorded in books of accounts?
a) When he brings privately
b) When he brings premium for goodwill
c) When he doesn't have capital
d) None of these. (1)

OR

Kingini , a partner withdrew ₹ 10,000 in the beginning of each quarter and interest on drawings was calculated as ₹ 2,500 at the end of accounting year 31 March 2022. What is the rate of interest on drawings charged?

a) 6% p.a
b) 7% p.a
c) 10% p.a
d) 15% p.a

16. Change in existing agreement between the partners is called_____

a) Dissolution of Firm b) Dissolution of Partnership

c) Dissolution of Business d)All of the above (1)

17. Vasav, Dheeru and Dev were partners in a firm sharing profits and losses in the ratio of 4: 3 :1 The firm closes its books on 31st March every year. As per the terms of partnership deed on the death of any partner the share of goodwill of the deceased partner will be calculated on the basis of 50% of the net profit credited to the partner's capital account during the last four completed years before death. Vasav died on Ist July 2022.

The profits for last four years were: 2018-19- Rs 97,000; 2019-20~Rs 1,05,000; 2020-21 -Rs 30,000; 2021-22 -Rs 84,000.

His share of profit in the year of his death was to be calculated on the basis of sales. Sales for the year ended 31, March 2022 amounted to Rs 8,40,000. Sales shows a growth trend of 20% and percentage of profit earning reduced by 1%. Pass necessary journal entries relating to the treatment of goodwill and his share in profits. Show your works clearly.

(3)

18. Rohit, Raman and Raina are partners in a firm. Their capital accounts on 1st April, 2021, stood at Rs 2,00,000, Rs 1,20,000 and Rs 1,60,000 respectively. Each partner withdrew Rs 15,000 during the financial year 2020-21. As per the provisions of their partnership deed:

Interest on capital was to be allowed @ 5% per annum.
Interest on drawings was to be charged @ 4% per annum.
Profits and losses were to be shared in the ratio5:4:1.

The net profit of Rs 72,000 for the year ended 31st March 2020, was divided equally among the partner's without providing for the terms of the deed. You are required to pass a single adjustment entry to rectify the error. Show your workings clearly. (3)

OR

Raj and Suri are partners in a firm sharing profits equally. Their Capitals as on April,2021 were Rs 2,50,000 and Rs 1,50,000 respectively. On July 1,2021 ,they decided that their capitals should be Rs 2,00,000 each. The necessary adjustments in the capital were made by introducing or withdrawing cash by the partners. Interest on capitals is allowed @ 8% p.a. Pass necessary journal entries on July 1,2021 and compute interest on partners' capital for the year ended March 31,2022.

19. Pass journal entries for issue of debentures in each of the following cases:

(1) 8% Debentures of Rs 100 each issued at 10% discount; redeemable at 10% premium.

(2) 8% Debentures of Rs 100 each issued at 10% premium; redeemable at 10% premium.

(3) 8% Debentures of Rs 100 each issued at par; redeemable at 10% premium.

OR

Balbir obtained a loan of Rs 20,00,000 from SBI @9% interest. The company issued Rs 21,50,000 9% debentures of Rs 100 each in favour of SBI as collateral security.

Pass journal entries for the above transactions and show the presentation in the Balance Sheet of Balbir. (3)

20. Anu, Manu and Sanu are partners in a firm. Their capital accounts on 1st April, 2022, stoodat 3, 00,000, 2, 20,000 and 2, 60,000 respectively. Each partner withdrew `15,000 during the financial year 2021-22.

As per the provisions of their partnership deed:

(a) Interest on capital was to be allowed @ 5% per annum.

(b) Interest on drawings was to be charged @ 4% per annum.

(c) Profits and losses were to be shared in the ratio 3:2:1

The net profit of `90,000 for the year ended 31st March 2022, was divided equally amongst the partners without providing for the terms of the deed.

You are required to pass a single adjustment entry to rectify the error (Show workings clearly). (3)

21. Fill in the blank spaces in the journal entries given below of S Ltd . (4)

Date	Particulars	Dr. Amount	Cr. Amount

1	Equity share capital A/c Dr (200 x 10) ? A/c Dr To Forfeited shares To Calls in arrears A/c (200 shares forfeited for the non-payment of allotment and call money)	2,000 ?	 600 1800
2	Bank A /C Dr To ? (Re issue of 150 share for Rs 12 per share)	1,800	? ?
3	?A/c Dr To ?	?	?

22. X and Y were partners in a firm. They had entered into partnership five years back, without any written agreement. They contributed Capitals in the firm to meet financial requirements. Within a short span of time, their conflicts started so they have decided to dissolve the firm. They were sharing profits and Losses in the ratio of 3:2. Assets and external liabilities have been transferred to realization A/c. Pass Journal entries to effect the following.

a) Bank Loan of ₹ 10,000 is paid off.
b) X was to bear all expenses of realization for which he is given a commission of ₹ 5,000.
c) Advertisement Expenditure A/c appeared in the books at ₹ 48,000.
d) Stock worth ₹10,600 was taken over by Y at ₹ 10,200. (4)

23. White Ltd issued 50,000 shares of ₹10 Each at a premium of ₹ 2 per share payable ₹ 3 on application, ₹ 5 including premium on allotment and the balance in equal instalments over two calls. Applications were received for 92,000 shares and the allotment was done as under:

a) Applications of 40,000 shares - allotted 30,000 shares
b) Applications of 40,000 shares – allotted 20,000 shares
c) Applications of 12,000 shares – Nil

Vishnu who applied for 2,000 shares (Category A) did not pay any amount other than application money. Vyshakh who was allotted 800 shares (Category B) paid the call money due along with allotment. All other shareholder's paid their dues as per schedule.

Pass Journal entries in the books of White Ltd.

OR

Ahan Company Ltd made an issue of 1, 00,000 equity shares of ₹ 10 each at a premium of 30% payable as follows:

On application ₹ 3 per share , On allotment ₹ 6 per share

On first and final call- balance

Applications were received for 2, 00,000 equity shares and the directors made pro-rata allotment. Vaibhav who had applied for 1,600 shares did not pay the allotment and final call money. His shares were forfeited and 60% of them were re- issued at ₹ 8 per share fully paid.

Pass journal entries in the books of Ahan Company Ltd.

(6)

24. A and B were partners in a firm sharing profits in the ratio of 3:2. On 1st April 2022 they admit C as a partner in the firm. The Balance sheet of A and B on that date was as under:

Balance sheet of A and B as at 1st April 2022

LIABILITIES	RS	ASSETS	RS
Creditors	2,10,000	Cash in hand	1,40,000
Workmen's com-	2,50,000	Debtors	1,60,000
pensation Reserve	1,60,000	Stock	1,20,000
General Reserve		Machinery	1,00,000
Capitals:		Building	2,80,000
A 1,00,000	1,80,000		
B 80,000	8,00,000		8,00,000

It was agreed that:

1) The value of building and stock be appreciated to 3,80,000 and 1,60,000 respectively.
2) The liabilities of workmen's compensation reserve was determined at 2,30,000.
3) C brought in his share of goodwill Rs 1,00,000 in cash.
4) C was to bring further cash as would make her capital equal to 20% of the combined capital of A and B after above revaluation and adjustments are carried out.
5) The future profit sharing ratio will be for A 2/5th B 2/5th and C 1/5th.

Prepare revaluation account, partner's capital account and Balance sheet of the new firm. Also show clearly the calculation of capital brought by C. (6)

OR

X, Y and Z are partners in a firm sharing profits in the ratio of 5:3:2. On 31st March 2022, the Balance sheet of the firm stood as follows:

LIABILITIES	RS	ASSETS	RS
Capitals:		Fixed assets	2,50,000
X 2,00,000		Stock	1,10,000
Y 1,00,000		Book debts	90,000
Z 80,000	3,80,000	Cash at bank	20,000
General reserve	30,000		
Creditors	53,000		
Outstanding expenses	7,000		
	4,70,000		4,70,000

On the above date Y decides to retire from the firm,

1) Goodwill is to be valued at 1,90,000.
2) Fixed assets be valued at Rs 3,00,000.
3) Stock be considered worth Rs 10,000.
4) A liability of Rs 1,900 for outstanding rent has not been shown in the books of the firm. The same is to be recorded now.
5) Insurance premium amounting to Rs5,700 was debited to profit and loss account, of which Rs 1,900 is related to next year.

Y is to be paid in cash brought in by X and Z in such a way so as to make their capital proportionate to their new profit sharing ratio which is to be 3:2 respectively.

Prepare necessary ledger accounts and Balance sheet of the new firm.

25. A, B and C are partners in a business sharing profits and losses in the ratio of 2:2:1. Their Balance sheet as at 31st March 2022was as follows:

Balance sheet as at 31st March 2022

LIABILITIES	RS	ASSETS	RS
Sundry Creditors	2,00,000	Cash at Bank	40,000

General Reserve	1,00,000	Stock	60,000
Capital A/cs:		Sundry Debtors	1,60,000
A 1,20,000		Investments	1,40,000
B 2,00,000		Furniture	70,000
C 80,000	4,00,000	Building	2,30,000
	7,00,000		7,00,000

C died on 30th September 2022. The partnership deed provided following:

1) Deceased partner will be entitled to his share of profit up to the date of death calculated on the basis of previous year's profit.
2) He will be entitled to his share of goodwill of the firm calculated on the basis of 3 year's purchase of average of last 4 year's profit.

   Profits for the last four financial years are: for 2018-19:Rs 1,60,000; for 2019-20: Rs 1,00,000; for 2020-21: Rs 80,000; for 2021-22:Rs 60,000.
3) Drawings of the deceased partner up to the date of death amounted to Rs 20,000.
4) Interest on capital is to be allowed at 12% per annum.

   Continuing partners agreed that Rs 30,800 will be paid to the executor immediately and the balance in two equal yearly instalments starting from 30th September 2022 with interest @ 12% p.a. on outstanding balance. Show C's capital account and his executor's account till the settlement of the amount due.

(6)

26. Latha Ltd., a pharmaceutical company appointed sales expert, Ms. Shivada as the CEO of the company, with a target to penetrate their roots in the rural regions. Ms. Shivada discussed the ways and means to achieve target of the company with financial, production and marketing departmental heads and asked the finance manager to prepare the budget. After reviewing the suggestions given by all the departmental heads, the finance manager proposed requirement of an additional fund of ₹ 68,25,000. Latha Ltd. is a zero-debt company. To avail the benefits of financial leverage, the finance manager proposed to include debt in the capital structure. After deliberations, on 1st April1,2022, the board of directors had decided to issue 10% Debentures of ₹100 each to the public at a premium of 5%, redeemable after 10 years at ₹110 per share. You are required to

answer the following questions:

(i) Calculate the number of debentures to be issued to raise additional funds.

(ii) Pass Journal entry for the allotment of debentures.

(iii) Pass Journal entry to write off loss on issue of debentures.

(iv) Calculate the amount of annual fixed obligation associated with debentures.

Prepare Loss on Issue of Debentures Account. (6)

Part B :- Analysis of Financial Statements

(Option – I)

27. If expected period of payment of Trade payables is 13 months and Operating cycle is 15 months it is_______Liability.

a) Current b) Non current c) fictitious d) None of these (1)

OR

If the operating ratio of a company is 75%, operating profit ratio will be _____

a) 75% b) 25% c) 100% d) 35%

28. From the following information calculate 'Interest Coverage ratio. (1)

Profit after Interest and Tax ₹ 1, 98,000, Rate of Income Tax ₹ 40%,

15% debentures ₹ 2, 00,000.

a) 10 times b) 12 times c) 25times d) 15 times

29. State a transaction that is always classified as a financing activity for every enterprise while preparing Cash flow statement. (1)

OR

Pick the correct option : which of the following would result in inflow of cash and cash equivalents:

i)Purchase of stock in trade for cash Rs 50,000 ii)Sale of current investments Rs 10,000. iii) Purchase of land Rs 1,00,000. iv)Debtors paid Rs 10,000.

a) i) only

b) ii) only

c) i) ,ii) , iii) and iv)

d) None of these

30. Extract of Balance sheet:

Equity and Liabilities	Note No	2022	2021
Equity share capital		12,00,000	7,00,000

Additional Information:-

Equity shares were issued at a premium of 15%.

How much amount related to above information will be shown in the Financing activity of cash flow statement prepared on 31st March 2022?

a) Inflow 5,00,000

b) Inflow 5,75,000

c) Inflow 7,10,500

d) Inflow 4,25,000 (1)

31. Under which head and sub heads the following items will be shown in the balance sheet of a company as per Schedule III of the Companies Act 2013.

1) Premium on redemption of debentures.

2) Provision for tax

3) Mining rights (3)

32. Read the following hypothetical text and answer the given questions on the basis of the same:

Rian an alumni of IIM Ahemdabad initiated her startup Rian Ltd. in 2020. The profits 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 (in ₹)	31.03.2019 (in ₹)
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.

1. Net Profit before tax will be ₹……………………………

   (a)22,50,000 (b) 35,62,500 (c) 39,67,500 (d) 44,37,500

2. Operating profit before working capital changes will be ₹……………………

   (a) 52,17,500 (b) 64,67,500 (c) 39,67,500 (d) 39,69,500

3. Cash from operating ctivities before tax will be₹……………………

   (a) 35,57,500 (b) 40,67,500 (c) 37,87,500 (d) 35,67,300

33. The current ratio of a company is 2.1:1.2. state with reasons, which of the following transactions will increase, decrease or no change in the ratio:

1) Received from debtors Rs 20,000.
2) Issued Rs 5,00,000 equity shares to the vendors of land.
3) Accepted bill of exchange drawn by the creditors Rs 12,000.
4) Redeemed 5% debentures of Rs 3,00,000 at a premium of 5%. (4)

OR

Calculate proprietary ratio, if :
Total assets to Debt ratio is 2:1. Debt is 5,00,000.
Equity shares capital is 0.5 times of debt.
Preference Shares capital is 25% of equity share capital.
Net profit before tax is 10,00,000 and rate of tax is 40%.

34. Following is the balance sheet of Volvo Ltd as on 31st March 2022:

Particulars	Note No.	2022	2021

EQUITIES AND LIABILITIES			
(1) Shareholder's funds			
Share capital		7,00,000	6,00,000
Reserves and Surplus (Balance in statement of profit and 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
Cash and cash equivalents		28,000	35,000
TOTAL		12,30,000	9,35,000

Adjustments: During the year a piece of furniture of the book value of Rs 80,000 was sold for Rs 65,000. Depreciation provided on tangible assets during the year amounted to Rs 2,00,000. Prepare a cash flow statement.(6)

****

SUBJECT : ACCOUNTANCY

SQP -3 ANSWER KEY

1. 5:3:2

2. c) Both (A) and (R) are incorrect.

3. d) Reserve Capital or B) 11,000

4.

d) Parthiv's Capital A/c Dr.	20,000	
To Virar's Capital A/c		15,000
To Sanvi's Capital A/c		5,000

0r

c) 6,000 and 8,000 respectively.

5. a) 1,58,000 and 60,000 respectively.

6. II a) 1,20,000 b) 3,20,000 c) 30,00,000 d) 30,000

OR

c) 40,000

7. d) Rs 38,000

8. b) M ₹ 24,000; N ₹ 32,000; O ₹16,000

OR

As per the Companies Act, 2013 the maximum number of partners in a partnership Firm can be 50.

9. a) 12,000

10. d) 2,800

11. c) 15,400

12. a) 6,000

13. d) All the above

14. c) Profit and Loss suspense Account

15. a) When he brings privately OR

c) 10% p.a

16. b) Dissolution of Partnership

17. P & L suspense A/c Dr 11,340

To Vasav's Cap 11,340

Dheeru's Cap A/c Dr 59,250

Dev's Cap A/c Dr 19,750

To Vasav's Cap A/c 79,000

Working Notes:

Sales=8,40,000+ 20% of 8,40,000=10,08,000

Profit %=(84000/8,40,000*100) -1%=10%-1%=9%

Vasav's 's share of profit=10,08,000*3/12*9/100*4/8=11,340

Vasav'share in goodwill=50% (97000+1,05,000+30,000+84,000)*4/8

Rs 79,000

18. Raina's Cap A/c Dr 11,410
To Rohit Cap 10,150
To Raman Cap 1260

OR

1. Raj Cap A/c Dr 50,000
To Cash/Bank A/c 50,000

2. Cash/bank A/c Dr 50,000

To Suri's Capital A/c 50,000

Interest on Raj Cap=250000*8/100*3/12+2,00,000*8%*9/12=17000

Interest on Suri Cap=1,50,000*8%*3/12+2,00,000 *8%*9/12=Rs 15,000

19. 1) Bank A/c Dr 90
To debenture application and allotment A/c 90
Debenture application and allotment A/c 90
Loss on issue of debentures 20
To 8%debentures 100
To premium on redemption of debentures 10
2) Bank A/c Dr 110
To debenture application and allotment A/c 110
Debenture application and allotment A/c 110
Loss on issue of debentures 10
To 8%debentures 100
To securities premium reserve 10
To premium on redemption of debentures 10
3) Bank A/c Dr 100
To debenture application and allotment A/c 100
Debenture application and allotment A/c 100
Loss on issue of debentures 10
To 8%debentures 100
To premium on redemption of debentures 10

OR

Extract of Balance sheet

PARTICULARS	NOTE NO.	RS
EQUITY AND LIABILITIES NON CURRENT LIABILITIES Long term borrowings	1	20,00,000

Note to Accounts:

1. Long term Borrowings Loan from SBI 21,500 debentures of Rs 100 each issued as collateral security 21,50,000 Less: Debenture suspense 21,50,000	20,00,000 ---
	20,00,000

20. Manu's Capital A/c Dr. 2,000
Sanu's Capital A/c Dr. 8,650
To Anu's capital A/c 10,650

21. 1. Securities premium 400
2. share capital 1,500 and securities premium 300
3. forfeited shares A/c Dr. 450
To Capital reserve 450

22. a) Realization A/c Dr 10,000
To Bank 10,000
(Bank loan discharged)

b) Realization A/c Dr 5,000
To X's Capital 5,000
(Commission Payable to X)

c) X's capital A/c Dr 28,800
Y's Capital A/c Dr 19,200
To Advertisement Expenditure 48,000
(Transfer of advt.exp to partner's Capital A/c)

d) Y's Capital A/c Dr 10,200
To Realization 10,200
(Stock taken over by Y)

23.

BankA/c Dr To share application (received application money on 92,000 shares @ ₹ 3 per share)	2,76,000	2,76,000

ShareApplication A/c Dr To Share capital (50,000 x 3) To Bank (12,000 x 3) To Share allotment (30,000 x 3) (Application money transferred, adjusted and refunded)	2,76,000	 1,50,000 36,000 90,000
Share AllotmentA/c Dr To Share capita(50,000X3) To SP (50,000 x 2) (Allotment due)	2,50,000	 1,50,000 1,00,000
Bank A/c Dr Calls in arrear A/cDr To Share allotment To Calls in advnce (Allotment money received)	1,57,200 6,000	 1,60,000 3,200
Share first call A/c Dr To share Capital (call due)	1,00,000	 1,00,000
Bank A/c Dr Calls in advance A/c Dr (800 x2) Calls in arrears A/c Dr (1500 x2) To share first call A/c (first call money received)	95,400 1,600 3,000	 1,00,000
Share final call A/cDr To Share capital (Final call due)	1,00,000	 1,00,000
Bank A/c Dr. Calls in advance A/c Dr Calls in arrears A/c Dr To share final call A/c	9 ,4 9050,400 1,600 1,6 3,00 0 3,000	 1,00,000 1,00 ,000

Or

Date	Particulars	Dr. Amount	Cr. Amount
	Bank A/c Dr To Equity share application (Application money received)	6,00,000	6,00,000
	Equity share application A/c Dr To Equity Share capital To Equity share allotment (Application money adjusted)	6,00,000	3,00,000 3,00,000
	Equity share allotment A/c Dr To Equity share capital To Securities Premium (allotment due with premium)	6,00,000	3,00,000 3,00,000
	Bank A/c Dr To Equity share allotment (allotment money received)	2,97,600	2,97,600
	Equity share first and final call A/c Dr To Equity share capital (first and final call money)	4,00,000	4,00,000
	Bank A/c Dr To Equity share first and final call A/c (first and final call received)	3,96,800	3,96,800
	Equity share Capital A/c Dr Securities Premium A/c Dr To forfeited shares A/c To Share allotment A/c To share first and final call A/c	8,000 2,400	4,800 2,400 3,200
	Bank A/c Dr (480 x 8) forfeited shares A/cDr (480 x2) To Equity share capital (480 forfeited shares re issued@8)	3,840 960	4,800

	Forfeited shares A/cDr To Capital Reserve (4,800 x 480/800 = 2880 – 960) (share forfeiture transferred to capital reserve A/c)	1,920	1,920

24. . Revaluation A/c (6)

Particulars	Rs	Particulars	Rs
To profit transferred to : A 's capital 84,000 B's capital 56,000	1,40,000	By Building By stock	1,00,00 40,000
	1,40,000		1,40,000

Partner's capital A/c

Particulars	A	B	C	Particulars	A	B	C
To balance c/d	3,92,000	2,08,000	1,20,000	By Balance b/d By Rev.Profit By G.reserve By W.C.R By pre.for GW By cash a/c	1,00,000 84,000 96,000 12,000 1,00,000	80,000 56,000 64,000 8,000	 1,20,000
	3,92,000	2,08,000	1,20,000		3,92,000	2,08,000	1,20,000

Balance sheet as at 1st April 2022

LIABILITIES	RS	ASSETS	RS
Creditors	2,10,000	Cash in hand	3,60,000
Provision for workmen's compensation claim	2,30,000	Debtors	1,60,000
A's capital	3,92,000	Stock	1,60,000
B's capital	2,08,000	Machinery	1,00,000
C's capital	1,20,000	Building	3,80,000
	11,60,000		11,60,000

Total capital= 3,92,000+2,08,000=6,00,000

C's capital= 6,00,000x20%=1,20,000

OR

Particulars	Rs	Particulars	Rs
To Stock To Outstanding rent	1,00,000 1,900	By fixed assets By prepaid insurance By loss: X's capital 25,000 Y's capital 15,000	50,000 1,900

		Z’s capital <u>10,000</u>	50,000
	<u>1,01,900</u>		<u>1,01,900</u>

Capital A/c

Particulars	X	Y	Z	Particulars	X	Y	Z
To revaluation	25,000	15,000	10,000	By Balance b/d	2,00,000	1,00,000	80,000
				By G.Reserve	15,000	9,000	6,000
To Y’s capital	19,000	-------	38,000	By X’s capital	------	19,000	-----
To Bank	------	1,51,000	-----	By Z’s capital	----	38,000	-----
To Balance c/d	2,16,000		1,44,000	By Bank	45,000		1,06,000
	<u>2,60,000</u>	<u>1,66,000</u>	<u>1,92,000</u>		<u>2,60,000</u>	<u>1,66,000</u>	<u>1,92,000</u>

Balance sheet as at 31st March 2022

LIABILITIES	RS	ASSETS	RS
Creditors	53,000	Fixed assets	3,00,000
Outstanding Expenses	7,000	Stock	10,000
Outstanding rent	1,900	Book Debts	90,000
Capital A/c s:		Prepaid insurance	1,900
X 2,16,000		Cash at bank	20,000
Z <u>1,44,000</u>	3,60,000		
	<u>4,21,900</u>		<u>4,21,900</u>

X=3/5-5/10=1/10 Z=2/5-2/10=2/10 Gaining ratio=1:2

Y’s share of goodwill= 3/10x1,90,000= 57,000

Total capital = 3,60,000 X’ new capital =3,60,000x3/5=2,16,000 Ys new capital= 1,44,000

25. C’s capital A/c

Particulars	Rs	Particulars	Rs
To drawings	20,000	By Balance b/d	80,000
To C’s executor’s A/c	1,50,800	By profit and loss suspense A/c	6,000
		By A’s capital	30,000
		By B’s capital	30,000
		By Interest on capital	4,800
		By Reserve	20,000
	<u>1,70,800</u>		<u>1,70,800</u>

C's Executor's A/c

Date	Particulars	Rs	Date		Rs
30/09/22	To bank	30,800	30/09/22	By C's capital	1,50,800
31/03/23	To Balance c/d	1,27,200	31/03/23	By interest	7,200
		1,58,000			1,58,000
			01/04/23	By Balance b/d	1,27,200
			30/09/23	By Interest	7,200
30/09/23	To Bank	74,400	31/03/2024	By interest	3,600
31/03/24	To Balance c/d	63,600			
		1,38,000			1,38,000
			01/04/2024	By Balance b/d	63,600
30/09/24	To bank	67,200	30/09/2024	By Interest	3,600
		67,200			67,200

26. i) Number of Debentures to be issued = 68,25,000/105 = 65,000

ii) Debenture Application & Allotment A/c Dr.68,25,000

Loss on Issue of Debentures A/c Dr. 6,50,000

To 10% Debentures A/c 65,00,000

To Securities Premium Reserve A/c 3,25,000

To Premium on Redemption of Debentures A/c 6,50,000

(Being allotment of debentures made)

i) Securities Premium Reserve A/c Dr. 3,25,000

Statement of Profit & Loss Dr. 3,25,000

To Loss on Issue of Debentures A/c 6,50,000

(Being Loss on Issue of Debentures A/c written off)

ii)Interest on 10% debentures = 65,00,000 x 10 /100 = ₹6,50,000

iii) **Loss on issue of debentures A/c**

DATE	PARTICULARS	₹	DATE	PARTICULARS	₹
1/4/22	Premium on redemption	6,50,000	31/3/23	Securities Pre-mium reserve	3,25,000
				Statement of profit	3,25,000

				and Loss	
		6,50,000			6,50,000

27. a) Current Liability OR b) 25%

28. Interest coverage Ratio = Profit before Interest and Tax/ fixed Interest charges Profit

after tax = 1,98,000 , Tax rate = 40 %

Profit before tax = 1,98,000 x 100/60 = 3,30,000 Inter-

est = 2,00,000 x 15 % = Rs 30,000

PBIT = 3,30,000 + 30,000 = 3,60,000
ICR = 3, 60,000/30,000 x 100 = 12 Times

29. C) Payment of dividend.

OR

d) None of these

30. b) Inflow 5,75,000
31. 1) Non current liabilities; other current liabilities
2) Current liabilities; Short term provisions
3) Non current assets; fixed assets: Intangible assets

32. d) 44,37,500
c) 39,67,500
a) 35,57,500
33. 1) No change. It will increase and decrease debtors with the same amount.
2) No change. Both current assets and current liabilities are not affected.
3) No change. Increase in one current liability results in decrease in another current liability with the same amount.
4) Increase. If redemption takes place in the current year where outstanding debentures are taken as current liability, both current assets and current liabilities have decreased by the same amount.

OR

Proprietary Ratio = Proprietor's Fund /Total Assets
Total Assets = Debts × 2 = `5,00,000 × 2 = `10,00,000
Proprietor's Funds = Equity Share Capital + Preference Share Capital + Surplus
= (5,00,000 × 0.5) + (5,00,000 × 0.5 × 25%) + (10,00,000 – 40% of 10,00,000) = 2,50,000 + 62,500 + 6,00,000)= `9,12,500
Proprietary Ratio = 9,12,500 / 10,00,000 = 0.912 : 1

34. . Cash flow statement (6)

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 w.c 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	8,00,000	By depreciation	2,00,000
To Bank(Purchase of furniture)	5,80,000	By Bank	65,000
		By statement of profit and loss	15,000
		By Balance c/d	11,00,000
	13,80,000		13,80,000

****

SAMPLE QUESTION PAPER - 4 (2022-23)
ACCOUNTANCY (055)
CLASS XII

TIME 3 HOUR MAX. MARKS 80

GENERAL INSTRUCTIONS:

1. This question paper contains 34 questions. All questions are compulsory.
2. This question paper is divided into two parts, Part A and B.
3. Part - **A is compulsory for all candidates**.
4. Part - B has two options i.e. **(i) Analysis of Financial Statements and (ii) ComputerisedAccounting.** Students must attempt **only one** of the given options.
5. Question 1 to 16 and 27 to 30 carries 1 mark each.
6. Questions 17 to 20, 31and 32 carries **3** marks each.
7. Questions from 21 ,22 and 33 carries **4** marks each
8. Questions 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.**

PART A
(Accounting for Partne₹hip Firms and Companies)

Sl.No	Question	Marks
	Part A :- Accounting for Partne₹hip Firms and Companies	
1.	A and B are partne₹ in a firm sharing profits and losses in the ratio of 3 : 2. A new partner C is admitted. A surrende₹ 1/15th share of his profit in favour of C and B surrende₹ 2/15th of his share in favour of C. The new ratio will be : (A) 8 : 4 : 3 (B) 42 : 26 : 7 (C) 4 : 8 : 3 (D) 26 : 42 : 7	1
2.	Assertion (A):- Interest on loan advanced by a partner to the firm is shown in Profit and Loss A/c. Reason (R):- Interest on loan advanced by a partner to the firm is charge against profits and is to be provided at the rate as mentioned in the partne₹hip deed or @6% p. a as the case may be. 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
3.	The debentures whose principal amount is not repayable by the company during its life time, but the payment is made only at the time of Liquidation of the company, such debentures are called : (A) Bearer Debentures (B) Redeemable Debentures (C) Irredeemable Debentures (D) Non-Convertible Debentures OR	1

	If a share of ₹ 10 on which ₹ 8 has been paid up is forfeited, it can be reissued at the minimum price of……. (a) 10 ₹. per share (b) 8 ₹. per share (c) 5 ₹. per share (d) 2 ₹. per share	
4.	X and Y are partne₹ in the ratio of 3 : 2. Their capitals are ₹2,00,000 and ₹1,00,000 respectively. Interest on capitals is allowed @ 8% p.a. Firm earned a profit of ₹15,000 for the year ended 31st March 2019. As per partne₹hip agreement, interest on capital is treated a charge on profits. Interest on Capital will be : (A) X ₹16,000; Y ₹8,000 (B) X ₹9,000; Y ₹6,000 (C) X ₹10,000; Y ₹5,000 (D) No Interest will be allowed Or A, B and C are partne₹ in a firm sharing profits in the ratio of 3 : 4 : 1. They decided to share profits equally w.e.f. 1 st April, 2019. On that date the Profit and Loss Account showed the credit balance of ?96,000. Instead of closing the Profit and Loss Account, it was decided to record an adjustment entry reflecting the change in profit sharing ratio. In the journal entry : (A) Dr. A by ₹4,000; Dr. B by ₹16,000; Cr. C by ₹20,000 (B) Cr. A by ₹4,000; Cr. B by ₹16,000; Dr. C by ₹20,000 (C) Cr. A by ₹16,000; Cr. B by ₹4,000; Dr. C by ₹20,000 (D) Dr. A by ₹16,000; Dr. B by ₹4,000; Cr. C by ₹20,000	1
5.	X, Y and Z are partne₹ sharing profits and losses equally. Their capital balances on March, 31, 2012 are ₹80,000, ₹60,000 and ₹40,000 respectively. Their pe₹onal assets are worth as follows : X — ₹20,000, Y — ₹15,000 and Z — ₹10,000. The extent of their liability in the firm would be : (A) X — ₹80,000 : Y — ₹60,000 : and Z — ₹40,000 (B) X — ₹20,000 : Y — ₹15,000 : and Z — ₹10,000 (C) X — ₹1,00,000 : Y — ₹75,000 : and Z — ₹50,000 (D) Equal	1
6.	Zoom Ltd. issued 10,000, 6% Debentures of ₹ 100 each at certain rate of premium and to be redeemed at 12% premium. At the time of writing off Loss on Issue of Debentures, Statement of Profit and Loss was debited with ₹ 2,0,000. At what rate of premium, these debentures were issued? a) 6% b)15% c)10% d)12% OR 'A' Limited purchased the assets from 'B' Limited for ₹5,40,000. 'A' Limited issued 10% debentures of ₹100 each at 20% premium against the payment. The number of debentures received by 'B' Limited will be : (A) 4,500 (B) 5,400	1

	(C) 45,000 (D) 6,000	
7.	Aabra ka Daabra Ltd, issued a prospectus inviting applications for 3,000 shares of ₹10 each payable ₹3 on application, ₹ 5 on allotment and balance on fi₹t and final call. Public had applied for certain number of shares and application money was received. Which of the following application money, if received, can't go for allotment of shares? (A) ₹ 7,500 (B) ₹ 8,100 (C) ₹ 9,000 (D) ₹ 9,900	1
8.	Rex,Tex and Flex are partne₹ in a firm in the ratio of 5:3:2. As per their partne₹hip agreement,the share of deceased partner is to be calculated on the basis of profits and turnover of previuos accounting year. Tex expired on 31st December,2019. Turnover till the date of death was ₹ 18,00,000. Their profits and turnover for the year 2018-19 amounted to ₹ 4,00,000 and ₹ 20,00,000 resp. An amount of________will be given to his executo₹ as his share of profits till the date of his death. (A) ₹ 2,70,000 (B) ₹ 1,08,000 (C) ₹ 3,60,000 (D) ₹ 4,44,444 OR Amar, Akbar and Anthony were partne₹ sharing profits and losses in the ratio 5:3:2. Akbar was being guaranteed that his share of profits will not be less than ₹ 1,50,000. Deficiency if any would be borne by Amar and Anthony in the ratio 3:2. For the year ended March 31, 2021 Amar's share of profits before guarantee effect was ₹2,40,000. What would be the amount of deficiency which would have been borne by Anthony? (A) No deficiency will be there (B) ₹ 6,000 (C) ₹ 2,400 (D) ₹ 3,600	1
9	**Question no.'s 9, and 10 are based on the hypothetical situation given below.** The health of the common man is deteriorating day by day due to manifold aspects. Corona has affected their mental health, inflation has affected their financial health and lack of exercise has affected their physical health. The situation which was getting wo₹e day by day has affected the pe₹onal lives of the society. Four friends Raju, Sumit, Rinku and Amit decided to do something for the society and decided to start a venture where they will provide Bicycles on rent and even offered scratch coupon cards to attract the public for use of this cycles. It will definitely improve their physical health and also relief from increased prices of petrol day by day. On 1st July, 2020 the business was started under the name Health is Wealth. They invested ₹ 2,00,000 each as capital. Office was made at Rinku's residence who will be paid a rent of ₹ 10,000 per month. Raju gave a loan of ₹ 1,00,000 on the date of start of business. Amit being very extrovert and strong motivator was being given task of interacting with clients, and for his service he was given a salary of ₹	1

	10,000 per month. Sumit's cousin Hemant offered a loan of ₹ 2,00,000 @ 12% p.a interest. This offer was availed by the firm on 1st November, 2020. Sumit got affected with Covid in the end of January and firm gave him a loan of ₹ 50,000 on February 1, 2021. For the year ended March 31, 2021 the firm made profits of ₹ 3,60,000 before the above adjustments. Calculate the amount of profits to be transferred to Profit and Loss Appropriation Account. (A) Profit ₹ 3,60,000 (B) Profit ₹ 2,55,500 (C) Profit ₹ 1,65,500 (D) Profit ₹ 2,60,500	
10	Divisible Profits amounted to ₹ : (A) ₹ 1,65,500 (B) ₹ 3,60,000 (C) ₹ 2,70,000 (D) ₹ 1,70,500	1
11	At the time of change in Profit sharing ratio, Building was appearing in the books as ₹2,40,000 which was undervalued by 20%. Effect of this will be ………… (A) Revaluation A/c Credited by ₹48,000 and Building to be shown in the reconstituted firm's balance sheet as ₹2,88,000. (B) Revaluation A/c Debited by ₹48,000 and Building to be shown in the reconstituted firm's balance sheet as ₹2,88,000. (C) Revaluation A/c Credited by ₹60,000 and Building to be shown in the reconstituted firm's balance sheet as ₹ 3,00,000. (D) Revaluation A/c Debited by ₹60,000 and Building to be shown in the reconstituted firm's balance sheet as ₹3,00,000.	1
12	Andaaza Ltd. invited applications for 80,000 shares of ₹10 each and ₹2 premium. The share was payable as ₹3 on application, ₹4 on allotment (including ₹1 premium) and balance on fi₹t and final call. Public had applied for 75,000 shares. All the money had been duly received except fi₹t and final call money on 3,000 shares held by Kumar. What will be the bank balance of the company after the above issue. (A) ₹ 9,00,000 (B) ₹ 8,85,000 (C) ₹ 8,88,000 (D) ₹ 9,45,000	1
13.	If 5,000 shares of ₹10 each were forfeited for non-payment of final call money of ₹ 3 per share and only 3,000 shares were re-issued at ₹7 per share as fully paid up, then what is the amount of maximum possible discount that company can allow at the time of re-issue of the remaining 2,000 shares? (A) ₹ 6,000 (B) ₹ 35,000 (C) ₹ 15,000 (D) ₹ 14,000	1

14.	Dhwani and Iknoor were partne₹ sharing profits and losses in the ratio 5:3. They admitted Spreeha as a new partner for 1/4th share. For the treatment of goodwill, the following entry was passed. Premium for Goodwill A/c Dr. 50,000 Spreeha's Current A/c Dr. 10,000 To Dhwani's Capital A/c 45,000 To Iknoor's Capital A/c 15,000 What will be their new Profit sharing ratio? (A) 5 : 3 : 2 (B) 7 : 5 : 4 (C) 3 : 3 : 2 (D) 15 : 9 : 8	1
15.	Raju and Rinku were partne₹ sharing profits and losses in the ratio 2 : 1. Their capitals as on 1st April, 2020 were ₹10,00,000 and ₹15,00,000 respectively. Interest on Capital was to be allowed @10% p.a. For the year ended March 31, 2021 the firm made profits of ₹1,80,000. Calculate the amount of Interest on Capital for both the partne₹. (A) ₹1,00,000 and ₹ 1,50,000 respectively. (B) ₹50,000 and ₹ 75,000 respectively. (C) ₹1,20,000 and ₹ 60,000 respectively. (D) ₹72,000 and ₹1,08,000 respectively. Or Jal, Agni and Vayu were partne₹ sharing profits in the ratio of 5:3:2. For the year ended March 31, 2021 their drawings during the year were as follows :- (i) Jal withdrew ₹5,000 at the beginning of every month. (ii) Agni withdrew ₹ 60,000 during the year. (iii) Vayu withdrew ₹15,000 at the end of every quarter. As per the Partne₹hip Deed, Interest on Drawings were to be charged @6% p.a. which was omitted from the books of the accounts while profits were being distributed. Adjustment entry will be (A) Jal's Capital Dr. 250; Vayu's Capital Dr. 100; To Agni's Capital A/c 350 (B) Agni's Capital Dr. 270; Vayu's Capital Dr. 330; To Jal's Capital A/c 600 (C) Jal's Capital Dr. 600; To Agni's Capital Dr. 270; To Vayu's Capital A/c 330	1

	(D)	Agni's Capital Dr. 350 To Jal's Capital Dr. 250 To Vayu's Capital A/c 100	

16.	B, a partner was appointed to look after the process of dissolution for which he was allowed a remuneration of ₹. 5,000. B agreed to bear the dissolution expenses. Actual dissolution expenses ₹.3,000 paid by B. Realisation Account will be debited by______. (A) ₹. 2,000 (B) ₹. 8,000 (C) ₹. 5,000 (D) ₹. 3,000	1

17 Aaditi,Kartik and Tina were partne₹ in a firm sharing profits and losses in the ratio of 5:3:2.

On 31st March,2019 their balance sheet was as follows

Liabilities	₹	Assets	₹
Creditor₹	96,000	Furniture	4,30,000
Aditi capital	3,00,000	Stock	1,50,000
Kartik Capital	2,00,000	Debto₹	83,000
Tina Capital	1,00,000	Cash	33,000

Aaditi died on 1st Nov. 2019. It was agreed that

(i) Goodwill of the firm be valued at ₹ 1,00,000.

(ii) Profit for the year 2019-20 be taken as having accrued at the same rate as the previous year 2018-19. Profits for the year 2018-19 was ₹ 96,000

(iii) Half the amount was paid to Aaditi's executo₹ immediately and the remaining half will be paid in two equal annual instalments with interest @6%p.a

Pass entries 3

18 The net profit of Alok, Bimal and Chetan for the year ended March 31, 2020 was ₹ 30,000 and the same was distributed among them in their agreed ratio of 3 : 1 : 1. It was subsequently discovered that the under mentioned transactions were not recorded in the books :

(i) Interest on Capital @ 5% p.a. (ii) Interest on drawings amounting to Alok ₹350, Bimal ₹ 250 and Chethan ₹ 150.

(iii) Partner's Salary : Alok ₹ 500, Bimal ₹ 750 p.a.

The capital accounts of partne₹ were fixed as : Alok ₹ 50,000, Bimal ₹ 40,000 and Chethan ₹30,000. Record the adjustment entry. OR

The partne₹hip agreement between Anirudh and Sarang provides that: 3

(i) Profits will be shared equally;

(ii) Anirudh will be allowed a salary of ₹ 400 p.m;

(iii) Sarang who manages the sales department will be allowed a commission equal to 10% of the net profits, after allowing Anirudh's salary;

(iv) 7% interest will be allowed on partner's fixed capital;

(v) 5% interest will be charged on partner's annual drawings;

(vi) The fixed capitals of Anirudh and Sarang are ₹ 1,00,000 and ₹ 80,000, respectively. Their annual drawings were ₹ 16,000 and 14,000, respectively. The net profit for the year ending

	March 31, 2020 amounted to ₹ 40,000; Prepare firm's Profit and Loss Appropriation Account.	
19	SSS Ltd issued 25,000, 10% debentures of ₹ 100 each. Give journal entries and the balance sheet in each of the following case when the debentures are issued to a supplier of machinery costing ₹ 28,00,000 as his full and final payment. Or Pass the necessary journal entries for the issue of debentures in the following cases (i) ₹ 30,000,12% debentures of ₹ 100 each issued at a discount of 5% redeemable at par. (ii)₹ 60,000,12% debentures of ₹ 100 each issued at a discount of 5% redeemable at ₹ 105.	3
20	Bhavya and Sakshi are partne₹ in a firm, sharing profits and losses in the ratio of 3:2.On 31st March, 2018 their Balance Sheet was as under: Balance Sheet of Bhavya and Sakshi As at 31st March, 2018	3

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	13,800	Furniture	16,000
General Reserve	23,400	Land and Building	56,000
Investment Fluctuation Fund	20,000	Investments	30,000
Bhavya's Capital	50,000	Trade Receivables	18,500
Sakshi's Capital	40,000	Cash in Hand	26,700
	1,47,200		**1,47,200**

The partne₹ have decided to change their profit sharing ratio to 1: 1 with immediate effect. For the purpose, they decided that:

a. Investments to be valued at ₹ 20,000
b. Goodwill of the firm valued at ₹ 24,000
c. General Reserve not to be distributed between the partne₹.

You are required to pass necessary journal entries in the books of the firm. Showworkings.

21	Cosmos India Ltd. is registered with an authorised capital of ₹10,00,000 divided into 1,00,000 equity shares of ₹10 each. The company issued 50000 equity shares at a premium of ₹ 5 per share. ₹ 2 per share were payable with application, ₹8 per share (including premium) on allotment and the balance amount on fi₹t and final call. The issue was fully subscribed and all the amount due was received except the fi₹t and final call money on 500 shares allotted to Balaram. Prepare the 'Share capital' in the Balance sheet of Cosmos India limited as per schedule III part 1 of the companiess Act 2013. Also prepare Notes to Account for the same	4
22	A and B are partne₹ sharing profits and losses equally. They decided to dissolve their firm. Assets and Liabilities have been transferred to Realisation Account. Pass necessary Journal entries for the following. a. A was to bear all the expenses of Realisation for which he was given a commission of ₹ 4000. b. Advertisement suspense account appeared on the asset side of the Balance sheet amounting ₹ 28000 c. Creditors of ₹ 40,000 agreed to take over the stock of ₹ 30,000 at a discount of 10% and the balance in cash. d. B agreed to take over Investments of ₹ 5000 at ₹ 4900	4
23	Pioneer Ltd invited applications for 12000 shares of ₹.100 each to be issued at premium of 10% payable as follows: a. ₹ 25 on application, ₹. 40 on allotment and ₹. 35 on first and final call.	6

Applications were received for 10000 shares and all of these were accepted. All the money due was received except the fi₹t and final call on 100 shares which were forfeited. out of these 60 shares were reissued @90 per share credited as fully paid up.

Record the journal entries

OR

Z Ltd. invited applications for issuing 20000 equity shares of ₹. 50 each at a premium of ₹. 10 per share. The amount was payable as follows:

On Application & Allotment ₹. 10 Per Share.

On 1st and final call Balance including premium.

Application for 25000 shares were received and shares were allotted on pro rata basis to all applicants. All calls were made and duly received except a holder of 200 shares who failed to pay call money. These shares were forfeited and out of these 120 shares were reissued @ ₹. 40 per share fully paid up.

Pass necessary journal entries in the books of the company.

24 The following is the Balance Sheet as on 31st March 2020 of A and B , who share profits and losses in the ratio of 3:2:

Liabilities	₹	Assets	₹
Capital Accounts: A	10000	Plant & Machinery	10000
B	10000	Land &Building	8000
General Reserve	15000	Debtors 12000	
Workmen's compensation fund	5000	Less: Provision for	
	10000	Bad and doubtful	
Credito₹		debts (1000)	11000
		Stock	
		Cash	12000
			9000
	50000		50000

6

On 1st April, 2020 they agreed to admit C into partnership on the following terms:

1. Provision of bad debts would be increased by ₹ 2000.
2. The value of land & building would be increased to ₹. 18000.
3. The value of stock would be increased by₹ 4000.
4. The liability against Workmen's compensation fund is fixed at ₹.2000.
5. C brought in ₹15,000 as his capital and ₹. 10000 in cash as his share of goodwill

   Prepare Revaluation Account and Partner's capital accounts

OR

A, B and C are partners in a firm sharing profits and losses in the ratio of 3:2:1. Their balance Sheet as at 31st March , 2020 is as under:

Liabilities	₹ .	Assets	₹ .
Credito₹ Bills Payable	30000 16000	Cash in Hand Debtors 25000	18000

		General Reserves Capital A/c: A 40000 B 40000 C 30000	12000 110000	Less: Provision For Doubtful Debts 3000 Stock Furniture Machinery Goodwill	 22000 18000 30000 70000 10000
			168000		168000

B retired on 1st April 2020 on the following terms:

1. Provision for doubtful debts will be raised by ₹. 1000.
2. Stock will be depreciated by 10% and furniture by 5%.
3. An outstanding claim for damages of ₹. 1100 is to be provided for.
4. Credito₹ will be written back by ₹. 6000.
5. Goodwill of the firm is valued at ₹.22000
6. New profit sharing ratio is 3:2.
7. Amount due to B is transferred to his loan A/c

Prepare revaluation a/c and Partner's capital accounts

25 Arun,Varun and Karan were partne₹ in a firm sharing profits in the ratio of 4:3:3. On 1/1/2014 their Balance-sheet was as follows:

Liabilities	₹	Assets	₹
Creditors	17,000	Cash	8,000
Bills Payable	12,000	Debtors	13,000
Karan's loan	28,000	B/R	9,000
Capitals		Furniture	27,000
Arun	70,000	Machinery	1,25,000
Varun	68,000	Karan's cap	13,000

On 30.9.2014, Karan died. The partnership Deed provided for the following to the executors of the deceased partner: 6

(a) His share in the goodwill of the firm calculated on the basis of three years purchase of the average profits of the last four years. The profits were ₹ 1,90,000;₹ 1,70,000;₹ 1,80,000; and ₹ 1,60,000 resp.

(b) His share in the profits of the firm till the date of his death calculated on the basis of the average profits of last four yea₹.

(c) Interest @8% p.a on the credit balance in his capital account.

(d) Interest on his loan @12%p.a

(e) Prepare Karan's Account

26 i) Journalise the following transactions 6

	a) Unique Ltd. issued ₹ 1,00,000, 12% Debentures of ₹ 100 each at a premium of 5% redeemable at a premium of 2% b) 12 % Debentures were issued at a discount of 10% to a vendor of machinery for payment of ₹ 9,00,000 c) Issue of 10,000 11% debentures of ₹ 100 each as collateral in favour of State Bank of India. Company opted to pass necessary entry for issue of debentures. ii) On April 1, 2019 Zigma Ltd. issued,30,000, 8% Debentures of ₹100 each at premium of 5%, to be redeemable at a premium of 10%, after 5 years. The entire amount was payable on application. The issue was ove₹ubscribed to the extent of 20,000 debentures and the allotment was made proportionately to all the applicants. The securities premium amount has not been utilized for any other purpose during the year. Give journal entries for the issue of debentures and writing off loss on issue of debentures.	
	Part B :- Analysis of Financial Statements (Option – I)	
27	25. Unclaimed dividend appears in a Company's balance Sheet under the Sub-head ……………… (A) Short-term Borrowings (B) Trade Payables (C) Other Current Liabilities (D) Short-term Provisions OR Maruti Ltd has a proprietary ratio of 25%. To maintain this ratio at 30%, management may a) Increase Equity b) Either increase equity or reduce debt c) Increase current assets d) Reduce debt	1
28	The Interest coverage ratio from the following information will be: Capital Employed ₹ 10,00,000 Equity ₹ 6,00,000 Profit before tax ₹ 4,20,000 and rate of Tax is 30%. Company has taken long term loan @ 15% p.a. interest charge a) 9 Times b) 8 Times c) 7 Times d) 5 Times	1
29	Which of the following is not a cash inflow? (A) sale of fixed assets (B) purchase of fixed Assets (C) issue of debentures (D) sale of goods for cash OR Which of the following item is considered as cash equivalent? (A) bank overdraft (B) bills receivable (C) debto₹ (D) short term investment	1
30	If net profit is ₹.8,00,000 after writing of intangible fixed assets (goodwill) of ₹. 5,00,000, then the cash flow from operating activity will be	1

	(A) ₹. 8,00,000	(B) ₹. 5,00,000	
	(C) ₹. 3,00,000	(D) ₹. 13,00,000	

31 Under which major heads and subheads of the Balance Sheet of a company, will the following items be shown:- 3

i) Loose Tools

ii) Patents

iii) Interest on Calls in Advance

32 The Interest coverage ratio from the following information will be: 3

Capital Employed ₹ 10,00,000 Equity ₹ 6,00,000

Profit before tax ₹ 4,20,000 and rate of Tax is 30%.

Company has taken long term loan @ 15% p.a. interest charge

33 Calculate gross profit ratio from the following information: 4

Trade Payables Turnover Ratio 5 times; Average Trade Payable ₹ 2,00,000; Cash Purchases 1/5 of Credit Purchases; Inventory at the beginning was ₹ 80,000 and Inventory at the end was ₹1,00,000 more than the Opening Inventory; Net Profit ₹ 5,50,000; Operating Expenses ₹ 3,00,000; Non- Operating Expenses ₹ 2,00,000; Non-Operating Incomes ₹ 1,50,000.

OR

On the basis of the following information, calculate total assets to debt ratio:Non–current assets ₹ 4,40,000; liquid assets ₹ 2,10,000; inventory ₹ 70,000; long term borrowing of ₹. 1,00,000; provision for retirement benefit ₹ 24,000.

34 From the following Balance Sheets of ACC Limited, Prepare cash Flow Statement. 6

Particula₹	**Note No.**	**31.12.2020(₹.)**	**31.12.2021 (₹.)**
Equity and Liabilities			
Shareholders Fund:			
Share Capital		4,50,000	5,50,000
Reserve and Surplus:			
General Reserve		15,000	1,35,000
Profit& Loss		22,500	32,500
Non- Current Liabilities:			
15% Debentures		2,50,000	2,00,000
Current Liabilities:			
Sundry Creditors		75000	1,12,500
Outstanding Salaries		15000	17500
Accumulated Depreciation		3,00,000	3,00,000
TOTAL		**11,27,500**	**13,47,500**
ASSETS			
Non-Current Assets:			
Machinery		7,50,000	10,00,000
Land & Building		3,00,000	2,00,000
Current Assets:			
Inventories		30,000	35,000
Trade Receivables		20,000	70,000

Cash at Bank		27500	42,500
TOTAL		**11,27,500**	**13,47,500**

Additional Information:

(i) During the year 2021, a piece of Machinery costing ₹.2,00,000 (accumulated depreciation ₹.90,000) was sold for ₹.1,15,000.

(ii) Debentures are redeemed on 01.01. 2021

****

SQP-4 ANSWER KEY (2022-23)

SUBJECT ACCOUNTANCY 055

CLASS XII

Q.No	Question	Marks
1.	(B) 42 : 26 : 7	1
2.	(d) Both (A) and (R) are correct, and (R) is the correct explanation of (A)	1
3.	(C) Irredeemable Debentures OR (d) 2 Rs. per share	1
4.	(A) X ₹16,000; Y ₹8,000 Or (B) Cr. A by ₹4,000; Cr. B by ₹16,000; Dr. C by ₹20,000	1
5.	(B) X – ₹20,000 : Y – ₹15,000 : and Z – ₹10,000	1
6.	c) 10% Or (A) 4,500	1
7.	(A) ₹ 7,500	1
8	(B) Rs 1,08,000 OR (C) ₹ 2,400	1
9.	(B) Profit ₹ 2,55,500	1
10	(A) ₹ 1,65,500	1
11.	C) Revaluation A/c Credited by ₹60,000 and Building to be shown in the reconstituted firm's balance sheet as ₹ 3,00,000.	1
12.	(B) ₹ 8,85,000	1
13.	(D) ₹ 14,000	1
14.	(B) 7 : 5 : 4	1
15	(D) ₹72,000 and ₹1,08,000 respectively. OR B) Agni's Capital Dr. 270 Vayu's Capital Dr. 330 To Jal's Capital A/c 600	1
16.	(C) Rs. 5,000	1
17	AAditi's share of goodwill Rs 50,000 Aaditi's share of profits Rs 28,000	3
18	Statement showing adjustment	3

Particulars	Alok		Bimal		Chethan		Firm	
	Dr	Cr	Dr	Cr	Dr	Cr	Dr	Cr
Profits wrongly credited	18,000		6,000		6,000			30,000
Interest on capital to be credited		2,500		2,000		1,500	6,000	
Salary to be credited		500		750		-	1250	
Interest on drawings to be debited	350		250		150			750
Profit share to be credited (30,000-6000-1250+750) in 3:1:1		14,100		4,700		4,700	23,500	
	18350	17100	6250	7450	6150	6200	30750	30750
	1250 Dr			1200 Cr		50 Cr		

(2 Marks)

Journal entry

Date	Particulars	LF	Amount (Dr)	Amount (Cr)
	Alok's Current A/c Dr		1,250	
	To Bimal's Current A/c			1,200
	To Chethan's Current A/c			50
	(Profit adjusted among partners)			

(1 Mark)

OR

Profit and Loss Appropriation Account

Dr Cr

Particulars	Amt (₹)	Particulars	Amt (₹)
To Anirudh's Salary	4,800	By profit and loss	40,000
To Sarang's Commission	3,520	By Interest on Drawings	
(40,000-4,800)X10/100		Anirudh 800	
To Interest on capital		Sarang 700	1,500
Anirudh 7000			
Sarang 5,600	12,600		
To Anirudh's Capital 10290			
To Sarang's Capital 10290	20,580		
	41,500		41,500

(½ Mark for each correct entry=3 marks)

19 Journal 3

Date	Particulars	L/F	Debit (₹)	Credit (₹)
	Vendor's A/c Dr		28,00,000	
	To 10% debentures A/c			25,00,000
	To Securities Premium Reserve A/c			3,00,000
	(25000, 10% debentures issued to supplier of Machinery at premium)			

Balance Sheet as at

Particulars	Note no	Amount(₹)
I EQUITY AND LIABILITIES		
1. Shareholders funds		
Reserves and Surplus		
Securities premium Reserve		3,00,000
2. Non current Liabilities		
Long term Borrowings		
10% debentures(25000 debentures @₹100)		25,00,000
Total		28,00,000
II ASSETS		
1. Non current assets		
(a) Property, Plant and Equiment and /intangible assets		

Property, Plant and Equipment		28,00,000
Total		28,00,000

OR

Date	Particulars	L/F	Debit (₹)	Credit (₹)
	Bank A/c Dr		28,500	
	To Debenture application and Allotment A/c			28,500
	(Application money received on 300, 12%debentures @₹95)			
	Debenture application and Allotment A/c Dr		28,500	
	Discount on issue of Debenture A/c Dr		1,500	
	To 12% Debenture A/c			30,000
	(Debenture application money transferred to to 12% debentures)			
	Bank A/c Dr		57,000	
	To Debenture application and Allotment A/c			57,000
	(Application money received on 600, 12%debentures @₹95)			
	Debenture application and Allotment A/c Dr		57,000	
	Loss on issue of Debenture A/c Dr		6,000	
	To 12% Debenture A/c			60,000
	To premium on Redemption of DebenturesA/C(600X5)			3,000
	(Debenture issued at discount and redeemable at premium)			

20

Workings:

3

Sacrificing ratio = Old ratio – New Ratio

Bhavya's = 3/5 – 1/2 = 1/10 Sacrifice

Sakshi's = 2/5 – 1/2 = (1/10) Gain

Journal

Date	Particulars	L.F.	Amount(₹)	Amount(₹)
31.3.18	Investment Fluctuation Fund A/c Dr		20,000	
	To Investment A/c			10,000
	To Bhavya's Capital A/c			6,000
	To Sakshi's Capital A/c			4,000
	(Being Investment Fluctuation Fund adjusted against the Fluctuations in market Value and balance was distributed amongst partners)			
31.3.18	Sakshi's Capital A/c Dr		2,400	
	To Bhavya's Capital A/c			2,400
	(Being adjustment of goodwill made between partners due to change in profit sharing ratio between part-ners)			
31.3.18	Sakshi's Capital A/c Dr		2,340	
	To Bhavya's Capital A/c			2,340
	(Being General Reserve adjusted			

		among the partners without writing it off)				

21 (4 marks)

Cosmos India Ltd
Balance Sheet (Extract) as at

Particulars	Note No	₹
I EQUITY AND LIABILITIES Share holders' funds Share Capital	1	4,97,500

Note to Accounts:

Particulars			₹
1. Share Capital			
Authorised Capital			10,00,000
1,00,000 equity shares of ₹10 each			
Issued Capital			
50,000 Equity Shares of ₹10 each			5,00,000
Subscribed Capital			
Subscribed and fully paid up			
49,500 Equity Shares of ₹10 each		4,95,000	
Subscribed but not fully paid up			
500 Equity Shares of ₹10 each	5,000		
Less calls in Arrears 9500X₹5)	2,500	2,500	4,97,500

22 (4 marks)

Sr. No.	Journal	Amt. Dr.	Amt. Cr.
a	Realisation Account – Dr To A's Capital Account (Being Commission given to A)	4,000	4,000
b	A's Capital Account – Dr. B's Capital Account - Dr. To Advertisement Suspense Account (Being Advertisement suspense written off)	14,000 14,000	28,000
c	Realisation account – Dr. To Cash Account (Being Creditors paid off)	13,000	13,000
d	B's Capital account – Dr. To Cash Account (Being assets taken over by the partner)	4,900	4,900

23 (6 marks)

Date	Particulars	L.F	Dr. Amount	Cr. Amount
	Bank A/c Dr To Share Application (10000x25)		250000	250000
	Share Application A/c Dr To share capital		250000	250000

	Share Allotment A/c Dr To share capital To Securities premium A/c		400000	 300000 100000
	Bank A/c Dr To Share allotment		400000	 400000
	Share First and Final call A/c Dr To share capital		350000	 350000
	Bank A/c Dr To Share first and final call		346500	 346500
	Share capital A/c Dr To share first and final call To share forfeited A/c		10000	 3500 6500
	Bank A/c Dr Share forfeited A/c Dr To Share capital		5400 600	 6000
	Share forfeited A/c Dr To Capital Reserve		3300	 3300

(1/2+1/2+1/2+1/2+1/2+1+1+1+1/2=6Marks)

OR

Date	Particulars	L/f	Debit	Credit
	Bank A/c Dr To Share application and allotment (Application money received)		2,50,000	 2,50,000
	Share application and allotment A/c Dr To Share capital To Calls in advance (allotment done)		2,50,000	 2,00,000 50,000
	Share First and final call A/c Dr To Securities Premium To Share Capital (Share First and final call money due)		10,00,000	 8,00,000 2,00,000
	Bank A/c Dr Calls in advance A/c Dr To Share First and final call (Share First and final call money received)		9,40,500 50,000	 990500
	Share Capital A/c Dr Securities premium A/c Dr To Share Share First and final call To Share forfeited A/c (Forfeited 400 shares)		10,000 2,000	 9500 2500
	Bank A/c Dr Share Forfeited A/c Dr To Share capital		4800 1200	 6000

	(Reissue of share) Share Forfeited A/c Dr To Capital Reserve (balance in share forfeited account transferred to capital reserve)		300	300

(1/2+1/2+ 1 +1+1+1 +1=6Marks)

24

Revaluation A/c

6

Particulars	Amount	Particulars	Amount
Provision for bad and doubtful debts	2000	Land and Building	10,000
		Stock	4,000
A's Capital	7,200		
B's Capital	4,800		
	14,000		14,000

(½ X4=2 Marks)

CAPITAL ACCOUNT

Particulars	A	B	C	Particulars	A	B	C
Balance c/d	34,000	26,000	15,000	Balance b/d	10,000	10,000	
				Goodwill	6,000	4,000	
				Revaluation	7,200	4,800	
				Work men's Compensation	1,800	1,200	
				General Reserve	9,000	6,000	
				Cash			15,000
	34,000	26,000	15,000		34,000	26,000	15,000

OR

Revaluation A/c

Particulars	Amount	Particulars	Amount
Provision for bad and doubtful debts	1,000	Creditors	6,000
Stock	1,800		
Furniture	1,500		
O/s claim for damages	1,100		
A's Capital	300		
B's Capital	200		
C's Capital	100		
	6,000		6,000

CAPITAL ACCOUNT

Particulars	A	B	C	Particulars	A	B	C
Goodwill	5000	3,333	1,667	Balance b/d	40,000	40,000	30,000
B's Capital	2200		5133	Revaluation	300	200	100
				A'Capital		2,200	
B's loan		48,200		C's Capital		5,133	

Balance c/d	39100		25300	General Reserve Cash	6000	4000	2000
	74760	51533	51840		46300	51533	32100

4 marks

25 Balance due to Karan's executor Rs 2,00,430 6

26 Journal 6

Date	Particulars	L.F	Dr(₹)	Cr(₹)
	Bank A/c Dr. To Deb Application and Allotment A/c (Being the application money received)		1,05,000	1050000
	Debenture Appl and AllotmentA/c Dr Loss on Issue of Debenture A/c Dr To 12% Debenture To Security Premium Reserve To Premium on Redemption A/c (Being 1,000 debentures issued at a premium of 5% and redeemable at 2% premium)		**105000** **2000**	100000 5000 2000
	Vendor A/c Dr Dis. on issue of Debenture A/c Dr To 12% Debenture (Being Debentures issued to vendors at a discount of 10%)		**9,00,000** **1,00,000**	**10,00,000**
	Debenture Suspense A/c Dr To 11% Debenture A/c (Being 10,000 11% debentures of ₹ 100 issued as collateral security)		10,00,000	10,00,000

3 Marks

Date	Particulars	L.F.	Debit (`)	Credit (`)
2019 Apr-01	BankA/c Dr. To Debenture Appl. and Allotment A/c (Being application money received on 50,000 8% debentures)		52,50,000	52,50,000
Apr-01	Debenture Appl.and Allotment A/C Dr. Loss on Issue of Debentures A/c Dr To 8% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption A/C To Bank A/c (Being debentures allotted and refund)		52,50,000 3,00,000	30,00,000 1,50,000 3,00,000 21,00,000

	2020 Mar-31	Securities Premium Reserve A/c Dr. Statement of Profit&LossA/cDr. To Loss on Issue of Debentures A/c (Being loss on Issue of Debentures written off)	1,50,000 1,50,000	3,00,000
				(0.5+1.5+1 = 3 marks)

27	c) Other current liabilities or b) Either increase equity or reduce debt	1
28	b) 8 Times	1
29	(B) purchase of fixed Assets OR (D) short term investment	1
30	(D) Rs. 13,00,000	1
31	(see table below)	3
32	b) 8 Times	3
33	45% OR 5.8:1	4
34	(see statement below)	6

Q. 31:

	Items	Major Head of BalanceSheet	Sub Head of Balance Sheet
i)	Loose Tools	Current Assets	Inventories
ii)	Patents	Non-Current Assets	Fixed Asset (Intangible)
iii)	Interest on Calls in Advance	Current Liabilities	Other current Liabilities

Q. 34:

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Cash Flow Statement
For the year ended 31/03/12
As per AS-3 (Revised)

Particulars		Amount	Amount
A- Cash flow from Operating Activities:			
Net Profit for the year		(50,000)	
Add: Adjustment for extraordinary items:			
1			
2			
3		0	
Add: Adjustment for non-cash and non op. exp.		(50,000)	
1 Depreciation for the year	120,000		
2 Interest on long term borrowings	36,000		
3			
4			
5		156,000	
		106,000	
Less: Adjustment for non-cash and non op. incomes:			
1			
2		0	
Operating profit before change in Working Capital		106,000	

Add: Dec. in Current Assets and Inc. in Current Liabilities.			
1 Trade payable	10,000		
2			
3		10,000	
		116,000	
Less: Inc. in Current Assets and Dec. in Current Liabilities.			
1 inventory	100,000		
2 trade receivables	80,000		
3		180,000	
Cash generated from operating Activities		(64,000)	
Less: Taxes paid			
Cash from operating Activities		(64,000)	(64,000)
B- Cash flow from Investing activities			
1 Purchase of tangible fixed assets		(420,000)	
Cash used in investing Activities		(420,000)	(420,000)
C- Cash flow from Financing activities:			
1 Proceed from issue of share capital		400,000	
2 proceed from long term borrowings		90,000	
3 Interest on long term borrowings		(36,000)	
Cash from Financing Activities		454,000	454,000
Net increase in cash and its equivalent			(30,000)
Add: Cash and its equivalent at the beginning of the year			370,000
			340,000
Cash and its equivalents at the closing of the year			340,000

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